DALLAS
THEOLOGICAL
SEMINARY

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditors' Report

June 30, 2014 and 2013

CAPINCROUSE LLP
Certified Public Accountants

Dallas Theological Seminary

Table of Contents

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Dallas Theological Seminary
Dallas, Texas

Report on Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of Dallas Theological Seminary (the Seminary), which comprise the consolidated balance sheet as of June 30, 2014, 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, 2014, 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 2013 consolidated financial statements, and our report dated September 17, 2013, 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, 2013, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Capin Crouse LLP

Dallas, Texas
September 22, 2014

Dallas Theological Seminary

Consolidated Balance Sheet

June 30, 2014
(with comparative totals for 2013)

	2014	2013
ASSETS:		
Cash and cash equivalents	$ 13,990,807	$ 7,095,301
Accounts and notes receivable–net	604,645	914,922
Contributions receivable–net	3,628,269	3,490,996
Prepaid expenses and deferred charges	360,355	258,619
Inventory	3,040,090	341,288
Investments	84,490,796	73,594,197
Perpetual trusts held by others	591,477	539,429
Property and equipment–net	44,978,367	45,958,704
Total Assets	$ 151,684,806	$ 132,193,456
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued liabilities	$ 4,572,003	$ 1,670,900
Deferred revenue	1,577,910	1,687,877
Student deposits and refundable advances	604,434	600,504
Annuity obligations	2,662,944	2,064,756
Amounts held on behalf of others	19,830,093	16,864,315
Liabilities under split-interest agreements	8,180,755	8,039,252
Notes and bonds payable	16,582,361	17,159,966
Asset retirement obligations	600,637	619,495
Liability for pension benefits	11,213,599	10,281,908
	65,824,736	58,988,973
Net assets:		
Unrestricted	32,834,021	33,164,501
Temporarily restricted	23,468,011	13,284,415
Permanently restricted	29,558,038	26,755,567
	85,860,070	73,204,483
Total Liabilities and Net Assets	$ 151,684,806	$ 132,193,456

See notes to consolidated financial statements

Dallas Theological Seminary

Consolidated Statement of Activities

Year Ended June 30, 2014
(with summarized totals for 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
REVENUES, GAINS, AND OTHER SUPPORT:					
Tuition and fees–net	$ 14,324,844	$ -	$ -	$ 14,324,844	$ 12,522,302
Gifts	11,096,023	9,946,568	2,728,255	23,770,846	23,103,292
Investment income	1,580,084	1,520,794	52,048	3,152,926	1,691,518
Educational activities	340,341	-	-	340,341	369,474
Auxiliary enterprises	3,065,552	-	-	3,065,552	3,056,063
Other income	518,103	8,993	-	527,096	568,415
Net assets released from restrictions	3,789,486	(3,789,486)	-	-	-
Operating Revenues, Gains, and Other Support	34,714,433	7,686,869	2,780,303	45,181,605	41,311,064
EXPENSES:					
Instruction	9,132,413	-	-	9,132,413	9,054,498
Academic support	1,897,697	-	-	1,897,697	1,678,136
Student services	2,398,523	-	-	2,398,523	2,425,659
Auxiliary enterprises	2,784,791	-	-	2,784,791	2,814,899
Public service	1,818,802	-	-	1,818,802	1,042,508
Institutional support	9,488,897	-	-	9,488,897	9,268,421
Facilities operations and maintenance	3,297,590	-	-	3,297,590	3,048,536
Depreciation and amortization	2,683,850	-	-	2,683,850	2,642,765
Operating Expenses (Note 2)	33,502,563	-	-	33,502,563	31,975,422
Change in Net Assets from Operations	1,211,870				
NONOPERATING ACTIVITIES:					
Pension-related changes other than net periodic pension cost	(1,323,947)	-	-	(1,323,947)	2,090,509
Investment return (less than) in excess of amounts designated for operations	19,832	2,266,691	2,176	2,288,699	131,067
Net assets released from restrictions due to acquisition of long-lived assets	72,345	(72,345)	-	-	-
Change in value of split-interest agreements	(310,580)	302,381	19,992	11,793	(1,017)
Change in Net Assets from Nonoperating Activities	(1,542,350)	2,496,727	22,168	976,545	2,220,559
Change in Net Assets	(330,480)	10,183,596	2,802,471	12,655,587	11,556,201
Net Assets, Beginning of Year	33,164,501	13,284,415	26,755,567	73,204,483	61,648,282
Net Assets, End of Year	$ 32,834,021	$ 23,468,011	$ 29,558,038	$ 85,860,070	$ 73,204,483

See notes to consolidated financial statements

Dallas Theological Seminary

Consolidated Statement of Cash Flows

Year Ended June 30, 2014
(with comparative totals for 2013)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 12,655,587	$ 11,556,201
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	2,624,531	2,615,470
Accretion to asset retirement obligation	(18,858)	27,295
Net realized and unrealized (gains) losses in investments	(4,447,166)	(690,778)
Change in value of split-interest agreements	1,691,496	836,400
Change in value of perpetual trusts	(52,048)	(23,832)
Bad debt provision	-	36,581
Loss on disposal of property and equipment	78,239	5,205
Contributions and investment return restricted for long-term investment and capital additions	(10,466,395)	(6,453,202)
Change in:		
Accounts and notes receivable	294,110	(381,061)
Contributions receivable	(137,273)	(2,810,925)
Prepaid expenses and deferred charges	(101,736)	82,680
Inventory	(533,802)	42,742
Accounts payable and accrued liabilities	427,399	367,236
Deferred revenue	(109,967)	426,739
Student deposits and refundable advances	3,930	19,355
Amounts held on behalf of others	(1,712,220)	566,774
Liability for pension benefits	931,691	(2,471,304)
Net Cash Provided by Operating Activities	1,127,518	3,751,576
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(74,764,831)	(71,642,344)
Proceeds from the sale of investments	72,993,396	68,147,683
Purchase of property and equipment	(1,413,729)	(1,369,541)
Issuance of new notes receivable	16,167	-
Net Cash Used by Investing Activities	(3,168,997)	(4,864,202)

(continued)

See notes to consolidated financial statements

Dallas Theological Seminary

Consolidated Statement of Cash Flows

Year Ended June 30, 2014
(with comparative totals for 2013)

(continued)

	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments from notes and bonds payable	(577,605)	(552,841)
Annuity and trust payments	(951,805)	(946,368)
Contributions and investment return restricted for long-term investment and capital additions	10,466,395	6,453,202
Net Cash Provided (Used) by Financing Activities	8,936,985	4,953,993
Change in Cash and Cash Equivalents	6,895,506	3,841,367
Cash and Cash Equivalents, Beginning of Year	7,095,301	3,253,934
Cash and Cash Equivalents, End of Year	$ 13,990,807	$ 7,095,301
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	$ 741,838	$ 766,602
Taxes paid	$ 19,938	$ 9,000
Noncash contributions	$ 3,348,091	$ 2,341,116

See notes to consolidated financial statements

Dallas Theological Seminary

Notes to Consolidated Financial Statements

June 30, 2014
(with comparative totals for 2013)

1. NATURE OF ORGANIZATION:

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

PRINCIPLES OF CONSOLIDATION

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

COMPARATIVE FINANCIAL INFORMATION

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Seminary's consolidated financial statements for the year ended June 30, 2013, 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. 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, 2014 and 2013.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

INVENTORY

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

INVESTMENTS

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

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

PERPETUAL TRUSTS HELD BY OTHERS

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

PROPERTY AND EQUIPMENT–NET

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

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.

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 $3,812,071 and $3,529,836 as of June 30, 2014 and 2013, 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 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:

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.

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.

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 $254,000 and $234,000 for advertising for the years ended June 30, 2014 and 2013, respectively.

STUDENT FINANCIAL ASSISTANCE PROGRAMS

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

UNCERTAIN TAX POSITIONS

The consolidated financial statement effects of a tax position taken or expected to be taken are recognized in the consolidated financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the consolidated statement of activities. As of June 30, 2014, 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 2009.

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, 2014	June 30, 2013
Student accounts receivable	$ 474,420	$ 739,072
Less allowance for doubtful accounts	(62,363)	(77,248)
	412,057	661,824
Other accounts receivable	82,587	126,928
Notes receivable with maturies beyond one year	110,001	126,170
Total accounts and notes receivable–net	$ 604,645	$ 914,922

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, 2014 and 2013, contributions receivable includes estate and trust gifts receivable totaling $3,628,269 and $2,772,282, respectively. Contributions receivable are expected to be collected in the following manner:

	June 30, 2014	June 30, 2013
Less than one year	$ 2,264,864	$ 2,295,049
One to five years	1,302,361	1,204,608
More than five years	548,484	558,026
	4,115,709	4,057,683
Less unamortized discount	(487,440)	(566,687)
	3,628,269	3,490,996
Less allowance for uncollectible receivables	-	-
	$ 3,628,269	$ 3,490,996

5. INVESTMENTS AND FAIR VALUE:

Investments reported at fair value consist of:

	June 30, 2014	June 30, 2013
Cash and cash equivalents	$ 4,743,286	$ 2,596,461
Fixed income–domestic	8,931,062	15,821,728
Fixed income–international	5,196,739	11,627,506
Equity–domestic	26,832,393	11,207,198
Equity–international	8,382,007	8,375,559
Natural resources	9,273,707	7,510,507
Real estate	6,046,212	3,603,975
Hedge funds–fund of funds	12,519,838	10,785,655
Private equity	2,565,552	2,065,608
	$ 84,490,796	$ 73,594,197

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, 2014 and 2013, the Seminary had unfunded commitments of $1,439,759 and $1,645,201, respectively.

	June 30, 2014	June 30, 2013
Investment return consists of:		
Interest and dividends	$ 1,041,738	$ 1,112,521
Net realized losses	(518,229)	2,497,510
Net unrealized gain/losses	4,965,395	(1,806,732)
Investment management fees	(47,279)	(47,370)
	$ 5,441,625	$ 1,755,929

5. INVESTMENTS AND FAIR VALUE, continued:

	June 30, 2014	June 30, 2013
Investments consist of:		
Endowment investments	$ 36,753,302	$ 30,827,631
Annuity investments, including reserves	3,812,071	3,529,836
Trust assets	9,166,180	9,738,985
Pooled common fund and amounts held for others	19,251,885	15,240,640
Donor advised funds	13,364,239	12,596,850
Other invested assets	2,143,119	1,660,255
	$ 84,490,796	$ 73,594,197
Trust assets (at fair value):		
Investments	$ 9,166,180	$ 9,738,985
Accounts and notes receivable–net	110,001	126,170
	$ 9,276,181	$ 9,865,155
Trust liabilities and net assets:		
Liabilities under split-interest agreements	$ 7,760,755	$ 7,619,252
Amounts held on behalf of others	113,145	1,118,256
Accounts payable	284,325	9,336
Refundable advances	14,200	23,666
Deferred revenue	2,354	2,258
Total trust net assets–temporarily restricted	1,024,083	1,037,215
Total trust net assets–permanently restricted	77,319	55,172
	$ 9,276,181	$ 9,865,155

5. INVESTMENTS AND FAIR VALUE, continued:

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

The Seminary's policy is to recognize transfers between levels of the fair value hierarchy. At the end of the fiscal year, June 30, 2014, 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.

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, 2014:				
Investments:				
Cash and cash equivalents	$ 4,743,286	$ 4,743,286	$ -	$ -
Fixed income				
Domestic	8,931,062	8,931,062	-	-
International	5,196,739	3,672,530	-	1,524,209
	14,127,801	12,603,592	-	1,524,209
Equity				
Domestic	26,832,393	26,832,393	-	-
International	8,382,007	8,382,007	-	-
	35,214,400	35,214,400	-	-
Natural resources	9,273,707	8,905,612	-	368,095
Real estate	6,046,212	5,382,297	-	663,915
Hedge funds - fund of funds	12,519,838	2,321,888	-	10,197,950
Private equity	2,565,552	-	-	2,565,552
Investments	$ 84,490,796	$ 69,171,075	$ -	$ 15,319,721
Perpetual trusts held by others	$ 591,477	$ -	$ 591,477	$ -

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, 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	11,207,198	11,207,198	-	-
International	8,375,559	8,375,559	-	-
	19,582,757	19,582,757	-	-
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	2,065,608	-	-	2,065,608
Investments	$ 73,594,197	$ 62,836,939	$ -	$ 10,757,258
Perpetual trusts held by others	$ 539,429	$ -	$ 539,429	$ -

5. INVESTMENTS AND FAIR VALUE, continued:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						
	Equity – domestic	Fixed income – international	Natural resources	Real estate	Hedge funds	Private equity	Total
Beginning balance as of June 30, 2013	$ -	$ -	$ 358,153	$ 1,254,845	$ 7,078,652	$ 2,065,608	$10,757,258
Total unrealized gains or losses included in investment return	-	35,809	22,138	17,438	586,769	538,041	1,200,195
Total realized gains or losses included in investment return	-	-	-	(1,160)	167,528	-	166,368
Purchases, issuances, sales, and settlements:							
Purchases	-	1,488,400	-	-	14,228,103	250,241	15,966,744
Sales	-	-	(12,196)	(607,208)	(11,863,102)	(288,338)	(12,770,844)
Ending balance, June 30, 2014	$ -	$ 1,524,209	$ 368,095	$ 663,915	$10,197,950	$ 2,565,552	$15,319,721

5. INVESTMENTS AND FAIR VALUE, continued:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						
	Equity – domestic	Fixed income – international	Natural resources	Real estate	Hedge funds	Private equity	Total
Beginning balance as of June 30, 2012	$ 501,767	$ -	$ 330,924	$ 1,639,624	$ 6,518,603	$ 2,073,443	$11,064,361
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	$ -	$ -	$ 358,153	$ 1,254,845	$ 7,078,652	$ 2,065,608	$10,757,258

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, 2014.

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	$ 10,197,950	4		$ -	No lockup	Redemption annually with 90 day notice	None
Real Assets - Illiquid							
Real Estate (REITS) and natural resources	671,770	2	Upon liquidation of underlying investments	130,857	N.A	N.A*	N.A
Private Equity							
Distressed, buyout, and venture capital	2,208,895	6	4 to 10 years	1,308,902	N.A	N.A*	N.A
Fixed Income							
Global bond fund	1,524,209	1		-	No lockup	Redemption monthly	None
	$ 14,602,824			$ 1,439,759			

* 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, 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.

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, 2014:

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

6. ENDOWMENT FUNDS, continued:

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

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

6. ENDOWMENT FUNDS, continued:

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

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:

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 $23,202 as of June 30, 2014. 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 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.

7. PROPERTY AND EQUIPMENT–NET:

Property and equipment consists of:

	June 30, 2014	June 30, 2013
Land	$ 5,773,431	$ 5,773,431
Land improvements	868,105	868,105
Buildings	65,080,243	66,492,437
Library acquisitions	6,167,855	5,881,401
Equipment	2,147,114	2,236,767
	80,036,748	81,252,141
Less accumulated depreciation	(36,203,110)	(35,362,882)
	43,833,638	45,889,259
Construction in progress	1,144,729	69,445
	44,978,367	45,958,704
Less notes and bonds payable secured by specific assets	(16,582,361)	(17,159,966)
Net investment in property and equipment	$ 28,396,006	$ 28,798,738

8. LINE OF CREDIT:

The Seminary has an unsecured $5,000,000 line of credit that matures on December 31, 2014. The interest rate is PRIME (3.25% as of June 30, 2014), with interest due monthly and principal due upon maturity. No funds were borrowed under this agreement during the fiscal year ended June 30, 2014.

9. NOTES AND BONDS PAYABLE:

Notes and bonds payable consist of:

	June 30, 2014	June 30, 2013
Note payable to Frost Bank of $10,000,000, fixed interest rate of 4.39%, with a $5,000,000 balloon payment maturing December 15, 2021, refinance of existing bond debt secured by the Swiss Tower Apartments, due in monthly principal and interest installments of $54,978.	$ 8,045,557	$ 8,344,899
Note payable to Frost Bank of $10,000,000, fixed interest rate of 4.39%, with a $5,000,000 balloon payment maturing July 31, 2023, secured by the single student apartments, due in monthly principal and interest installments of $54,976.	8,536,804	8,815,067
	$ 16,582,361	$ 17,159,966

The fair value of notes and bonds payable were approximately $16,673,875 and $16,952,803 as of June 30, 2014 and 2013, respectively. The fair value was estimated based upon the discounted amount of future cash flows utilizing current rates offered for debt of similar remaining maturities.

Maturities of notes and bonds payable are as follows:

Year Ending June 30,	
2015	$ 603,478
2016	628,618
2017	658,669
2018	688,173
2019	718,999
Thereafter	13,284,424
	$ 16,582,361

The notes and bonds payable agreements contain covenants which include minimum liquidity and debt service coverage ratios. At June 30, 2014, management believes they are in compliance with these covenants.

10. NET ASSETS:

Net assets consist of:

	June 30, 2014	June 30, 2013
Unrestricted:		
Undesignated	$ 13,690,145	$ 12,646,255
Endowment fund	(23,202)	(43,033)
Designated–annuity reserves	1,984,671	2,044,449
Pension benefit obligation	(11,213,599)	(10,281,908)
Net investment in property and equipment	28,396,006	28,798,738
	32,834,021	33,164,501
Temporarily restricted:		
Restricted current funds	5,066,901	4,610,782
Plant funds	9,478,561	2,158,712
Endowment funds	7,898,464	5,477,706
Life income funds	1,024,083	1,037,215
	23,468,009	13,284,415
Permanently restricted:		
Endowment funds	28,869,203	26,138,774
Perpetual trusts held by others	591,478	539,429
Annuity and life income funds	97,357	77,364
	29,558,038	26,755,567
	$ 85,860,068	$ 73,204,483

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, 2014	June 30, 2013
Tuition and fees	$ 17,466,142	$ 15,613,116
Less financial aid and scholarships	(3,141,298)	(3,090,814)
	$ 14,324,844	$ 12,522,302

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, 2014 and 2013. Those expenses would be distributed to the functional areas as follows:

	Fiscal Year Ended June 30, 2014			
	As Reported in the Consolidated Statement of Activities	Facilities and Maintenance	Depreciation and Amortization	Full Functional Allocation of Expenses
Instruction	$ 9,132,413	$ 444,290	$ 361,006	$ 9,937,709
Academic support	1,897,697	417,031	338,857	2,653,585
Student services	2,398,523	92,960	75,534	2,567,017
Auxiliary enterprises	2,784,791	1,981,058	1,609,700	6,375,549
Public service	1,818,802	38,279	31,103	1,888,184
Institutional support	9,488,897	323,972	267,650	10,080,519
Facilities operations and maintenance	3,297,590	(3,297,590)	-	-
Depreciation and amortization	2,683,850	-	(2,683,850)	-
	$ 33,502,563	$ -	$ -	$ 33,502,563

	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

For the years ended June 30, 2014 and 2013, fund-raising expenses of approximately $2,536,000 and $2,513,000, 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. Milliman provided the following actuarial information for the plan.

ASC Topic 715, *Compensation - Retirement Benefits*, requires employers to fully recognize the overfunded or underfunded positions (the difference between the fair value of plan assets and the benefit obligation) of defined benefit pension, retiree healthcare, and other postretirement plans in their balance sheets. For a pension plan, the benefit obligation would be the accumulated postretirement benefit obligation. In accordance with Topic 715, a liability (unfunded pension benefit obligation) has been recognized representing the underfunded status of the Dallas Theological Seminary Pension Plan and Trust in the amount of $11,213,599 and $10,281,908 as of June 30, 2014 and 2013, respectively. The application of Topic 715 resulted in an decrease in net assets of $931,691 for the year ended June 30, 2014, and a increase of $2,471,304 for the year ended June 30, 2013, in the accompanying consolidated financial statements.

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

	June 30, 2014	June 30, 2013
Projected benefit obligation	$ (35,540,428)	$ (31,177,715)
Plan assets at fair value	24,326,829	20,895,807
Funded status	$ (11,213,599)	$ (10,281,908)
Accumulated benefit obligation	$ 32,392,215	$ 28,237,063

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

	2014	2013
Transition obligation	$ -	$ -
Prior service (credit)	(87,172)	(155,324)
Net loss	14,557,790	13,098,971
Funded status	$ 14,470,618	$ 12,943,647

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, 2014	June 30, 2013
Service costs	$ 598,507	$ 662,310
Interest costs	1,429,907	1,263,379
Expected return on plan assets	(1,490,219)	(1,408,534)
Reclassification of net gain or loss	1,102,677	1,338,202
Reclassification of net prior service costs	(68,152)	(68,152)
	$ 1,572,720	$ 1,787,205

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

	June 30, 2014	June 30, 2013
Net loss	$ 2,561,496	$ (820,459)
Amortization of net loss to net periodic benefit cost	(1,102,677)	(1,338,202)
Amortization of prior service cost to net periodic benefit cost	68,152	68,152
	$ 1,526,971	$ (2,090,509)

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

	2014	2013
Transition obligation	$ -	$ -
Prior service (credit)	(68,152)	(68,152)
Net loss	1,153,433	986,870
Funded status	$ 1,085,281	$ 918,718

13. EMPLOYEE BENEFIT PLANS, continued:

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

	June 30, 2014	June 30, 2013
Discount rate		
Net periodic pension cost	4.60%	3.95%
Benefit obligations	4.05%	4.60%
Expected return on plan assets, beginning of fiscal year	7.00%	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, 2013	July 1, 2012
Measurement date	June 30, 2014	June 30, 2013

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 38% of plan assets in equity securities, 32% in fixed income securities, 12% in hedge funds, 7% in real estate, 8% in limited partnerships, and 3% in cash and cash equivalents. Periodically, the entire account is rebalanced to maintain these percentages and the investment policy is reviewed.

Asset category:	
Cash	5%
Equity securities	38%
Debt securities	30%
Real estate	7%
Other	20%

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

The Seminary contributed $2,168,000 and $2,168,000 during the fiscal years ended June 30, 2014 and 2013, respectively. The Seminary expects to contribute $2,168,000 to its pension plan in 2015.

13. EMPLOYEE BENEFIT PLANS, continued:

For the years ended June 30, 2014 and 2013, benefits paid from the plan were $1,138,889 and $955,182 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,	
2015	$1,491,988
2016	$1,639,209
2017	$1,749,671
2018	$1,877,575
2019	$1,971,920
Years 2020-21	$10,604,118

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, 2014 and 2013, was approximately $376,928 and $368,000 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.

At June 30, 2014, the Seminary has commitments to expend approximately $267,000 to fulfill contracts related to construction and renovation of buildings.

The Seminary provides healthcare benefits primarily through employer contributions, participant contributions, and excess loss insurance, and manages the program through third-party administrators. Self-insurance reserves, recorded in accrued liabilities, are determined on the basis of lagging claims analysis and historical loss experience. Reserves at June 30, 2014 and 2013, were $374,000 and $305,000, 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, 2014 and 2013, was $309,973 and $301,187, respectively.

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

Year Ending June 30,	
2015	$ 316,038
2016	65,859
2017	17,464
	$ 399,361

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, 2014	June 30, 2013
Beginning of year	$ 619,495	$ 592,200
Accretion expense–net	54,660	43,345
Obligations settled	(73,518)	(16,050)
End of year	$ 600,637	$ 619,495

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 purchased land adjacent to the campus for $950,000 in August 2014.

SUPPLEMENTARY DATA

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY DATA

Board of Trustees
Dallas Theological Seminary
Dallas, Texas

We have audited the consolidated financial statements of Dallas Theological Seminary (the Seminary) as of and for the years ended June 30, 2014 and 2013, and our report thereon dated September 22, 2014 and September 17, 2013, respectively, which expressed an unqualified opinion on those consolidated financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet and statement of activities are presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual organizations, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Capin Crouse LLP

Dallas, Texas
September 22, 2014

Dallas Theological Seminary

Consolidating Balance Sheet

	June 30, 2014			
	Dallas Theological Seminary	Dallas Seminary Foundation	Eliminations	Total
ASSETS:				
Cash and cash equivalents	$ 13,787,112	$ 203,695	$ -	$ 13,990,807
Accounts and notes receivable–net	1,136,325	530,291	(1,061,971)	604,645
Contributions receivable–net	3,909,106	25,000	(305,837)	3,628,269
Prepaid expenses and deferred charges	341,577	18,778	-	360,355
Inventory	3,040,090	-	-	3,040,090
Investments	28,174,421	62,373,805	(6,057,430)	84,490,796
Perpetual trusts held by others	591,477	-	-	591,477
Property and equipment–net	44,968,094	10,273	-	44,978,367
Total Assets	$ 95,948,202	$ 63,161,842	$ (7,425,238)	$ 151,684,806
LIABILITIES AND NET ASSETS:				
Liabilities:				
Accounts payable and accrued liabilities	$ 4,519,080	$ 549,838	$ (496,915)	$ 4,572,003
Deferred revenue	1,577,910	2,354	(2,354)	1,577,910
Student deposits and refundable advances	604,434	14,200	(14,200)	604,434
Annuity obligations	2,546,786	2,662,944	(2,546,786)	2,662,944
Amounts held on behalf of others	25,119	19,842,087	(37,113)	19,830,093
Liabilities under split-interest agreements	1,991,818	8,180,755	(1,991,818)	8,180,755
Notes and bonds payable	17,002,361	-	(420,000)	16,582,361
Asset retirement obligations	600,637	-	-	600,637
Liability for pension benefits	11,213,599	-	-	11,213,599
	40,081,744	31,252,178	(5,509,186)	65,824,736
Net assets:				
Unrestricted	18,727,231	15,192,974	(1,086,184)	32,834,021
Temporarily restricted	19,757,840	4,509,112	(798,941)	23,468,011
Permanently restricted	17,381,387	12,207,578	(30,927)	29,558,038
	55,866,458	31,909,664	(1,916,052)	85,860,070
Total Liabilities and Net Assets	$ 95,948,202	$ 63,161,842	$ (7,425,238)	$ 151,684,806

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:				
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 Statement of Activities

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

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