THE SOUTHERN BAPTIST THEOLOGICAL SEMINARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
July 31, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 26,100,299	$ 20,396,755
Accounts and notes receivable, less allowance for doubtful accounts of $45,000 and $51,000 in 2019 and 2018, respectively	1,234,976	1,665,460
Student loans receivable, less allowance for doubtful accounts of $3,000 and $3,000 in 2019 and 2018, respectively	70,314	37,670
Inventory, prepaid expenses and other	933,274	938,138
Land, buildings and equipment, net of accumulated depreciation (Note 7)	66,531,849	68,887,461
Long-term investments (Note 4)	78,719,458	79,006,298
Funds held in trust by others (Note 6)	19,306,489	19,146,834
Real estate held for sale and other	533,178	540,097
Total assets	$ 193,429,837	$ 190,618,713
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 3,608,758	$ 3,823,283
Deferred revenue, deposits and other liabilities	3,015,733	1,954,012
Annuity obligations	1,246,132	1,361,878
Capital leases payable (Note 14)	3,280	5,131
Notes payable (Note 8)	21,842,608	22,995,510
Accrued postretirement benefit cost (Note 12)	4,319,512	3,933,346
Total liabilities	34,036,023	34,073,160
Net assets		
Without donor restrictions		
Undesignated	56,754,579	56,514,477
Operating reserve	2,500,000	-
Board designated for endowment	9,699,789	9,715,416
Total net assets without donor restrictions	68,954,368	66,229,893
With donor restrictions (Note 9)		
Time restricted for future periods	46,068	52,071
Purpose restricted	33,645,885	34,182,096
Restricted in perpetuity	56,747,493	56,081,493
Total net assets with donor restrictions	90,439,446	90,315,660
Total net assets	159,393,814	156,545,553
Total liabilities and net assets	$ 193,429,837	$ 190,618,713

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended July 31, 2019
(With comparative totals for 2018)

	--------------------------------2019--------------------------------				
		---With Donor Restrictions---			
	Without Donor Restrictions	Program Restrictions	Restricted in Perpetuity	Total	2018 Total
Operating revenues					
Tuition and fees	$ 26,566,668	$ -	$ -	$ 26,566,668	$ 25,088,953
Less: Scholarships and discounts	764,061	-	-	764,061	924,555
Net tuition and fees	25,802,607	-	-	25,802,607	24,164,398
Gifts and bequests					
Southern Baptist Convention					
Cooperative Program	10,279,637	-	-	10,279,637	10,068,515
Other	1,934,494	328,171	442,468	2,705,133	3,786,786
Investment return distributed for operations	992,377	2,510,863	-	3,503,240	3,998,498
Other	525,465	2,160	-	527,625	559,903

	2019				
		With Donor Restrictions			
	Without Donor Restrictions	Program Restrictions	Restricted in Perpetuity	Total	2018 Total
Auxiliary enterprises					
Student housing	3,913,820	-	-	3,913,820	3,506,464
Other	2,775,240	-	-	2,775,240	2,811,514
Net assets released from restrictions	2,975,055	(2,975,055)	-	-	-
Total revenues	49,198,695	(133,861)	442,468	49,507,302	48,896,078
Operating expenses					
Educational and general					
Instruction	13,863,153	-	-	13,863,153	13,449,222
Academic support	3,702,466	-	-	3,702,466	3,541,904
Institutional support	10,027,762	-	-	10,027,762	10,870,636
Student services	7,857,722	-	-	7,857,722	7,146,094
Auxiliary enterprises					
Student housing	6,517,004	-	-	6,517,004	5,710,864
Other	4,032,228	-	-	4,032,228	4,027,848
Total expenses	46,000,335	-	-	46,000,335	44,746,568
Increase (decrease) in net assets from operating activities	3,198,360	(133,861)	442,468	3,506,967	4,149,510
Nonoperating					
Investment return undistributed	659,532	(555,302)	178,830	283,060	1,219,375
Change in value of split-interest agreements	-	71,044	44,702	115,746	47,984
Unrestricted estate gifts board-designated as funds functioning as endowment	72,081	-	-	72,081	1,762,461
Gifts restricted by donors for capital purposes	-	88,953	-	88,953	166,501
Change in postretirement benefits obligation other than net periodic cost	(169,704)	-	-	(169,704)	533,275
Change in value of interest rate swap agreements	(1,048,842)	-	-	(1,048,842)	899,637
Net assets released from restrictions	13,048	(13,048)	-	-	-
Increase (decrease) in net assets from nonoperating activities	(473,885)	(408,353)	223,532	(658,706)	4,629,233
Increase (decrease) in net assets	2,724,475	(542,214)	666,000	2,848,261	8,778,743
Net assets at beginning of year	66,229,893	34,234,167	56,081,493	156,545,553	147,766,810
Net assets at end of year	$ 68,954,368	$33,691,953	$56,747,493	$159,393,814	$156,545,553

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended July 31, 2018

		With Donor Restrictions		
	Without Donor Restrictions	Program Restrictions	Restricted in Perpetuity	Total
Operating revenues				
Tuition and fees	$ 25,088,953	$ -	$ -	$ 25,088,953
Less: Scholarships and discounts	924,555	-	-	924,555
Net tuition and fees	24,164,398	-	-	24,164,398
Gifts and bequests				
Southern Baptist Convention Cooperative Program	10,068,515	-		10,068,515
Other	2,070,859	1,090,371	625,556	3,786,786
Investment return distributed for operations	1,177,409	2,821,089	-	3,998,498
Other	553,023	6,880	-	559,903
Auxiliary enterprises				
Student housing	3,506,464	-	-	3,506,464
Other	2,811,514	-	-	2,811,514
Net assets released from restrictions	3,030,197	(3,030,197)	-	-
Total revenues	47,382,379	888,143	625,556	48,896,078

	Without Donor Restrictions	---With Donor Restrictions--- Program Restrictions	Restricted in Perpetuity	Total
Operating expenses				
Educational and general				
Instruction	13,449,222	-	-	13,449,222
Academic support	3,541,904	-	-	3,541,904
Institutional support	10,870,636	-	-	10,870,636
Student services	7,146,094	-	-	7,146,094
Auxiliary enterprises				
Student housing	5,710,864	-	-	5,710,864
Other	4,027,848	-	-	4,027,848
Total expenses	44,746,568	-	-	44,746,568
Increase in net assets from operating activities	2,635,811	888,143	625,556	4,149,510
Nonoperating				
Investment return undistributed	239,087	208,005	772,283	1,219,375
Change in value of split-interest agreements	-	3,396	44,588	47,984
Unrestricted estate gifts board-designated as funds functioning as endowment	1,762,461	-	-	1,762,461
Gifts restricted by donors for capital purposes	-	166,501	-	166,501
Change in postretirement benefits obligation other than net periodic cost	533,275	-	-	533,275
Change in value of interest rate swap agreements	899,637	-	-	899,637
Net assets released from restrictions	117,935	(117,935)	-	-
Increase in net assets from nonoperating activities	3,552,395	259,967	816,871	4,629,233
Increase in net assets	6,188,206	1,148,110	1,442,427	8,778,743
Net assets at beginning of year, as previously reported	58,980,482	34,147,262	54,639,066	147,766,810
Cumulative effect of change in accounting principle (Note 2)	1,061,205	(1,061,205)	-	-
Net assets at beginning of year, as adjusted	60,041,687	33,086,057	54,639,066	147,766,810
Net assets at end of year	$ 66,229,893	$34,234,167	$ 56,081,493	$156,545,553

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended July 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ 2,848,261	$ 8,778,743
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized and unrealized (gains) losses on permanent investments	2,926,437	(2,156,163)
Net realized and unrealized gains on funds held in trust by others	(160,972)	(623,320)
Net realized and unrealized losses on annuity and life income funds	3,041	41,243
Pension-related changes other than net periodic pension cost	169,704	(533,275)
Depreciation	4,718,855	4,513,416
Amortization of debt issuance costs	6,919	6,920
Contributions restricted for long-term investment	(338,606)	(760,107)
Interest and dividends restricted for permanent investment	(42,900)	(44,916)
Increase (decrease) in cash resulting from changes in assets and liabilities		
Accounts and notes receivable	430,484	(227,385)
Inventory, prepaid expenses and other	4,864	(33,495)
Accounts payable and accrued expenses	68,445	(134,282)
Accrued postretirement benefit cost	216,462	279,381
Annuity obligations	(115,746)	(47,984)
Deferred revenue, deposits and other liabilities	1,061,721	(588,214)
Net cash from operating activities	11,796,969	8,470,562

	2019	2018
Cash flows from investing activities		
Purchases of land, buildings and equipment	(2,637,761)	(2,978,354)
Proceeds from sales of investments	24,474,258	419,336,762
Purchases of investments	(27,115,578)	(420,292,478)
(Increase) decrease in student loans receivable	(32,644)	35,688
Net cash used in investing activities	(5,311,725)	(3,898,382)
Cash flows from financing activities		
Proceeds from gifts restricted for long-term investment in endowment	249,653	593,606
Investment in land, buildings and equipment	80,500	158,000
	330,153	751,606
Other financing activities		
Principal repayments on bonds and notes payable	(1,152,902)	(1,115,521)
Payments on capital leases	(1,851)	(1,697)
Interest and dividends restricted for reinvestment	42,900	44,916
Net cash used in financing activities	(781,700)	(320,696)
Net increase in cash and cash equivalents	5,703,544	4,251,484
Cash and cash equivalents at beginning of year	20,396,755	16,145,271
Cash and cash equivalents at end of year	$ 26,100,299	$ 20,396,755
Supplemental disclosure of cash flow information		
Interest paid	$ 735,867	$ 773,654
Purchases of land, buildings and equipment in accounts payable	197,110	514,896

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2019 and 2018

NOTE 1 – ORGANIZATION AND MISSION

The Southern Baptist Theological Seminary (the "Seminary"), a Kentucky not-for-profit organization, conducts comprehensive programs of theological education. Following is the Seminary's mission statement:

> "Under the lordship of Jesus Christ, the mission of The Southern Baptist Theological Seminary is to be totally committed to the Bible as the Word of God, to the Great Commission as our mandate, and to be a servant of the churches of the Southern Baptist Convention by training, educating, and preparing ministers of the gospel for more faithful service."

The programs of the Seminary focus on the development of ministerial competencies at the baccalaureate, basic professional post-baccalaureate, advanced professional and advanced research levels. The Seminary provides services to persons, churches and denominational entities through its programs of continuing education for ministry.

The Seminary is an agency of the Southern Baptist Convention (the "Convention"). In addition to providing substantial financial support to the Seminary, the Convention elects the Board of Trustees of the Seminary.

Basis of Consolidation: The Seminary is also affiliated with the Southern Seminary Foundation (the "Foundation"), a Kentucky not-for-profit corporation. The Foundation was formed, among other purposes, as a fundraising organization and administrator of certain funds to be used for the benefit of the Seminary. The Foundation is affiliated with the Seminary through common management. The Foundation does not reimburse the Seminary for use of facilities and other resources or common employees. The accounts of the Foundation have been included in the Seminary's consolidated financial statements.

In addition, the Seminary has a wholly-owned subsidiary corporation, Village Manor, Inc. The accounts of Village Manor, Inc. are included in the consolidated financial statements of the Seminary. All intercompany transactions with Village Manor, Inc. are eliminated in the consolidation of the financial statements.

The Seminary has another wholly-owned subsidiary, Seminary Properties, LLC ("Seminary Properties") that was established to provide student and multi-family housing. In pursuing this objective, Seminary Properties entered into a limited liability company as a 90% owner with LHD Grinstead South, LLC, a 10% owner, to form Grinstead Housing South, LLC ("Grinstead Housing"). Seminary Properties and Grinstead Housing are included in the consolidated financial statements of the Seminary and all intercompany transactions are eliminated in the consolidation of the financial statements. The 10% noncontrolling interest in Grinstead Housing is considered immaterial for presentation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting.

Resources are classified for accounting purposes into separate categories of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets have been grouped into the following categories:

> ***Net Assets Without Donor Restrictions*** – Net assets without donor restrictions are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees.
>
> ***Net Assets With Donor Restrictions*** – Net assets whose use by the Seminary is subject to donor-imposed stipulations. Some restrictions are temporary in nature and can be fulfilled by actions of the Seminary pursuant to those stipulations or that expire with the passage of time. Other net assets with donor restrictions are perpetual in nature in that they neither expire with the passage of time nor can be fulfilled or otherwise removed by the Seminary.

The Seminary follows the policy of reporting donor restricted contributions and restricted endowment income in the consolidated statements of activities as increases in net assets with donor restrictions in the period received. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor-imposed stipulations that simultaneously increase one category of net assets and decrease another are reported as reclassifications between the applicable classes of net assets.

Income Taxes: The Internal Revenue Service has determined that the Seminary is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Seminary is subject to federal income tax on any unrelated business taxable income.

Accounting principles generally accepted in the United States of America prescribe recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits or liabilities will be recognized only if the tax position would "more-likely-than-not" be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit or liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit or liability will be recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at July 31, 2019 and 2018 and does not expect this to change in the next 12 months.

The Seminary would recognize interest and penalties related to uncertain tax positions in interest and income tax expense, respectively. The Seminary has no amounts accrued for interest or penalties as of July 31, 2019 and 2018.

Seminary Properties is a single member limited liability company, wholly owned by the Seminary. Seminary Properties is a disregarded entity treated as part of the Seminary for federal income tax purposes although it is treated under state law as a separate legal entity.

Grinstead Housing is a for-profit organization which is treated as a partnership for income tax purposes. The income that is passed through to Seminary Properties is related business income and is not taxable to the Seminary.

Statement of Cash Flows: The Seminary considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Periodically throughout the year, the Seminary's cash balance exceeds the amount insured by the Federal Deposit Insurance Corporation. Cash and cash equivalents representing assets of endowment and similar funds and annuity and life income funds are included in long-term investments.

Gifts-in-kind of $97,096 and $128,144 were received in 2019 and 2018, respectively.

The Seminary received total gifts of split-interest agreements of $6,255 and $31,950 in 2019 and 2018, respectively.

Fundraising expenses totaled $1,096,906 and $1,101,772 in 2019 and 2018, respectively.

Cash paid for interest was $735,867 and $773,654 for the years ended July 31, 2019 and 2018, respectively, including interest capitalized of $2,477 and $28,862 in 2019 and 2018, respectively.

Accounts, Notes and Student Loans Receivable: Accounts and notes receivable primarily consists of student charges, employee advances and amounts due from vendors. Student loans receivable consists of long-term loans that bear interest at various rates and are repayable over various terms. Payment of student charges is due upon registration unless the student has been set up on a specific payment plan. Past due accounts for current students are charged interest at a rate of 18% per annum. There is no interest charged for past due rent or on accounts of former students. An allowance for doubtful accounts is established for the estimated portion that will ultimately be uncollectible. When collection is considered unlikely, accounts are charged off to the allowance. Any subsequent recoveries are added to the allowance. The allowances are based on prior experience and management's analysis of specific receivables.

Contributions Receivable: Unconditional promises to give are recognized at fair value as receivables and revenue in the appropriate net asset category in the year in which the pledge is communicated by the donor. Contributions to be received within one year are recorded at their fair value, net of allowances. Contributions to be received in more than one year have been recorded at the net present value of the expected future cash flows, net of allowances. Contributions receivable are reviewed annually to determine if an allowance for uncollectible contributions receivable is needed.

Investments: Investments in marketable securities are stated at fair value (based upon quoted market prices), and real estate investments from gifts are stated at fair value (based upon appraisals). Investments in alternative investments, other than private equities, a commercial real estate fund and preferred note, are stated at fair value based upon amounts provided by the investment managers. Private equities, commercial real estate fund and preferred note are recorded at cost in accordance with accounting principles generally accepted in the United States of America. Net unrealized and realized gains or losses are reflected in the consolidated statements of activities as a component of investment return.

The investment in key man life insurance policies is stated at its cash surrender value provided by the insurance companies.

Investment income is reported net of investment expenses as a component of investment return. These expenses totaled $203,426 and $129,972 in 2019 and 2018, respectively.

As noted in Note 5, net appreciation on endowment fund investments, whose income is otherwise unrestricted as to use, is reported as net assets with donor restrictions until appropriated for expenditure by the Seminary. In cases where the donor has placed restrictions on the use of the income from endowed gifts, related net appreciation is subject to those restrictions and is reported as a part of net assets with donor restrictions until the restriction has been met.

Funds Held in Trust by Others: Certain income producing funds are held in trust by others. These funds represent resources neither in the possession nor under the control of the Seminary, but held and administered by outside trustees, with the Seminary deriving only income from such funds. These funds include various types of split-interest agreements including perpetual trusts, charitable gift annuities, charitable lead trusts, charitable remainder trusts, and pooled life income funds. The Seminary's percentage interest in the assets of each trust fund is recorded at fair value in the consolidated statements of financial position.

Inventories: Inventories are stated at cost using the first-in, first-out ("FIFO") method.

Land, Buildings and Equipment: Land, buildings and equipment are recorded at cost or, if donated, at fair value at the date of donation. Expenditures for land, buildings or equipment with a unit cost of $5,000 or more and having a useful life greater than one year are capitalized. The Seminary capitalizes interest in connection with the construction of buildings. Actual costs related to the building qualify for interest capitalization. Interest capitalization ceases when the construction is complete and the building is available for use. The Seminary lifts the restrictions on contributions of cash or other assets received for the acquisition of long-lived assets when the long-lived assets are acquired. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and building improvements	25-100 years
Land improvements	20 years
Equipment, furniture and library books	3-15 years

Amortization of assets recorded under capital leases is included in depreciation expense. Upon disposition, buildings and equipment are removed from the records and any gain or loss is recognized.

Depreciation expense totaled $4,718,855 and $4,513,416 in 2019 and 2018, respectively.

Impairment of Long-Lived Assets: On an ongoing basis, the Seminary reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. The Seminary recognizes impairment losses if the undiscounted cash flows expected to be generated by the asset are less than the carrying value of the related asset. The impairment loss adjusts the assets to fair value. As of July 31, 2019 and 2018, management believes that no impairments existed, except for the impairment discussed in Note 4.

Revenue and Deferred Revenue: Revenue from tuition and fees is recognized during the semester in which the student attends class. Deferred revenue includes amounts received from students for tuition and fees and housing rent prior to the end of the fiscal year but related to the subsequent reporting period. Deferred revenue of $1,350,000 and $1,258,000 as of July 31, 2019 and 2018, respectively, is included with deferred revenue, deposits and other liabilities in the consolidated statements of financial position.

Cost allocations: The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Seminary. These expenses include depreciation and amortization, interest, accounting, campus police, information technology, human resources, internal event management, mailing services, media production, and facilities operations and maintenance. Depreciation, campus police, and facilities operations and maintenance are allocated based on square footage, and interest is allocated based on usage of space. Costs of other categories are allocated based upon estimates of time and effort. See Note 17 for the schedule of functional expenses.

Derivative Instruments: All derivative instruments are recognized in the consolidated statements of financial position at their fair value. Interest received from, interest paid pursuant to, and changes in the fair value of interest rate swaps are recognized in the consolidated statements of activities.

Fair Value of Financial Instruments: The fair values of financial instruments other than investments and interest rate swap agreements, which include cash and cash equivalents, accounts receivable, accounts payable and deposits, and notes payable, are based on a variety of factors. In some cases, fair values represent quoted market prices for identical or comparable instruments. In other cases, fair values have been estimated based on assumptions about the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of risk. Accordingly, the fair values may not represent actual values that could have been realized at year-end or that will be realized in the future. All other financial instruments' carrying values approximate fair values as of July 31, 2019 and 2018.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The more significant estimates included in the financial statements are the fair value of investment securities, the estimated lives of depreciable buildings and equipment, and post-retirement benefit obligations.

Adoption of New Accounting Standard: In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* (ASU). 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 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 adopted the ASU and has adjusted the presentation of these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and functional expense disclosures, as permitted. The implementation resulted in a transfer due to the reclassification of underwater investment balances from net assets without donor restriction to net assets with donor restriction. This transfer increased August 1, 2017 net assets without donor restrictions by $1,061,205 and decreased net assets with donor restrictions by the same amount.

Reclassifications: Certain amounts in the accompanying consolidated financial statements for the prior year have been reclassified to conform to current year presentation with no effect on net assets, change in net assets or net change in cash and cash equivalents.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent July 31, 2019 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended July 31, 2019. Management has performed their analysis through November 18, 2019, the date these financial statements were available to be issued.

NOTE 3 – FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States of America ("U.S. GAAP") define fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Seminary's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date and establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are described below:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The carrying amounts for cash and cash equivalents included in investments and as reported in the consolidated statements of financial position approximate their fair value.

The fair values of mutual fund equities, fixed income, and multi-asset securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs - market).

Asset-backed securities are issued by financial institutions and are valued using matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs - market).

Alternative assets consist of hedge funds, commercial real estate funds, private equities, and a preferred note, all of which are held in partnership form. The hedge funds and Private equities where impairment has been taken (see Note 4) are recorded at the net asset value ("NAV") or fair value (Level 3 - market and income). The following is a description of this alternative asset type:

Hedge Funds – The Seminary's hedge fund investment in an open-ended fund that employs various investment strategies, including long/short and fund-of-funds. The fund's objective is to seek capital appreciation in excess of applicable broad market indices. The NAV of the hedge fund is determined by the investment manager, utilizing standard valuation procedures to assess the fair value of the underlying investment holdings. For holdings in marketable securities listed on national security exchanges, the values represent the publicly traded values, and holdings in private securities are generally valued using the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, appraisals and/or the income approach. Each fund is subject to an annual audit. The Seminary's management has determined that NAV is a reasonable and prudent estimate of valuations reported by each hedge fund investment manager. However, the hedge fund investment is not readily marketable and its estimated value is subject to uncertainty. Therefore, there may be a material difference between the fund's estimated value and the value that would have been used had a readily determinable fair value for such an investment existed. The Seminary may generally redeem substantially all or a portion of its investment in the hedge fund at the NAV after accrual of all fees no later than as of the last day of a calendar quarter upon prior written notice of at least 45 days. Payment of redemption proceeds will generally be made within 60 days of the redemption date; provided, however, that payment may be deferred to the extent there is a delay in the fund's receipt of proceeds from the portfolio funds.

Private equities – The fair value of private equities with an impairment charge are generally based on discounted cash flows. These are considered non-recurring fair value measurements, resulting in a Level 3 fair value classification.

The fair value of the funds held in trust by others (or any type of beneficial interest) is based on a valuation model that calculates the present value of estimated distributed income. The valuation model incorporates the fair value of investment holdings, which are readily marketable securities, valued at quoted prices and incorporates assumptions that market participants would use in estimating future distributed income. The Seminary does not have the ability to redeem the investment within 90 days (Level 3 inputs - market). The Seminary is able to compare the valuation model inputs and results to widely available published industry data for reasonableness.

The Seminary's only derivative financial instruments are three interest rate swap agreements. Interest rate swaps do not have observable market quotes. For these financial instruments, the Seminary's swap counterparty (a financial institution) provides an annual valuation using the difference between the fixed rate paid by the Seminary and the counterparty's LIBOR interest rate forecast discounted at the swap yield curve. The model is based on observable inputs for forward interest rates and discount rates. As such, this derivative instrument is classified within (Level 2 – market) of the fair value hierarchy.

The Seminary's investments measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at July 31, 2019 Using:				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Total
Assets					
Long-term investments					
Cash and cash equivalents	$ 1,624,733	$ -	$ -	$ -	$ 1,624,733
Mutual funds					
Equities	28,668,009	-	-	-	28,668,009
Fixed income	16,821,681	-	-	-	16,821,681
Multi-asset	7,099,356	-	-	-	7,099,356
Asset-backed securities	-	3,246,074	-	-	3,246,074
Alternative investments					
Hedge funds	-	-	-	2,733,896	2,733,896
Total long-term investments	54,213,779	3,246,074	-	2,733,896	60,193,749
Funds held in trust by others	-	-	19,306,489	-	19,306,489
Interest rate swap agreements	-	18,258	-	-	18,258
	$ 54,213,779	$ 3,264,332	$ 19,306,489	$ 2,733,896	$ 79,518,496
Liabilities					
Interest rate swap agreements	$ -	$ (863,878)	$ -	$ -	$ (863,678)

	Fair Value Measurements at July 31, 2018 Using:				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Total
Assets					
Long-term investments					
Cash and cash equivalents	$ 4,164,199	$ -	$ -	$ -	$ 4,164,199
Mutual funds					
Equities	29,823,692	-	-	-	29,823,692
Fixed income	18,974,743	-	-	-	18,974,743
Asset-backed securities	-	4,000,715	-	-	4,000,715
Alternative investments					
Hedge funds	-	-	-	2,724,113	2,724,113
Total long-term investments	52,962,634	4,000,715	-	2,724,113	59,687,462
Funds held in trust by others	-	-	19,146,834	-	19,146,834
Interest rate swap agreements	-	203,222	-	-	203,222
	$ 52,962,634	$ 4,203,937	$ 19,146,834	$ 2,724,113	$ 79,037,518

The table below sets forth a summary of the changes in fair value of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended July 31, 2019:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Balance at Beginning of Year	Realized and Unrealized Gains, Net	Additions	Distributions	Balance at End of Year
Funds held in trust by others	$ 19,146,834	$ 157,930	$ 192,815	$ (191,090)	$ 19,306,489

The amount of total gains or losses for the year ended July 31, 2019 included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at July 31, 2019 were as follows:

Funds held in trust by others	$ 35,965

The table below sets forth a summary of the changes in fair value of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended July 31, 2018:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Balance at Beginning of Year	Realized and Unrealized Gains, Net	Additions	Distributions	Balance at End of Year
Funds held in trust by others	$ 18,539,446	$ 582,078	$ 31,950	$ (6,640)	$ 19,146,834

The amount of total gains or losses for the year ended July 31, 2018 included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at July 31, 2018 were as follows:

Funds held in trust by others	$ 582,078

Total assets measured on a non-recurring basis using Level 3 inputs were $1,126,838 and $1,475,684 at July 31, 2019 and 2018, respectively. The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis:

July 31, 2019	Fair Value	Valuation	Unobservable Inputs	Range (Weighted Average)
Private equities	$ 1,126,838	Income approach	Adjustments for differences in net operating income expectations	10%

July 31, 2018	Fair Value	Valuation	Unobservable Inputs	Range (Weighted Average)
Private equities	$ 1,475,684	Income approach	Adjustments for differences in net operating income expectations	10%

NOTE 4 – LONG-TERM INVESTMENTS

A summary of investments by asset type at July 31, 2019 and 2018 is as follows:

	2019 Fair Value	2018 Fair Value
Investment pool		
Cash and cash equivalents	$ 929,853	$ 3,903,065
Mutual Funds		
Equities	28,668,009	29,529,021
Fixed income	16,821,681	18,974,743
Multi-asset	7,099,356	-
Asset-backed securities	3,246,074	3,901,289
Alternative assets		
Hedge funds	2,733,896	2,724,113
Total investment pool	59,498,869	59,032,231
Other investments		
Cash and cash equivalents	694,880	261,134
Public securities		
Equities	-	294,671
Asset-backed securities	-	99,426
Total other investments	694,880	655,231
Total investments at fair value	$ 60,193,749	$ 59,687,462

	2019 Cost	2018 Cost
Investment pool		
Alternative assets		
Commercial real estate funds	$ 3,592,669	$ 4,102,699
Private equities	9,928,715	10,278,564
Key man life insurance policies	4,662,447	4,582,920
Total investment pool	18,183,831	18,964,183
Other investments		
Alternative assets		
Commercial real estate fund	-	12,775
Private equities	191,853	191,853
Preferred note	150,025	150,025
Total other investments	341,878	354,653
Total investments at cost	$ 18,525,709	$ 19,318,836

	2019	2018
Investments at fair value	$ 60,193,749	$ 59,687,462
Investments at cost	18,525,709	19,318,836
Total long-term investments	$ 78,719,458	$ 79,006,298

Certain alternative investments of the Seminary are carried at cost. Following is a description of each of these alternative asset types:

Commercial Real Estate Funds – As of July 31, 2019, the Seminary's Commercial Real Estate Fund Investments included three funds that employ an opportunistic hybrid investment strategy that focuses on short-term debt and equity investments in commercial real estate within the United States. The funds will focus on property types that the manager believes are undervalued or poised for recovery. Distributions may be made by the funds from its interest, dividends and other income, and upon a disposition of underlying assets, but as a limited partner, the Seminary will not generally have any influence over the timing of such distributions. The Seminary's investment in two of the funds may not be redeemed prior to the specified termination date of the fund, which may or may not occur in 2019. After a 12 month lock-up period, the Seminary's investment in the third fund, which is a perpetual fund, may be redeemed on the last day of a calendar quarter upon an approved written notice provided sixty (60) days before the end of the calendar quarter.

Private Equities – As of July 31, 2019, the Seminary's private equities were direct investments in eight companies, including one which owns and leases a hospital and two medical office buildings, a second company that operates the hospital leased from the first company, one that owns the assets of an operating company in a niche of the aviation industry, one that owns certain assets of a company operating in a niche of the agricultural industry, one that owns and operates a teak timber plantation, two that are involved in acquiring and drilling oil and gas wells, and one that was created to acquire and renovate new facilities for a company involved in a niche of the aviation industry. At the discretion of the manager of each of these companies, distributions may be made to investors from the net cash flows; but as a member, the Seminary will not generally have any influence over the timing of such distributions. The Seminary will also participate in liquidating distributions, but specific dates for liquidation of each company are not provided for in the partnership agreements.

Preferred Note – In its other investments, the Seminary also had an alternative equity investment in a limited liability company format which invests in residential real estate to be rehabilitated and made available for sale as of July 31, 2019. This investment functions like a preferred note, which targets 10% minimum cash distributions as a rate of return, with the potential for an additional return depending on the profitability of the company's operations. The Seminary's exposure to share in any losses of the company is limited to its investment in the company. This alternative investment does not allow for redemption withdrawals until the LLC is dissolved, unless special approval is awarded by the general partner.

Unless there are identified events or changes in circumstances that would have a significant adverse effect on the fair value of these investments, the fair value of the cost-method investments is not estimated. The Seminary believed that changes in the circumstances of three of its private equity investments indicated that the investments had experienced a more than temporary impairment that has significantly impacted the fair value of those investments. The impairment charge of approximately $839,000 for those investments is reflected in the carrying value of investments in the consolidated statement of financial position and the investment return undistributed in the consolidated statement of activities as of July 31, 2019. The impairment charges recognized for the year ending July 31, 2018 were approximately $783,000.

The Seminary has established an investment pool and allocates units of ownership interest based on the fair value per unit at the end of the month preceding the month in which a transaction occurs. The following table summarizes the relationship between carrying values of investment assets in the investment pool and the carrying value per unit at July 31, 2019 and 2018:

	2019		2018	
	Carrying Value	Carrying Value Per Unit	Carrying Value	Carrying Value Per Unit
Balance at end of year	$ 77,682,699	$ 6.10	$ 77,996,414	$ 6.15
Balance at beginning of year	77,996,414	6.15	74,967,566	6.14
Increase (decrease)	$ (313,715)	$ (0.05)	$ 3,028,848	$ 0.01

NOTE 5 – ENDOWMENT FUNDS

Effective July 2010, the *Uniform Prudent Management of Institutional Funds Act* ("UPMIFA") was adopted by the Commonwealth of Kentucky. The Seminary interprets UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Seminary classifies as net assets with donor restrictions held in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions held in perpetuity is classified as net assets with donor restrictions restricted by purpose or passage of time until those amounts are appropriated for expenditure by the Seminary in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Seminary considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The Financial Board of the Board of Trustees of the Seminary is charged with the responsibility of managing the endowment assets in the Seminary's investment pool. The Financial Board believes its role is one of setting and reviewing investment policy and retaining, monitoring, and evaluating advisors and investment managers, and to invest these funds in accordance with the ethical and moral witness principles of the Seminary. The Financial Board reviews the investment policy at least annually.

The primary objective of the investment pool is to earn a real total return, net of all fees incurred, sufficient to provide sustainable distributions to support the Seminary's mission and protect, and where prudent, increase, the purchasing power of the assets in the investment pool. The Trustees adhere to modern portfolio theory, which has, as its basis, risk reduction through diversification. Diversification is obtained through the use of multiple asset classes as well as multiple investments within these asset classes. Asset classes that may be used include (but are not limited to) domestic and international stocks and bonds, alternative investments (hedge funds, private equity, venture capital and absolute return funds) and real property (real estate, commodities and natural resources). It is expected that this objective will be achieved with the minimum possible risk to the investment pool. The funds are to be invested to maximize return within appropriate risk tolerances, with the expectation that over a long time horizon there is a reasonable expectation that the funds will be able to achieve both distribution and purchasing power goals. The investment strategy is implemented through the selection of external advisors and managers with expertise and successful histories in the management of specific asset classes.

The spending rule within the Seminary's investment policy further provides for an annual payout of up to 5% of the trailing 12-quarter rolling average of the market value of the investment pool. The specific percentage to be paid out is determined annually in conjunction with budget authorization. In 2019 and 2018, distributions made from the investment pool to support the Seminary's mission amounted to 4.25% and 4.72% based on the 12-quarter rolling average fair value of the investment pool for the periods ended July 31, 2019 and 2018, respectively.

Endowment net assets, a component of the Seminary's investment pool, at fair value by type of fund as of July 31, 2019 and 2018 were as follows:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets:			
Donor-restricted endowment funds	$ (105,629)	$ 64,670,608	$ 64,564,979
Board-designated funds	9,805,418	-	9,805,418
Total endowment net assets	$ 9,699,789	$ 64,670,608	$ 74,370,397

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets:			
Donor-restricted endowment funds	$ (99,190)	$ 64,940,236	$ 64,841,046
Board-designated funds	9,814,606	-	9,814,606
Total endowment net assets	$ 9,715,416	$ 64,940,236	$ 74,655,652

Changes in endowment net assets by type of fund for the years ended July 31, 2019 and 2018 were as follows:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	$ 9,715,416	$ 64,940,236	$ 74,655,652
Additions	72,082	261,017	333,099
Interest and dividends	1,443,698	3,723,320	5,167,018
Realized/unrealized losses	(685,661)	(2,111,038)	(2,796,699)
Appropriation of endowment assets for expenditure	(845,746)	(2,142,927)	(2,988,673)
Endowment net assets at end of year	$ 9,699,789	$ 64,670,608	$ 74,370,397

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	$ 7,593,675	$ 64,041,268	$ 71,634,943
Additions	2,119,451	760,992	2,880,443
Interest and dividends	393,787	1,045,105	1,438,892
Realized/unrealized gains	535,207	1,494,554	2,029,761
Appropriation of endowment Assets for expenditure	(926,704)	(2,401,683)	(3,328,387)
Endowment net assets at end of year	$ 9,715,416	$ 64,940,236	$ 74,655,652

A board-designated or donor-restricted endowment fund is considered to be underwater if the fair value of the fund is less than either the original gift amount or the amount required to be maintained by the donor or by law. At times, the Seminary may have individual board-designated or donor-restricted endowment funds that are underwater. The Seminary has a policy that permits spending from underwater funds depending on the degree to which the fund is underwater, unless specifically prohibited by the donor or relevant laws and regulations. At July 31, 2019 and 2018, the amount by which board-designated and donor-restricted funds were underwater, is calculated as follows:

	2019	2018
Aggregate original gift value	$ 13,590,399	$ 13,544,198
Aggregate fair value	12,324,862	12,395,450
Aggregate deficiency	$ 1,265,537	$ 1,148,748

NOTE 6 – FUNDS HELD IN TRUST BY OTHERS

At July 31, 2019 and 2018, the funds held in trust by others were comprised of the following:

	2019	2018
Amounts subject to withdrawal by the Seminary	$ 1,986,141	$ 1,986,839
Amounts not subject to withdrawal by the Seminary	17,320,348	17,159,995
Total funds held in trust by others	$ 19,306,489	$ 19,146,834

NOTE 7 – LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consisted of the following at July 31, 2019 and 2018:

	2019	2018
Land and improvements	$ 6,669,894	$ 6,571,332
Buildings and building improvements	101,103,170	100,068,023
Furniture, equipment and books	27,326,818	26,483,700
Construction in progress	735,144	348,727
	135,835,026	133,471,782
Accumulated depreciation	(69,303,177)	(64,584,321)
Land, buildings and equipment, net	$ 66,531,849	$ 68,887,461

Outstanding commitments for construction of facilities were $31,794 as of July 31, 2019. There were no outstanding commitments for 2018.

The Seminary has identified several of its buildings that have a conditional asset retirement obligation related to asbestos abatement. The Seminary has adopted a plan to renovate one of those buildings and the fair value of the asset retirement obligation was estimated. The liability was $234,111 as of both July 31, 2019 and 2018.

NOTE 8 – NOTES PAYABLE

Notes payable at July 31, 2019 and 2018 consisted of the following:

	2019	2018
Bank term loan dated January 2, 2013, in the original amount of $3,850,000. The proceeds of this Seminary loan were used to repay the balances upon maturity of (i) the loan assumed January 25, 2005, from Village Manor Partners, Ltd., (ii) the bank term loan dated June 30, 2004, and (iii) the bank term loan dated October 20, 2003. The terms of the loan require monthly principal and interest payments. The loan's variable interest rate is based on one-month LIBOR plus 1.90% and was 4.16% and 3.97% at July 31, 2019 and 2018, respectively. The monthly principal payments are based on a 20-year amortization. The loan matures in January 2023, and is collateralized by the Seminary's campus real estate and a pledge of gross revenues. (A)	$ 2,907,099	$ 3,068,009
Bank term loan dated October 26, 2013 in the amount of $10,000,000 with up to a twenty-four (24) month draw period. The proceeds of this loan (along with the term loan dated October 10, 2013) were used to finance the cost of phase 1 of the Seminary's campus master plan, the primary components of which are the rehabilitation of existing administrative offices and dormitories, and the construction of a new road to loop around the campus. The terms of the loan require monthly principal and interest payments. The loan's variable interest rate is based on one-month LIBOR plus 1.90% multiplied by 65% and was 2.70% and 2.58% at July 31, 2019 and 2018, respectively. The monthly principal payments are based on a 20-year amortization. The loan matures in October 2024, and is collateralized by the Seminary's campus real estate and a pledge of gross revenues. (B)	$ 8,160,277	$ 8,570,756
Bank term loan dated October 10, 2013 in the amount of $10,000,000 with up to a twenty-four (24) month draw period. The proceeds of this loan (along with the term loan dated October 26, 2013) were used to finance the cost of phase 1 of the Seminary's campus master plan, the primary components of which are the rehabilitation of existing administrative offices and dormitories, and the construction of a new road to loop around the campus. The terms of the loan require monthly principal and interest payments. The loan's variable interest rate is based on one-month LIBOR plus 1.90% multiplied by 65% and was 2.70% and 2.58% at July 31, 2019 and 2018, respectively. The monthly principal payments are based on a 20-year amortization. The loan matures in October 2024 and is collateralized by the Seminary's campus real estate and a pledge of gross revenues. (B)	8,160,278	8,570,755

	2019	2018
Bank term loan dated March 2, 2016, with Grinstead Housing as borrower, and the Seminary as guarantor. The entire proceeds of $3,175,533 were used to pay off the bank term loan due to mature on August 1, 2016. The terms of the loan require monthly principal and interest payments based on a 20-year amortization. The loan matures in March 2021. The variable interest rate on the loan was based on one-month LIBOR plus 2.00% was 4.33% and 4.07% at July 31, 2019 and 2018, respectively. The loan was collateralized by the Seminary's campus real estate. (C)	2,614,954	2,785,990
Total notes payable	$ 21,842,608	$ 22,995,510

(A) The Seminary entered into an interest rate swap on November 2, 2012, which became effective on January 2, 2013, with an initial notional amount of $3,850,000. Throughout its 10-year term, the scheduled notional amount of the swap agreement is equal to the scheduled outstanding principal balance of the related bank term loan described above. The swap agreement provides that the Seminary will receive a variable interest amount based upon one-month LIBOR plus 1.90% and will pay a fixed interest rate of 3.82%.

In 2019 and 2018, the excess of the amounts paid over the amounts received under the swap agreement amounted to $(15,083) and $8,210, respectively, which is included in interest expense. The fair value of the swap agreement was $(14,700) and $108,583 at July 31, 2019 and 2018, respectively, and is included in deferred revenue, deposits, and other liabilities in the consolidated statements of financial position as of July 31, 2019 and 2018. The decrease in fair value in 2019 decreased net assets by $123,283 and the increase in fair value in 2018 increased net assets by $117,129 in the consolidated statement of activities in 2019 and 2018, respectively.

(B) The Seminary entered into an interest rate swap on October 10, 2012, which became effective on October 1, 2014, with an initial notional amount of $20,000,000. During the first 10 years of its 20-year term, the scheduled notional amount of the swap agreement is expected to approximate the sum of the scheduled outstanding principal balances of the two related bank term loans dated October 10 and October 26, 2013, described above. The swap agreement provides that the Seminary will receive a variable interest amount based upon 65% of one-month LIBOR and will pay a fixed interest rate of 3.137%.

In 2019 and 2018, the excess of the amounts paid over the amounts received under the swap agreement amounted to $57,165 and $147,237, respectively, which is included in interest expense. The fair value of the swap agreement was $(849,178) and $5,208 at July 31, 2019 and 2018, respectively, and is included in deferred revenue, deposits, and other liabilities in the consolidated statements of financial position as of July 31, 2019 and 2018. The decrease in fair value in 2019 decreased net assets by $854,386 and the increase in fair value in 2018 increased net assets by $717,780 in the consolidated statement of activities in 2019 and 2018, respectively.

(C) On March 2, 2016, Grinstead Housing entered into an interest rate swap agreement effective that day with an initial notional amount of $3,175,533. Throughout its 5-year term, the scheduled notional amount of the swap agreement is equal to the scheduled outstanding principal balance of the bank term loan dated March 2, 2016 described above. The swap agreement provides that Grinstead Housing will receive a variable interest amount based upon one-month LIBOR plus 2.00% and will pay a fixed interest rate of 3.42%.

In 2019 and 2018, the excess of the amounts paid over the amounts received under the swap agreement amounted to $(26,614) and $(5,569), respectively, which is included in interest expense. The fair value of the swap agreement was $18,258 and $89,431 at July 31, 2019 and 2018, respectively, and is included in inventory, prepaid expenses and other assets in the consolidated statements of financial position. The decrease in fair value in 2019 decreased net assets by $71,173 and the increase in fair value in 2018 increased net assets by $64,728 in the consolidated statement of activities in 2019 and 2018, respectively.

The following is a summary of scheduled principal repayments on the above notes payable:

Year ending July 31,	
2020	$ 1,191,543
2021	3,485,957
2022	1,082,894
2023	3,316,366
2024	960,796
Thereafter	11,805,052
Total principal repayments	$ 21,842,608

The Seminary's note agreements contain both financial and non-financial covenants. At July 31, 2019 and 2018, the Seminary was in compliance with all of the covenants contained in the agreements.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions restricted by purpose or passage of time are available for the following purposes at July 31, 2019 and 2018:

	2019	2018
Educational and general	$ 19,181,214	$ 19,478,549
Student financial aid	13,625,531	13,800,098
Student loans	230,180	244,343
Operation and maintenance of facilities	24,978	26,514
Acquisition of property and equipment	435,671	384,718
Other	194,379	299,945
Total	$ 33,691,953	$ 34,234,167

Net assets with donor restrictions are restricted to investment in perpetuity, the income from which is expendable to support the following purposes at July 31, 2019 and 2018:

	2019	2018
Educational and general	$ 35,633,436	$ 35,123,137
Student financial aid	16,914,467	16,836,716
Student loans	3,830,845	3,780,151
Operation and maintenance of facilities	173,197	173,121
Other	195,548	168,368
Total	$ 56,747,493	$ 56,081,493

NOTE 10 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions when expenses were incurred that satisfied the restricted purposes or by occurrence of other events as specified by the donors. The purposes of the restricted income released during 2019 and 2018 are as follows:

	2019	2018
Satisfaction of program restrictions for:		
Instruction	$ 1,773,646	$ 1,805,598
Library	258,777	169,088
Administrative and general	114,857	119,516
Student financial aid	764,061	903,105
Operation and maintenance of facilities	38,672	22,914
Acquisition of property and equipment	29,547	117,935
Auxiliary	1,452	3,336
Satisfaction of time restrictions	7,091	6,640
Total net assets released from restrictions	$ 2,988,103	$ 3,148,132

NOTE 11 – PENSION PLAN

The Seminary has a contributory defined contribution pension plan for substantially all of its full-time employees. The Seminary contributes 10% of each participant's salary and, following attainment of specified years of full-time employment, will contribute up to an additional 5% if matched by the participant. Pension plan contributions were $1,408,549 and $1,376,041 for 2019 and 2018, respectively.

NOTE 12 – POSTRETIREMENT BENEFITS

Prior to 2000, the Seminary had sponsored a postretirement health care and term life insurance benefits plan for all full-time employees who retired after attaining age 65 prior to July 31, 1995. For employees who retired subsequent to July 31, 1995, the Seminary did not provide health care or life insurance benefits. During 2000, the Seminary initiated sponsorship of postretirement health care and term life insurance benefits to all full-time employees who retired after attaining their Social Security Normal Retirement Age and completing at least 15 years of service at the Seminary.

Effective January 1, 2006, the Seminary amended its plan to provide retired participants with Medicare supplement coverage (similar to that previously offered, except that the revised supplement policy did not incorporate a prescription drug benefit) and a separate Medicare Part D prescription drug benefit.

During 2007, the Seminary revised its plan to provide postretirement health care and term life insurance benefits to all full-time employees after age 65 who retire after age 59 years, 6 months, and have completed at least 10 years of service at the Seminary.

The postretirement benefits provided by the Seminary for covered retirees range between 25% and 100% of the participants' health care and term life premiums. The Seminary reserves the right to change or terminate the benefits at any time.

Following is a summary of the components of the postretirement health care and term life insurance benefits plan and a reconciliation to the amounts recognized in accrued postretirement benefit cost in the accompanying consolidated statements of financial position for 2019 and 2018:

	2019	2018
Change in benefit obligations		
Benefit obligation at beginning of year	$ 3,933,346	$ 4,187,240
Service cost	169,356	187,344
Interest cost	164,196	162,857
Actuarial (gain) loss	212,565	(490,413)
Benefits paid	(77,677)	(74,379)
Gain recognized	(82,274)	(39,303)
Benefit obligation at end of year recognized in the consolidated statements of financial position	$ 4,319,512	$ 3,933,346
Funded status	$ (4,319,512)	$ (3,933,346)
Weighted average discount rate assumption as of July 31	3.48%	4.06%

Amounts not yet recognized as components of net periodic benefit costs are as follows at July 31, 2019 and 2018:

	2019	2018
Unrecognized prior service costs	$ 171,448	$ 214,309
Unrecognized net actuarial gain	(995,278)	(1,207,843)

The amounts not yet recognized that will be recognized during the year ending July 31, 2020 are as follows:

Unrecognized prior service costs	$ 42,863
Unrecognized net actuarial gain	(56,902)

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 3.20% for medical and 6.90% for prescription coverage in 2019 and was 3.60% for medical and 7.50% for prescription coverage in 2018, adjusted gradually thereafter to an ultimate rate of 3.60% for medical and 5.25% for prescription coverage in the year 2026.

The effect of a one-percentage point increase and decrease in the assumed health care cost trend rate is as follows at July 31, 2019 and 2018:

	--------------2019--------------		--------------2018---------------	
	Impact (-1%)	Impact (+1%)	Impact (-1%)	Impact (+1%)
Aggregate of the service and interest cost components of net periodic postretirement healthcare benefit cost	$ (54,602)	$ 71,992	$ (54,108)	$ 70,014
Accumulated postretirement benefit obligation for health care benefits	$ (514,993)	$ 653,134	$ (461,233)	$ 581,352

	2019	2018
Components of net periodic benefit cost:		
Service cost	$ 169,356	$ 187,344
Interest cost	164,196	162,857
Net amortization cost	42,861	42,862
Actuarial gain recognized	(82,274)	(39,303)
Total net periodic benefit cost	$ 294,139	$ 353,760

The Seminary estimates the following future benefits that are expected to be paid:

Year	Amount
2020	$ 122,357
2021	134,714
2022	143,552
2023	151,523
2024	165,179
2025 – 2029	974,121

NOTE 13 – RENT EXPENSE

The Seminary has various operating leases, primarily for vehicles and office equipment, which expire between 2019 and 2023. Total rent expense under cancelable and non-cancelable operating leases was $125,119 and $116,174 for 2019 and 2018, respectively.

At July 31, 2019, the future minimum lease payments under non-cancelable operating leases are as follows:

2020	$ 85,074
2021	28,589
2022	23,137
2023	1,292
Total future minimum lease payments	$ 138,092

NOTE 14 – CAPITAL LEASE OBLIGATIONS

The Seminary leases capital assets with a net book value of $3,280 as of July 31, 2019.

At July 31, 2019, the future minimum lease payments due under this capital lease are as follows:

2020	$ 2,226
2021	1,298
Total future minimum lease payments	3,524
Amounts representing interest	244
Present value of future minimum lease payments	$ 3,280

NOTE 15 – CONTINGENCIES

The Seminary is a party to various litigation and other claims in the ordinary course of business. Seminary officials are of the opinion, based upon the advice of legal counsel, that the ultimate resolution of these matters will not have a material effect on the financial statements of the Seminary.

NOTE 16 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	$ 26,100,299
Accounts and notes receivable, net	1,234,976
Working capital investments	694,880
2019-2020 endowment spending payout	2,985,101
Total financial assets available for general expenditure within one year	$ 31,015,256

Our endowment funds consist of donor-restricted endowments and funds designed by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

Our board-designated endowment of $9,699,789 is subject to a budgeted annual spending rate of 4.50%. Although we do not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditures as part of our Board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of our liquidity management plan, we structure financial assets to be available as the general expenditures, liabilities and other obligations become due. In addition, we invest cash in excess of daily requirements in short-term investments, CDs, and money market funds. Occasionally, the Board designates a portion of funds functioning as endowment to its operating reserve, which was $2,500,000 as of July 31, 2019.

NOTE 17 – FUNCTIONAL EXPENSES

	Program Services					Supporting Services			
	Instruction	Student Services	Auxiliary - Housing	Other Auxiliary	Total Program Services	Institutional Support	Academic Support	Total Supporting Services	Total Expenses
Salaries and wages	$ 9,441,456	$ 3,284,460	$ 705,063	$ 879,412	$ 14,310,391	$ 3,588,488	$ 1,490,191	$ 5,078,679	$ 19,389,070
Employee benefits	1,745,947	1,288,388	251,637	310,758	3,596,730	938,176	504,941	1,443,117	5,039,847
Travel	353,644	400,746	5,108	14,175	773,673	421,791	71,148	492,939	1,266,612
Supplies, printing and postage	242,993	463,587	32,050	159,950	898,580	562,444	149,949	712,393	1,610,973
Services, contracts and professional fees	854,620	1,028,737	1,411,536	1,558,185	4,853,078	1,792,584	686,847	2,479,431	7,332,509
Utilities, maintenance and insurance	488,146	645,206	1,396,812	263,635	2,793,799	1,171,851	362,060	1,533,911	4,327,710
Depreciation and amortization	555,006	243,934	2,124,648	413,122	3,336,710	984,689	397,456	1,382,145	4,718,855
Interest	3,300	6,378	559,838	41,959	611,475	126,525	227	126,752	738,227
Other	178,041	496,286	30,312	391,032	1,095,671	441,214	39,647	480,861	1,576,532
Total functional expenses	$ 13,863,153	$ 7,857,722	$ 6,517,004	$ 4,032,228	$ 32,270,107	$ 10,027,762	$ 3,702,466	$ 13,730,228	$ 46,000,335

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Southern Baptist Theological Seminary
Louisville, Kentucky

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of The Southern Baptist Theological Seminary (the "Seminary"), 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 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.

Auditor's 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 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 Seminary'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 Seminary'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 Seminary as of July 31, 2019 and 2018, 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.

Emphasis of Matter
As discussed in Note 2 to the consolidated financial statements, in the current fiscal year, the Seminary adopted ASU 2016-14 - *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matter
Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Schedules on pages 31 through 34 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual entities and are not a required part of the consolidated financial statements [*This information can be found in the original audit as it is not required for publication in the 2020 Annual*]. The Report of Executive Committee of the Southern Baptist Convention – Distribution by State of Cooperative Program Receipts on page 35 [*the following page of this publication*] is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information, except for that portion marked "unaudited", was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. That information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the consolidated financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Crowe LLP
Louisville, Kentucky
November 18, 2019

REPORT OF EXECUTIVE COMMITTEE OF THE SOUTHERN BAPTIST CONVENTION – DISTRIBUTION BY STATE OF COOPERATIVE PROGRAM RECEIPTS
Year ended July 31, 2019 (Unaudited)

Churches and Individuals	$ 302,795
Alabama	991,847
Alaska	9,202
Arizona	58,882
Arkansas	489,247
California	115,147
Colorado	36,455
Dakota	5,095
District of Columbia	-
Florida	778,033
Georgia	811,966
Hawaii Pacific	12,465
Illinois	122,921
Indiana	46,588
Iowa	18,022
Kansas-Nebraska	42,793
Kentucky	522,387
Louisiana	363,254
Maryland-Delaware	89,234
Michigan	16,601
Minnesota-Wisconsin	12,374
Mississippi	645,395
Missouri	306,240
Montana	10,276
Nevada	32,746
New England	11,290
New Mexico	43,885
New York	12,705
North Carolina	605,473
Northwest	36,050
Ohio	113,953
Oklahoma	525,798
Pennsylvania-South Jersey	18,050
Puerto Rico/U.S. Virgin Islands	372
South Carolina	575,582
Tennessee	830,969
Texas – BGCT	542,830
Texas – SBTC	794,999
Utah-Idaho	11,267
Virginia – BGAV	41,241
Virginia – SBCV	240,544
West Virginia	28,938
Wyoming	5,726
Total Cooperative Program	10,279,637
Total designations	36,843
Total distributions	$ 10,316,480