



DALLAS THEOLOGICAL SEMINARY

Consolidated Financial Statements
With Independent Auditors' Report

June 30, 2018 and 2017

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 and Dallas Seminary Foundation (collectively, the Seminary), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years 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 auditors consider 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 consolidated 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 consolidated financial position of Dallas Theological Seminary and Dallas Seminary Foundation as of June 30, 2018 and 2017, and the changes in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Grapevine, Texas
September 27, 2018

DALLAS THEOLOGICAL SEMINARY

Consolidated Balance Sheet

	June 30,	
	2018	2017
ASSETS:		
Cash and cash equivalents	\$ 11,108,071	\$ 8,458,156
Accounts and notes receivable–net	720,436	661,135
Contributions receivable–net	2,263,947	3,502,495
Prepaid expenses and deferred charges	521,016	567,139
Inventory	5,357,992	5,709,702
Investments	92,636,763	93,608,836
Perpetual trusts held by others	516,158	511,721
Property and equipment–net	<u>51,009,335</u>	<u>52,663,862</u>
Total Assets	<u>\$ 164,133,718</u>	<u>\$ 165,683,046</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued liabilities	\$ 4,131,159	\$ 5,347,141
Deferred revenue	2,494,084	2,404,210
Student deposits and refundable advances	6,139,788	6,260,645
Annuity obligations	3,379,963	2,669,239
Amounts held on behalf of others	19,851,805	24,602,820
Liabilities under split-interest agreements	1,495,435	1,261,147
Notes payable	14,014,768	14,691,596
Liability for pension benefits	<u>12,656,444</u>	<u>14,091,648</u>
	<u>64,163,446</u>	<u>71,328,446</u>
Net Assets:		
Net Assets Without Donor Restrictions	<u>47,186,576</u>	<u>45,391,392</u>
Net Assets With Donor Restrictions:		
Restricted by purpose or time	14,223,157	12,512,555
Restricted in perpetuity	<u>38,560,539</u>	<u>36,450,653</u>
	<u>52,783,696</u>	<u>48,963,208</u>
	<u>99,970,272</u>	<u>94,354,600</u>
Total Liabilities and Net Assets	<u>\$ 164,133,718</u>	<u>\$ 165,683,046</u>

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidated Statements of Activities

	Year Ended June 30,	
	2018	2017
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Operating Revenues and Other Additions:		
Tuition and fees, net	\$ 16,660,146	\$ 15,556,692
Contributions	13,365,343	12,513,846
Investment return appropriated for spending	740,103	1,086,569
Educational activities and other income	739,580	796,917
Auxiliary enterprises	<u>3,216,381</u>	<u>3,221,329</u>
Total Operating Revenues	<u>34,721,553</u>	<u>33,175,353</u>
Net assets released from restriction:		
Satisfaction of program restrictions	3,246,391	3,761,820
Appropriation from donor endowment and subsequent of any related donor restrictions	<u>1,920,369</u>	<u>1,928,370</u>
Total Operating Revenues and Other Additions	<u>39,888,313</u>	<u>38,865,543</u>
Expenses:		
Salaries and wages	17,492,033	17,047,765
Employee benefits	4,746,365	4,937,925
Services, supplies, and other	6,938,365	6,314,236
Occupancy, utilities, and maintenance	2,339,674	2,170,897
Grants to others	3,573,072	3,498,599
Depreciation and amortization	2,187,138	2,308,899
Interest	<u>647,328</u>	<u>659,013</u>
Operating Expenses	<u>37,923,975</u>	<u>36,937,334</u>
Change in Net Assets from Operations	<u>1,964,338</u>	<u>1,928,209</u>
Non-Operating Change in Net Assets Without Donor Restrictions:		
Net periodic pension cost other than service cost	(1,431,045)	(1,854,647)
Pension-related changes other than net periodic pension costs	1,353,272	4,163,531
Investment return, net in excess of amounts appropriated for spending	(3,924)	(666,066)
Change in value of split-interest agreements	<u>(87,457)</u>	<u>95,691</u>
Change in Net Assets from Non-Operating Activities	<u>(169,154)</u>	<u>1,738,509</u>
Change in Net Assets Without Donor Restrictions	<u>\$ 1,795,184</u>	<u>\$ 3,666,718</u>

(continued)

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidated Statements of Activities

(continued)

	Year Ended June 30,	
	2018	2017
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Operating revenues and other additions	\$ 39,888,313	\$ 38,865,543
Operating expenses	<u>(37,923,975)</u>	<u>(36,937,334)</u>
Change in Net Assets from Operations	<u>1,964,338</u>	<u>1,928,209</u>
Change in Net Assets from Non-Operating Activities	<u>(169,154)</u>	<u>1,738,509</u>
Change in Net Assets Without Donor Restrictions	<u>1,795,184</u>	<u>3,666,718</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	5,675,728	4,750,511
Investment return, net	3,497,624	3,732,659
Change in value of split-interest agreements	<u>(186,104)</u>	<u>227,878</u>
Net assets released from restrictions:		
Release of appropriated endowment amounts	<u>(1,920,369)</u>	<u>(1,928,370)</u>
Release of other restrictions	<u>(3,246,391)</u>	<u>(3,761,820)</u>
Change in Net Assets With Donor Restrictions	<u>3,820,488</u>	<u>3,020,858</u>
Change in Net Assets	5,615,672	6,687,576
Net Assets, Beginning of Year	<u>94,354,600</u>	<u>87,667,024</u>
Net Assets, End of Year	<u>\$ 99,970,272</u>	<u>\$ 94,354,600</u>

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from tuition and fees	\$ 16,199,013	\$ 15,603,154
Cash received from donors	15,743,944	14,862,952
Cash collected from contributions receivable	1,775,828	1,059,871
Cash received from auxiliary enterprises	3,264,358	3,207,568
Interest and dividends received	1,494,507	1,241,133
Miscellaneous receipts	738,899	801,271
Cash paid to employees	(17,362,633)	(17,038,182)
Cash paid for benefits	(5,926,750)	(5,955,317)
Cash paid to suppliers and vendors	(10,240,605)	(10,276,191)
Interest paid	(642,614)	(660,774)
Grants paid	(3,563,684)	(3,529,742)
Net Cash Provided (Used) by Operating Activities	1,480,263	(684,257)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(400,503)	(865,814)
Proceeds from note receivable collection	33,880	34,610
Proceeds on sale of investments	13,842,621	17,454,664
Purchase of investments	(14,912,889)	(15,070,557)
Net Cash Provided (Used) by Investing Activities	(1,436,891)	1,552,903
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for:		
Investment in perpetual endowment	2,125,025	1,339,295
Investment in term endowment	130,000	24,675
Investments subject to annuity and trust agreements	1,460,814	-
Investment in property and equipment	499,157	68,968
Other financing activities:		
Payments on annuity and trust obligations	(931,625)	(777,232)
Payments on notes payable	(676,828)	(658,669)
Net Cash Provided (Used) by Financing Activities	2,606,543	(2,963)
Change in Cash and Cash Equivalents	2,649,915	865,683
Cash and Cash Equivalents, Beginning of Year	8,458,156	7,592,473
Cash and Cash Equivalents, End of Year	\$ 11,108,071	\$ 8,458,156

(continued)

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidated Statements of Cash Flows

(continued)

	Year Ended June 30,	
	2018	2017
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	\$ 642,615	\$ 660,774
Taxes paid	\$ -	\$ 12,500
Noncash contributions	\$ 4,499,088	\$ 5,272,419
Property and equipment acquired through accounts payable	\$ 77,349	\$ 26,264

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

1. NATURE OF THE 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; Nashville, Tennessee; and McClean, Virginia. 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 and is an accredited member of the Association of Theological Schools in the United States and Canada.

Dallas Seminary Foundation (DSF) was formed in 1987. The DTS board approves the appointment of the DSF board. 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 consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting. 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.

ESTIMATES

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

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

OPERATING AND NONOPERATING ACTIVITIES

The consolidated statements of activities present 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) net periodic pension cost other than service cost, (c) investment return in excess of amounts utilized for operations as defined by the Seminary's spending policy, (d) release from restrictions contributions given for the acquisition of property and equipment, and (e) 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. As of June 30, 2018 and 2017, the Seminary had approximately \$10,350,00 and \$7,990,000 of cash balances exceeding federally insured limits, respectively. 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. The Seminary's policy for determining when an account is past due or delinquent is when the account is over 90 days or more past due. 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, 2018 and 2017. Management has deemed all amounts fully collectible, and has not established an allowance.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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 statements of activities. Donated investments are recorded at fair value at the date of donation and are thereafter carried in conformity with the stated policy. Investment return is reported net of external and direct internal expenses.

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.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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-interest agreements in the consolidated statements 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 \$4,138,630 and \$3,389,715 as of June 30, 2018 and 2017, 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 balance sheet.

LIABILITIES UNDER SPLIT-INTEREST AGREEMENTS

As trustee, the Seminary administers irrevocable charitable trusts. These trusts provide the payment of lifetime distributions to the grantor or other designated beneficiaries. Some of these trusts have beneficiaries revocable at the discretion of the grantor, and these amounts are recorded as refundable advances. 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 restricted contributions in the period received, net assets with donor restrictions, and as a reclassification to net assets without donor restrictions when released, unless specified for a restricted purpose. Certain trusts contain provisions to distribute assets to remaindermen other than the Seminary. The portion attributable to other remaindermen is reflected as a part of liabilities under split-interest agreements on the consolidated balance sheet.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASSES OF NET ASSETS

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

Net assets without donor restrictions are currently available for operating purposes under the direction of the board, designated by the board for specific use, annuity reserves, donor advised funds, pension benefit obligation as described in Note 13, or invested in property and equipment.

Net assets with donor restrictions are stipulated by donors for specific operating purposes or for the acquisition of property and equipment or are time restricted. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term with investment return available for operations and scholarships.

REVENUE AND EXPENSES

Exchange revenue is recognized when earned and support when contributions are received, 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements 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.

The Seminary reports gifts of land, buildings, and equipment as without donor restriction 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 with donor restriction 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.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUE AND EXPENSES, continued

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 natural classification basis.

ADVERTISING

Advertising costs are expensed as they are incurred. The Seminary expended approximately \$426,000 and \$458,000 for advertising for the years ended June 30, 2018 and 2017, 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.

RECLASSIFICATIONS

During the year ended June 30, 2018, the Seminary reclassified prior year amounts from liabilities under split-interest agreements, to refundable advances and amounts held for others to conform with present year presentation.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

3. ACCOUNTS AND NOTES RECEIVABLE–NET:

Accounts and notes receivable–net consist of:

	June 30,	
	2018	2017
Student accounts receivable	\$ 720,175	\$ 596,113
Less allowance for doubtful accounts	(71,575)	(50,649)
	648,600	545,464
Other accounts receivable	71,836	115,671
	<u>\$ 720,436</u>	<u>\$ 661,135</u>

4. CONTRIBUTIONS RECEIVABLE–NET:

The Seminary recognizes contributions receivable for pledges, estate gifts receivable, and for its irrevocable remainder interest in trusts held by others. As of June 30, 2018 and 2017, contributions receivable includes estate and trust gifts receivable totaling \$2,263,947 and \$3,502,495, respectively. Contributions receivable are expected to be collected in the following manner:

	June 30,	
	2018	2017
Less than one year	\$ 2,029,419	\$ 2,002,765
One to five years	227,562	1,507,806
More than five years	80,654	84,939
	<u>2,337,635</u>	<u>3,595,510</u>
Less unamortized discount	(73,688)	(93,015)
	<u>\$ 2,263,947</u>	<u>\$ 3,502,495</u>

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

5. INVESTMENTS AND FAIR VALUE:

Investments consist of:

	June 30,	
	2018	2017
Endowment investments	\$ 47,073,527	\$ 43,512,443
Annuity investments, including reserves	4,255,433	3,448,664
Trust assets	8,357,214	8,207,634
Pooled common fund and amounts held for others	19,194,914	24,264,565
Donor advised funds	12,290,811	13,148,021
Other invested assets	<u>1,464,864</u>	<u>1,027,509</u>
	\$ 92,636,763	\$ 93,608,836
Trust assets (at fair value):		
Accounts and notes receivable—net	\$ 8,569	\$ 42,504
Prepaid expense	12,775	15,581
Investments	<u>8,357,214</u>	<u>8,207,634</u>
	\$ 8,378,558	\$ 8,265,719
Trust liabilities and net assets:		
Accounts payable	\$ -	\$ 650
Deferred revenue	-	4,159
Refundable advances	5,480,853	5,624,411
Amounts held on behalf of others	634,308	686,479
Liabilities under split-interest agreements	1,495,435	1,261,147
Total trust net assets—with donor restrictions	<u>767,962</u>	<u>893,343</u>
	\$ 8,378,558	\$ 8,470,189

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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, 2018, 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.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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:

	Quoted Prices in Active Markets for Identical Assets Total	Significant Other Observable Inputs (Level 1)	Significant Unobservable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of June 30, 2018:				
Investments measured according to hierarchical valuation levels:				
Cash and cash equivalents	\$ 4,415,134	\$ 4,415,134	\$ -	\$ -
Fixed income:				
Domestic	21,276,586	21,276,586	-	-
International	<u>4,946,496</u>	<u>4,946,496</u>	<u>-</u>	<u>-</u>
	<u>26,223,082</u>	<u>26,223,082</u>	<u>-</u>	<u>-</u>
Equity:				
Domestic	20,000,938	20,000,938	-	-
International	<u>22,057,861</u>	<u>22,057,861</u>	<u>-</u>	<u>-</u>
	<u>42,058,799</u>	<u>42,058,799</u>	<u>-</u>	<u>-</u>
Natural resources	1,212,258	1,212,258	-	-
Real estate	2,817,134	2,741,892	-	75,242
Private equity	<u>2,741,548</u>	<u>2,483,443</u>	<u>-</u>	<u>258,105</u>
Investments measured at net asset value:				
Equity domestic	97,713			
Natural resources	564,051			
Real estate	355,220			
Hedge funds—fund of funds	10,215,138			
Private equity	<u>1,936,686</u>			
	<u>\$ 92,636,763</u>	<u>\$ 79,134,608</u>	<u>\$ -</u>	<u>\$ 333,347</u>
Perpetual trusts held by others	<u>\$ 516,158</u>	<u>\$ -</u>	<u>\$ 516,158</u>	<u>\$ -</u>

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

5. INVESTMENTS AND FAIR VALUE, continued:

	Quoted Prices in Active Markets for Identical Assets <u>Total</u>	Significant Other Observable Inputs <u>(Level 1)</u>	Significant Unobservable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
As of June 30, 2017:				
Investments measured according to hierarchical valuation levels:				
Cash and cash equivalents	<u>\$ 3,369,949</u>	<u>\$ 3,369,949</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed income:				
Domestic	20,406,494	20,406,494	-	-
International	<u>2,745,720</u>	<u>2,745,720</u>	<u>-</u>	<u>-</u>
	<u>23,152,214</u>	<u>23,152,214</u>	<u>-</u>	<u>-</u>
Equity:				
Domestic	20,794,999	20,794,999	-	-
International	<u>21,903,522</u>	<u>21,903,522</u>	<u>-</u>	<u>-</u>
	<u>42,698,521</u>	<u>42,698,521</u>	<u>-</u>	<u>-</u>
Natural resources	5,673,206	5,673,206	-	-
Real estate	4,721,717	3,896,475	-	825,242
Private equity	<u>258,375</u>	<u>-</u>	<u>-</u>	<u>258,375</u>
Investments measured at net asset value:				
Equity domestic	112,936			
Natural resources	661,280			
Real estate	430,056			
Hedge funds–fund of funds	10,642,053			
Private equity	<u>1,888,529</u>			
	<u>\$ 93,608,836</u>	<u>\$ 78,790,365</u>	<u>\$ -</u>	<u>\$ 1,083,617</u>
Perpetual trusts held by others	<u>\$ 511,721</u>	<u>\$ -</u>	<u>\$ 511,721</u>	<u>\$ -</u>

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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

5. INVESTMENTS AND FAIR VALUE, continued:

Changes in investments using fair value measurements using significant unobservable inputs (Level 3) for the year ended June 30, 2018:

	Real estate	Private Equity	Total
Beginning balance as of June 30, 2017	\$ 825,242	\$ 258,375	\$ 1,083,617
Total unrealized gains or losses included in investment income	-	(270)	(270)
Purchases, issuances, sales, and settlements:			
Sales	(750,000)	-	(750,000)
Ending balance as of June 30, 2018	<u>\$ 75,242</u>	<u>\$ 258,105</u>	<u>\$ 333,347</u>

Changes in investments using fair value measurements using significant unobservable inputs (Level 3) for the year ended June 30, 2017:

	Real estate	Private Equity	Total
Beginning balance as of June 30, 2016	\$ 1,875,242	\$ 272,532	\$ 2,147,774
Total unrealized gains or losses included in investment income	(701,016)	(14,157)	(715,173)
Total realized gains or losses included in investment income	(139,683)	-	(139,683)
Purchases, issuances, sales, and settlements:			
Sales	(209,301)	-	(209,301)
Ending balance as of June 30, 2017	<u>\$ 825,242</u>	<u>\$ 258,375</u>	<u>\$ 1,083,617</u>

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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. The following table lists investments in other investment companies (in partnership format) by major category for the year ended June 30, 2018.

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	\$ 10,215,138	2	N.A.	\$ -	No lockup	Redemption annually with 90 day notice	None
Real Assets - Illiquid							
Real Estate (REITS) and natural resources	919,271	4	Upon liquidation of underlying investments	134,619	N.A.	N.A.*	N.A
Private Equity							
Secondary private investments	-	1	14 years	1,000,000	N.A.	N.A.*	N.A
Distressed, buyout, and venture capital	<u>2,034,399</u>	8	4 to 10 years	<u>1,509,093</u>	N.A.	N.A.*	N.A
	<u><u>\$ 13,168,808</u></u>			<u><u>\$ 2,643,712</u></u>			

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

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, 2018 and 2017, the Seminary had unfunded commitments of \$2,643,712 and \$2,938,200, respectively.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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, 2017.

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	\$ 10,642,053	2	N.A.	\$ -	No lockup	Redemption annually with 90 day notice	None
Real Assets - Illiquid							
Real Estate (REITS) and natural resources	1,091,336	3	Upon liquidation of underlying investments	132,570	N.A.	N.A.*	N.A
Private Equity							
Secondary private investments	-	1	14 years	1,000,000	N.A.	N.A.*	N.A
Distressed, buyout, and venture capital	<u>2,001,465</u>	8	4 to 10 years	<u>1,805,630</u>	N.A.	N.A.*	N.A
				<u><u>\$ 13,734,854</u></u>	<u><u>\$ 2,938,200</u></u>		

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

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

6. ENDOWMENT FUNDS:

The Seminary's endowment consists of 169 individual funds established for scholarships and educational programs. Its endowment includes both donor-restricted endowment funds and funds designated by the board to function as endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Donor-restricted endowments are classified as net assets with donor restrictions and board-designated endowments are classified as net assets without donor restrictions.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted in the state of Texas in 2006. Although UPMIFA does not preclude the Seminary from spending below the original gift value of donor-restricted endowments, the Seminary considers a fund to be "underwater" if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Seminary has adopted a policy to not spend from "underwater" endowments unless directed otherwise by the donor.

Endowment net asset composition by type of fund as of June 30, 2018:

	With donor restrictions				Total funds
	Without donor restrictions	Original gift amount	Accumulated gains (losses) and other	Total with donor restrictions	
Donor-restricted funds	\$ -	\$ 38,044,381	\$ 8,056,900	\$ 46,101,281	\$ 46,101,281
Board-designated funds	<u>651,618</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>651,618</u>
	<u><u>\$ 651,618</u></u>	<u><u>\$ 38,044,381</u></u>	<u><u>\$ 8,056,900</u></u>	<u><u>\$ 46,101,281</u></u>	<u><u>\$ 46,752,899</u></u>

Term endowments, which total \$697,387 at June 30, 2018, are included in accumulated gains (losses) and other. Term endowments are gifts of cash and other assets with stipulations that they be invested to provide a source of income for a specified term and that the income be used for a specified purpose are both time and purpose restricted.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

6. ENDOWMENT FUNDS, continued:

Changes in endowment net assets for the year ended June 30, 2018:

	With donor restrictions				
	Without donor restrictions	Original gift amount	Accumulated gains (losses) and other	Total with donor restrictions	Total funds
Endowment net assets, beginning of year	\$ 632,584	\$ 35,924,567	\$ 6,478,264	\$ 42,402,831	\$ 43,035,415
Investment return, net	49,958	-	3,369,005	3,369,005	3,418,963
Contributions	-	2,119,814	130,000	2,249,814	2,249,814
Amounts appropriated for expenditure	(30,924)	-	(1,920,369)	(1,920,369)	(1,951,293)
	<u>19,034</u>	<u>2,119,814</u>	<u>1,578,636</u>	<u>3,698,450</u>	<u>3,717,484</u>
Endowment net assets, end of year	<u>\$ 651,618</u>	<u>\$ 38,044,381</u>	<u>\$ 8,056,900</u>	<u>\$ 46,101,281</u>	<u>\$ 46,752,899</u>

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

6. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of June 30, 2017:

	With donor restrictions				Total funds
	Without donor restrictions	Original gift amount	Accumulated gains (losses) and other	Total with donor restrictions	
Donor-restricted funds	\$ -	\$ 35,924,567	\$ 6,478,264	\$ 42,402,831	\$ 42,402,831
Board-designated funds	<u>632,584</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>632,584</u>
	<u>\$ 632,584</u>	<u>\$ 35,924,567</u>	<u>\$ 6,478,264</u>	<u>\$ 42,402,831</u>	<u>\$ 43,035,415</u>

Term endowments, which total \$576,785 at June 30, 2017, are included in accumulated gains (losses) and other. Term endowments are gifts of cash and other assets with stipulations that they be invested to provide a source of income for a specified term and that the income be used for a specified purpose as both time and purpose restricted.

Changes in endowment net assets for the year ended June 30, 2017:

	With donor restrictions				Total funds
	Without donor restrictions	Original gift amount	Accumulated gains (losses) and other	Total with donor restrictions	
Endowment net assets, beginning of year	\$ 604,086	\$ 34,848,107	\$ 4,660,166	\$ 39,508,273	\$ 40,112,359
Investment return, net	59,494	-	3,606,248	3,606,248	3,665,742
Contributions	-	1,339,295	24,675	1,363,970	1,363,970
Amounts appropriated for expenditure	(30,996)	-	(1,928,370)	(1,928,370)	(1,959,366)
Reclassification	-	(262,835)	115,545	(147,290)	(147,290)
	<u>28,498</u>	<u>1,076,460</u>	<u>1,818,098</u>	<u>2,894,558</u>	<u>2,923,056</u>
Endowment net assets, end of year	<u>\$ 632,584</u>	<u>\$ 35,924,567</u>	<u>\$ 6,478,264</u>	<u>\$ 42,402,831</u>	<u>\$ 43,035,415</u>

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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. Deficiencies of this nature exist in two donor-restricted endowment funds, which together have an original gift value of \$62,780, a current fair value of \$60,550, and a deficiency of \$2,230 as of June 30, 2018. In the prior year, deficiencies existed in two donor-restricted endowment funds, which together had an original gift value of \$62,780, a current fair value of \$59,930, and a deficiency of \$2,850 as of June 30, 2017. These deficiencies resulted from unfavorable market conditions that occurred shortly after the investment of new perpetually restricted contributions, and continued appropriation of certain programs that was deemed prudent by the board.

Return objectives and risk parameters: The Seminary has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, as approved by the board, the endowment assets are invested in a manner that is intended to produce results that exceed the spending rate, and aggregate costs of portfolio management, the long-term inflation rate and any growth factor that the board may, from time to time, determine appropriate, while assuming a moderate level of investment risk. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately 5 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 trailing 12 previous calendar quarters for the current fiscal year. In establishing this policy, the Seminary considered the long-term expected return on its endowment. Accordingly, over the long-term, the Seminary expects the current spending policy to allow its endowment to grow at an average of 2 percent annually. The Seminary's policy is to not spend from underwater endowments unless directed otherwise by the donor.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

7. PROPERTY AND EQUIPMENT–NET:

Property and equipment–net consists of:

	June 30,	
	2018	2017
Land	\$ 7,262,267	\$ 7,262,267
Land improvements	1,040,699	1,040,699
Buildings	78,295,404	78,263,439
Library acquisitions	6,855,058	6,637,703
Equipment	2,322,097	2,297,060
	<u>95,775,525</u>	<u>95,501,168</u>
Less accumulated depreciation	(44,766,190)	(42,837,306)
	<u>51,009,335</u>	<u>52,663,862</u>
Less notes payable secured by specific assets	(14,014,768)	(14,691,596)
	<u>\$ 36,994,567</u>	<u>\$ 37,972,266</u>

8. NOTES PAYABLE:

Notes payable consist of:

	June 30,	
	2018	2017
Note payable to Frost Bank of \$10,000,000, fixed interest rate of 5.34%, with a \$5,367,716 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.	\$ 6,714,396	\$ 7,065,605
	<u>7,300,372</u>	<u>7,625,991</u>
Note payable to Frost Bank of \$10,000,000, fixed interest rate of 5.34%, with a \$5,367,233 balloon payment maturing July 31, 2023, secured by the single student apartments, due in monthly principal and interest installments of \$54,976.	<u>\$ 14,014,768</u>	<u>\$ 14,691,596</u>

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

8. NOTES PAYABLE, continued:

Future minimum payments for notes payable consist of:

<u>Year Ended June 30,</u>	
2019	\$ 729,836
2020	749,119
2021	784,232
2022	5,936,507
2023	412,380
Thereafter	<u>5,402,694</u>
	<u>\$ 14,014,768</u>

The notes payable agreements contain covenants which include minimum liquidity and debt service coverage ratios. At June 30, 2018, management believes they are in compliance with these covenants.

9. NET ASSETS:

Net assets consist of:

	June 30,	
	2018	2017
Net assets without donor restrictions:		
Undesignated	\$ 5,205,400	\$ 4,637,471
Donor advised funds	12,296,330	13,150,421
Board designated for debt repayment and other	2,276,000	1,326,000
Board designated endowment	651,618	632,584
State required annuity reserves	2,419,106	1,764,298
Pension benefit obligation	(12,656,444)	(14,091,648)
Net investment in property and equipment	36,994,566	37,972,266
Total net assets without donor restrictions	<u>47,186,576</u>	<u>45,391,392</u>

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

9. NET ASSETS, continued:

	June 30,	
	2018	2017
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Scholarships and grants	\$ 3,432,393	\$ 3,496,129
Academic, student programs and support	<u>1,644,555</u>	<u>1,310,902</u>
	<u>5,076,948</u>	<u>4,807,031</u>
Subject to the passage of time:		
Contributions receivable from third party trusts	294,465	333,917
Life income funds	<u>794,844</u>	<u>893,343</u>
	<u>1,089,309</u>	<u>1,227,260</u>
Subject to the Seminary's spending policy and appropriation:		
Accumulated gains and term endowments	8,056,900	6,478,264
Endowment funds restricted in perpetuity	<u>38,044,381</u>	<u>35,924,567</u>
	<u>46,101,281</u>	<u>42,402,831</u>
Subject to restriction in perpetuity:		
Perpetual trusts held by others	516,158	511,721
Annuity funds	<u>-</u>	<u>14,365</u>
	<u>516,158</u>	<u>526,086</u>
Total net assets with donor restrictions	<u>52,783,696</u>	<u>48,963,208</u>
Total net assets	<u>\$ 99,970,272</u>	<u>\$ 94,354,600</u>

The Seminary's governing board through specific action has created self-imposed limits on net assets without donor restrictions. The board has earmarked \$2,927,618 for the following purposes as of June 30, 2018. These net assets can be drawn upon if the board approves such action.

	June 30,	
	2018	2017
For investment as a board designated-endowment	\$ 651,618	\$ 632,584
For repayment of debt	<u>1,500,000</u>	<u>1,000,000</u>
Reserves for contingencies and future expenditures	<u>776,000</u>	<u>326,000</u>
	<u>\$ 2,927,618</u>	<u>\$ 1,958,584</u>

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

10. LIQUIDITY AND FUNDS AVAILABLE:

The following table reflects the Seminary's financial assets as of June 30, 2018, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, state required annuity reserves, trust assets, assets held for others, perpetual endowments and accumulated earnings net of appropriations within one year, or because the governing board has set aside the funds for specific contingency reserves and projects or a long-term investment as board designated endowments. These board designations could be drawn upon if the board approves that action.

	June 30,	
	2018	2017
Financial assets:		
Cash and cash equivalents	\$ 11,108,071	\$ 8,458,156
Accounts and contributions receivable	2,984,383	4,163,630
Investments	92,636,763	93,608,836
Perpetual trusts held by others	516,158	511,721
Financial assets, at year-end	107,245,375	106,742,343
Less those unavailable for general expenditure within one year, due to:		
Investments and perpetual trusts held by others not convertible to cash within next 12 months	(3,799,764)	(2,998,357)
Contribution and accounts receivable collectible beyond one year	(234,527)	(1,559,603)
Investments and other financial assets held for others	(19,311,121)	(28,404,703)
Perpetual and term endowments and accumulated earnings subject to appropriation beyond one year	(41,795,898)	(35,191,761)
Investments held in trusts and various state required annuity reserves	(10,776,320)	(9,976,066)
Investments in board designated endowments	(651,618)	(632,584)
Board designated reserves for future contingencies	(776,000)	(326,000)
Board designated reserves for debt retirement	(1,500,000)	(1,000,000)
Financial assets available to meet cash needs for general expenditures within one year	\$ 28,400,127	\$ 26,653,269

The Seminary has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Seminary also has an unsecured \$5,000,000 line of credit, which it could draw upon in the event of an anticipated liquidity need. The line of credit matures on December 31, 2019. The interest rate is PRIME (5.0% as of June 30, 2018), with interest due monthly and principal due upon maturity. No funds were borrowed under this agreement during the fiscal year ended June 30, 2018.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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:

	Year Ended June 30,	
	2018	2017
Tuition and fees	\$ 20,660,795	\$ 19,913,972
Less financial aid and scholarships	(4,000,649)	(4,357,280)
	<u>\$ 16,660,146</u>	<u>\$ 15,556,692</u>

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

12. EXPENSES BY BOTH NATURE AND FUNCTION:

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Seminary. These expenses include depreciation and amortization, interest, the president's office, communications, media production, information technology, and facilities operations and maintenance. Depreciation is allocated base on square footage and interest is allocated based on usage of space. Costs of other categories were allocated on estimates of time and effort. Total expenses include all operating expenses and the net periodic pension cost other than service cost.

Functional expenses by natural classification as of June 30, 2018:

	Program Activities			Supporting Activities				Total Expense	
	Academic and Student Programs			Administrative Support	Facilities		Fundraising		
		Public Service	Auxiliaries		Operation & Maintenance	Fundraising			
Salaries and wages	\$ 11,405,845	\$ 326,706	\$ 661,771	\$ 2,941,560	\$ 940,031	\$ 1,216,120	\$ 17,492,033		
Employee benefits	3,270,600	63,783	221,324	2,021,215	284,498	315,990	6,177,410		
Services, supplies, and other	3,019,313	197,154	678,309	1,088,328	224,631	1,730,630	6,938,365		
Occupancy, utilities, and maintenance	107,987	1,451	484,767	33,327	1,706,615	5,527	2,339,674		
Grants to others	303,720	3,269,352	-	-	-	-	3,573,072		
Depreciation and amortization	561,827	23,178	1,195,860	351,544	40,842	13,887	2,187,138		
Interest	-	-	647,328	-	-	-	647,328		
Facilities operation and maintenance	18,669,292	3,881,624	3,889,359	6,435,974	3,196,617	3,282,154	39,355,020		
	2,086,408	93,380	207,198	669,155	(3,196,617)	140,476			
Total expenses	<u>\$ 20,755,700</u>	<u>\$ 3,975,004</u>	<u>\$ 4,096,557</u>	<u>\$ 7,105,129</u>	<u>\$ -</u>	<u>\$ 3,422,630</u>	<u>\$ 39,355,020</u>		

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

12. EXPENSES BY BOTH NATURE AND FUNCTION, continued:

Functional expenses by natural classification as of June 30, 2017:

	Program Activities			Supporting Activities				Total Expense
	Academic and Student Programs		Auxiliaries	Administrative Support	Facilities Operation & Maintenance	Fundraising		
	Public Service							
Salaries and wages	\$ 10,379,381	\$ 281,909	\$ 640,120	\$ 3,490,873	\$ 925,721	\$ 1,329,761	\$ 17,047,765	
Employee benefits	3,644,267	66,271	232,752	2,114,625	299,990	434,667	6,792,572	
Services, supplies, and other	2,693,378	197,439	663,405	1,005,302	445,270	1,309,442	6,314,236	
Occupancy, utilities, and maintenance	89,334	1,148	574,694	82,009	1,417,970	5,742	2,170,897	
Grants to others	311,198	3,187,401	-	-	-	-	3,498,599	
Depreciation and amortization	725,731	24,234	1,254,185	255,685	41,161	7,903	2,308,899	
Interest	-	-	659,013	-	-	-	659,013	
Facilities operation and maintenance	17,843,289	3,758,402	4,024,169	6,948,494	3,130,112	3,087,515	38,791,981	
	1,226,747	58,891	1,021,114	716,744	(3,130,112)	106,616		
Total expenses	<u>\$ 19,070,036</u>	<u>\$ 3,817,293</u>	<u>\$ 5,045,283</u>	<u>\$ 7,665,238</u>	<u>\$ -</u>	<u>\$ 3,194,131</u>	<u>\$ 38,791,981</u>	

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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

13. EMPLOYEE BENEFIT PLANS:

The Seminary has a noncontributory defined benefit pension plan (the Plan) covering approximately half 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 ASC Topic 715, a liability (unfunded pension benefit obligation) has been recognized representing the underfunded status of the Dallas Theological Seminary Pension Plan and Trust in the amount of \$12,656,444 and \$14,091,648 as of June 30, 2018 and 2017, respectively. The application of ASC Topic 715 resulted in a increase in net assets of \$1,435,204 and an increase in net assets of \$3,791,077 for the years ended June 30, 2018 and 2017, respectively, in the accompanying consolidated financial statements.

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

	Year Ended June 30,	
	2018	2017
Projected benefit obligation	\$ (42,049,456)	\$ (42,364,281)
Plan assets at fair value	29,393,012	28,272,633
Funded status	\$ (12,656,444)	\$ (14,091,648)
Accumulated benefit obligation	\$ 39,546,903	\$ 39,514,100

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

Net loss	\$ 16,076,716	\$ 17,249,669
Funded status	\$ 16,076,716	\$ 17,249,669

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Notes to Consolidated Financial Statements

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13. EMPLOYEE BENEFIT PLANS:

Net periodic benefit cost, included in functional expenses:

	Year Ended June 30,	
	2018	2017
Service costs	\$ 584,704	\$ 685,806
Interest costs	1,575,345	1,498,498
Expected return on plan assets	(1,696,204)	(1,574,380)
Reclassification of net gain or loss	1,551,904	1,930,529
Net periodic pension cost other than service cost	1,431,045	1,854,647
Net periodic pension costs	\$ 2,015,749	\$ 2,540,453

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

	Year Ended June 30,	
	2018	2017
Net loss (gain)	\$ 198,951	\$ (2,241,255)
Amortization of net loss to net periodic benefit cost	(1,551,904)	(1,930,529)
	\$ (1,352,953)	\$ (4,171,784)

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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

13. EMPLOYEE BENEFIT PLANS, continued:

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

	June 30,	
	2018	2017
Net loss	\$ 1,301,443	\$ 1,442,199
Funded status	\$ 1,301,443	\$ 1,442,199

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

	June 30,	
	2018	2017
Discount rate		
Net periodic pension cost	3.72%	3.44%
Benefit obligations	3.96%	3.72%
Expected return on plan assets, beginning of fiscal year	6.00%	6.00%
Rate of compensation increase, beginning of fiscal year	3.00%	3.00%
Rate of compensation increase, end of fiscal year	3.00%	3.00%
Census date	July 1, 2017	July 1, 2016
Measurement date	June 30, 2018	June 30, 2017

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

The investment policy of the Seminary is to invest approximately 35% of plan assets in equity securities, 44% in fixed income securities, 10% in hedge funds, 5% in real estate, 5% in MLPs, and 1% in cash. Periodically, the entire account is rebalanced to maintain these percentages and the investment policy is reviewed.

Asset category:

Cash	1%
Equity securities	35%
Debt securities	44%
Real estate	5%
Other	15%

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 \$2,098,000 and \$2,168,000 during the fiscal years ended June 30, 2018 and 2017, respectively. The Seminary expects to contribute \$2,068,000 to its pension plan in 2019.

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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

13. EMPLOYEE BENEFIT PLANS, continued:

For the years ended June 30, 2018 and 2017, benefits paid from the plan were \$2,042,826 and \$1,659,324 respectively. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in future years as follows:

<u>Year Ending June 30,</u>	
2019	\$ 2,282,207
2020	2,384,541
2021	2,413,503
2022	2,527,510
2023	2,539,109
Thereafter	<u>13,178,248</u>
	<u><u>\$ 25,325,118</u></u>

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, 2018 and 2017, was approximately \$686,126 and \$612,421, 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, 2018 and 2017, were \$284,000 and \$425,000, respectively. While management believes these reserves are adequate, the ultimate liabilities may be more or less than the amounts provided.

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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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 2025. Total lease expense for the years ended June 30, 2018 and 2017, was \$318,100 and \$337,717, respectively.

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

<u>Year Ending June 30,</u>	
2019	\$ 311,152
2020	313,301
2021	321,726
2022	330,778
2023	339,831
Thereafter	<u>706,819</u>
	<u><u>\$ 2,323,607</u></u>

17. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through September 27, 2018, which is the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.