DALLAS THEOLOGICAL SEMINARY

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditors' Report

June 30, 2013 and 2012

CAPINCROUSE LLP
Certified Public Accountants

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 statement of financial position as of June 30, 2013, 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, 2013, 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 2012 consolidated financial statements, and our report dated October 3, 2012, 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, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Capin Crouse LLP

Dallas, Texas
September 17, 2013

Dallas Theological Seminary

Consolidated Balance Sheet

June 30, 2013
(with comparative totals for 2012)

	2013	2012
ASSETS:		
Cash and cash equivalents	$ 7,095,301	$ 3,253,934
Accounts and notes receivable–net	914,922	570,442
Contributions receivable–net	3,490,996	680,071
Prepaid expenses and deferred charges	258,619	341,299
Inventory	341,288	384,030
Investments	73,594,197	67,912,819
Perpetual trusts held by others	539,429	515,597
Property and equipment–net	45,958,704	47,209,838
Total Assets	$ 132,193,456	$ 120,868,030
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued liabilities	$ 1,670,900	$ 1,303,664
Deferred revenue	1,687,877	1,261,138
Student deposits and refundable advances	600,504	581,149
Annuity obligations	2,064,756	2,032,780
Amounts held on behalf of others	16,864,315	14,801,602
Liabilities under split-interest agreements	8,039,252	8,181,196
Notes and bonds payable	17,159,966	17,712,807
Asset retirement obligations	619,495	592,200
Liability for pension benefits	10,281,908	12,753,212
	58,988,973	59,219,748
Net assets:		
Unrestricted	33,164,501	28,930,473
Temporarily restricted	13,284,415	10,601,090
Permanently restricted	26,755,567	22,116,719
	73,204,483	61,648,282
Total Liabilities and Net Assets	$ 132,193,456	$ 120,868,030

See notes to consolidated financial statements

Dallas Theological Seminary

Consolidated Statement of Activities

Year Ended June 30, 2013
(with summarized totals for 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
REVENUES, GAINS, AND OTHER SUPPORT:					
Tuition and fees–net	$ 12,522,302	$ -	$ -	$ 12,522,302	$ 12,644,618
Gifts	12,105,649	6,307,454	4,690,189	23,103,292	18,252,937
Investment income	892,623	708,407	23,832	1,624,862	1,304,440
Educational activities	369,474	-	-	369,474	318,219
Auxiliary enterprises	3,122,719	-	-	3,122,719	3,206,769
Other income	558,955	9,460	-	568,415	618,368
Net assets released from restrictions	3,927,769	(3,844,366)	(83,403)	-	-
Operating Revenues, Gains, and Other Support	33,499,491	3,180,955	4,630,618	41,311,064	36,345,351
EXPENSES:					
Instruction	9,054,498	-	-	9,054,498	8,626,723
Academic support	1,678,136	-	-	1,678,136	1,521,649
Student services	2,425,659	-	-	2,425,659	2,432,628
Auxiliary enterprises	2,814,899	-	-	2,814,899	2,935,445
Public service	1,042,508	-	-	1,042,508	1,507,955
Institutional support	9,268,421	-	-	9,268,421	8,906,820
Facilities operations and maintenance	3,048,536	-	-	3,048,536	2,635,909
Depreciation and amortization	2,642,765	-	-	2,642,765	2,878,836
Operating Expenses (Note 2)	31,975,422	-	-	31,975,422	31,445,965
Change in Net Assets from Operations	1,524,069				
NONOPERATING ACTIVITIES:					
Pension-related changes other than net periodic pension cost	2,090,509	-	-	2,090,509	(5,962,904)
Investment return (less than) in excess of amounts designated for operations	31,613	98,935	519	131,067	(1,310,021)
Net assets released from restrictions due to acquisition of long-lived assets	623,433	(623,433)	-	-	-
Change in value of split-interest agreements	(35,596)	26,868	7,711	(1,017)	(259,195)
Change in Net Assets from Nonoperating Activities	2,709,959	(497,630)	8,230	2,220,559	(7,532,120)
Change in Net Assets	4,234,028	2,683,325	4,638,848	11,556,201	(2,632,734)
Net Assets, Beginning of Year	28,930,473	10,601,090	22,116,719	61,648,282	64,281,016
Net Assets, End of Year	$ 33,164,501	$ 13,284,415	$ 26,755,567	$ 73,204,483	$ 61,648,282

See notes to consolidated financial statements

Dallas Theological Seminary

Consolidated Statement of Cash Flows

Year Ended June 30, 2013
(with comparative totals for 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 11,556,201	$ (2,632,734)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	2,615,470	2,838,517
Accretion to asset retirement obligation	27,295	40,319
Net realized and unrealized (gains) losses in investments	(690,778)	780,453
Change in value of split-interest agreements	836,400	183,097
Change in value of perpetual trusts	(23,832)	32,527
Bad debt provision	36,581	-
Loss on disposal of property and equipment	5,205	3,230
Contributions and investment return restricted for long-term investment and capital additions	(6,453,202)	(932,663)
Change in:		
Accounts and notes receivable	(381,061)	(199,618)
Contributions receivable	(2,810,925)	35,721
Prepaid expenses and deferred charges	82,680	(201,070)
Inventory	42,742	17,490
Accounts payable and accrued liabilities	367,236	115,454
Deferred revenue	426,739	(39,497)
Student deposits and refundable advances	19,355	44,775
Amounts held on behalf of others	566,774	584,876
Liability for pension benefits	(2,471,304)	5,086,041
Net Cash Provided by Operating Activities	3,751,576	5,756,918
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(71,642,344)	(36,366,904)
Proceeds from the sale of investments	68,147,683	32,195,638
Purchase of property and equipment	(1,369,541)	(249,590)
Net Cash Used by Investing Activities	(4,864,202)	(4,420,856)

(continued)

See notes to consolidated financial statements

Dallas Theological Seminary

Consolidated Statement of Cash Flows

Year Ended June 30, 2013
(with comparative totals for 2012)
(continued)

	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments from notes and bonds payable	(552,841)	(529,730)
Annuity and trust payments	(946,368)	(949,106)
Contributions and investment return restricted for long-term investment and capital additions	6,453,202	932,663
Net Cash Provided (Used) by Financing Activities	4,953,993	(546,173)
Change in Cash and Cash Equivalents	3,841,367	789,889
Cash and Cash Equivalents, Beginning of Year	3,253,934	2,464,045
Cash and Cash Equivalents, End of Year	$ 7,095,301	$ 3,253,934
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	$ 766,602	$ 792,400
Taxes paid	$ 9,000	$ 9,554
Noncash contributions	$ 2,341,116	$ 1,470,580

See notes to consolidated financial statements

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 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. During the years ended June 30, 2013 and 2012, the Seminary incurred unrelated business income tax of $9,000 and $9,554, respectively, on book center sales 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, 2012, 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.

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. During the year ended June 30, 2013, an unconditional promise to give of $800,000 was received restricted for an endowment and is included in endowment funds as described in Note 6. 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, 2013 and 2012. 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.

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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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. During the year ended June 30, 2013 this accounting policy was applied to tuition and fees for online summer classes. Tuition and fees of $372,914 for online summer classes were deferred based on the classes continuing into the subsequent fiscal year.

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 $3,529,836 and $3,452,962 as of June 30, 2013 and 2012, 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 the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

LIABILITIES UNDER SPLIT-INTEREST AGREEMENTS, continued
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, 2013 and 2012, the Seminary had approximately $24,000 and $25,000, 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.

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.

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 $234,000 and $190,000 for advertising for the years ended June 30, 2013 and 2012, 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, 2013, 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 2008.

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, 2013	June 30, 2012
Student accounts receivable	$ 739,072	$ 395,150
Less allowance for doubtful accounts	(77,248)	(71,964)
	661,824	323,186
Other accounts receivable	126,928	114,378
Notes receivable with maturies beyond one year	126,170	132,878
Total accounts and notes receivable–net	$ 914,922	$ 570,442
Allowance for doubtful accounts - beginning balance	$ (71,964)	$ (76,079)
Direct write-downs charged against the allowance	36,975	12,611
Recoveries on receivables previously charged off	(5,678)	(8,496)
Current period provision for bad debt	(36,581)	-
Allowance for doubtful accounts - ending balance	$ (77,248)	$ (71,964)

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, 2013 and 2012, contributions receivable includes estate and trust gifts receivable totaling $2,772,282 and $680,071, respectively. Contributions receivable are expected to be collected in the following manner:

	June 30, 2013	June 30, 2012
Less than one year	$ 2,295,049	$ 201,060
One to five years	1,204,608	239,832
More than five years	558,026	614,669
	4,057,683	1,055,561
Less unamortized discount	(566,687)	(375,490)
	3,490,996	680,071
Less allowance for uncollectible receivables	-	-
	$ 3,490,996	$ 680,071

5. INVESTMENTS AND FAIR VALUE:

Investments reported at fair value consist of:

	June 30, 2013	June 30, 2012
Cash and cash equivalents	$ 2,596,461	$ 2,246,713
Fixed income–domestic	15,821,728	18,789,180
Fixed income–international	11,627,506	7,664,896
Equity–domestic	11,314,769	11,726,496
Equity–international	8,375,559	10,493,898
Natural resources	7,510,507	6,687,041
Real estate	3,603,975	1,820,120
Hedge funds–fund of funds	10,785,655	6,518,603
Private equity	1,958,037	1,965,872
	$ 73,594,197	$ 67,912,819

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, 2013 and 2012, the Seminary had unfunded commitments of $1,645,201 and $1,811,570, respectively.

5. INVESTMENTS AND FAIR VALUE, continued:

	June 30, 2013	June 30, 2012
Investments consist of:		
Endowment investments	$ 30,827,631	$ 26,548,492
Annuity investments, including reserves	3,529,836	3,452,962
Trust assets	9,738,985	9,861,968
Pooled common fund and amounts held for others	15,240,640	15,027,121
Donor advised funds	12,596,850	11,291,916
Other invested assets	1,660,255	1,730,360
	$ 73,594,197	$ 67,912,819

	2013	2012
Trust assets (at fair value):		
Investments	$ 9,738,985	$ 9,861,968
Accounts and notes receivable–net	126,170	132,878
	$ 9,865,155	$ 9,994,846
Trust liabilities and net assets:		
Liabilities under split-interest agreements	$ 7,619,252	$ 7,761,196
Amounts held on behalf of others	1,118,256	634,685
Accounts payable	9,336	10,859
Refundable advances	23,666	24,461
Deferred revenue	2,258	2,476
Total trust net assets–temporarily restricted	1,037,215	1,513,409
Total trust net assets–permanently restricted	55,172	47,760
	$ 9,865,155	$ 9,994,846
Investment return consists of:		
Interest and dividends	$ 1,112,521	$ 869,769
Net realized losses	2,497,510	147,465
Net unrealized gain/losses	(1,806,732)	(927,918)
Investment management fees	(47,370)	(94,897)
	$ 1,755,929	$ (5,581)

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, 2013. 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 $207,000 on June 30, 2013. 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.

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, 2013:				
Investments:				
Cash and cash equivalents	$ 2,596,461	$ 2,596,461	$ -	$ -
Fixed income				
Domestic	15,821,728	15,821,728	-	-
International	11,627,506	11,627,506	-	-
	27,449,234	27,449,234	-	-
Equity				
Domestic	11,314,769	11,207,197	-	107,572
International	8,375,559	8,375,559	-	-
	19,690,328	19,582,756	-	107,572
Natural resources	7,510,507	7,152,354	-	358,153
Real estate	3,603,975	2,349,130	-	1,254,845
Hedge funds - fund of funds	10,785,655	3,707,003	-	7,078,652
Private equity	1,958,037	-	-	1,958,037
Investments	$ 73,594,197	$ 62,836,938	$ -	$ 10,757,259
Perpetual trusts held by others	$ 539,429	$ -	$ 539,429	$ -

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, 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
Investments	$ 67,912,819	$ 56,848,457	$ -	$ 11,064,362
Perpetual trusts held by others	$ 515,597	$ -	$ 515,597	$ -

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, 2012	$ 609,339	$ 330,924	$ 1,639,624	$ 6,518,603	$ 1,965,872	$ 11,064,362
Total unrealized gains or losses included in investment return	(501,767)	17,947	102,517	650,049	137,068	405,814
Total realized gains or losses included in investment return	-	-	19,022	-	-	19,022
Purchases, issuances, sales, and settlements:						
Purchases	-	9,282	467,730	360,000	103,989	941,001
Sales	-	-	(974,048)	(450,000)	(248,892)	(1,672,940)
Ending balance, June 30, 2013	$ 107,572	$ 358,153	$ 1,254,845	$ 7,078,652	$ 1,958,037	$ 10,757,259

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
Total unrealized gains or losses included in investment return	104,860	14,702	47,166	264,045	107,948	538,721
Total realized gains or losses included in investment return	-	-	-	-	-	-
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

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, 2013.

Strategy	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	$ 7,078,652	1	N.A.	$ -	No lockup	Redemptions annually with 90 day notice	None
Real Assets - Illiquid							
Real Estate (REITS) and natural resources	659,758	2	Upon liquidation of underlying investments	130,857	N.A.	N.A.*	N.A.
Private Equity							
Distressed, buyout, and venture capital	1,958,037	6	4 to 10 years	1,514,344	N.A.	N.A.*	N.A.
	$ 9,696,447			$ 1,645,201			

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

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, 2012

Strategy	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	1,965,872	6	4 to 10 years	1,641,322	N.A.	N.A.*	N.A.
	$ 9,101,123			$ 1,811,570			

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

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. 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, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	$ (43,033)	$ 5,477,706	$ 26,138,774	$ 31,573,447
Total funds	$ (43,033)	$ 5,477,706	$ 26,138,774	$ 31,573,447

6. ENDOWMENT FUNDS, continued:

Changes in endowment net assets for the year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (74,646)	$ 5,118,770	$ 21,531,469	$ 26,575,593
Investment return:				
Investment income	-	570,014	-	570,014
Net gains and losses (realized and unrealized)	31,613	849,892	519	882,024
Total investment return	31,613	1,419,906	519	1,452,038
Contributions	-	229,628	4,690,189	4,919,817
Amounts appropriated for expenditure	-	(1,320,971)	-	(1,320,971)
Other changes:				
Reclassification	-	30,373	(83,403)	(53,030)
Total changes	31,613	358,936	4,607,305	4,997,854
Endowment net assets, end of year	$ (43,033)	$ 5,477,706	$ 26,138,774	$ 31,573,447

6. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of June 30, 2012:

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

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
Total changes	(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

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 $43,033 as of June 30, 2013. 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.

During the year ended June 30, 2013, management reclassed $30,373 from permanently restricted to temporarily restricted endowment based on management's review of the endowment agreements.

7. PROPERTY AND EQUIPMENT–NET:

Property and equipment consists of:

	June 30, 2013	June 30, 2012
Land	$ 5,773,431	$ 5,476,458
Land improvements	868,105	835,069
Buildings	66,492,437	66,308,238
Library acquisitions	5,881,401	5,644,046
Equipment	2,236,767	1,978,832
	81,252,141	80,242,643
Less accumulated depreciation	(35,362,882)	(33,032,805)
	45,889,259	47,209,838
Construction in progress	69,445	-
	45,958,704	47,209,838
Less notes payable secured by specific assets	(17,159,966)	(17,712,807)
Net investment in property and equipment	$ 28,798,738	$ 29,497,031

Depreciation expense for the years ended June 30, 2013 and 2012, was $2,615,470 and $2,838,517, respectively.

8. LINE OF CREDIT:

The Seminary has an unsecured $5,000,000 line of credit that matures on December 15, 2013. The interest rate is PRIME (3.25% as of June 30, 2013), with interest due monthly and principal due upon maturity. No funds were borrowed under this agreement during the fiscal year ended June 30, 2013.

9. NOTES AND BONDS PAYABLE:

Notes and bonds payable consist of:

	June 30, 2013	June 30, 2012
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.	$ 8,344,899	$ 8,631,407
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.	8,815,067	9,081,400
	$ 17,159,966	$ 17,712,807

Maturities of notes and bonds payable are as follows:

Year Ending June 30,	Amounts
2014	$ 577,605
2015	603,478
2016	628,618
2017	658,669
2018	688,173
Thereafter	14,003,423
	$ 17,159,966

The notes and bonds payable agreements contain covenants which include minimum liquidity and debt service coverage ratios. At June 30, 2013, the Seminary was in compliance with these covenants.

10. NET ASSETS:

Net assets consist of:

	June 30, 2013	June 30, 2012
Unrestricted:		
Undesignated	$ 12,646,255	$ 9,905,497
Endowment fund	(43,033)	(74,646)
Designated–annuity reserves	2,044,449	2,355,803
Pension benefit obligation	(10,281,908)	(12,753,212)
Net investment in property and equipment	28,798,738	29,497,031
	33,164,501	28,930,473
Temporarily restricted:		
Restricted current funds	4,610,782	3,079,961
Plant funds	2,158,712	349,982
Endowment funds	5,477,706	5,118,770
Life income funds	1,037,215	2,052,377
	13,284,415	10,601,090
Permanently restricted:		
Endowment funds	26,138,774	21,531,469
Perpetual trusts held by others	539,429	515,597
Annuity and life income funds	77,364	69,653
	26,755,567	22,116,719
	$ 73,204,483	$ 61,648,282

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, 2013	June 30, 2012
Tuition and fees	$ 15,613,116	$ 15,514,759
Less financial aid and scholarships	(3,090,814)	(2,870,141)
	$ 12,522,302	$ 12,644,618

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, 2013 and 2012. Those expenses would be distributed to the functional areas as follows:

	Fiscal Year Ended June 30, 2013			
	As Reported in the Consolidated Statement of Activities	Facilities and Maintenance	Depreciation and Amortization	Full Functional Allocation of Expenses
Instruction	$ 9,054,498	$ 319,782	$ 277,218	$ 9,651,498
Academic support	1,678,136	489,199	424,085	2,591,420
Student services	2,425,659	133,870	116,051	2,675,580
Auxiliary enterprises	2,814,899	1,770,478	1,534,821	6,120,198
Public service	1,042,508	74,532	64,611	1,181,651
Institutional support	9,268,421	260,675	225,979	9,755,075
Facilities operations and maintenance	3,048,536	(3,048,536)	-	-
Depreciation and amortization	2,642,765	-	(2,642,765)	-
	$ 31,975,422	$ -	$ -	$ 31,975,422

	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, 2013 and 2012, fund-raising expenses of approximately $2,513,000 and $2,370,000, 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 $10,281,908 and $12,753,212 as of June 30, 2013 and 2012, respectively. The application of Topic 715 resulted in an increase in net assets of $2,471,304 for the year ended June 30, 2013, and a decrease of $5,086,041 for the year ended June 30, 2012, in the accompanying consolidated financial statements.

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

	June 30, 2013	June 30, 2012
Projected benefit obligation	$ (31,177,715)	$ (31,095,388)
Plan assets at fair value	20,895,807	18,342,176
Funded status	$ (10,281,908)	$ (12,753,212)
Accumulated benefit obligation	$ 28,237,063	$ 27,959,056

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

	2013	2012
Transition obligation	$ -	$ -
Prior service (credit)	(155,324)	(223,476)
Net loss	13,098,971	15,257,632
Funded status	$ 12,943,647	$ 15,034,156

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, 2013	June 30, 2012
Service costs	$ 662,310	$ 480,822
Interest costs	1,263,379	1,328,847
Expected return on plan assets	(1,408,534)	(1,321,641)
Reclassification of net gain or loss	1,338,202	651,268
Reclassification of net prior service costs	(68,152)	(68,152)
	$ 1,787,205	$ 1,071,144

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

	June 30, 2013	June 30, 2012
Net loss	$ (820,459)	$ 6,546,020
Amortization of net loss to net periodic benefit cost	(1,338,202)	(651,268)
Amortization of prior service cost to net periodic benefit cost	68,152	68,152
	$ (2,090,509)	$ 5,962,904

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

Transition obligation	$ -	$ -
Prior service (credit)	(68,152)	(68,152)
Net loss	986,870	1,174,410
Funded status	$ 918,718	$ 1,106,258

13. EMPLOYEE BENEFIT PLANS, continued:

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

	June 30, 2013	June 30, 2012
Discount rate		
Net periodic pension cost	3.95%	5.50%
Benefit obligations	4.60%	3.95%
Expected return on plan assets, beginning of fiscal year	7.50%	7.50%
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, 2012	July 1, 2011
Measurement date	June 30, 2013	June 30, 2012

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 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	5%
Equity securities	36%
Debt securities	31%
Real estate	7%
Other	21%

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 $1,948,000 during the fiscal years ended June 30, 2013 and 2012, respectively. The Seminary expects to contribute $2,168,000 to its pension plan in 2014.

13. EMPLOYEE BENEFIT PLANS, continued:

For the years ended June 30, 2013 and 2012, benefits paid from the plan were $955,182 and $849,123, respectively. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in future years as follows:

Year Ending June 30,	Amounts
2014	$1,291,518
2015	$1,308,215
2016	$1,420,152
2017	$1,574,412
2018	$1,698,240
Years 2019-2020	$10,059,427

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, 2013 and 2012, was approximately $368,000 and $377,000 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.

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, 2013 and 2012, were $305,000 and $269,000, 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, 2013 and 2012, was $301,187 and $249,589, respectively.

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

Year Ending June 30,	Amounts
2014	$ 266,670
2015	261,324
2016	52,495
	$ 580,489

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, 2013	June 30, 2012
Beginning of year	$ 592,200	$ 551,881
Accretion expense–net	43,345	40,319
Obligations settled	(16,050)	-
End of year	$ 619,495	$ 592,200

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. The Seminary entered into an agreement to purchase a customized Logos Bible Software package for all current and future students through the 2017-2018 academic year. The total cost will be $2,880,000 with payments made over a five year period.

SUPPLEMENTARY DATA

CAPINCROUSE LLP
Certified Public Accountants
www.capincrouse.com 1000 Texan Trail, Suite 125 Grapevine, TX 76051 817.328.6510

**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, 2013, and our report thereon dated September 17, 2013, 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 17, 2013

Dallas Theological Seminary

Consolidating Balance Sheet

	June 30, 2013			
	Dallas Theological Seminary	Dallas Seminary Foundation	Eliminations	Total
ASSETS:				
Cash and cash equivalents	$ 6,989,788	$ 105,513	$ -	$ 7,095,301
Accounts and notes receivable–net	1,233,669	546,942	(865,689)	914,922
Contributions receivable–net	2,772,282	718,714	-	3,490,996
Prepaid expenses and deferred charges	239,841	18,778	-	258,619
Inventory	341,288	-	-	341,288
Investments	25,197,726	54,009,741	(5,613,270)	73,594,197
Perpetual trusts held by others	539,429	-	-	539,429
Property and equipment–net	45,952,463	6,241	-	45,958,704
Total Assets	$ 83,266,486	$ 55,405,929	$ (6,478,959)	$ 132,193,456
LIABILITIES AND NET ASSETS:				
Liabilities:				
Accounts payable and accrued liabilities	$ 1,641,838	$ 55,284	$ (26,222)	$ 1,670,900
Deferred revenue	1,687,877	2,258	(2,258)	1,687,877
Student deposits and refundable advances	600,504	23,666	(23,666)	600,504
Annuity obligations	1,938,321	2,064,756	(1,938,321)	2,064,756
Amounts held on behalf of others	22,250	16,875,059	(32,994)	16,864,315
Liabilities under split-interest agreements	1,901,382	8,039,252	(1,901,382)	8,039,252
Notes and bonds payable	17,579,966	-	(420,000)	17,159,966
Asset retirement obligations	619,495	-	-	619,495
Liability for pension benefits	10,281,908	-	-	10,281,908
	36,273,541	27,060,275	(4,344,843)	58,988,973
Net assets:				
Unrestricted	19,874,005	14,696,028	(1,405,532)	33,164,501
Temporarily restricted	10,431,260	3,559,670	(706,515)	13,284,415
Permanently restricted	16,687,680	10,089,956	(22,069)	26,755,567
	46,992,945	28,345,654	(2,134,116)	73,204,483
Total Liabilities and Net Assets	$ 83,266,486	$ 55,405,929	$ (6,478,959)	$ 132,193,456

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	$76,812,364	$52,340,513	$(8,284,847)	$120,868,030
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
	38,409,729	26,130,195	(5,320,176)	59,219,748
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
	38,402,635	26,210,318	(2,964,671)	61,648,282
Total Liabilities and Net Assets	$76,812,364	$52,340,513	$(8,284,847)	$120,868,030

Dallas Theological Seminary

Consolidating Statement of Activities

	Year Ended June 30, 2013			
	Dallas Theological Seminary	Dallas Seminary Foundation	Eliminations	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Tuition and fees	$ 15,613,116	$ -	$ -	$ 15,613,116
Less student aid	(3,090,814)	-	-	(3,090,814)
Net tuition and fees	12,522,302	-	-	12,522,302
Gifts	20,298,874	6,468,317	(3,663,899)	23,103,292
Investment income	738,122	806,102	80,638	1,624,862
Educational activities	369,474	-	-	369,474
Auxiliary enterprises	3,122,719	-	-	3,122,719
Other income	271,682	368,560	(71,827)	568,415
Total Revenues, Gains, and Other Support	37,323,173	7,642,979	(3,655,088)	41,311,064
EXPENSES:				
Instruction	9,054,498	-	-	9,054,498
Academic support	1,678,136	-	-	1,678,136
Student services	2,425,659	-	-	2,425,659
Auxiliary enterprises	2,846,399	-	(31,500)	2,814,899
Public service	405,037	4,227,071	(3,589,600)	1,042,508
Institutional support	8,999,875	636,601	(368,055)	9,268,421
Facilities operations and maintenance	3,048,536	-	-	3,048,536
Depreciation and amortization	2,636,096	6,669	-	2,642,765
Operating Expenses (Note 2)	31,094,236	4,870,341	(3,989,155)	31,975,422
Change in Net Assets from Operations	6,228,937	2,772,638	334,067	9,335,642
NONOPERATING ACTIVITIES:				
Pension related changes other than net periodic pension cost	2,090,509	-	-	2,090,509
Investment return (less than) in excess of amounts designated	762,716	(631,649)	-	131,067
Change in value of split-interest agreements	(491,852)	(5,653)	496,488	(1,017)
Change in Net Assets from Nonoperating Activities	2,361,373	(637,302)	496,488	2,220,559
Change in Net Assets	8,590,310	2,135,336	830,555	11,556,201
Net Assets, Beginning of Year	38,402,635	26,210,318	(2,964,671)	61,648,282
Net Assets, End of Year	$ 46,992,945	$ 28,345,654	$ (2,134,116)	$ 73,204,483

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