MIDWESTERN BAPTIST THEOLOGICAL SEMINARY, INC.

Statements of Financial Position
July 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 5,935,060	$ 3,936,493
Student accounts receivable, net of allowance; 2019 - $337,387 and 2018 - $342,020	691,566	826,195
Contributions receivable	-	375,000
Prepaid expenses and bookstore inventory	372,982	227,960
Investments	8,843,135	8,062,837
Property and equipment, net of accumulated depreciation; 2019 - $19,848,262 and 2018 - $18,418,707	39,868,911	36,047,260
Beneficial interest in perpetual trusts	379,241	377,624
Total assets	$ 56,090,895	$ 49,853,369
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 610,110	$ 2,978,552
Accrued expenses	554,147	536,595
Deferred revenue	1,813,224	1,764,116
Notes payable	3,630,252	1,201,319
Total liabilities	6,607,733	6,480,582
Net Assets		
Without donor restrictions	42,207,454	36,381,268
With donor restrictions	7,275,708	6,991,519
Total net assets	49,483,162	43,372,787
Total liabilities and net assets	$ 56,090,895	$ 49,853,369

See Notes to Financial Statements

Statement of Activities
Year Ended July 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Student tuition and fees	$ 14,037,504	$ -	$ 14,037,504
Less institutional financial aid	(721,502)	-	(721,502)
Net student tuition and fees	13,316,002	-	13,316,002
Private gifts, grants and bequests	6,607,503	1,593,321	8,200,824
Auxiliary enterprises	1,815,981	-	1,815,981
Investment return	642,933	337,611	980,544
Change in beneficial interest in perpetual trusts	-	1,617	1,617
Other income	241,770	-	241,770
Net assets released from restrictions	1,648,360	(1,648,360)	-
Total revenues, gains and other support	24,272,549	284,189	24,556,738
Expenses			
Instruction	4,246,348	-	4,246,348
Academic support	3,926,671	-	3,926,671
Student services	1,544,998	-	1,544,998
Auxiliary enterprises	3,041,307	-	3,041,307
Institutional support	5,194,166	-	5,194,166
Fundraising	492,873	-	492,873
Total expenses	18,446,363	-	18,446,363
Change in Net Assets	5,826,186	284,189	6,110,375
Net Assets, Beginning of Year	36,381,268	6,991,519	43,372,787
Net Assets, End of Year	$ 42,207,454	$ 7,275,708	$ 49,483,162

See Notes to Financial Statements

Statement of Activities
Year Ended July 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Student tuition and fees	$ 11,734,335	$ -	$ 11,734,335
Less institutional financial aid	(573,550)	-	(573,550)
Net student tuition and fees	11,160,785	-	11,160,785
Private gifts, grants and bequests	5,986,645	3,266,991	9,253,636
Auxiliary enterprises	1,612,399	-	1,612,399
Investment return	222,908	337,216	560,124
Change in beneficial interest in perpetual trusts	-	23,766	23,766
Other income	72,132	-	72,132
Net assets released from restrictions	7,390,455	(7,390,455)	-
Total revenues, gains and other support	26,445,324	(3,762,482)	22,682,842
Expenses			
Instruction	3,927,977	-	3,927,977
Academic support	3,075,944	-	3,075,944
Student services	1,390,166	-	1,390,166
Auxiliary enterprises	2,026,076	-	2,026,076
Institutional support	4,637,488	-	4,637,488
Fundraising	438,904	-	438,904
Total expenses	15,496,555	-	15,496,555
Change in Net Assets	10,948,769	(3,762,482)	7,186,287
Net Assets, Beginning of Year	25,432,499	10,754,001	36,186,500
Net Assets, End of Year	$ 36,381,268	$ 6,991,519	$ 43,372,787

See Notes to Financial Statements

Statement of Functional Expenses
Year Ended July 31, 2019

	Programs				Support		
	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Fundraising	Total
Salaries and wages	$2,567,446	$2,423,093	$ 759,995	$ 280,783	$2,611,622	$ 273,801	$ 8,916,740
Employee benefits and taxes	571,817	542,905	226,930	42,344	786,649	84,568	2,255,213
Professional fees	-	-	12,210	161,253	175,763	-	349,226
Advertising and promotion	3,220	13,290	36,434	4,005	495,654	4,631	557,234
Office expenses	21,221	3,839	10,787	47,554	150,670	2,848	236,919
Insurance	22,718	17,980	1,165	99,998	9,786	388	152,035
Utilities and maintenance	227,125	179,760	11,647	999,739	97,839	3,882	1,519,992
Depreciation and amortization	361,627	183,718	7,272	895,211	175,167	2,424	1,625,419
Travel and hospitality	242,543	329,356	138,987	1,362	325,116	27,637	1,065,001
Conferences, conventions and meetings	2,219	682	230,690	-	71,289	65,292	370,172
Books and publication	345	100,891	-	-	6,602	-	107,838
Subscriptions and dues	6,405	1,506	5,468	12,996	58,423	4,916	89,714
Information technology	96,790	58,074	38,716	112,277	77,432	3,872	387,161
Interest	-	-	-	211,360	11,124	-	222,484
Bad debt expense	-	-	-	-	3,701	-	3,701
Training and development	63,842	1,240	1,822	50	27,946	8,144	103,044
Other	59,030	70,337	62,875	172,375	109,383	10,470	484,470
Total expenses	$4,246,348	$3,926,671	$1,544,998	$3,041,307	$5,194,166	$ 492,873	$18,446,363

See Notes to Financial Statements

Statement of Functional Expenses
Year Ended July 31, 2018

	Programs				Support		
	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Fundraising	Total
Salaries and wages	$2,295,493	$1,944,449	$ 649,493	$ 200,682	$2,242,430	$ 231,007	$ 7,563,554
Employee benefits and taxes	504,812	454,351	226,190	51,092	648,534	75,245	1,960,224
Professional fees	-	-	450	185,708	239,622	-	425,780
Advertising and promotion	4,629	5,274	31,874	3,297	342,943	18,721	406,738
Office expenses	20,105	5,926	11,787	19,904	130,055	3,793	191,570
Insurance	17,910	14,175	918	67,139	7,715	306	108,163
Utilities and maintenance	207,161	163,958	10,624	776,589	89,239	3,541	1,251,112
Depreciation and amortization	330,861	159,368	5,694	416,235	161,914	1,898	1,075,970
Travel and hospitality	373,188	72,249	162,827	1,352	335,065	57,323	1,002,004
Conferences, conventions and meetings	10,644	5,156	135,935	-	62,325	31,090	245,150
Books and publication	2,806	149,305	-	-	20,337	-	172,448
Subscriptions and dues	15,381	17,756	4,373	1,321	44,601	1,898	85,330
Information technology	66,397	39,838	26,559	77,020	53,118	2,656	265,588
Interest	-	-	-	-	68,049	-	68,049
Bad debt expense	-	-	-	-	90,824	-	90,824
Training and development	54,807	554	1,438	-	9,584	4,570	70,953
Other	23,783	43,585	122,004	225,737	91,133	6,856	513,098
Total expenses	$3,927,977	$3,075,944	$1,390,166	$2,026,076	$4,637,488	$ 438,904	$15,496,555

See Notes to Financial Statements

Statements of Cash Flows
Years Ended July 31, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	$ 6,110,375	$ 7,186,287
Items not requiring (providing) cash		
Depreciation	1,625,419	1,075,970
Loss on disposition of property and equipment	-	19,153
Contributions received restricted for long-lived assets	(1,294,272)	(2,993,400)
Contributions received restricted for long-term investment	(2,065)	(34,781)
Net unrealized and realized gains on investments	(508,391)	(254,085)
Change in beneficial interest in perpetual trusts	(1,617)	(23,766)
Changes in		
Student accounts receivable	134,629	545,848
Contributions receivable	375,000	29,742
Prepaid expenses and bookstore inventory	(145,022)	68,219
Accounts payable	264,087	(266,729)
Accrued expenses	17,552	(42,096)
Deferred revenue	49,108	(331,446)
Net cash provided by operating activities	6,624,803	4,978,916
Investing Activities		
Purchase of investments	(334,289)	(813,305)
Proceeds from disposition of investments	62,382	233,151
Purchase of property and equipment	(8,079,599)	(11,341,405)
Payments received on note receivable	-	204,627
Net cash used in investing activities	(8,351,506)	(11,716,932)

Financing Activities		
Proceeds from contributions restricted for long-lived assets	1,294,272	2,653,900
Proceeds from contributions restricted for long-term investment	2,065	34,781
Principal payments on notes payable	(1,247,397)	(764,642)
Proceeds from notes payable	3,676,330	1,174,578
Net cash provided by financing activities	3,725,270	3,098,617
Increase (Decrease) in Cash and Cash Equivalents	1,998,567	(3,639,399)
Cash and Cash Equivalents, Beginning of Year	3,936,493	7,575,892
Cash and Cash Equivalents, End of Year	$ 5,935,060	$ 3,936,493
Supplemental Cash Flows Information		
Interest paid	$ 11,124	$ 68,049
Donated materials for construction projects	-	339,500
Property and equipment additions financed through accounts payable	194,197	2,826,726

See Notes to Financial Statements

Notes to Financial Statements
July 31, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Midwestern Baptist Theological Seminary, Inc. (the "Seminary") is an agency of the Southern Baptist Convention (SBC) and is governed by a board of trustees elected by the SBC. The Seminary, with its primary campus located in Kansas City, Missouri, is accredited by the Higher Learning Commission and the Association of Theological Schools in the United States of America and Canada. Revenues are received from tuition, residential housing, gifts, endowments and other auxiliary services.

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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Seminary considers all liquid investments with original maturities of three months or less to be cash equivalents. At July 31, 2019 and 2018, cash equivalents consisted primarily of an overnight money market repurchase agreement.

At July 31, 2019, the Seminary's cash accounts exceeded federally insured limits by approximately $5,750,000.

Student Accounts Receivable

Student accounts receivable are stated at the amounts billed to students less applied scholarships and federal aid. The Seminary provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Charges that are past due and have had no response to the due diligence process are assigned to third-party collection agencies. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Investments and Net Investment Return

The Seminary invests in equity securities, pooled funds held by two Baptist foundations and in interests of real estate limited liability companies. Investments in equity securities having a readily determinable fair value are carried at fair value. Investments in pooled funds are valued at the per unit value of the overall fund which estimates fair value. Investments in real estate limited liability companies are valued at fair value.

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value, less external investment expenses. Investment earnings on the pooled funds are allocated monthly on a prorated basis representative of the Seminary's overall percentage of ownership in the applicable pooled funds. Investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair value at the date of donation, less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset, which ranges from 5 to 40 years. Assets under capital lease obligations and leasehold improvements are depreciated over the lease term unless the lease has a bargain purchase option which allows for depreciation to be recognized over the respective estimated useful life of the asset.

Long-lived Asset Impairment
The Seminary evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended July 31, 2019 and 2018.

Beneficial Interest in Perpetual Trusts
The Seminary is the beneficiary under several perpetual trusts administered by third parties. Under the terms of the trusts, the Seminary has the irrevocable right to receive income earned on the trusts' assets in perpetuity, but never receives the assets held in trusts. Fair value is estimated based on the Seminary's beneficial interests in the trust assets which represent the present value of expected future cash flows. Changes in the fair value of the trusts are recorded in the statements of activities as with donor restrictions.

Deferred Revenue
The Seminary recognizes tuition revenue and related expenses over the term that the students are enrolled. Accordingly, certain revenues have been deferred at year-end, and will be recognized as the courses are completed.

Net Assets
Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment. The total board-designated endowment as of July 31, 2019 and 2018 was $513,997 and $497,144, respectively.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Tuition and Auxiliary Services Revenue
Tuition revenue is recognized over the term of the semester as the Seminary provides services to students. Revenue from auxiliary enterprises is recognized when goods or services are provided. Revenue is reported at the amount of consideration which the Seminary expects to be entitled in exchange for providing tuition and auxiliary services. The Seminary determines the transaction price based on standard charges for goods and services provided, reduced by discounts provided for scholarships and other price concessions provided to students.

Contributions
Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenues and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restrictions.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Gifts of land, building, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions to net assets without donor restrictions are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Income Taxes
The Seminary is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. The Seminary is included in a group exemption as an affiliate with the SBC and, therefore, does not file a Federal Form 990. However, the Seminary is subject to federal income tax and is required to file a Federal Form 990-T on any unrelated business taxable income.

The Seminary's management believes there are no significant uncertain tax positions taken by the Seminary as of July 31, 2019 and 2018 and, accordingly, no liabilities have been recorded.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the functional categories based on time expended, usage and other methods.

Note 2: Change in Accounting Principle

In 2019, the Seminary adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about an entity's liquidity and financial performance. The main provisions of the standard include: presentation of two classes of net assets versus the previously required three; presentation of expenses by both natural and functional classification; enhanced disclosures for composition of net assets without donor restrictions and liquidity and availability of financial assets. As a result of the ASU adoption, certain reclassifications have been made to the 2018 presentation of expenses by function in the statement of activities. These reclassifications had no effect on the change in net assets.

Note 3: Disclosures About Fair Value of Financial Instruments

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 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 for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at July 31, 2019 and 2018:

		Fair Value Measurements Using		
	Fair Value	**Level 1**	**Level 2**	**Level 3**
July 31, 2019				
Investments with Southern Baptist Foundation				
Balanced Fund	$ 2,264,552	$ -	$ 2,264,552	$ -
Equity Fund	670,503	-	670,503	-
Flexible Income Fund	142,138	-	142,138	-
Income Fund	465,205	-	465,205	-
Short-term Investment Fund	50,887	-	50,887	-
Investments with Baptist Foundation of Oklahoma				
General Investment Pool Fund	1,642,159	-	1,642,159	-
Spending Policy Pool Fund	1,114,720	-	1,114,720	-
Internally Managed Investments				
Equity securities	167,971	167,971	-	-
Investments in Real Estate Funds				
BCG Bellmar, LLC	1,725,000	-	-	1,725,000
BCG Red Mountain, LLC	600,000	-	-	600,000
	8,843,135	167,971	6,350,164	2,325,000
Beneficial interest in perpetual trusts	379,241	-	-	379,241
	$ 9,222,376	$ 167,971	$ 6,350,164	$ 2,704,241

		Fair Value Measurements Using		
	Fair Value	**Level 1**	**Level 2**	**Level 3**
July 31, 2018				
Investments with Southern Baptist Foundation				
Balanced Fund	$ 2,109,067	$ -	$ 2,109,067	$ -
Equity Fund	624,826	-	624,826	-
Flexible Income Fund	133,214	-	133,214	-
Income Fund	447,182	-	447,182	-
Short-term Investment Fund	44,160	-	44,160	-

	Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3
July 31, 2018				
Investments with Baptist Foundation of Oklahoma				
General Investment Pool Fund	1,588,571	-	1,588,571	-
Spending Policy Pool Fund	1,110,121	-	1,110,121	-
Cash Fund	5,696	-	5,696	-
Internally Managed Investments				
Investments in Real Estate Funds				
BCG Bellmar, LLC	1,500,000	-	-	1,500,000
BCG Red Mountain, LLC	500,000	-	-	500,000
	8,062,837	-	6,062,837	2,000,000
Beneficial interest in perpetual trusts	377,624	-	-	377,624
	$ 8,440,461	$ -	$ 6,062,837	$ 2,377,624

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended July 31, 2019.

Southern Baptist Foundation Investment Funds
The Seminary invests in the Southern Baptist Foundation's SBF Balanced Fund, SBF Equity Fund, SBF Flexible Income Fund, SBF Income Fund and SBF Short-term Investment Fund. The Funds have been pooled with funds received from other Baptist institutions, and invest primarily in money market funds, domestic common stocks, domestic corporate bonds, U.S. government bonds and municipal bonds which are carried at fair value as provided by brokers.

Investments in the pooled funds are valued at the per unit value of the overall fund which estimates fair value. Pooled investments are classified within Level 2 of the hierarchy if the fair values of the underlying investments are determined through quoted market prices or other observable inputs and the Seminary has the ability to redeem the investments in the near term.

Baptist Foundation of Oklahoma Investment Funds
The Seminary invests in the Baptist Foundation of Oklahoma's Cash Fund, General Investment Pool Fund and Spending Policy Pool Fund. The Funds have been pooled with funds received from other Baptist institutions, and invest primarily in domestic and international marketable equity securities, corporate and governmental debt securities, collateralized loans to churches and alternative investments.

The Funds' investment in equity and debt securities are carried at fair value as provided by brokers. Collateralized loans to Southern Baptist churches are carried at the fair value of the future payments due from the churches, minus allowances for any doubtful payments receivable.

Alternative investments, which include venture capital, private equity, real estate, real assets and hedge funds, are carried at the net asset value (NAV) of the fund as provided by the administrator or general partner. Foundation management evaluates the values provided based on a number of factors, including obtaining an understanding of the fund's underlying investments, strategy, positions and valuation methodologies, obtaining audited financial statements, obtaining verification of transactions at or near year end, and comparing information provided by the fund administrator or general partner to other available information such as sector data and indices. Because these funds are not readily marketable, their NAV is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such a difference could be material.

Investments in the pooled funds are valued at the per unit value of the overall fund which estimates fair value. Pooled investments are classified within Level 2 of the hierarchy if the fair values of the underlying investments are determined through quoted market prices or other observable inputs and the Seminary has the ability to redeem the investments in the near term.

Investments in Equity Securities
Investments in equity securities are valued using quoted market prices available in an active market and are therefore classified as Level 1 within the valuation hierarchy.

Investments in Real Estate Funds
The Seminary owns a non-controlling interest in two for-profit real estate limited liability companies that invest primarily in preferred equity interests of apartment complexes. The interests are nontransferable and may not be redeemed until the underlying investments are liquidated. Distributions from the investments are paid quarterly, as funds are available. The Seminary accounts for its investments in the real estate limited liability companies at fair value.

Fair value for investments in real estate funds is estimated by management using the discounted cash flows of the underlying properties. As management's estimates involve significant unobservable inputs, these investments are classified within Level 3 of the fair value hierarchy. Unobservable inputs used in the valuation include cap rates ranging from 4.50 percent to 5.50 percent and a minority interest discount rate of 10 percent. Level 3 real estate investments purchased during 2019 and 2018 were $0 and $500,000, respectively.

Beneficial Interest in Perpetual Trusts

Fair value is estimated based on the Seminary's beneficial interests in the trust assets which represents the present value of the future distributions expected to be received over the term of the agreement. Beneficial interests in which the Seminary will never have the ability to redeem are classified within Level 3 of the hierarchy.

Note 4: Property and Equipment

Property and equipment at July 31, 2019 and 2018 consists of:

	2019	2018
Land and land improvements	$ 1,197,054	$ 1,197,054
Buildings and site improvements	48,857,668	30,233,711
Furniture, equipment, library books and other	9,339,408	7,624,714
Construction in progress	323,043	15,410,488
	59,717,173	54,465,967
Less accumulated depreciation	19,848,262	18,418,707
	$ 39,868,911	$ 36,047,260

Note 5: Notes Receivable

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

	2019	2018
Construction loan	$ 3,542,992	$ 1,174,578
Other	87,260	26,741
	$ 3,630,252	$ 1,201,319

The construction loan provides for borrowings up to $7,000,000 and is secured by all general intangibles including campaign pledges and receivables. Interest is payable monthly at the lender's prime rate which was 5.5 percent and 3.5 percent at July 31, 2019 and 2018, respectively.

On August 1, 2019, the Seminary refinanced the construction loan and entered into a term note due on August 1, 2022. Principal payments of $98,416 are payable monthly plus interest at 4.04 percent. The minimum annual principal payments disclosed below have been updated to reflect the new loan agreement.

Minimum annual principal payments on notes payable at July 31, 2019 were:

2020	$ 1,125,567
2021	1,223,983
2022	1,182,270
2023	98,432
	$ 3,630,252

Note 6: Net Assets With Donor Restrictions

Net assets with donor restrictions at July 31, 2019 and 2018 are restricted for the following purposes or periods:

	2019	2018
Subject to expenditure for specified purpose		
Scholarships and student loans	$ 232,725	$ 227,861
Buildings and equipment	168,582	164,822
Ministry and general	357,716	323,612
	759,023	716,295
Beneficial interests in perpetual trusts, income from which is expendable to support		
Scholarships and student loans	210,935	207,173
Ministry and general	168,306	170,451
	379,241	377,624
Pooled endowment, subject to spending policy		
Scholarships and student loans	3,011,653	2,839,990
Ministry and general	2,851,277	2,804,511
Lectureships	274,514	253,099
	6,137,444	5,897,600
	$ 7,275,708	$ 6,991,519

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The amounts released during the years ended July 31, 2019 and 2018 were as follows:

	2019	2018
Satisfaction of purpose restrictions		
Scholarships and student loans	$ 96,605	$ 117,059
Buildings and equipment	1,290,512	7,187,675
Ministry and general	170,026	19,784
	1,557,143	7,324,518
Appropriations in accordance with spending policy		
Scholarships and student loans	3,325	556
Ministry and general	87,892	65,381
	91,217	65,937
	$ 1,648,360	$ 7,390,455

Note 7: Endowment

The Seminary's governing body is subject to the *State of Missouri Prudent Management of Institutional Funds Act* (SPMIFA). As a result, the Seminary classifies amounts in its donorrestricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions.

Additionally, in accordance with SPMIFA, the Seminary considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Seminary and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Seminary
7. Investment policies of the Seminary

The Seminary's endowment consists of approximately 200 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The composition of net assets by type of endowment fund at July 31, 2019 and 2018, was:

	Without Donor Restrictions	With Donor Restrictions	Total
July 31, 2019			
Board-designated endowment funds	$ 513,997	$ -	$ 513,997
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	2,837,497	2,837,497
Accumulated investment gains	-	3,299,947	3,299,947
Total endowment funds	$ 513,997	$ 6,137,444	$ 6,651,441
July 31, 2018			
Board-designated endowment funds	$ 497,144	$ -	$ 497,144
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	2,835,432	2,835,432
Accumulated investment gains	-	3,062,168	3,062,168
Total endowment funds	$ 497,144	$ 5,897,600	$ 6,394,744

Changes in endowment net assets subject to the Seminary's investment and spending policies for the years ended July 31, 2019 and 2018 were:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 31, 2017	$ 1,393,528	$ 5,603,287	$ 6,996,815
Net investment return	55,632	325,469	381,101
Contributions	-	34,781	34,781
Appropriation of endowment assets for expenditure	(952,016)	(65,937)	(1,017,953)
Endowment net assets, July 31, 2018	497,144	5,897,600	6,394,744
Net investment return	20,715	328,996	349,711
Contributions	-	2,065	2,065
Appropriation of endowment assets for expenditure	(3,862)	(91,217)	(95,079)
Endowment net assets, July 31, 2019	$ 513,997	$ 6,137,444	$ 6,651,441

Investment and Spending Policies

The Seminary has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Seminary must hold in perpetuity or for donor-specified periods. Under the Seminary's policies, endowment assets are invested in a manner that is intended to produce results that provide a high stable rate of return with reasonable high current income and long term growth while assuming a moderate level of investment risk. Returns in any given year may vary based on market conditions.

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 current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Seminary targets a diversified asset allocation that includes equity and debt securities, and is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions.

The Seminary has a policy (the spending policy) based on the donor agreement which specifies a payout of interest and dividends. For board-designated endowments, the Seminary has a spending policy of appropriating for distribution each year the annual earnings of its board-designated endowments.

Underwater Endowments

The governing body of the Seminary has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Seminary considers a fund to be underwater if the fair value of the fund is less than the sum of:

a) the original value of initial and subsequent gift amounts donated to the fund and

b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

The Seminary has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. The Seminary has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor stipulations or laws and regulations. At July 31, 2019 and 2018, the Seminary did not have any underwater endowments.

Note 8: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of July 31, 2019 and 2018, comprise the following:

	2019	2018
Cash and cash equivalents	$ 4,874,708	$ 2,886,672
Student accounts receivable	691,566	826,195
Investments	167,971	-
	$ 5,734,245	$ 3,712,867

The Seminary regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Seminary has cash and cash equivalents available for immediate use, as well as other sources of liquidity available over longer time frames.

The Seminary operates with a balanced budget and anticipates collecting revenue that is, at least, sufficient to cover general expenditures not funded by donor-restricted resources. This can be seen in the statements of cash flows, which show positive cash generated by operations for fiscal years 2019 and 2018.

For purposes of analyzing additional resources available to meet general expenditures over a 12- month period, the Seminary considers all expenditures related to its ongoing activities of teaching, research, general ministry, and public service, as well as all expenditures required to conduct services in support of those activities.

The Seminary's endowment funds consist of donor-restricted endowments and funds designated 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.

The board-designated endowment of $513,997 and $497,144 at July 31, 2019 and 2018, respectively, is subject to the spending policy described in *Note 7*. Although the Seminary does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the board's annual budget approval and appropriation), these amounts could be made available if necessary.

Note 9: Pension Plan

The Seminary participates in the retirement program of the Annuity Board of the SBC. All administrative officers, directors, supervisory personnel and regular faculty are eligible for the plan, which is a defined contribution plan. Seminary contributions range from 6 percent to 10 percent of eligible compensation. The total pension expense for the years ended July 31, 2019 and 2018 were approximately $467,000 and $348,000, respectively.

Note 10: Post-Retirement Benefits

The Seminary provides certain health care and life insurance benefits to former employees or their spouses. Under this program, the expected cost of retiree health and life insurance benefits is charged to expense during the years that the employee renders service to the Seminary. The accumulated post-retirement benefit obligation was approximately $165,000 and $193,000 at July 31, 2019 and 2018, respectively, and is included in accrued expenses in the statements of financial position. The Seminary does not intend to pre-fund this obligation. The unfunded accumulated post-retirement benefit obligation was estimated over the remaining expected lives of the individuals and was discounted using a rate of 4 percent.

Note 11: Cooperative Program Apportionment

During the years ended July 31, 2019 and 2018, approximately 26 percent and 25 percent, respectively, of the Seminary's total revenues were received from the Cooperative Program of the SBC. The revenues are recorded ratably over the year based on the annual budget allocation of the SBC. The total funds by region for the years ended July 31, 2019 and 2018 as reported by the SBC are as follows:

	2019	2018
Alabama	$ 601,631	$ 523,952
Alaska	5,582	6,487
Arizona	35,716	38,018
Arkansas	296,766	267,735
California	69,846	64,184
Colorado	22,113	17,094
Dakota	3,090	4,382
District of Columbia	-	407
Florida	471,937	425,775
Georgia	492,520	482,330
Hawaii Pacific	7,561	9,117
Illinois	74,561	67,372
Indiana	28,259	28,388
Iowa	10,932	10,043
Kansas-Nebraska	25,957	22,467
Kentucky	316,868	296,616
Louisiana	220,342	200,250
Maryland-Delaware	54,127	45,376
Michigan	10,070	8,950
Minnesota-Wisconsin	7,506	5,865
Mississippi	391,482	336,920
Missouri	185,758	175,352
Montana	6,233	5,110
Nevada	19,863	16,900
New England	6,848	4,808
New Mexico	26,620	24,404
New York	7,706	7,006
North Carolina	367,266	338,634
Northwest	21,867	21,939
Ohio	69,121	59,392

	2019	2018
Oklahoma	318,937	283,401
Pennsylvania-South Jersey	10,949	8,116
Puerto Rico/U.S. Virgin Islands	225	102
South Carolina	349,135	319,772
Tennessee	504,047	447,533
Texas – BGCT	329,268	288,037
Texas – SBTC	482,228	438,344
Utah-Idaho	6,834	5,652
Virginia – BGAV	25,015	23,767
Virginia – SBCV	145,908	126,126
West Virginia	17,553	14,042
Wyoming	3,473	3,182
Churches and individuals	169,128	167,092
Total revenues received from the SBC	$ 6,220,848	$ 5,640,439

Note 12: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Doubtful Accounts
Estimates related to the valuation of student accounts receivable are described in *Note 1*.

Investments
The Seminary invests in various types of investments. Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position. Other estimates related to the valuation of investments are described in *Notes 1* and *3*.

Property and Equipment
Estimates related to depreciable lives of property and equipment and fair value of donated historical collections are described in *Note 1*.

Revenues
Approximately 13 percent of all contributions were received from one donor in 2019 and 22 percent of all contributions were received from two donors in 2018.

Significant revenue concentration relating to support received from the SBC is discussed in *Note 11*.

Note 13: Subsequent Events

Subsequent events have been evaluated through October 11, 2019, which is the date the financial statements were available to be issued.

Independent Auditor's Report

Board of Trustees
Midwestern Baptist Theological Seminary, Inc.
Kansas City, Missouri

Report on the Financial Statements
We have audited the accompanying financial statements of Midwestern Baptist Theological Seminary, Inc. (the Seminary), which comprise the statements of financial position as of July 31, 2019 and 2018, and the related statements of activities, functional expenses 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 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 describe in Note 2 to the financial statements, in 2019, 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.

Supplementary Information*
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, including the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2019, on our consideration of the Seminary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Seminary's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Seminary's internal control over financial reporting and compliance.

BKD, LLP
Kansas City, Missouri
October 11, 2019

** This paragraph contains information regarding Supplementary Information. This information can be found in the original audit; it is not included here as it was not required for publication in the 2020 Annual.*