



DALLAS
THEOLOGICAL
SEMINARY

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditors' Report

June 30, 2015 and 2014

Dallas Theological Seminary

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Dallas Theological Seminary
Dallas, Texas

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Dallas Theological Seminary (the Seminary), which comprise the consolidated balance sheet as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Board of Trustees
Dallas Theological Seminary
Dallas, Texas

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dallas Theological Seminary as of June 30, 2015, and the changes in their net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Seminary's 2014 consolidated financial statements, and our report dated September 22, 2014, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Capin Crouse LLP

Dallas, Texas
September 16, 2015

Dallas Theological Seminary

Consolidated Balance Sheet

June 30, 2015

(with comparative totals for 2014)

	2015	2014
ASSETS:		
Cash and cash equivalents	\$ 10,051,069	\$ 13,990,807
Accounts and notes receivable–net	784,423	604,645
Contributions receivable–net	5,315,773	3,628,269
Prepaid expenses and deferred charges	356,546	360,355
Inventory	2,763,490	3,040,090
Investments	84,647,962	84,490,796
Perpetual trusts held by others	564,121	591,477
Property and equipment–net	52,602,661	44,978,367
Total Assets	\$ 157,086,045	\$ 151,684,806
 LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued liabilities	\$ 5,627,654	\$ 4,572,003
Deferred revenue	1,615,944	1,577,910
Student deposits and refundable advances	629,288	604,434
Annuity obligations	2,582,186	2,662,944
Amounts held on behalf of others	19,550,592	19,830,093
Liabilities under split-interest agreements	7,753,716	8,180,755
Notes payable	15,978,883	16,582,361
Asset retirement obligations	611,378	600,637
Liability for pension benefits	14,201,912	11,213,599
	68,551,553	65,824,736
 Net assets:		
Unrestricted	31,978,795	32,834,021
Temporarily restricted	24,186,021	23,468,011
Permanently restricted	32,369,676	29,558,038
	88,534,492	85,860,070
Total Liabilities and Net Assets	\$ 157,086,045	\$ 151,684,806

See notes to consolidated financial statements

Dallas Theological Seminary

Consolidated Statement of Activities

Year Ended June 30, 2015
(with summarized totals for 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total	2014 Total
REVENUES, GAINS, AND OTHER SUPPORT:					
Tuition and fees-net	\$ 14,943,841	\$ -	\$ -	\$ 14,943,841	\$ 14,324,844
Gifts	14,306,757	6,575,423	2,888,681	23,770,861	23,770,846
Investment income	219,223	1,604,377	(27,357)	1,796,243	3,152,926
Educational activities	362,595	-	-	362,595	340,341
Auxiliary enterprises	3,175,661	-	-	3,175,661	3,065,552
Other income	522,599	9,551	-	532,150	527,096
Net assets released from restrictions	5,077,640	(5,052,809)	(24,831)	-	-
Operating Revenues, Gains, and Other Support	<u>38,608,316</u>	<u>3,136,542</u>	<u>2,836,493</u>	<u>44,581,351</u>	<u>45,181,605</u>
EXPENSES:					
Instruction	10,128,133	-	-	10,128,133	9,132,413
Academic support	2,054,404	-	-	2,054,404	1,897,697
Student services	2,487,559	-	-	2,487,559	2,398,523
Auxiliary enterprises	2,780,609	-	-	2,780,609	2,784,791
Public service	3,566,407	-	-	3,566,407	1,818,802
Institutional support	9,857,130	-	-	9,857,130	9,488,897
Facilities operations and maintenance	3,025,039	-	-	3,025,039	3,297,590
Depreciation and amortization	2,557,888	-	-	2,557,888	2,683,850
Operating Expenses (Note 2)	<u>36,457,169</u>	<u>-</u>	<u>-</u>	<u>36,457,169</u>	<u>33,502,563</u>
Change in Net Assets from Operations	<u>2,151,147</u>				
NONOPERATING ACTIVITIES:					
Pension-related changes other than net periodic pension cost	(3,736,590)	-	-	(3,736,590)	(1,323,947)
Investment return (less than) in excess of amounts designated for operations	(26,384)	(1,451,564)	(1,188)	(1,479,136)	2,288,699
Net assets released from restrictions due to acquisition of long-lived assets	881,428	(881,428)	-	-	-
Change in value of split-interest agreements	(124,827)	(85,540)	(23,667)	(234,034)	11,793
Change in Net Assets from Nonoperating Activities	<u>(3,006,373)</u>	<u>(2,418,532)</u>	<u>(24,855)</u>	<u>(5,449,760)</u>	<u>976,545</u>
Change in Net Assets	(855,226)	718,010	2,811,638	2,674,422	12,655,587
Net Assets, Beginning of Year	<u>32,834,021</u>	<u>23,468,011</u>	<u>29,558,038</u>	<u>85,860,070</u>	<u>73,204,483</u>
Net Assets, End of Year	<u>\$ 31,978,795</u>	<u>\$ 24,186,021</u>	<u>\$ 32,369,676</u>	<u>\$ 88,534,492</u>	<u>\$ 85,860,070</u>

See notes to consolidated financial statements

Dallas Theological Seminary

Consolidated Statement of Cash Flows

Year Ended June 30, 2015
(with comparative totals for 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,674,422	\$ 12,655,587
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	2,547,147	2,624,531
Accretion to asset retirement obligation	10,741	(18,858)
Net realized and unrealized (gains) losses in investments	1,310,718	(4,447,166)
Change in value of split-interest agreements	207,687	1,691,496
Change in value of perpetual trusts	27,356	(52,048)
Bad debt provision	57,002	-
Loss on disposal of property and equipment	-	78,239
Contributions and investment return restricted for long-term investment and capital additions	(5,660,357)	(10,466,395)
Change in:		
Accounts and notes receivable	(236,780)	294,110
Contributions receivable	(1,687,504)	(137,273)
Prepaid expenses and deferred charges	3,809	(101,736)
Inventory	276,600	(533,802)
Accounts payable and accrued liabilities	(70,739)	427,399
Deferred revenue	38,034	(109,967)
Student deposits and refundable advances	24,854	3,930
Amounts held on behalf of others, annuity obligations, and split-interest agreement liability	(1,787,659)	(1,712,220)
Liability for pension benefits	2,988,313	931,691
Net Cash Provided by Operating Activities	723,644	1,127,518
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(107,289,217)	(74,764,831)
Proceeds from the sale of investments	107,329,491	72,993,396
Purchase of property and equipment	(9,045,051)	(1,413,729)
Issuance of new notes receivable	-	16,167
Net Cash Used by Investing Activities	(9,004,777)	(3,168,997)

(continued)

See notes to consolidated financial statements

Dallas Theological Seminary

Consolidated Statement of Cash Flows

Year Ended June 30, 2015
(with comparative totals for 2014)

(continued)

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments from notes and bonds payable	(603,478)	(577,605)
Annuity and trust payments	(715,484)	(951,805)
Contributions and investment return restricted for long-term investment and capital additions	<u>5,660,357</u>	<u>10,466,395</u>
Net Cash Provided (Used) by Financing Activities	<u>4,341,395</u>	<u>8,936,985</u>
 Change in Cash and Cash Equivalents	 (3,939,738)	 6,895,506
 Cash and Cash Equivalents, Beginning of Year	 <u>13,990,807</u>	 <u>7,095,301</u>
 Cash and Cash Equivalents, End of Year	 <u>\$ 10,051,069</u>	 <u>\$ 13,990,807</u>
 SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	<u>\$ 747,777</u>	<u>\$ 741,838</u>
Taxes paid	<u>\$ 227</u>	<u>\$ 19,938</u>
Noncash contributions	<u>\$ 3,461,501</u>	<u>\$ 3,348,091</u>
Property and equipment acquired through accounts payable	<u>\$ 1,126,390</u>	<u>\$ -</u>

See notes to consolidated financial statements

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015

(with comparative totals for 2014)

1. NATURE OF ORGANIZATION:

Dallas Theological Seminary (DTS), founded in 1924, offers a variety of academic programs from its main campus in Dallas, Texas and from extension sites in Austin, Houston, and San Antonio, Texas; Atlanta, Georgia; Knoxville, Tennessee; McClean, Virginia and Tampa, Florida. Online courses are also offered. DTS is nondenominational and seeks to serve those of like biblical faith in evangelical Protestantism. DTS is accredited to award master and doctorate degrees by the Commission on Colleges of the Southern Association of Colleges and Schools (1866 Southern Lane, Decatur, Georgia 30033-4097; Telephone number 404-679-4501) and is an accredited member of the Association of Theological Schools in the United States and Canada (10 Summit Park Drive, Pittsburgh, Pennsylvania).

Dallas Seminary Foundation (DSF) was formed in 1987. The DTS board appoints the board of the Foundation. The purpose of DSF is to promote and further the interests of DTS and institutions served by DTS alumni by educating laymen of the religious and educational purposes of these institutions and by encouraging gifts through providing charitable gift planning and gift administration services.

DTS and DSF (collectively, the Seminary) are nonprofit corporations exempt from federal income tax as described in Section 501(c)(3) of the Internal Revenue Code, and, as such, are subject to income taxes only to the extent of unrelated business income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies are described below to enhance the usefulness of the consolidated financial statements to the reader.

PRINCIPLES OF CONSOLIDATION

These consolidated financial statements include the balances and financial activities of DTS and its affiliated foundation, DSF. All inter-entity accounts and transactions have been eliminated.

COMPARATIVE FINANCIAL INFORMATION

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Seminary's consolidated financial statements for the year ended June 30, 2014, from which the summarized information was derived.

ESTIMATES

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the consolidated financial statements. Actual results could differ from those estimates.

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015

(with comparative totals for 2014)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

OPERATING AND NONOPERATING ACTIVITIES

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

Nonoperating activities consist primarily of (a) pension related changes other than net periodic pension costs, (b) investment return in excess of amounts utilized for operations as defined by the Seminary's spending policy, (c) release from restrictions contributions given for the acquisition of property and equipment, and (d) changes in value of split-interest agreements.

CASH AND CASH EQUIVALENTS

Cash equivalents consist of cash in banks and highly liquid investments with original maturities of three months or less unless held for meeting restrictions of a capital or endowment nature. The Seminary maintains its cash and cash equivalents with high credit, quality financial institutions, which, at times, may exceed federally insured limits. The Seminary has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

ACCOUNTS AND NOTES RECEIVABLE—NET

The Seminary's accounts receivable are primarily due from students and are recorded at estimated net realizable value. Credit is extended to students and collateral is not required. Accounts are due at the end of the semester and students whose accounts are not current are not allowed to enroll in classes. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of account and note receivable recipients to repay the amounts per the credit terms.

CONTRIBUTIONS RECEIVABLE—NET

Contributions, including unconditional promises to give and estate and trust gifts receivable, are recognized in the period the contribution or promise is made or the estate and trust gift has cleared probate or other uncertainty and the amount due the Seminary can be reasonably estimated. Conditional promises to give are not recognized until they become unconditional, that is when the conditions are substantially met. Unconditional promises expected to be collected in future years are recorded at the present value of expected future cash flows discounted at an appropriate discount rate commensurate with the risks involved, which was 5% to 8% at June 30, 2015 and 2014.

DEFERRED CHARGES

Deferred charges consist of financing costs, which are amortized as deferred charge expense on a straight-line basis over the term of the related loan and approximates amortization by the effective interest method.

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015

(with comparative totals for 2014)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

INVENTORY

Inventory is stated at the lower of cost or market based on the first-in, first-out basis. Inventory consists of bookstore merchandise and user licenses to a customized Logos bible software package. The user licenses are purchased and maintained by the Seminary as inventory. When a student enrolls at the Seminary, they are assigned a user license but the license is not removed from inventory. When a student graduates, the license is transferred permanently to the student at which time it is removed from inventory. If a student does not graduate and leaves the Seminary, these licenses are reassigned.

INVESTMENTS

Investments in equity securities with readily determinable fair values and all debt securities are recorded at fair value with gains and losses reported in the consolidated statement of activities. Donated investments are recorded at fair value at the date of donation and are thereafter carried in conformity with the stated policy.

Alternative investments consist of those investments which are not valued based upon a quoted market price and include non-marketable hedge fund and private equity assets. These funds invest in various partnership interests, managed accounts, and other vehicles to generate investment return. These funds are reported at estimated fair value as measured by their net asset value as reported by fund managers. That amount represents the Seminary's proportionate interest in the capital of the invested funds.

As permitted by the updated Fair Value Measurement Topic of the FASB Codification, the Seminary has elected to early adopt the updated disclosure requirements for investments valued at net asset value which removes the requirement to categorize these investments within the fair value hierarchy.

PERPETUAL TRUSTS HELD BY OTHERS

Perpetual trusts held by others are funds held by outside trusts for the benefit of the Seminary in accordance with the terms of the irrevocable trusts. These funds are neither in the possession, nor under the control, of the Seminary. Such terms provide that the Seminary is to receive annually all or a portion of the income earned by the funds that are held in trust. The present values of the estimated future cash flows from the trusts are recognized as assets and gift income at the dates the trusts are established. Distributions from the trusts are recorded as investment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

PROPERTY AND EQUIPMENT—NET

Property and equipment purchased with a cost in excess of \$5,000 are capitalized and reported at cost at date of acquisition less accumulated depreciation. Donated items are recorded at their fair value on the date of donation.

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015

(with comparative totals for 2014)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PROPERTY AND EQUIPMENT—NET

Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis, ranging from three to ten years for equipment and library acquisitions, and ten to forty years for buildings and land improvements. No depreciation has been provided for library acquisitions which are limited editions of a rare nature.

DEFERRED REVENUE

Tuition and fees are recognized in the period classes and services are provided. Tuition and fees received for future periods are reported as deferred revenue.

ANNUITY OBLIGATIONS

The Seminary has issued charitable gift annuity agreements. Under these agreements, a donor contributes assets to the Seminary in exchange for the right to receive a fixed dollar annual return during the donor's lifetime. A portion of the transfer is a charitable contribution for income tax purposes. The difference between the amount provided for the gift annuity and the liability for future payments, determined on an actuarial basis, is recognized as a contribution at the date of the gift. The annuity liability is revalued annually using a discount rate established at the inception of the agreement and appropriate actuarial assumptions. Actuarial changes and annuity payments are reported as change in value of split-interests in the consolidated statement of activities. The Seminary maintains separate reserve funds adequate to meet future payments under its charitable gift annuity contracts as required by governing states' laws. The total amount held in separate reserve funds was \$3,436,437 and \$3,812,071 as of June 30, 2015 and 2014, respectively.

LIABILITIES UNDER SPLIT-INTEREST AGREEMENTS

As trustee, the Seminary administers irrevocable charitable trusts. These trusts provide the payment of lifetime distributions to the grantor or other designated beneficiaries. Some of these trusts have beneficiaries revocable at the discretion of the grantor. The amounts held in these trusts are recorded as liabilities under split-interest agreements. All trust income, deductions, and credits are reportable by the grantor for tax purposes. At the grantor's death, the remaining trust assets, if designated for the Seminary, will be recorded as gifts. Any trust designated for other beneficiaries will be distributed in accordance with the trust agreement.

Other trusts are fully irrevocable. The present value of the lifetime beneficiaries' interests are reported as liabilities under split-interest agreements using federal discount and mortality tables. At the death of the lifetime beneficiaries, the trusts provide for the distribution of assets to designated remaindermen. The present value of the Seminary's remainder interest is reported as temporarily restricted contributions in the period received, temporarily restricted net assets, and as a reclassification to the unrestricted net assets when released, unless specified for a restricted purpose. Certain trusts contain provisions to distribute assets to remaindermen other than the Seminary. The portion attributable to other remaindermen is reflected as a part of liabilities under split-interest agreements on the consolidated balance sheet.

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015

(with comparative totals for 2014)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

AMOUNTS HELD ON BEHALF OF OTHERS

Certain trusts and gift agreements contain provisions that allow for the distribution of assets to remaindermen other than the Seminary. The portion attributable to others is reflected as amounts held on behalf of others on the consolidated statement of financial position.

ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations (ARO) are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the Seminary records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The Seminary derecognizes ARO liabilities when the assets are retired and the related obligations are settled.

CLASSES OF NET ASSETS

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

Unrestricted net assets are currently available for operating purposes under the direction of the board, designated by the board for specific use, or invested in property and equipment. Included in total unrestricted net assets are endowment fund deficiencies as described in Note 6, annuity reserves, and pension benefit obligation as described in Note 13.

Temporarily restricted net assets are stipulated by donors for specific operating purposes or for the acquisition of property and equipment or are time restricted.

Permanently restricted net assets are contributed with donor restrictions requiring that they be held in perpetuity with investment return available for operations and scholarships.

REVENUE AND EXPENSES

Revenue is recognized when earned and support when contributions are made, which may be when cash is received, unconditional promises to give are made, or ownership of other assets is transferred to the Seminary.

The Seminary reports gifts of cash and other assets as restricted revenue if they are received with donor stipulations that limit the use of the donated net assets. When a stipulated time restriction expires or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015

(with comparative totals for 2014)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUE AND EXPENSES, continued

Donated goods are recorded at their estimated fair value when received. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation.

The Seminary reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, the Seminary reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing the program services and supporting activities of the Seminary have been summarized on a functional basis. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

ADVERTISING

Advertising costs are expensed as they are incurred. The Seminary expended approximately \$288,000 and \$254,000 for advertising for the years ended June 30, 2015 and 2014, respectively.

STUDENT FINANCIAL ASSISTANCE PROGRAMS

The Seminary participates in the Federal Direct Loan Program administered by the Department of Education. The related activity is subject to audit both by independent certified public accountants and by representatives of the administering agency regarding compliance with applicable regulations. Any resultant findings of noncompliance could potentially result in the required return of related funds received and/or the assessment of fines or penalties, or the discontinuation of eligibility for participation.

UNCERTAIN TAX POSITIONS

The consolidated financial statement effects of a tax position taken or expected to be taken are recognized in the consolidated financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the consolidated statement of activities. As of June 30, 2015, the Seminary had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

The Seminary files information tax returns in the United States of America (U.S.) and various states. The Seminary is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2010.

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015
(with comparative totals for 2014)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

RECLASSIFICATIONS

Certain consolidated financial statement and footnote information from the prior year consolidated financial statements has been reclassified to conform with current year presentation format.

3. ACCOUNTS AND NOTES RECEIVABLE—NET:

Accounts and notes receivable consist of:

	June 30,	
	2015	2014
Student accounts receivable	\$ 499,833	\$ 474,420
Less allowance for doubtful accounts	(37,076)	(62,363)
	462,757	412,057
Other accounts receivable	228,021	82,587
Notes receivable with maturities beyond one year	93,645	110,001
	221,666	192,588
Total accounts and notes receivable—net	\$ 784,423	\$ 604,645

4. CONTRIBUTIONS RECEIVABLE—NET:

The Seminary recognizes contributions receivable for pledges, estate gifts receivable, and for its irrevocable remainder interest in trust held by others. As of June 30, 2015 and 2014, contributions receivable includes estate and trust gifts receivable totaling \$5,315,773 and \$3,628,269, respectively. Contributions receivable are expected to be collected in the following manner:

	June 30,	
	2015	2014
Less than one year	\$ 5,041,890	\$ 2,264,864
One to five years	239,505	1,302,361
More than five years	260,117	548,484
	5,541,512	4,115,709
Less unamortized discount	(225,739)	(487,440)
	5,315,773	3,628,269
Less allowance for uncollectible receivables	-	-
	\$ 5,315,773	\$ 3,628,269

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015

(with comparative totals for 2014)

5. INVESTMENTS AND FAIR VALUE:

Investments reported at fair value consist of:

	June 30,	
	2015	2014
Cash and cash equivalents	\$ 2,900,330	\$ 4,639,229
Fixed income—domestic	16,639,657	18,466,943
Fixed income—international	3,876,423	3,600,286
Equity—domestic	18,494,497	19,352,659
Equity—international	18,401,301	10,823,423
Natural resources	5,560,868	7,249,582
Real estate	6,163,518	5,378,399
Hedge funds—fund of funds	10,189,148	12,461,812
Private equity	2,422,220	2,518,463
	<u>\$ 84,647,962</u>	<u>\$ 84,490,796</u>

The Seminary is obligated under certain investment fund agreements to periodically advance funding up to certain levels specified in each agreement upon the request of the general partner. At June 30, 2015 and 2014, the Seminary had unfunded commitments of \$1,237,593 and \$1,439,759, respectively.

	June 30,	
	2015	2014
Investment return consists of:		
Interest and dividends	\$ 962,139	\$ 1,041,738
Net realized losses	1,660,367	(518,229)
Net unrealized gain/losses	(2,210,301)	4,965,395
Investment management fees	(95,098)	(47,279)
	<u>\$ 317,107</u>	<u>\$ 5,441,625</u>

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015
(with comparative totals for 2014)

5. INVESTMENTS AND FAIR VALUE, continued:

	June 30,	
	2015	2014
Investments consist of:		
Endowment investments	\$ 38,810,275	\$ 36,753,302
Annuity investments, including reserves	3,436,437	3,812,071
Trust assets	8,359,271	9,166,180
Pooled common fund and amounts held for others	19,131,827	19,251,885
Donor advised funds	11,809,088	13,364,239
Other invested assets	3,101,064	2,143,119
	\$ 84,647,962	\$ 84,490,796
Trust assets (at fair value):		
Investments	\$ 8,359,271	\$ 9,166,180
Accounts and notes receivable–net	93,645	110,001
	\$ 8,452,916	\$ 9,276,181
Trust liabilities and net assets:		
Liabilities under split-interest agreements	\$ 7,783,715	\$ 7,760,755
Amounts held on behalf of others	98,835	113,145
Accounts payable	6,038	284,325
Refundable advances	13,583	14,200
Deferred revenue	2,116	2,354
Total trust net assets–temporarily restricted	489,305	1,024,083
Total trust net assets–permanently restricted	59,324	77,319
	\$ 8,452,916	\$ 9,276,181

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015

(with comparative totals for 2014)

5. INVESTMENTS AND FAIR VALUE, continued:

Accounting Standards Codification (ASC) topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs, other than the quoted prices in active markets, are observable either directly or indirectly, and Level 3 consists of unobservable inputs in which there is little or no market data, which requires the Seminary to develop its own assumptions. The estimated fair value of alternative investments, i.e., hedge funds, limited partnerships, or other private investment fund structures is based on the practical expedient of the reported net asset values provided by the respective external investment fund managers, adjusted for cash flows through June 30. The Seminary also takes into consideration consultation with fund investment managers and audited financial information to determine overall reasonableness of the recorded value. Audited information is only available annually, based on the partnerships' year-end. Because of the inherent uncertainty of valuations, values may differ from the values that would have been used had a ready market existed. The Seminary uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Seminary measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

The Seminary's policy is to recognize transfers between levels of the fair value hierarchy. At the end of the fiscal year, June 30, 2015, there were no transfers between Level 1 or Level 2.

The carrying amounts of cash and cash equivalents and accounts and notes receivable approximate fair value because of the terms and relatively short maturity of these financial instruments. Contributions receivable, annuity, and other split-interest obligations' carrying amounts approximate fair value because these instruments are valued by discounting cash flows at an appropriate risk rate, taking into consideration the varying degrees of risk related to each financial instrument.

Investments and perpetual trusts held by others are reported at fair value as of the date of the consolidated financial statements. When possible, the fair value of investments and assets held as trustee or agent are determined by reference to quoted market prices. When quoted market prices are not available, fair value is estimated by reference to market values for similar securities or by discounting cash flows at an appropriate risk rate, taking into consideration the varying degrees of risk specific to each financial asset.

The carrying amounts of accounts payable, accrued liabilities, and line of credit approximate fair value because of the relatively short maturity of these financial instruments.

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015

(with comparative totals for 2014)

5. INVESTMENTS AND FAIR VALUE, continued:

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheet measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of June 30, 2015:				
Investments:				
Cash and cash equivalents	\$ 2,900,330	\$ 2,900,330	\$ -	\$ -
Fixed income				
Domestic	16,639,657	16,639,657	-	-
International	3,876,423	3,876,423	-	-
	20,516,080	20,516,080	-	-
Equity				
Domestic	18,494,497	18,494,497	-	-
International	18,401,301	18,401,301	-	-
	36,895,798	36,895,798	-	-
Natural resources	5,560,868	5,554,360	-	6,508
Real estate	5,624,501	3,428,259	-	2,196,242
Private equity	312,961	-	-	312,961
Investments measured at net asset value:				
Real estate	539,017			
Hedge funds - fund of funds	10,189,148			
Private equity	2,109,259			
Investments	\$ 84,647,962	\$ 69,294,827	\$ -	\$ 2,515,711
Perpetual trusts held by others	\$ 564,121	\$ -	\$ 564,121	\$ -

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015
(with comparative totals for 2014)

5. INVESTMENTS AND FAIR VALUE, continued:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of June 30, 2014:				
Investments:				
Cash and cash equivalents	\$ 4,639,229	\$ 4,639,229	\$ -	\$ -
Fixed income				
Domestic	16,942,734	16,942,734	-	-
International	3,600,286	3,600,286	-	-
	20,543,020	20,543,020	-	-
Equity				
Domestic	19,352,659	19,352,659	-	-
International	10,823,423	10,823,423	-	-
	30,176,082	30,176,082	-	-
Natural resources	7,249,582	7,202,494	-	47,088
Real estate	4,706,629	4,346,387	-	360,242
Hedge funds - fund of funds	2,263,862	2,263,862	-	-
Private equity	309,571	-	-	309,571
Investments measured at net asset value:				
Fixed income - domestic	1,524,209			
Real estate	671,770			
Hedge funds - fund of funds	10,197,950			
Private equity	2,208,892			
Investments	\$ 84,490,796	\$ 69,171,074	\$ -	\$ 716,901
Perpetual trusts held by others	\$ 591,477	\$ -	\$ 591,477	\$ -

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015
(with comparative totals for 2014)

5. INVESTMENTS AND FAIR VALUE, continued:

Changes in investments using fair value measurements using significant unobservable inputs (Level 3) for the year ended June 30, 2015:

	Natural resources	Real estate	Private Equity	Total
Beginning balance as of June 30, 2014	\$ 47,088	\$ 360,242	\$ 309,571	\$ 716,901
Total unrealized gains or losses: included in investment income	(40,580)	-	3,390	(37,190)
Purchases, issuances, sales and settlements: Purchases	-	1,836,000	-	1,836,000
Ending balance, June 30, 2015	\$ 6,508	\$ 2,196,242	\$ 312,961	\$ 2,515,711

Changes in investments using fair value measurements using significant unobservable inputs (Level 3) for the year ended June 30, 2014:

	Natural resources	Real estate	Private Equity	Total
Beginning balance as of June 30, 2014	\$ -	\$ 953,242	\$ 107,570	\$ 1,060,812
Total realized gains or losses: included in investment income	-	(4,235)	177,801	173,566
Purchases, issuances, sales and settlements: Purchases	47,088	-	24,200	71,288
Sales	-	(588,765)	-	(588,765)
Ending balance, June 30, 2015	\$ 47,088	\$ 360,242	\$ 309,571	\$ 716,901

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015
(with comparative totals for 2014)

5. INVESTMENTS AND FAIR VALUE, continued:

The Seminary uses Net Asset Value (NAV) to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Per ASU 2009-12, *Fair Value Measurements and Disclosures*, the following table lists investments in other investment companies (in partnership format) by major category for the year ended June 30, 2015.

<u>Strategy</u>	<u>NAV in funds</u>	<u># of funds</u>	<u>Remaining life</u>	<u>\$ Amount of unfunded commitments</u>	<u>Redemption terms</u>	<u>Redemption restrictions</u>	<u>Redemption restrictions in place at year end</u>
Hedge funds							
Fund of funds in various strategies, including long/short	\$ 10,189,148	2	N.A.	\$ -	No lockup	Redemption annually with 90 day notice	None
Real Assets - Illiquid							
Real Estate (REITS) and natural resources	539,017	2	Upon liquidation of underlying investments	132,570	N.A	N.A*	N.A
Private Equity							
Distressed, buyout, and venture capital	<u>2,109,259</u>	6	4 to 10 years	<u>1,105,023</u>	N.A	N.A*	N.A
	<u>\$ 12,837,424</u>			<u>\$ 1,237,593</u>			

* These funds are in a private equity or partnership structure with no ability to redeem.

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015
(with comparative totals for 2014)

5. INVESTMENTS AND FAIR VALUE, continued:

The following table lists investments in other investment companies (in partnership format) by major category for the year ended June 30, 2014.

<u>Strategy</u>	NAV in funds	# of funds	Remaining life	\$ Amount of unfunded commitments	Redemption terms	Redemption restrictions	Redemption restrictions in place at year end
Hedge funds							
Fund of funds in various strategies, including long/short	\$ 10,197,950	4		\$ -	No lockup	Redemption annually with 90 day notice	None
Real Assets - Illiquid Real Estate (REITS) and natural resources	671,770	2	Upon liquidation of underlying investments	130,857	N.A	N.A*	N.A
Private Equity Distressed, buyout, and venture capital	2,208,895	6	4 to 10 years	1,308,902	N.A	N.A*	N.A
Fixed Income Global bond fund	<u>1,524,209</u> <u>\$ 14,602,824</u>	1		<u>-</u> <u>\$ 1,439,759</u>	No lockup	Redemption monthly	None

* These funds are in a private equity or partnership structure with no ability to redeem.

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015
(with comparative totals for 2014)

6. ENDOWMENT FUNDS:

The Seminary's endowment consists of various individual funds established for scholarships and educational programs. Its endowment includes donor-restricted endowment funds and funds designated by the board to function as endowments. As required by ASC Topic 958-205, *Presentation of Financial Statements*, net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of trustees of the Seminary has interpreted Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring that donor-restricted endowment funds be managed with the long-term objective of at least maintaining the real value (after inflation) of the funds. The Seminary classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the directions of the applicable donor gift instrument at the time the accumulation is added to the fund.

Endowment net asset composition by type of fund as of June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ (39,501)	\$ 6,477,932	\$ 31,731,865	\$ 38,170,296
Board-designated endowments	639,979	-	-	639,979
Total funds	<u>\$ 600,478</u>	<u>\$ 6,477,932</u>	<u>\$ 31,731,865</u>	<u>\$ 38,810,275</u>

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015
(with comparative totals for 2014)

6. ENDOWMENT FUNDS, continued:

Changes in endowment net assets for the year ended June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (23,202)	\$ 7,898,464	\$ 28,869,203	\$ 36,744,465
Investment return:				
Investment income	1,899	546,204	-	548,103
Net gains and losses (realized and unrealized)	(28,283)	(399,457)	(1,188)	(428,928)
Total investment return	(26,384)	146,747	(1,188)	119,175
Contributions	-	6,200	2,888,681	2,894,881
Amounts appropriated for expenditure	-	(1,598,310)	-	(1,598,310)
Reclassification	650,064	24,831	(24,831)	650,064
Total changes	623,680	(1,420,532)	2,862,662	2,065,810
Endowment net assets, end of year	\$ 600,478	\$ 6,477,932	\$ 31,731,865	\$ 38,810,275

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015

(with comparative totals for 2014)

6. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	\$ (23,202)	\$ 7,898,464	\$ 28,869,203	\$ 36,744,465
Total funds	\$ (23,202)	\$ 7,898,464	\$ 28,869,203	\$ 36,744,465

Changes in endowment net assets for the year ended June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (43,033)	\$ 5,477,706	\$ 26,138,774	\$ 31,573,447
Investment return:				
Investment income	-	517,800	-	517,800
Net gains and losses (realized and unrealized)	19,831	3,221,574	2,175	3,243,580
Total investment return	19,831	3,739,374	2,175	3,761,380
Contributions	-	154,149	2,728,254	2,882,403
Amounts appropriated for expenditure	-	(1,472,765)	-	(1,472,765)
Total changes	19,831	2,420,758	2,730,429	5,171,018
Endowment net assets, end of year	\$ (23,202)	\$ 7,898,464	\$ 28,869,203	\$ 36,744,465

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015

(with comparative totals for 2014)

6. ENDOWMENT FUNDS, continued:

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Seminary to retain as a fund of perpetual duration. In accordance with ASC Topic 958-205, deficiencies of this nature that are reported in unrestricted net assets were \$39,501 as of June 30, 2015. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board.

Return objectives and risk parameters: The Seminary has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, as approved by the board, the endowment assets are invested in a manner that is intended to produce results that exceed the spending rate, and aggregate costs of portfolio management, the long-term inflation rate and any growth factor that the board may, from time to time, determine appropriate, while assuming a moderate level of investment risk. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately 5.5 percent net of inflation annually. Actual returns in any given year may vary from this amount.

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

Spending policies and how the investment objectives relate to spending policy: The Seminary has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Seminary considered the long-term expected return on its endowment. Accordingly, over the long-term, the Seminary expects the current spending policy to allow its endowment to grow at an average of 2.5 percent annually. This is consistent with the Seminary's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015
(with comparative totals for 2014)

7. PROPERTY AND EQUIPMENT—NET:

Property and equipment consists of:

	June 30,	
	2015	2014
Land	\$ 7,262,267	\$ 5,773,431
Land improvements	866,835	868,105
Buildings	65,783,791	65,080,243
Library acquisitions	6,374,787	6,167,855
Equipment	2,222,368	2,147,114
	82,510,048	80,036,748
Less accumulated depreciation	(38,600,820)	(36,203,110)
	43,909,228	43,833,638
Construction in progress	8,693,433	1,144,729
	52,602,661	44,978,367
Less notes payable secured by specific assets	(15,978,883)	(16,582,361)
Net investment in property and equipment	\$ 36,623,778	\$ 28,396,006

8. LINE OF CREDIT:

The Seminary has an unsecured \$5,000,000 line of credit that matures on December 31, 2015. The interest rate is PRIME (3.25% as of June 30, 2015), with interest due monthly and principal due upon maturity. No funds were borrowed under this agreement during the fiscal year ended June 30, 2015.

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015
(with comparative totals for 2014)

9. NOTES PAYABLE:

Notes payable consist of:

	June 30,	
	2015	2014
Note payable to Frost Bank of \$10,000,000, fixed interest rate of 4.39%, with a \$5,000,000 balloon payment maturing December 15, 2021, refinance of existing bond debt secured by the Swiss Tower Apartments, due in monthly principal and interest installments of \$54,978.	\$ 7,732,807	\$ 8,045,557
Note payable to Frost Bank of \$10,000,000, fixed interest rate of 4.39%, with a \$5,000,000 balloon payment maturing July 31, 2023, secured by the single student apartments, due in monthly principal and interest installments of \$54,976.	8,246,076	8,536,804
	\$ 15,978,883	\$ 16,582,361

The fair value of notes payable were approximately \$16,099,434 and \$16,673,875 as of June 30, 2015 and 2014, respectively. The fair value was estimated based upon the discounted amount of future cash flows utilizing current rates offered for debt of similar remaining maturities.

Maturities of notes payable are as follows:

Year Ending June 30,		
2016	\$	628,618
2017		658,669
2018		688,173
2019		718,999
2020		749,651
Thereafter		12,534,773
		\$ 15,978,883

The notes payable agreements contain covenants which include minimum liquidity and debt service coverage ratios. At June 30, 2015, management believes they are in compliance with these covenants.

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015

(with comparative totals for 2014)

10. NET ASSETS:

Net assets consist of:

	June 30,	
	2015	2014
Unrestricted:		
Undesignated	\$ 15,857,793	\$ 14,834,874
Endowment fund	600,478	(23,202)
Designated–annuity reserves	1,792,091	1,984,671
Pension benefit obligation	(14,201,912)	(11,213,599)
Net investment in property and equipment	27,930,345	27,251,277
	31,978,795	32,834,021
Temporarily restricted:		
Restricted current funds	5,196,642	5,066,903
Unexpended plant funds	2,878,708	8,333,832
Net investment in property and equipment	8,693,433	1,144,729
Endowment funds	6,477,932	7,898,464
Life income funds	939,306	1,024,083
	24,186,021	23,468,011
Permanently restricted:		
Endowment funds	31,731,865	28,869,203
Perpetual trusts held by others	564,121	591,478
Annuity and life income funds	73,690	97,357
	32,369,676	29,558,038
	\$ 88,534,492	\$ 85,860,070

11. TUITION AND FEES–NET:

A discount to tuition and fees results when the Seminary reduces the obligation of a student by granting financial aid. The following details the gross and net amounts of tuition and fees:

	June 30,	
	2015	2014
Tuition and fees	\$ 18,146,103	\$ 17,466,142
Less financial aid and scholarships	(3,202,262)	(3,141,298)
	\$ 14,943,841	\$ 14,324,844

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015

(with comparative totals for 2014)

12. FUNCTIONAL ALLOCATION OF EXPENSES:

The Seminary excludes facilities operations, maintenance, depreciation, and amortization from functional expense categories in the consolidated statement of activities for the fiscal years ended June 30, 2015 and 2014. Those expenses would be distributed to the functional areas as follows:

	Fiscal Year Ended June 30, 2015			
	As Reported in the Consolidated Statement of Activities	Facilities and Maintenance	Depreciation and Amortization	Full Functional Allocation of Expenses
Instruction	\$ 10,128,133	\$ 407,725	\$ 344,760	\$ 10,880,618
Academic support	2,054,404	382,709	323,608	2,760,721
Student services	2,487,559	85,310	72,135	2,645,004
Auxiliary enterprises	2,780,609	1,818,013	1,537,263	6,135,885
Public service	3,566,407	35,129	29,704	3,631,240
Institutional support	9,857,130	296,153	250,418	10,403,701
Facilities operations and maintenance	3,025,039	(3,025,039)	-	-
Depreciation and amortization	2,557,888	-	(2,557,888)	-
	\$ 36,457,169	\$ -	\$ -	\$ 36,457,169
	Fiscal Year Ended June 30, 2014			
	As Reported in the Consolidated Statement of Activities	Facilities and Maintenance	Depreciation and Amortization	Full Functional Allocation of Expenses
Instruction	\$ 9,132,413	\$ 444,290	\$ 361,006	\$ 9,937,709
Academic support	1,897,697	417,031	338,857	2,653,585
Student services	2,398,523	92,960	75,534	2,567,017
Auxiliary enterprises	2,784,791	1,981,058	1,609,700	6,375,549
Public service	1,818,802	38,279	31,103	1,888,184
Institutional support	9,488,897	323,972	267,650	10,080,519
Facilities operations and maintenance	3,297,590	(3,297,590)	-	-
Depreciation and amortization	2,683,850	-	(2,683,850)	-
	\$ 33,502,563	\$ -	\$ -	\$ 33,502,563

For the years ended June 30, 2015 and 2014, fund-raising expenses of approximately \$2,904,000 and \$2,536,000, respectively, were included in institutional support.

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015
(with comparative totals for 2014)

13. EMPLOYEE BENEFIT PLANS:

The Seminary has a noncontributory defined benefit pension plan (the Plan) covering substantially all of its full-time employees. The benefits are based on years of service and the average of the employee's highest-paid five consecutive years of employment. The plan was frozen to new employees effective January 1, 2003.

The Seminary uses June 30 of the current fiscal year as the measurement date for its plan. Milliman provided the following actuarial information for the plan.

ASC Topic 715, *Compensation - Retirement Benefits*, requires employers to fully recognize the overfunded or underfunded positions (the difference between the fair value of plan assets and the benefit obligation) of defined benefit pension, retiree healthcare, and other postretirement plans in their balance sheets. For a pension plan, the benefit obligation would be the accumulated postretirement benefit obligation. In accordance with Topic 715, a liability (unfunded pension benefit obligation) has been recognized representing the underfunded status of the Dallas Theological Seminary Pension Plan and Trust in the amount of \$14,201,912 and \$11,213,599 as of June 30, 2015 and 2014, respectively. The application of Topic 715 resulted in a decrease in net assets of \$2,988,313 and \$931,691 for the years ended June 30, 2015 and 2014, respectively, in the accompanying consolidated financial statements.

The plan's funded status as amended by Topic 715 was as follows:

	June 30,	
	2015	2014
Projected benefit obligation	\$ (39,120,819)	\$ (35,540,428)
Plan assets at fair value	24,918,907	24,326,829
Funded status	\$ (14,201,912)	\$ (11,213,599)
Accumulated benefit obligation	\$ 36,049,917	\$ 32,392,215

Items not yet recognized as a component of net periodic pension costs:

Transition obligation	\$ -	\$ -
Prior service (credit)	(19,020)	(87,172)
Net loss	18,067,005	14,557,790
Funded status	\$ 18,047,985	\$ 14,470,618

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015
(with comparative totals for 2014)

13. EMPLOYEE BENEFIT PLANS, continued:

The amounts recognized in the consolidated statement of activities are as follows:

Net periodic benefit cost, included in functional expenses:

	June 30,	
	2015	2014
Service costs	\$ 602,761	\$ 598,507
Interest costs	1,424,451	1,429,907
Expected return on plan assets	(1,598,321)	(1,490,219)
Reclassification of net gain or loss	1,218,207	1,102,677
Reclassification of net prior service costs	(68,152)	(68,152)
	\$ 1,578,946	\$ 1,572,720

Pension related changes other than net period benefit cost, included in nonoperating activities, are as follows:

	June 30,	
	2015	2014
Net loss	\$ 4,727,422	\$ 2,561,496
Amortization of net loss to net periodic benefit cost	(1,218,207)	(1,102,677)
Amortization of prior service cost to net periodic benefit cost	68,152	68,152
	\$ 3,577,367	\$ 1,526,971

Amounts expected to be recognized as a component of net pension cost:

Transition obligation	\$ -	\$ -
Prior service (credit)	(19,020)	(68,152)
Net loss	1,513,896	1,153,433
Funded status	\$ 1,494,876	\$ 1,085,281

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015
(with comparative totals for 2014)

13. EMPLOYEE BENEFIT PLANS, continued:

The following weighted-average assumptions are used in the accounting for the plan:

	June 30,	
	2015	2014
Discount rate		
Net periodic pension cost	4.05%	4.60%
Benefit obligations	4.22%	4.05%
Expected return on plan assets, beginning of fiscal year	6.50%	7.00%
Rate of compensation increase, beginning of fiscal year	3.00%	3.00%
Rate of compensation increase, end of fiscal year	3.00%	3.00%
Census date	July 1, 2014	July 1, 2013
Measurement date	June 30, 2015	June 30, 2014

The total expected long-term rate of return on assets is determined by assessing the rates of return on each targeted asset class, return premiums generated by portfolio management, and a comparison of rates utilized by other companies.

The investment policy of the Seminary is to invest approximately 35% of plan assets in equity securities, 34% in fixed income securities, 20% in hedge funds, 5% in real estate, 5% in MLPs, and 1% in cash and cash equivalents. Periodically, the entire account is rebalanced to maintain these percentages and the investment policy is reviewed.

Asset category:	
Cash	2%
Equity securities	34%
Debt securities	34%
Real estate	5%
Other	25%

With each investment category, assets are allocated to various investment styles. Professional managers manage all assets for the Plan and independent consultants assist the Plan in the attainment of its objectives.

The Seminary contributed \$2,168,000 and \$2,168,000 during the fiscal years ended June 30, 2015 and 2014, respectively. The Seminary expects to contribute \$2,168,000 to its pension plan in 2016.

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015

(with comparative totals for 2014)

13. EMPLOYEE BENEFIT PLANS, continued:

For the years ended June 30, 2015 and 2014, benefits paid from the plan were \$1,384,120 and \$1,138,889 respectively. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in future years as follows:

<u>Year Ending June 30,</u>	
2016	\$1,794,447
2017	\$1,908,515
2018	\$2,038,422
2019	\$2,137,820
2020	\$2,234,249
Thereafter	\$11,699,662

14. PROFIT SHARING PLAN:

The Seminary provides a profit sharing plan covering all eligible employees. The Seminary, at its discretion, may make contributions to the plan for amounts determined by the employer. The discretionary contribution for the period will be allocated based on the ratio of the employees' compensation to total compensation for all employees. The total expense during the years ended June 30, 2015 and 2014, was approximately \$392,493 and \$376,928 respectively.

15. COMMITMENTS AND CONTINGENCIES:

The Seminary is subject to certain loss contingencies, such as litigation, arising in the normal conduct of its educational activities. In the opinion of Seminary management, the liability, if any, for such contingencies will not have a material effect on the Seminary's consolidated financial position.

At June 30, 2015, the Seminary has commitments to expend approximately \$3,112,108 to fulfill contracts related to construction and renovation of buildings.

The Seminary provides healthcare benefits primarily through employer contributions, participant contributions, and excess loss insurance, and manages the program through third-party administrators. Self-insurance reserves, recorded in accrued liabilities, are determined on the basis of lagging claims analysis and historical loss experience. Reserves at June 30, 2015 and 2014, were \$382,000 and \$374,000, respectively. While management believes these reserves are adequate, the ultimate liabilities may be more or less than the amounts provided.

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2015
(with comparative totals for 2014)

16. OPERATING LEASE COMMITMENTS:

The Seminary leases facilities and equipment for mailing and postal purposes under noncancelable operating lease agreements expiring at various dates through 2015. Total lease expense for the years ended June 30, 2015 and 2014, was \$321,115 and \$309,973, respectively.

Future minimum lease payments under noncancelable operating leases are as follows:

Year Ending June 30,	
2016	342,292
2017	302,980
2018	294,568
2019	303,621
2020	312,673
Thereafter	1,699,155
	\$ 3,255,289

17. ASSET RETIREMENT OBLIGATION:

The Seminary owns various campus buildings that contain asbestos. It has recognized a liability associated with removing that asbestos.

	June 30,	
	2015	2014
Beginning of year	\$ 600,637	\$ 619,495
Accretion expense—net	36,821	54,660
Obligations settled	(26,080)	(73,518)
	\$ 611,378	\$ 600,637
End of year		

18. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which is the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.

SUPPLEMENTARY DATA

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY DATA**

Board of Trustees
Dallas Theological Seminary
Dallas, Texas

We have audited the consolidated financial statements of Dallas Theological Seminary (the Seminary) as of and for the years ended June 30, 2015 and 2014, and our report thereon dated September 16, 2015 and September 22, 2014, respectively, which expressed an unqualified opinion on those consolidated financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet and statement of activities are presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual organizations, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit 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 themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Capin Crouse LLP

Dallas, Texas
September 16, 2015

Dallas Theological Seminary

Consolidating Balance Sheet

June 30, 2015

	Dallas Theological Seminary	Dallas Seminary Foundation	Eliminations	Total
ASSETS:				
Cash and cash equivalents	\$ 9,863,721	\$ 187,348	\$ -	\$ 10,051,069
Accounts and notes receivable–net	1,197,491	529,047	(942,115)	784,423
Contributions receivable–net	5,315,773	-	-	5,315,773
Prepaid expenses and deferred charges	337,173	19,373	-	356,546
Inventory	2,763,490	-	-	2,763,490
Investments	30,778,607	61,222,881	(7,353,526)	84,647,962
Perpetual trusts held by others	564,121	-	-	564,121
Property and equipment–net	52,597,500	5,161	-	52,602,661
Total Assets	\$ 103,417,876	\$ 61,963,810	\$ (8,295,641)	\$ 157,086,045
LIABILITIES AND NET ASSETS:				
Liabilities:				
Accounts payable and accrued liabilities	\$ 5,605,108	\$ 133,639	\$ (111,093)	\$ 5,627,654
Deferred revenue	1,615,944	2,116	(2,116)	1,615,944
Student deposits and refundable advances	629,288	13,583	(13,583)	629,288
Annuity obligations	2,461,305	2,582,186	(2,461,305)	2,582,186
Amounts held on behalf of others	19,767	19,562,570	(31,745)	19,550,592
Liabilities under split-interest agreements	1,850,734	7,753,716	(1,850,734)	7,753,716
Notes payable	16,398,883	-	(420,000)	15,978,883
Asset retirement obligations	611,378	-	-	611,378
Liability for pension benefits	14,201,912	-	-	14,201,912
	<u>43,394,319</u>	<u>30,047,810</u>	<u>(4,890,576)</u>	<u>68,551,553</u>
Net assets:				
Unrestricted	19,476,517	13,345,723	(843,445)	31,978,795
Temporarily restricted	21,124,766	5,599,146	(2,537,891)	24,186,021
Permanently restricted	19,422,274	12,971,131	(23,729)	32,369,676
	<u>60,023,557</u>	<u>31,916,000</u>	<u>(3,405,065)</u>	<u>88,534,492</u>
Total Liabilities and Net Assets	\$ 103,417,876	\$ 61,963,810	\$ (8,295,641)	\$ 157,086,045

Dallas Theological Seminary

Consolidating Balance Sheet

June 30, 2014

	Dallas Theological Seminary	Dallas Seminary Foundation	Eliminations	Total
ASSETS:				
Cash and cash equivalents	\$13,787,112	\$ 203,695	\$ -	\$ 13,990,807
Accounts and notes receivable–net	1,136,325	530,291	(1,061,971)	604,645
Contributions receivable–net	3,909,106	25,000	(305,837)	3,628,269
Prepaid expenses and deferred charges	341,577	18,778	-	360,355
Inventory	3,040,090	-	-	3,040,090
Investments	28,174,421	62,373,805	(6,057,430)	84,490,796
Perpetual trusts held by others	591,477	-	-	591,477
Property and equipment–net	44,968,094	10,273	-	44,978,367
Total Assets	<u>\$95,948,202</u>	<u>\$63,161,842</u>	<u>\$(7,425,238)</u>	<u>\$151,684,806</u>
LIABILITIES AND NET ASSETS:				
Accounts payable and accrued liabilities	\$ 4,519,080	\$ 549,838	\$ (496,915)	\$ 4,572,003
Deferred revenue	1,577,910	2,354	(2,354)	1,577,910
Student deposits and refundable advances	604,434	14,200	(14,200)	604,434
Annuity obligations	2,546,786	2,662,944	(2,546,786)	2,662,944
Amounts held on behalf of others	25,119	19,842,087	(37,113)	19,830,093
Liabilities under split-interest agreements	1,991,818	8,180,755	(1,991,818)	8,180,755
Notes payable	17,002,361	-	(420,000)	16,582,361
Asset retirement obligations	600,637	-	-	600,637
Liability for pension benefits	11,213,599	-	-	11,213,599
	<u>40,081,744</u>	<u>31,252,178</u>	<u>\$(5,509,186)</u>	<u>65,824,736</u>
Net assets:				
Unrestricted	18,727,231	15,192,974	(1,086,184)	32,834,021
Temporarily restricted	19,757,840	4,509,112	(798,941)	23,468,011
Permanently restricted	17,381,387	12,207,578	(30,927)	29,558,038
	<u>55,866,458</u>	<u>31,909,664</u>	<u>(1,916,052)</u>	<u>85,860,070</u>
Total Liabilities and Net Assets	<u>\$95,948,202</u>	<u>\$63,161,842</u>	<u>\$(7,425,238)</u>	<u>\$151,684,806</u>

Dallas Theological Seminary

Consolidating Statement of Activities

	Year Ended June 30, 2015			
	Dallas Theological Seminary	Dallas Seminary Foundation	Eliminations	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Tuition and fees	\$ 18,146,103	\$ -	\$ -	\$ 18,146,103
Less student aid	(3,202,262)	-	-	(3,202,262)
Net tuition and fees	14,943,841	-	-	14,943,841
Gifts	21,945,258	8,145,165	(6,319,562)	23,770,861
Investment income	1,012,570	692,357	91,316	1,796,243
Educational activities	362,595	-	-	362,595
Auxiliary enterprises	3,175,661	-	-	3,175,661
Other income	260,749	416,975	(145,574)	532,150
Total Revenues, Gains, and Other Support	41,700,674	9,254,497	(6,373,820)	44,581,351
EXPENSES:				
Instruction	10,128,133	-	-	10,128,133
Academic support	2,054,404	-	-	2,054,404
Student services	2,487,559	-	-	2,487,559
Auxiliary enterprises	2,812,109	-	(31,500)	2,780,609
Public service	380,649	7,544,194	(4,358,436)	3,566,407
Institutional support	9,452,084	711,817	(306,771)	9,857,130
Facilities operations and maintenance	3,025,039	-	-	3,025,039
Depreciation and amortization	2,552,776	5,112	-	2,557,888
Operating Expenses (Note 2)	32,892,753	8,261,123	(4,696,707)	36,457,169
Change in Net Assets from Operations	8,807,921	993,374	(1,677,113)	8,124,182
NONOPERATING ACTIVITIES:				
Pension related changes other than net periodic pension cost	(3,736,590)	-	-	(3,736,590)
Investment return (less than) in excess of amounts designated	(731,361)	(747,775)	-	(1,479,136)
Change in value of split-interest agreements	(182,871)	(239,263)	188,100	(234,034)
Change in Net Assets from Nonoperating Activities	(4,650,822)	(987,038)	188,100	(5,449,760)
Change in Net Assets	4,157,099	6,336	(1,489,013)	2,674,422
Net Assets, Beginning of Year	55,866,458	31,909,664	(1,916,052)	85,860,070
Net Assets, End of Year	\$ 60,023,557	\$ 31,916,000	\$ (3,405,065)	\$ 88,534,492

Dallas Theological Seminary

Consolidating Statement of Activities

	Year Ended June 30, 2014			Total
	Dallas Theological Seminary	Dallas Seminary Foundation	Eliminations	
REVENUES, GAINS, AND OTHER SUPPORT:				
Tuition and fees	\$ 17,466,142	\$ -	\$ -	\$ 17,466,142
Less student aid	(3,141,298)	-	-	(3,141,298)
Net tuition and fees	14,324,844	-	-	14,324,844
Gifts	21,407,891	5,375,440	(3,012,485)	23,770,846
Investment income	1,216,141	1,813,795	122,990	3,152,926
Educational activities	340,341	-	-	340,341
Auxiliary enterprises	3,065,552	-	-	3,065,552
Other income	244,614	406,561	(124,079)	527,096
Total Revenues, Gains, and Other Support	40,599,383	7,595,796	(3,013,574)	45,181,605
EXPENSES:				
Instruction	9,132,413	-	-	9,132,413
Academic support	1,897,697	-	-	1,897,697
Student services	2,398,523	-	-	2,398,523
Auxiliary enterprises	2,816,291	-	(31,500)	2,784,791
Public service	428,015	4,172,730	(2,781,943)	1,818,802
Institutional support	9,048,479	621,071	(180,653)	9,488,897
Facilities operations and maintenance	3,297,590	-	-	3,297,590
Depreciation and amortization	2,679,443	4,407	-	2,683,850
Operating Expenses (Note 2)	31,698,451	4,798,208	(2,994,096)	33,502,563
Change in Net Assets from Operations	8,900,932	2,797,588	(19,478)	11,679,042
NONOPERATING ACTIVITIES:				
Pension related changes other than net periodic pension cost	(1,323,947)	-	-	(1,323,947)
Investment return (less than) in excess of amounts designated	1,499,394	789,305	-	2,288,699
Change in value of split-interest agreements	(202,866)	(22,883)	237,542	11,793
Change in Net Assets from Nonoperating Activities	(27,419)	766,422	237,542	976,545
Change in Net Assets	8,873,513	3,564,010	218,064	12,655,587
Net Assets, Beginning of Year	46,992,945	28,345,654	(2,134,116)	73,204,483
Net Assets, End of Year	\$ 55,866,458	\$ 31,909,664	\$ (1,916,052)	\$ 85,860,070