

DALLAS THEOLOGICAL SEMINARY

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditors' Report

June 30, 2012 and 2011

DALLAS THEOLOGICAL SEMINARY

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Dallas Theological Seminary
Dallas, Texas

We have audited the accompanying consolidated balance sheet of Dallas Theological Seminary (the Seminary) as of June 30, 2012, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Seminary's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Seminary's 2011 consolidated financial statements and, in our report dated October 3, 2011, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Seminary's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dallas Theological Seminary as of June 30, 2012, and the changes in its consolidated net assets and its consolidated cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Dallas, Texas
September 19, 2012

DALLAS THEOLOGICAL SEMINARY

Consolidated Balance Sheet

June 30, 2012
(with comparative totals for 2011)

	2012	2011
ASSETS:		
Cash and cash equivalents	\$ 3,253,934	\$ 2,464,045
Accounts and notes receivable–net	570,442	370,824
Contributions receivable–net	680,071	715,792
Prepaid expenses and deferred charges	341,299	140,229
Inventory	384,030	401,520
Investments	67,912,819	65,334,118
Perpetual trusts held by others	515,597	548,124
Property and equipment–net	47,209,838	49,801,995
Total Assets	\$ 120,868,030	\$ 119,776,647
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 612,810	\$ 563,852
Accrued liabilities	690,854	624,358
Deferred revenue	1,261,138	1,300,635
Student deposits and refundable advances	581,149	536,374
Annuity obligations	2,032,780	2,155,115
Amounts held on behalf of others	14,801,602	15,028,838
Liabilities under split-interest agreements	8,181,196	8,824,870
Notes and bonds payable	17,712,807	18,242,537
Asset retirement obligations	592,200	551,881
Liability for pension benefits	12,753,212	7,667,171
	59,219,748	55,495,631
Net assets:		
Unrestricted	28,930,473	31,117,223
Temporarily restricted	10,601,090	11,966,237
Permanently restricted	22,116,719	21,197,556
	61,648,282	64,281,016
Total Liabilities and Net Assets	\$ 120,868,030	\$ 119,776,647

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidated Statement of Activities

Year Ended June 30, 2012
(with summarized totals for 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
REVENUES, GAINS, AND OTHER SUPPORT:					
Tuition and fees–net	\$ 12,644,618	\$ -	\$ -	\$ 12,644,618	\$ 12,706,496
Gifts	14,560,517	2,764,757	927,663	18,252,937	18,404,399
Investment income	331,584	1,005,383	(32,527)	1,304,440	2,085,841
Educational activities	318,219	-	-	318,219	356,626
Auxiliary enterprises	3,206,769	-	-	3,206,769	3,259,919
Other income	608,583	9,785	-	618,368	500,156
Net assets released from restrictions	3,943,882	(3,972,593)	28,711	-	-
Operating Revenues, Gains, and Other Support	<u>35,614,172</u>	<u>(192,668)</u>	<u>923,847</u>	<u>36,345,351</u>	<u>37,313,437</u>
EXPENSES:					
Instruction	8,626,723	-	-	8,626,723	8,229,692
Academic support	1,521,649	-	-	1,521,649	1,478,176
Student services	2,432,628	-	-	2,432,628	2,409,481
Auxiliary enterprises	2,935,445	-	-	2,935,445	2,925,322
Public service	1,507,955	-	-	1,507,955	2,327,974
Institutional support	8,906,820	-	-	8,906,820	8,789,316
Facilities operations and maintenance	2,635,909	-	-	2,635,909	2,557,859
Depreciation and amortization	2,878,836	-	-	2,878,836	3,102,130
Operating Expenses (Note 2)	<u>31,445,965</u>	<u>-</u>	<u>-</u>	<u>31,445,965</u>	<u>31,819,950</u>
Change in Net Assets from Operations	<u>4,168,207</u>	<u>(192,668)</u>	<u>923,847</u>	<u>4,899,386</u>	<u>5,493,487</u>
NONOPERATING ACTIVITIES:					
Pension-related changes other than net periodic pension cost	(5,962,904)	-	-	(5,962,904)	2,390,966
Investment return (less than) in excess of amounts designated for operations	(29,637)	(1,280,137)	(247)	(1,310,021)	3,414,602
Change in value of split-interest agreements	(362,416)	107,658	(4,437)	(259,195)	(169,088)
Change in Net Assets from Nonoperating Activities	<u>(6,354,957)</u>	<u>(1,172,479)</u>	<u>(4,684)</u>	<u>(7,532,120)</u>	<u>5,636,480</u>
Change in Net Assets	(2,186,750)	(1,365,147)	919,163	(2,632,734)	11,129,967
Net Assets, Beginning of Year	<u>31,117,223</u>	<u>11,966,237</u>	<u>21,197,556</u>	<u>64,281,016</u>	<u>53,151,049</u>
Net Assets, End of Year	<u>\$ 28,930,473</u>	<u>\$ 10,601,090</u>	<u>\$ 22,116,719</u>	<u>\$ 61,648,282</u>	<u>\$ 64,281,016</u>

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidated Statement of Cash Flows

Year Ended June 30, 2012
(with comparative totals for 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (2,632,734)	\$ 11,129,967
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	2,838,517	3,064,622
Accretion to asset retirement obligation	40,319	37,507
Net realized and unrealized (gains) losses in investments	780,453	(4,751,312)
Change in value of split-interest	183,097	1,777,420
Change in value of perpetual trusts	32,527	(83,335)
Bad debt provision	-	72,953
Loss on disposal of property and equipment	3,230	3,289
Contributions and investment return restricted for long-term investment and capital additions	(932,663)	(3,888,148)
Change in:		
Accounts and notes receivable	(199,618)	(147,768)
Contributions receivable	35,721	1,191,209
Prepaid expenses and deferred charges	(201,070)	7,849
Inventory	17,490	69,481
Accounts payable and accrued liabilities	115,454	(493,426)
Deferred revenue	(39,497)	116,039
Student deposits and refundable advances	44,775	4,932
Amounts held on behalf of others	584,876	(542,696)
Liability for pension benefits	5,086,041	(2,315,579)
Net Cash Provided (Used) by Operating Activities	5,756,918	5,253,004
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(36,366,904)	(36,014,802)
Proceeds from the sale of investments	32,195,638	33,689,705
Purchase of property and equipment	(249,590)	(2,932,278)
Net Cash Provided (Used) by Investing Activities	(4,420,856)	(5,257,375)

(continued)

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidated Statement of Cash Flows

Year Ended June 30, 2012
(with comparative totals for 2011)
(continued)

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments from notes and bonds payable	(529,730)	(1,874,438)
Annuity and trust payments	(949,106)	(1,001,521)
Contributions and investment return restricted for long-term investment and capital additions	932,663	3,888,148
Net Cash Provided (Used) by Financing Activities	<u>(546,173)</u>	<u>1,012,189</u>
Change in Cash and Cash Equivalents	789,889	1,007,818
Cash and Cash Equivalents, Beginning of Year	<u>2,464,045</u>	<u>1,456,227</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,253,934</u>	<u>\$ 2,464,045</u>
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	<u>\$ 792,400</u>	<u>\$ 854,664</u>
Taxes paid	<u>\$ 9,554</u>	<u>\$ 16,342</u>
Noncash contributions	<u>\$ 1,470,580</u>	<u>\$ 4,129,877</u>

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

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; Washington, D.C., 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 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. During the years ended June 30, 2012 and 2011, the Seminary incurred unrelated business income tax of \$9,554 and \$16,342, respectively, on book center sales, catering income, and partnership income on investments.

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, 2011, 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, 2012
(with comparative totals for 2011)

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, are recognized in the period the contribution or promise is made. 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 7.5% to 8% at June 30, 2012 and 2011. An allowance has been recorded based on management estimate of uncollectibility including such factors as prior collection history, type of contribution, and the nature of fund-raising activity.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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.

INVENTORY

Inventory is stated at the lower of cost or market based on the first-in, first-out basis.

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.

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 is capitalized and reported at cost at date of acquisition less accumulated depreciation. Donated items are recorded at their fair market value on the date of donation.

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.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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 \$3,418,213 and \$3,799,530 as of June 30, 2012 and 2011, respectively.

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 a part of amounts held on behalf of others on the consolidated statement of financial position.

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 statement of financial position.

In addition, the Seminary is the trustee for certain revocable trusts. Revocable trusts are included in the consolidated financial statements as investments and refundable advances. At June 30, 2012 and 2011, the Seminary had approximately \$25,000 and \$24,000, respectively, that will not be recognized as revenue until the trusts become irrevocable or the assets are distributed to the Seminary for its unconditional use.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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.

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 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.

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.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUE AND EXPENSES, continued

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 \$190,000 and \$120,000 for advertising for the years ended June 30, 2012 and 2011, respectively.

STUDENT FINANCIAL ASSISTANCE PROGRAMS

The Seminary participates in the delivery of student financial assistance programs under various programs 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, 2012, the Seminary had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

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.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

3. ACCOUNTS AND NOTES RECEIVABLE–NET:

Accounts and notes receivable consist of:

	June 30,	
	2012	2011
Student accounts receivable	\$ 395,150	\$ 254,684
Less allowance for doubtful accounts	(71,964)	(76,079)
	323,186	178,605
Other accounts receivable	114,378	70,659
Notes receivable with maturities beyond one year	132,878	121,560
	\$ 570,442	\$ 370,824
Allowance for doubtful accounts - beginning balance	\$ (76,079)	\$ (49,002)
Direct write-downs charged against the allowance	12,611	47,447
Recoveries on receivables previously charged off	(8,496)	(1,571)
Current period provision for bad debt	-	(72,953)
	\$ (71,964)	\$ (76,079)

4. CONTRIBUTIONS RECEIVABLE–NET:

The Seminary recognizes contributions receivable for pledges from donors and for its irrevocable remainderman interest in trust held by others. Contributions receivable consist of amounts expected to be collected in the following manner:

	As of June 30, 2012		
	Estates Receivable	Trusts Held By Others	Total
	Less than one year	\$ 141,102	\$ 59,958
One to five years	-	239,832	239,832
More than five years	-	1,409,319	1,409,319
	141,102	1,709,109	1,850,211
Less unamortized discount	-	(1,170,140)	(1,170,140)
	141,102	538,969	680,071
Less allowance for uncollectible receivables	-	-	-
	\$ 141,102	\$ 538,969	\$ 680,071

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

4. CONTRIBUTIONS RECEIVABLE—NET, continued:

	As of June 30, 2011		
	Estates Receivable	Trusts Held By Others	Total
	Less than one year	\$ 261,371	\$ 63,545
One to five years	-	239,964	239,964
More than five years	-	416,971	416,971
	261,371	720,480	981,851
Less unamortized discount	-	(266,059)	(266,059)
	261,371	454,421	715,792
Less allowance for uncollectible receivables	-	-	-
	\$ 261,371	\$ 454,421	\$ 715,792

5. INVESTMENTS AND FAIR VALUE:

Investments reported at fair value consist of:

	June 30,	
	2012	2011
Cash and cash equivalents	\$ 2,246,713	\$ 3,070,747
Fixed income—domestic	18,789,180	16,889,294
Fixed income—international	7,664,896	7,430,310
Equity—domestic	11,726,496	11,200,037
Equity—international	10,493,898	9,933,516
Natural resources	6,687,041	6,299,823
Real estate	1,820,120	2,193,679
Hedge funds—fund of funds	6,518,603	6,454,558
Private equity	1,965,872	1,862,154
	\$ 67,912,819	\$ 65,334,118

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, 2012 and 2011, the Seminary had unfunded commitments of \$1,812,000 and \$2,210,000, respectively.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

5. INVESTMENTS AND FAIR VALUE, continued:

Investments consist of:

	June 30,	
	2012	2011
Endowment investments	\$ 26,548,492	\$ 26,660,170
Annuity investments, including reserves	3,452,962	3,840,797
Trust assets	9,861,968	10,432,080
Pooled common fund and amounts held for others	15,027,121	14,815,323
Donor advised funds	11,291,916	7,497,010
Other invested assets	1,730,360	2,088,738
	<u>\$ 67,912,819</u>	<u>\$ 65,334,118</u>
Trust assets (at fair value):		
Investments	\$ 9,861,968	\$ 10,432,080
Accounts and notes receivable–net	132,878	121,560
	<u>\$ 9,994,846</u>	<u>\$ 10,553,640</u>
Trust liabilities and net assets:		
Liabilities under split-interest agreements	\$ 7,761,196	\$ 8,404,868
Amounts held on behalf of others	634,685	655,989
Accounts payable	10,859	11,576
Refundable advances	24,461	23,890
Deferred revenue	2,476	2,537
Total trust net assets–temporarily restricted	1,513,409	1,405,176
Total trust net assets–permanently restricted	47,760	49,604
	<u>\$ 9,994,846</u>	<u>\$ 10,553,640</u>
Investment return consists of:		
Interest and dividends	\$ 869,769	\$ 735,972
Net realized losses	147,465	(4,554)
Net unrealized gain/losses	(927,918)	4,861,198
Investment management fees	(94,897)	(92,173)
	<u>\$ (5,581)</u>	<u>\$ 5,500,443</u>

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012

(with comparative totals for 2011)

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. Commingled hedge funds, private equity, and real estate limited partnership fair values are based on information provided by the administrators of each underlying fund. 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, 2012. 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. The carrying amounts of bonds and notes payable were more than fair value by approximately \$676,000 on June 30, 2012. The fair value for bonds and notes payable were estimated based upon the discounted amount of future cash flows utilizing current rates offered for debt of similar remaining maturities.

ASC Topic 825, *Financial Instruments*, permits entities to choose to measure financial instruments and other items at fair value that are not currently required to be measured at fair value. The Seminary elected not to value any additional investments or other financial investments at fair value.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

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, 2012:				
Investments:				
Cash and cash equivalents	\$ 2,246,713	\$ 2,246,713	\$ -	\$ -
Fixed income				
Domestic	18,789,180	18,789,180	-	-
International	7,664,896	7,664,896	-	-
	26,454,076	26,454,076	-	-
Equity				
Domestic	11,726,496	11,117,157	-	609,339
International	10,493,898	10,493,898	-	-
	22,220,394	21,611,055	-	609,339
Natural resources	6,687,041	6,356,117	-	330,924
Real estate	1,820,120	180,496	-	1,639,624
Hedge funds - fund of funds	6,518,603	-	-	6,518,603
Private equity	1,965,872	-	-	1,965,872
	\$ 67,912,819	\$ 56,848,457	\$ -	\$ 11,064,362
Investments:	\$ 67,912,819	\$ 56,848,457	\$ -	\$ 11,064,362
Perpetual trusts held by others	\$ 515,597	\$ -	\$ 515,597	\$ -
	\$ 515,597	\$ -	\$ 515,597	\$ -

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

5. INVESTMENTS AND FAIR VALUE, continued:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Equity – domestic	Natural resources	Real estate	Hedge funds	Private equity	Total
Beginning balance as of June 30, 2011	\$ 504,479	\$ 259,844	\$ 1,919,227	\$ 6,454,558	\$ 1,862,154	\$ 11,000,262
Transfers into level 3	-	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-	-
Total unrealized gains or losses included in investment return	104,860	14,702	47,166	264,045	107,948	538,721
Purchases, issuances, sales, and settlements:						
Purchases	-	56,378	493,750	200,000	181,695	931,823
Sales	-	-	(820,519)	(400,000)	(185,925)	(1,406,444)
Ending balance, June 30, 2012	\$ 609,339	\$ 330,924	\$ 1,639,624	\$ 6,518,603	\$ 1,965,872	\$ 11,064,362

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

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.

<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	\$ 6,518,603	1	N.A.	\$ -	No lockup	Redemptions annually with 90 day notice	None
Real Assets - Illiquid							
Real Estate (REITS) and natural resources	616,648	2	Upon liquidation of underlying investments	170,248	N.A.	N.A.*	N.A.
Private Equity							
Distressed, buyout, and venture capital	<u>1,965,872</u>	6	4 to 10 years	<u>1,641,322</u>	N.A.	N.A.*	N.A.
	<u>\$ 9,101,123</u>			<u>\$ 1,811,570</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, 2012
(with comparative totals for 2011)

6. ENDOWMENT FUNDS:

The Seminary's endowment consists of various individual funds established for scholarships and educational programs. Its endowment includes both 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, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ (74,646)	\$ 5,118,770	\$ 21,531,469	\$ 26,575,593
Total funds	<u>\$ (74,646)</u>	<u>\$ 5,118,770</u>	<u>\$ 21,531,469</u>	<u>\$ 26,575,593</u>

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

6. ENDOWMENT FUNDS, continued:

Changes in endowment net assets for the year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (45,008)	\$ 6,348,146	\$ 20,575,342	\$ 26,878,480
Investment return:				
Investment income	-	459,110	-	459,110
Net gains and losses (realized and unrealized)	(29,638)	(616,275)	(247)	(646,160)
Total investment return	(29,638)	(157,165)	(247)	(187,050)
Contributions	-	50,761	927,663	978,424
Amounts appropriated for expenditure	-	(1,122,972)	-	(1,122,972)
Other changes:				
Reclassification	-	-	28,711	28,711
	(29,638)	(1,229,376)	956,127	(302,887)
Endowment net assets, end of year	\$ (74,646)	\$ 5,118,770	\$ 21,531,469	\$ 26,575,593

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012

(with comparative totals for 2011)

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 \$74,646 as of June 30, 2012. 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 6.0 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 3 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, 2012
(with comparative totals for 2011)

7. PROPERTY AND EQUIPMENT—NET:

Property and equipment consists of:

	June 30,	
	2012	2011
Land	\$ 5,476,458	\$ 5,476,458
Land improvements	835,069	835,069
Buildings	66,308,238	66,308,238
Library acquisitions	5,644,046	5,489,956
Equipment	1,978,832	1,977,445
	<u>80,242,643</u>	<u>80,087,166</u>
Less accumulated depreciation	<u>(33,032,805)</u>	<u>(30,285,171)</u>
	47,209,838	49,801,995
Less asset retirement obligation	(592,200)	(551,881)
Less notes payable and capital leases secured by specific assets	<u>(17,712,807)</u>	<u>(18,242,537)</u>
Net investment in property and equipment	<u>\$ 28,904,831</u>	<u>\$ 31,007,577</u>

Depreciation expense for the years ended June 30, 2012 and 2011, was \$2,838,517 and \$3,064,622, respectively.

8. LINE OF CREDIT:

The Seminary has an unsecured \$5,000,000 line of credit that matures on December 15, 2012. The interest rate is PRIME (3.25% as of June 30, 2012), with interest due monthly and principal due upon maturity. No funds were borrowed under this agreement during the fiscal year ended June 30, 2012.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

9. NOTES AND BONDS PAYABLE:

Notes and bonds payable consist of:

	June 30,	
	2012	2011
Note payable to Frost Bank of \$10,000,000, fixed interest rate of 4.39%, 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.	\$ 8,631,407	\$ 8,904,616
Note payable to Frost Bank of \$10,000,000, fixed interest rate of 4.39%, maturing July 31, 2023, secured by the single student apartments, due in monthly principal and interest installments of \$54,976.	9,081,400	9,335,247
Various capital leases with total monthly payments of \$2,687, matured September 1, 2011.	-	2,674
	\$ 17,712,807	\$ 18,242,537

Maturities of notes and bonds payable are as follows:

Years Ending June 30,	Amounts
2013	\$ 552,841
2014	577,605
2015	603,478
2016	628,618
2017	658,669
Thereafter	14,691,596
	\$ 17,712,807

The notes and bonds payable agreements contain covenants which include minimum liquidity and debt service coverage ratios. At June 30, 2012, the Seminary was in compliance with these covenants.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

10. NET ASSETS:

Net assets consist of:

	June 30,	
	2012	2011
Unrestricted:		
Undesignated	\$ 10,497,697	\$ 5,200,780
Endowment fund	(74,646)	(45,008)
Designated—annuity reserves	2,355,803	2,621,045
Pension benefit obligation	(12,753,212)	(7,667,171)
Net investment in property and equipment	28,904,831	31,007,577
	<u>28,930,473</u>	<u>31,117,223</u>
Temporarily restricted:		
Restricted current funds	3,079,961	3,408,493
Plant funds	349,982	350,000
Endowment funds	5,118,770	6,348,147
Life income funds	2,052,377	1,859,597
	<u>10,601,090</u>	<u>11,966,237</u>
Permanently restricted—endowment funds:		
Endowment funds	21,531,469	20,575,342
Perpetual trusts held by others	515,597	548,124
Annuity and life income funds	69,653	74,090
	<u>22,116,719</u>	<u>21,197,556</u>
	<u>\$ 61,648,282</u>	<u>\$ 64,281,016</u>

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,	
	2012	2011
Tuition and fees	\$ 15,514,759	\$ 15,289,127
Less financial aid and scholarships	(2,870,141)	(2,582,631)
	<u>\$ 12,644,618</u>	<u>\$ 12,706,496</u>

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

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, 2012 and 2011. Those expenses would be distributed to the functional areas as follows:

	Fiscal Year Ended June 30, 2012			
	As Reported in the Consolidated Statement of Activities	Facilities and Maintenance	Depreciation and Amortization	Full Functional Allocation of Expenses
Instruction	\$ 8,626,723	\$ 276,499	\$ 301,370	\$ 9,204,592
Academic support	1,521,649	422,985	461,032	2,405,666
Student services	2,432,628	115,750	126,162	2,674,540
Auxiliary enterprises	2,935,445	1,530,839	1,668,535	6,134,819
Public service	1,507,955	64,444	70,240	1,642,639
Institutional support	8,906,820	225,392	251,497	9,383,709
Facilities operations and maintenance	2,635,909	(2,635,909)	-	-
Depreciation and amortization	2,878,836	-	(2,878,836)	-
	\$ 31,445,965	\$ -	\$ -	\$ 31,445,965

For the years ended June 30, 2012 and 2011, fund-raising expenses of approximately \$2,370,000 and \$1,932,000, respectively, were included in institutional support.

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.

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 \$12,753,212 and \$7,667,171 as of June 30, 2012 and 2011, respectively. The application of Topic 715 resulted in a decrease in net assets of \$5,086,041 for the year ended June 30, 2012, and an increase of \$2,315,579 for the year ended June 30, 2011, in the accompanying consolidated financial statements.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

13. EMPLOYEE BENEFIT PLANS, continued:

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

	June 30,	
	2012	2011
Projected benefit obligation	\$ (31,095,388)	\$ (24,899,715)
Plan assets at fair value	18,342,176	17,232,544
Funded status	\$ (12,753,212)	\$ (7,667,171)
Accumulated benefit obligation	\$ 27,959,056	\$ 22,576,394

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

Transition obligation	\$ -	\$ -
Prior service (credit)	(223,476)	(291,628)
Net loss	15,257,632	9,362,885
Funded status	\$ 15,034,156	\$ 9,071,257

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

Net periodic benefit cost, included in functional expenses:

	June 30,	
	2012	2011
Service costs	\$ 480,822	\$ 507,631
Interest costs	1,328,847	1,277,970
Expected return on plan assets	(1,321,641)	(1,081,318)
Reclassification of net gain or loss	651,268	922,020
Reclassification of net prior service costs	(68,152)	(68,152)
	\$ 1,071,144	\$ 1,558,151

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

13. EMPLOYEE BENEFIT PLANS, continued:

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

Net loss	\$ 6,546,013	\$ (1,583,642)
Amortization of net loss to net periodic benefit cost	(651,268)	(922,020)
Amortization of prior service cost to net periodic benefit cost	68,152	68,152
	<u>\$ 5,962,897</u>	<u>\$ (2,437,510)</u>

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

Transition obligation	\$ -	\$ -
Prior service (credit)	(68,152)	(68,152)
Net loss	<u>1,174,410</u>	<u>647,045</u>
Funded status	<u>\$ 1,106,258</u>	<u>\$ 578,893</u>

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

Discount rate		
Net periodic pension cost	5.50%	6.65%
Benefit obligations	3.95%	5.44%
Expected return on plan assets, beginning of fiscal year	7.50%	8.00%
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, 2011	July 1, 2010
Measurement date	June 30, 2012	June 30, 2011

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.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

13. EMPLOYEE BENEFIT PLANS, continued:

The investment policy of the Seminary is to invest approximately 50% of plan assets in equity securities, 30% in fixed income securities, 15% in hedge funds, and 5% in real estate. Periodically, the entire account is rebalanced to maintain these percentages and the investment policy is reviewed.

Asset category:

Cash	6%
Equity securities	43%
Debt securities	31%
Real estate	6%
Other	14%

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 \$1,948,000 and \$1,436,220 during the fiscal years ended June 30, 2012 and 2011, respectively. The Seminary expects to contribute \$2,168,000 to its pension plan in 2013.

For the years ended June 30, 2012 and 2011, benefits paid from the plan were \$849,123 and \$763,563, respectively. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in future years as follows:

<u>Years Ending June 30,</u>	<u>Amounts</u>
2013	1,187,515
2014	1,195,488
2015	1,281,075
2016	1,390,715
2017	1,471,392
Years 2018-2020	8,225,963

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, 2012 and 2011, was approximately \$377,000 and \$354,000 respectively.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2012
(with comparative totals for 2011)

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.

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, 2012 and 2011, were \$269,000 and \$205,000, respectively. While management believes these reserves are adequate, the ultimate liabilities may be more or less than the amounts provided.

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, 2012 and 2011, was \$249,589 and \$193,739, respectively.

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

<u>Years Ending June 30,</u>	<u>Amounts</u>
2013	\$ 288,750
2014	220,876
2015	215,201
thereafter	6,372
	<u>\$ 731,199</u>

17. ASSET RETIREMENT OBLIGATION:

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

	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
Beginning of year	\$ 551,881	\$ 514,374
Accretion expense-net	40,319	37,507
End of year	<u>\$ 592,200</u>	<u>\$ 551,881</u>

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 year ended June 30, 2012, and our report thereon dated September 19, 2012, 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 statements of financial position and activities is 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 19, 2012

DALLAS THEOLOGICAL SEMINARY

Consolidating Balance Sheet

June 30, 2012

	Dallas Theological Seminary	Dallas Seminary Foundation	Eliminations	Total
ASSETS:				
Cash and cash equivalents	\$ 3,107,685	\$ 146,249	\$ -	\$ 3,253,934
Accounts and notes receivable–net	847,658	583,264	(860,480)	570,442
Contributions receivable–net	680,071	-	-	680,071
Prepaid expenses and deferred charges	317,423	23,876	-	341,299
Inventory	384,030	-	-	384,030
Investments	23,768,175	51,569,011	(7,424,367)	67,912,819
Perpetual trusts held by others	515,597	-	-	515,597
Property and equipment–net	47,191,725	18,113	-	47,209,838
Total Assets	<u>\$ 76,812,364</u>	<u>\$ 52,340,513</u>	<u>\$ (8,284,847)</u>	<u>\$ 120,868,030</u>
LIABILITIES AND NET ASSETS:				
Liabilities:				
Accounts payable	\$ 581,501	\$ 52,181	\$ (20,872)	\$ 612,810
Accrued liabilities	690,854	-	-	690,854
Deferred revenue	1,261,138	2,476	(2,476)	1,261,138
Student deposits and refundable advances	581,149	24,461	(24,461)	581,149
Annuity obligations	1,902,428	2,032,780	(1,902,428)	2,032,780
Amounts held on behalf of others	21,283	15,837,101	(1,056,782)	14,801,602
Liabilities under split-interest agreements	1,893,157	8,181,196	(1,893,157)	8,181,196
Notes and bonds payable	18,132,807	-	(420,000)	17,712,807
Asset retirement obligations	592,200	-	-	592,200
Liability for pension benefits	12,753,212	-	-	12,753,212
	<u>38,409,729</u>	<u>26,130,195</u>	<u>(5,320,176)</u>	<u>59,219,748</u>
Net assets:				
Unrestricted	16,964,576	13,322,427	(1,356,530)	28,930,473
Temporarily restricted	7,250,157	4,939,969	(1,589,036)	10,601,090
Permanently restricted	14,187,902	7,947,922	(19,105)	22,116,719
	<u>38,402,635</u>	<u>26,210,318</u>	<u>(2,964,671)</u>	<u>61,648,282</u>
Total Liabilities and Net Assets	<u>\$ 76,812,364</u>	<u>\$ 52,340,513</u>	<u>\$ (8,284,847)</u>	<u>\$ 120,868,030</u>

DALLAS THEOLOGICAL SEMINARY

Consolidating Balance Sheet

June 30, 2011

	Dallas Theological Seminary	Dallas Seminary Foundation	Eliminations	Total
ASSETS:				
Cash and cash equivalents	\$ 2,441,251	\$ 27,794	\$ (5,000)	\$ 2,464,045
Accounts and notes receivable–net	674,004	545,903	(849,083)	370,824
Contributions receivable–net	600,129	115,663	-	715,792
Prepaid expenses and deferred charges	135,551	4,678	-	140,229
Inventory	401,520	-	-	401,520
Investments	24,251,861	48,983,264	(7,901,007)	65,334,118
Perpetual trusts held by others	548,124	-	-	548,124
Property and equipment–net	49,774,820	27,175	-	49,801,995
Total Assets	<u>\$78,827,260</u>	<u>\$49,704,477</u>	<u>\$(8,755,090)</u>	<u>\$119,776,647</u>
LIABILITIES AND NET ASSETS:				
Liabilities:				
Accounts payable	\$ 512,805	\$ 61,221	\$ (10,174)	\$ 563,852
Accrued liabilities	624,358	-	-	624,358
Deferred revenue	1,300,635	2,537	(2,537)	1,300,635
Student deposits and refundable advances	536,374	23,890	(23,890)	536,374
Annuity obligations	1,986,924	2,155,115	(1,986,924)	2,155,115
Amounts held on behalf of others	21,812	15,865,544	(858,518)	15,028,838
Liabilities under split-interest agreements	2,044,999	8,824,870	(2,044,999)	8,824,870
Notes and bonds payable	18,662,537	-	(420,000)	18,242,537
Asset retirement obligations	551,881	-	-	551,881
Liability for pension benefits	7,667,171	-	-	7,667,171
	<u>33,909,496</u>	<u>26,933,177</u>	<u>(5,347,042)</u>	<u>55,495,631</u>
Net assets:				
Unrestricted	22,976,623	9,710,213	(1,569,613)	31,117,223
Temporarily restricted	8,428,191	5,356,639	(1,818,593)	11,966,237
Permanently restricted	13,512,950	7,704,448	(19,842)	21,197,556
	<u>44,917,764</u>	<u>22,771,300</u>	<u>(3,408,048)</u>	<u>64,281,016</u>
Total Liabilities and Net Assets	<u>\$78,827,260</u>	<u>\$49,704,477</u>	<u>\$(8,755,090)</u>	<u>\$119,776,647</u>

DALLAS THEOLOGICAL SEMINARY

Consolidating Statement of Activities

	Year Ended June 30, 2012			
	Dallas Theological Seminary	Dallas Seminary Foundation	Eliminations	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Tuition and fees	\$ 15,514,759	\$ -	\$ -	\$ 15,514,759
Less student aid	(2,870,141)	-	-	(2,870,141)
Net tuition and fees	12,644,618	-	-	12,644,618
Gifts	13,238,587	7,853,901	(2,839,551)	18,252,937
Investment income	612,812	605,097	86,531	1,304,440
Educational activities	318,219	-	-	318,219
Auxiliary enterprises	3,206,769	-	-	3,206,769
Other income	375,868	329,031	(86,531)	618,368
Total Revenues, Gains, and Other Support	30,396,873	8,788,029	(2,839,551)	36,345,351
EXPENSES:				
Instruction	8,626,723	-	-	8,626,723
Academic support	1,521,649	-	-	1,521,649
Student services	2,432,628	-	-	2,432,628
Auxiliary enterprises	2,966,945	-	(31,500)	2,935,445
Public service	303,997	3,924,128	(2,720,170)	1,507,955
Institutional support	8,773,533	826,100	(692,813)	8,906,820
Facilities operations and maintenance	2,635,909	-	-	2,635,909
Depreciation and amortization	2,873,004	5,832	-	2,878,836
Operating Expenses (Note 2)	30,134,388	4,756,060	(3,444,483)	31,445,965
Change in Net Assets from Operations	262,485	4,031,969	604,932	4,899,386
NONOPERATING ACTIVITIES:				
Pension related changes other than net periodic pension cost	(5,962,904)	-	-	(5,962,904)
Investment return (less than) in excess of amounts designated	(801,467)	(508,554)	-	(1,310,021)
Change in value of split-interest agreements	(13,243)	(84,397)	(161,555)	(259,195)
Change in Net Assets from Nonoperating Activities	(6,777,614)	(592,951)	(161,555)	(7,532,120)
Change in Net Assets	(6,515,129)	3,439,018	443,377	(2,632,734)
Net Assets, Beginning of Year	44,917,764	22,771,300	(3,408,048)	64,281,016
Net Assets, End of Year	\$ 38,402,635	\$ 26,210,318	\$ (2,964,671)	\$ 61,648,282

DALLAS THEOLOGICAL SEMINARY

Consolidating Statement of Activities

	Year Ended June 30, 2011			Total
	Dallas Theological Seminary	Dallas Seminary Foundation	Eliminations	
REVENUES, GAINS, AND OTHER SUPPORT:				
Tuition and fees	\$ 15,289,130	\$ -	\$ -	\$ 15,289,130
Less student aid	(2,582,634)	-	-	(2,582,634)
Net tuition and fees	12,706,496	-	-	12,706,496
Gifts	15,270,440	5,603,474	(2,469,515)	18,404,399
Investment income	649,661	1,374,707	61,473	2,085,841
Educational activities	356,626	-	-	356,626
Auxiliary enterprises	3,259,919	-	-	3,259,919
Other income	249,965	311,664	(61,473)	500,156
Total Revenues, Gains, and Other Support	32,493,107	7,289,845	(2,469,515)	37,313,437
EXPENSES:				
Instruction	8,229,692	-	-	8,229,692
Academic support	1,478,176	-	-	1,478,176
Student services	2,409,481	-	-	2,409,481
Auxiliary enterprises	2,956,822	-	(31,500)	2,925,322
Public service	629,615	2,485,443	(787,084)	2,327,974
Institutional support	8,586,715	774,001	(571,400)	8,789,316
Facilities operations and maintenance	2,557,859	-	-	2,557,859
Depreciation and amortization	3,094,256	7,874	-	3,102,130
Operating Expenses (Note 2)	29,942,616	3,267,318	(1,389,984)	31,819,950
Change in Net Assets from Operations	2,550,491	4,022,527	(1,079,531)	5,493,487
NONOPERATING ACTIVITIES:				
Pension related changes other than net periodic pension cost	2,390,966	-	-	2,390,966
Investment return (less than) in excess of amounts designated	2,045,420	1,369,182	-	3,414,602
Change in value of split-interest agreements	(388,988)	(425,753)	645,653	(169,088)
Change in Net Assets from Nonoperating Activities	4,047,398	943,429	645,653	5,636,480
Change in Net Assets	6,597,889	4,965,956	(433,878)	11,129,967
Net Assets, Beginning of Year	38,319,875	17,805,344	(2,974,170)	53,151,049
Net Assets, End of Year	\$ 44,917,764	\$ 22,771,300	\$ (3,408,048)	\$ 64,281,016