



DALLAS
THEOLOGICAL
SEMINARY

DALLAS THEOLOGICAL SEMINARY

Consolidated Financial Statements
With Independent Auditors' Report

June 30, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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 24, 2019

DALLAS THEOLOGICAL SEMINARY

Consolidated Balance Sheet

	June 30,	
	2019	2018
ASSETS:		
Cash and cash equivalents	\$ 16,257,462	\$ 11,108,071
Accounts and notes receivable–net	864,813	720,436
Contributions receivable–net	1,746,065	2,263,947
Prepaid expenses	616,345	521,016
Inventory	5,010,433	5,357,992
Investments	91,699,668	92,636,763
Perpetual trusts held by others	515,290	516,158
Property and equipment–net	52,132,271	51,009,335
Total Assets	\$ 168,842,347	\$ 164,133,718
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued liabilities	\$ 4,406,462	\$ 4,131,159
Deferred revenue	2,563,731	2,494,084
Student deposits and refundable advances	6,330,073	6,139,788
Annuity obligations	3,539,370	3,379,963
Amounts held on behalf of others	17,308,111	19,851,805
Liabilities under split-interest agreements	1,426,523	1,495,435
Notes payable	13,285,258	14,014,768
Liability for pension benefits	13,602,753	12,656,444
	62,462,281	64,163,446
Net assets:		
Net assets without donor restrictions	44,613,135	47,186,576
Net assets with donor restrictions:		
Restricted by purpose or time	21,986,944	14,223,157
Restricted in perpetuity	39,779,987	38,560,539
	61,766,931	52,783,696
	106,380,066	99,970,272
Total Liabilities and Net Assets	\$ 168,842,347	\$ 164,133,718

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidated Statements of Activities

	Year Ended June 30,	
	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Operating Revenues and Other Additions:		
Tuition and fees, net	\$ 17,029,580	\$ 16,660,146
Contributions	10,564,641	13,365,343
Investment return appropriated for spending	1,016,092	740,103
Educational activities and other income	782,280	739,580
Auxiliary enterprises	3,238,540	3,216,381
Total Operating Revenues	32,631,133	34,721,553
Net assets released from restriction:		
Satisfaction of program restrictions	3,442,417	3,246,391
Appropriation from donor endowment and subsequent of any related donor restrictions	2,051,855	1,920,369
Total Operating Revenues and Other Additions	38,125,405	39,888,313
Expenses:		
Salaries and wages	18,174,740	17,492,033
Employee benefits	4,770,041	4,746,365
Services, supplies, and other	7,499,481	6,938,365
Occupancy, utilities, and maintenance	2,493,922	2,339,674
Grants to others	3,206,076	3,573,072
Depreciation and amortization	2,184,297	2,187,138
Interest	730,097	647,328
Operating Expenses	39,058,654	37,923,975
Change in Net Assets from Operations	(933,249)	1,964,338
Non-Operating Change in Net Assets Without Donor Restrictions:		
Net periodic pension cost other than service cost	(1,255,989)	(1,431,045)
Pension-related changes other than net periodic pension costs	(1,252,060)	1,353,272
Net assets released from restrictions due to acquisition of long-lived assets	1,000,000	-
Investment return, net in excess of amounts appropriated for spending	-	(3,924)
Change in value of split-interest agreements	(132,143)	(87,457)
Change in Net Assets from Non-Operating Activities	(1,640,192)	(169,154)
Change in Net Assets Without Donor Restrictions	\$ (2,573,441)	\$ 1,795,184

(continued)

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidated Statements of Activities

(continued)

	Year Ended June 30,	
	2019	2018
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Operating revenues and other additions	\$ 38,125,405	\$ 39,888,313
Operating expenses	(39,058,654)	(37,923,975)
Change in Net Assets from Operations	(933,249)	1,964,338
Change in Net Assets from Non-Operating Activities	(1,640,192)	(169,154)
Change in Net Assets Without Donor Restrictions	(2,573,441)	1,795,184
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	13,084,929	5,675,728
Investment return, net	2,341,822	3,497,624
Change in value of split-interest agreements	50,756	(186,104)
Net assets released from restrictions:		
Release of appropriated endowment amounts	(2,051,855)	(1,920,369)
Release from restrictions due to acquisition of long-lived assets	(1,000,000)	-
Release of other restrictions	(3,442,417)	(3,246,391)
Change in Net Assets With Donor Restrictions	8,983,235	3,820,488
Change in Net Assets	6,409,794	5,615,672
Net Assets, Beginning of Year	99,970,272	94,354,600
Net Assets, End of Year	\$106,380,066	\$99,970,272

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from tuition and fees	\$ 16,442,514	\$ 16,199,013
Cash received from donors	13,804,533	15,743,944
Cash collected from contributions receivable	789,381	1,775,828
Cash received from auxiliary enterprises	3,246,586	3,264,358
Interest and dividends received	1,373,927	1,494,507
Miscellaneous receipts	773,253	738,899
Cash paid to employees	(17,994,714)	(17,362,633)
Cash paid for benefits	(5,780,820)	(5,926,750)
Cash paid to suppliers and vendors	(10,002,331)	(10,240,605)
Interest paid	(730,708)	(642,614)
Grants paid	(3,142,821)	(3,563,684)
Net Cash Provided (Used) by Operating Activities	(1,221,200)	1,480,263
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(3,039,682)	(400,503)
Proceeds from note receivable collection	8,569	33,880
Proceeds on sale of investments	12,321,014	13,842,621
Purchase of investments	(11,333,547)	(14,912,889)
Net Cash Used by Investing Activities	(2,043,646)	(1,436,891)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for:		
Investment in perpetual endowment	1,220,316	2,125,025
Investment in term endowment	253,952	130,000
Investments subject to annuity and trust agreements	418,335	1,460,814
Investment in property and equipment	8,223,070	499,157
Other financing activities:		
Payments on annuity and trust obligations	(988,426)	(931,625)
Distribution of matured trust and annuities	16,500	-
Payments on notes payable	(729,510)	(676,828)
Net Cash Provided by Financing Activities	8,414,237	2,606,543
Change in Cash and Cash Equivalents	5,149,391	2,649,915
Cash and Cash Equivalents, Beginning of Year	11,108,071	8,458,156
Cash and Cash Equivalents, End of Year	\$ 16,257,462	\$ 11,108,071

(continued)

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidated Statements of Cash Flows

(continued)

	Year Ended June 30,	
	<u>2019</u>	<u>2018</u>
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	<u>\$ 730,708</u>	<u>\$ 642,615</u>
Noncash contributions	<u>\$ 4,478,102</u>	<u>\$ 4,499,088</u>
Property and equipment acquired through accounts payable	<u>\$ 215,533</u>	<u>\$ 77,349</u>

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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 Manassas, 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.

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.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

OPERATING AND NONOPERATING ACTIVITIES, continued

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, 2019 and 2018, substantially all cash and cash equivalents 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. 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, 2019 and 2018. Management has deemed all amounts fully collectible, and has not established an allowance.

INVENTORY

Inventory is stated at the lower of cost or net realizable value. 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.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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.

DEFERRED REVENUE

Tuition and fees are recognized in the fiscal year in which the academic programs are delivered. Auxiliary income is recognized when the goods are delivered or services are performed. Payments received for future periods are reported as deferred revenue. Institutional scholarships awarded to students reduce the amount of revenue recognized. Payments for tuition is due approximately two weeks prior to the start of the academic term. In addition, students who adjust their course load or withdraw completely within the first four weeks of the academic term may receive a full or partial refund in accordance with the Seminary's refund policy. Refunds reduce the amount of tuition recognized. Historically, refunds have been de minimis. Substantially all deferred revenue at June 30, 2018 was recognized as revenue during the following year.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

ANNUITY OBLIGATIONS

The Seminary has issued charitable gift annuity agreements. Under these agreements, a donor contributes assets to the Seminary in exchange for the right to receive a fixed dollar annual return during the donor's lifetime. A portion of the transfer is a charitable contribution for income tax purposes. The difference between the amount provided for the gift annuity and the liability for future payments, determined on an actuarial basis, is recognized as a contribution at the date of the gift. The annuity liability is revalued annually using a discount rate established at the inception of the agreement and appropriate actuarial assumptions. Actuarial changes and annuity payments are reported as change in value of split-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 \$4,457,185 and \$4,138,630 as of June 30, 2019 and 2018, 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.

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.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASSES OF NET ASSETS, continued

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.

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 \$385,000 and \$426,000 for advertising for the years ended June 30, 2019 and 2018, respectively.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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.

RECENTLY ISSUED ACCOUNTING STANDARDS

In 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, as amended (Topic 606). The ASU applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Seminary adopted the provisions of this new standard in the current year. Following the adoption of the ASU, the Seminary continues to recognize revenue from students as services are provided, which corresponds to the year in which the related academic services are rendered. There was no impact to the consolidated financial statements as a result of adoption. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued consolidated financial statements.

In 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958)—Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The Seminary adopted the provisions of this new standard in the current year. Adoption of these standard had no effect on change in net assets by class of net assets or in total.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

3. ACCOUNTS AND NOTES RECEIVABLE–NET:

Accounts and notes receivable–net consist of:

	June 30,	
	2019	2018
Student accounts receivable	\$ 834,591	\$ 720,175
Less allowance for doubtful accounts	(78,904)	(71,575)
	<u>755,687</u>	<u>648,600</u>
Other accounts receivable	109,126	71,836
	<u>\$ 864,813</u>	<u>\$ 720,436</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, 2019 and 2018, contributions receivable includes estate and trust gifts receivable totaling \$1,746,065 and \$2,263,947, respectively. Contributions receivable are expected to be collected in the following manner:

	June 30,	
	2019	2018
Less than one year	\$ 1,558,275	\$ 2,029,419
One to five years	160,842	227,562
More than five years	44,207	80,654
	<u>1,763,324</u>	<u>2,337,635</u>
Less unamortized discount	(17,259)	(73,688)
	<u>\$ 1,746,065</u>	<u>\$ 2,263,947</u>

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

5. INVESTMENTS AND FAIR VALUE:

Investments consist of:

	June 30,	
	2019	2018
Endowment investments	\$ 47,935,179	\$ 47,073,527
Annuity investments, including reserves	4,602,658	4,255,433
Trust assets	8,504,592	8,357,214
Pooled common fund and amounts held for others	17,445,647	19,194,914
Donor advised funds	11,516,039	12,290,811
Other invested assets	1,695,553	1,464,864
	<u>\$ 91,699,668</u>	<u>\$ 92,636,763</u>
Trust assets:		
Accounts and notes receivable–net	\$ -	\$ 8,569
Prepaid expense	12,775	12,775
Investments	8,459,630	8,357,214
	<u>\$ 8,472,405</u>	<u>\$ 8,378,558</u>
Trust liabilities and net assets:		
Refundable advances	\$ 5,540,450	\$ 5,480,853
Amounts held on behalf of others	688,692	634,308
Liabilities under split-interest agreements	1,432,868	1,495,435
Total trust net assets with donor restrictions	810,395	767,962
	<u>\$ 8,472,405</u>	<u>\$ 8,378,558</u>

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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, 2019, there were no transfers between Level 1 or Level 2.

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, 2019 and 2018

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, 2019:				
Investments measured according to hierarchical valuation levels:				
Fixed income:				
Domestic	\$ 21,826,284	\$ 21,826,284	\$ -	\$ -
International	4,360,352	4,360,352	-	-
	26,186,636	26,186,636	-	-
Equity:				
Domestic	21,550,144	21,550,144	-	-
International	21,950,464	21,950,464	-	-
	43,500,608	43,500,608	-	-
Natural resources	1,283,052	1,283,052	-	-
Real estate funds	2,136,240	1,943,630	-	192,610
Listed infrastructure fund	2,767,760	2,767,760	-	-
Private equity	261,636	-	-	261,636
	\$ 76,135,932	\$ 75,681,686	\$ -	\$ 454,246
Investments measured at cost:				
Cash and cash equivalents	2,622,616			
Investments measured at net asset value:				
Master limited partnerships	529,006			
Real estate funds	340,951			
Hedge funds–fund of funds	9,952,078			
Private equity	2,119,085			
	\$ 91,699,668			
Perpetual trusts held by others	\$ 515,290	\$ -	\$ -	\$ 515,290

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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, 2018:				
Investments measured according to hierarchical valuation levels:				
Fixed income:				
Domestic	\$ 21,276,586	\$ 21,276,586	\$ -	\$ -
International	4,946,496	4,946,496	-	-
	26,223,082	26,223,082	-	-
Equity:				
Domestic	20,000,938	20,000,938	-	-
International	22,057,861	22,057,861	-	-
	42,058,799	42,058,799	-	-
Natural resources	1,212,258	1,212,258	-	-
Real estate funds	2,817,134	2,741,892	-	75,242
Private equity	2,741,548	2,483,443	-	258,105
	\$ 75,052,821	\$ 74,719,474	\$ -	\$ 333,347
Investments measured at cost:				
Cash and cash equivalents	4,415,134			
Investments measured at net asset value:				
Equity domestic	97,713			
Master limited partnerships	564,051			
Real estate funds	355,220			
Hedge funds–fund of funds	10,215,138			
Private equity	1,936,686			
	\$ 92,636,763			
Perpetual trusts held by others	\$ 516,158	\$ -	\$ -	\$ 516,158

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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)
Pension Plan investments measured using hierarchical valuation techniques:				
As of June 30, 2019:				
Fixed income				
Domestic	\$ 10,752,667	\$ 10,752,667	\$ -	\$ -
International	1,439,259	1,439,259	-	-
	12,191,926	12,191,926	-	-
Equity				
Domestic	6,370,121	6,370,121	-	-
International	7,214,698	7,214,698	-	-
	13,584,819	13,584,819	-	-
Real estate funds	970,755	970,755		
Listed infrastructure fund	643,713	643,713	-	-
	\$ 27,391,213	\$ 27,391,213	\$ -	\$ -
Investments measured at cost:				
Cash and cash equivalents	202,207			
Investments measured at net asset value:				
Hedge funds - fund of funds	3,049,731			
Pension plan investments	\$ 30,643,151			
Cash	102,029			
Pension liabilities	(4,152)			
Total Plan Net Assets	\$ 30,741,028			

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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)
Pension Plan investments measured using hierarchical valuation techniques:				
As of June 30, 2018:				
Fixed income				
Domestic	\$ 11,494,596	\$ 11,494,596	\$ -	\$ -
International	1,461,586	1,461,586	-	-
	<u>12,956,183</u>	<u>12,956,183</u>	<u>-</u>	<u>-</u>
Equity				
Domestic	4,350,844	4,350,844	-	-
International	5,737,067	5,737,067	-	-
	<u>10,087,911</u>	<u>10,087,911</u>	<u>-</u>	<u>-</u>
Real estate funds				
Listed infrastructure fund	1,463,347	1,463,347	-	-
	<u>586,935</u>	<u>586,935</u>	<u>-</u>	<u>-</u>
	<u>\$ 25,094,376</u>	<u>\$ 25,094,376</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at cost:				
Cash and cash equivalents	<u>1,176,058</u>			
Investments measured at net asset value:				
Hedge funds - fund of funds	<u>2,988,439</u>			
Pension plan investments	<u>\$ 29,258,874</u>			
Cash	138,709			
Pension liabilities	<u>(4,571)</u>			
Total Plan Net Assets	<u>\$ 29,393,012</u>			

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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, 2019:

	Perpetual trusts	Real estate	Private Equity	Total
Beginning balance as of June 30, 2018	\$ 516,158	\$ 75,242	\$ 258,105	\$ 849,505
Total unrealized gains or losses included in investment income	(868)	-	3,531	\$ 2,663
Purchases, issuances, sales, and settlements:				
Purchases	-	117,368	-	117,368
Ending balance as of June 30, 2019	\$ 515,290	\$ 192,610	\$ 261,636	\$ 969,536

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

	Perpetual trusts	Real estate	Private Equity	Total
Beginning balance as of June 30, 2017	\$ 511,721	\$ 825,242	\$ 258,375	\$ 1,595,338
Total unrealized gains or losses included in investment income	4,437	-	(270)	4,167
Purchases, issuances, sales, and settlements:				
Sales	-	(750,000)	-	(750,000)
Ending balance as of June 30, 2018	\$ 516,158	\$ 75,242	\$ 258,105	\$ 849,505

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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, 2019.

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	\$ 9,952,078	2	N.A.	\$ -	No lockup	Redemption annually with 90 day notice	None
Real Assets - Illiquid							
Real Estate (REITS) and natural resources	869,957	5	Upon liquidation of underlying investments	1,060,449	N.A	N.A*	N.A
Private Equity							
Secondary private investments	64,962	1	13 years	946,333	N.A	N.A*	N.A
Distressed, buyout, and venture capital	<u>2,054,123</u>	8	4 to 10 years	<u>1,327,940</u>	N.A	N.A*	N.A
	<u>\$ 12,941,120</u>			<u>\$ 3,334,722</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, 2019 and 2018, the Seminary had unfunded commitments of \$3,334,722 and \$2,643,712, respectively.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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, 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>\$ 13,168,808</u>			<u>\$ 2,643,712</u>			

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

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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

6. ENDOWMENT FUNDS:

The Seminary's endowment consists of 179 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, 2019:

		With donor restrictions			
Without donor restrictions	Original gift amount	Accumulated gains (losses) and other	Total with donor restrictions	Total funds	
Donor-restricted funds	\$ -	\$ 39,264,697	\$ 8,435,112	\$ 47,699,809	\$ 47,699,809
Board-designated funds	642,427	-	-	-	642,427
	\$ 642,427	\$ 39,264,697	\$ 8,435,112	\$ 47,699,809	\$ 48,342,236

Included in accumulated gains (losses) and other are accumulated investment returns and term endowments. Term endowments, which total \$949,935 and \$397,387 at June 30, 2019 and June 30, 2018, respectively, 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, 2019 and 2018

6. ENDOWMENT FUNDS, continued:

Changes in endowment net assets for the year ended June 30, 2019:

	With donor restrictions			Total with donor restrictions	Total funds
	Without donor restrictions	Original gift amount	Accumulated gains (losses) and other		
Endowment net assets, beginning of year	\$ 651,618	\$ 38,044,381	\$ 8,056,900	\$ 46,101,281	\$ 46,752,899
Investment return, net	22,301	-	2,176,115	2,176,115	2,198,416
Contributions	-	1,220,316	253,952	1,474,268	1,474,268
Amounts appropriated for expenditure	(31,492)	-	(2,051,855)	(2,051,855)	(2,083,347)
	(9,191)	1,220,316	378,212	1,598,528	1,589,337
Endowment net assets, end of year	\$ 642,427	\$ 39,264,697	\$ 8,435,112	\$ 47,699,809	\$ 48,342,236

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

6. ENDOWMENT FUNDS, continued:

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

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

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

	Without donor restrictions	With donor restrictions		Total with donor restrictions	Total funds
		Original gift amount	Accumulated gains (losses) and other		
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, 2019 and 2018

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. As of June 30, 2019, no such deficiencies existed. As of June 30, 2018, 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. 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, 2019 and 2018

7. PROPERTY AND EQUIPMENT—NET:

Property and equipment—net consists of:

	June 30,	
	2019	2018
Land	\$ 7,262,267	\$ 7,262,267
Land improvements	1,040,699	1,040,699
Buildings	80,414,908	78,295,404
Library acquisitions	7,201,608	6,855,058
Equipment	2,502,917	2,322,097
	98,422,399	95,775,525
Less accumulated depreciation	(46,859,170)	(44,766,190)
	51,563,229	51,009,335
Construction in progress	569,042	-
	52,132,271	51,009,335
Less notes payable secured by specific assets	(13,285,258)	(14,014,768)
	\$ 38,847,013	\$ 36,994,567

8. NOTES PAYABLE:

Notes payable consist of:

	June 30,	
	2019	2018
<p>Note payable to Frost Bank of \$10,000,000, fixed interest rate of 5.34%, with a \$5,367,713 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 approximately \$60,000.</p>	\$ 6,337,193	\$ 6,714,396
<p>Note payable to Frost Bank of \$10,000,000, fixed interest rate of 5.34%, with a \$5,365,733 balloon payment maturing July 31, 2023, secured by the single student apartments, due in monthly principal and interest installments of approximately \$60,000.</p>	6,948,065	7,300,372
	\$ 13,285,258	\$ 14,014,768

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

8. NOTES PAYABLE, continued:

Future minimum payments for notes payable consist of:

Year Ended June 30,	
2020	\$ 749,644
2021	784,779
2022	5,936,919
2023	412,697
2024	5,401,219
	\$ 13,285,258

The notes payable agreements contain covenants which include minimum liquidity and debt service coverage ratios. At June 30, 2019, management believes they are in compliance with these covenants.

9. NET ASSETS:

Net assets consist of:

	June 30,	
	2019	2018
Net assets without donor restrictions:		
Undesignated	\$ 3,115,195	\$ 5,205,400
Donor advised funds	11,562,697	12,296,330
Board designated for debt repayment and other	1,500,000	2,276,000
Board designated endowment	642,427	651,618
State required annuity reserves	2,548,556	2,419,106
Pension benefit obligation	(13,602,753)	(12,656,444)
Net investment in property and equipment	38,847,013	36,994,566
Total net assets without donor restrictions	44,613,135	47,186,576

(continued)

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

9. NET ASSETS, continued:

	June 30,	
	2019	2018
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Scholarships and grants	\$ 3,468,442	\$ 3,432,393
Academic, student programs, and support	1,339,017	1,180,984
Buildings and equipment	7,686,641	463,571
	12,494,100	5,076,948
Subject to the passage of time:		
Contributions receivable from third party trusts	247,337	294,465
Life income funds	810,395	794,844
	1,057,732	1,089,309
Subject to the Seminary's spending policy and appropriation:		
Accumulated gains and term endowments	8,435,112	8,056,900
Endowment funds restricted in perpetuity	39,264,697	38,044,381
	47,699,809	46,101,281
Subject to restriction in perpetuity:		
Perpetual trusts held by others	515,290	516,158
	515,290	516,158
Total net assets with donor restrictions	61,766,931	52,783,696
Total net assets	\$ 106,380,066	\$ 99,970,272

The Seminary's governing board through specific action has created self-imposed limits on net assets without donor restrictions. The board has earmarked \$2,142,427 for the following purposes as of June 30, 2019. These net assets can be drawn upon if the board approves such action.

	June 30,	
	2019	2018
For investment as a board designated-endowment	\$ 642,427	\$ 651,618
For repayment of debt	1,500,000	1,500,000
Reserves for contingencies and future expenditures	-	776,000
	\$ 2,142,427	\$ 2,927,618

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

10. LIQUIDITY AND FINANCIAL ASSETS AVAILABLE:

The following table reflects the Seminary's financial assets as of June 30, 2019 and 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, cash restricted for the acquisition of long-lived assets, 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,	
	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 16,257,462	\$ 11,108,071
Accounts and contributions receivable	2,610,878	2,984,383
Investments	91,699,668	92,636,763
Perpetual trusts held by others	515,290	516,158
Financial assets, at year-end	111,083,298	107,245,375
Less those unavailable for general expenditure within one year, due to:		
Investments and perpetual trusts held by others not convertible to cash within the next 12 months	(4,004,548)	(3,799,764)
Contribution and accounts receivable collectible beyond one year	(187,790)	(234,527)
Investments and other financial assets held for others	(18,464,219)	(19,311,121)
Perpetual and term endowments and accumulated earnings subject to appropriation beyond one year	(43,072,641)	(41,795,898)
Investments held in trusts and various state required annuity reserves	(11,008,186)	(10,776,320)
Investments in board designated endowments	(642,427)	(651,618)
Cash restricted for acquisition of long-lived assets	(7,117,599)	(463,571)
Board designated reserves for future contingencies	-	(776,000)
Board designated reserves for debt retirement	(1,500,000)	(1,500,000)
Financial assets available to meet cash needs for general expenditures within one year	\$ 25,085,888	\$ 27,936,556

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 (5.5% as of June 30, 2019), with interest due monthly and principal due upon maturity. No funds were borrowed under this agreement during the fiscal year ended June 30, 2019.

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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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,	
	2019	2018
Tuition and fees	\$ 20,867,682	\$ 20,660,795
Less financial aid and scholarships	<u>(3,838,102)</u>	<u>(4,000,649)</u>
	<u>\$ 17,029,580</u>	<u>\$ 16,660,146</u>

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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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, 2019:

	Program Activities			Supporting Activities			Total Expense
	Academic and Student Programs	Public Service	Auxiliaries	Administrative Support	Facilities Operation & Maintenance	Fundraising	
Salaries and wages	\$ 11,569,719	\$ 380,619	\$ 671,945	\$ 3,328,318	\$ 999,006	\$ 1,225,133	\$ 18,174,740
Employee benefits	2,491,592	84,828	161,545	2,776,454	246,285	265,326	6,026,030
Services, supplies, and other	3,360,363	203,929	681,125	1,404,640	68,315	1,781,109	7,499,481
Occupancy, utilities, and maintenance	110,314	1,539	460,341	33,624	1,882,377	5,727	2,493,922
Grants to others	410,160	2,795,916	-	-	-	-	3,206,076
Depreciation and amortization	640,000	24,027	1,188,257	157,269	152,901	21,843	2,184,297
Interest	-	-	730,097	-	-	-	730,097
	18,582,148	3,490,858	3,893,310	7,700,305	3,348,884	3,299,138	40,314,643
Facilities operation and maintenance	2,171,058	159,411	176,835	647,987	(3,348,884)	193,593	-
Total expenses	\$ 20,753,206	\$ 3,650,269	\$ 4,070,145	\$ 8,348,292	\$ -	\$ 3,492,731	\$ 40,314,643

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

12. EXPENSES BY BOTH NATURE AND FUNCTION, continued:

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

	Program Activities			Supporting Activities			Total Expense
	Academic and Student Programs	Public Service	Auxiliaries	Administrative Support	Facilities 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
	<u>18,669,292</u>	<u>3,881,624</u>	<u>3,889,359</u>	<u>6,435,974</u>	<u>3,196,617</u>	<u>3,282,154</u>	<u>39,355,020</u>
Facilities operation and maintenance	<u>2,086,408</u>	<u>93,380</u>	<u>207,198</u>	<u>669,155</u>	<u>(3,196,617)</u>	<u>140,476</u>	<u>-</u>
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, 2019 and 2018

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 \$13,602,753 and \$12,656,444 as of June 30, 2019 and 2018, respectively. The application of ASC Topic 715 resulted in a decrease in net assets of \$946,309 and an increase in net assets of \$1,435,204 for the years ended June 30, 2019 and 2018, 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,	
	2019	2018
Projected benefit obligation	\$ (44,343,781)	\$ (42,049,456)
Plan assets at fair value	<u>30,741,028</u>	<u>29,393,012</u>
Funded status	<u>\$ (13,602,753)</u>	<u>\$ (12,656,444)</u>
Accumulated benefit obligation	<u>\$ 41,643,580</u>	<u>\$ 39,546,903</u>

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

Net gain	<u>\$ 17,328,777</u>	<u>16,076,716</u>
Funded status	<u>\$ 17,328,777</u>	<u>\$ 16,076,716</u>

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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

13. EMPLOYEE BENEFIT PLANS, continued:

Net periodic benefit cost, included in functional expenses:

	Year Ended June 30,	
	2019	2018
Service costs	\$ 506,259	\$ 584,704
Interest costs	1,608,785	1,575,345
Expected return on plan assets	(1,684,621)	(1,696,204)
Reclassification of net gain or loss	1,331,825	1,551,904
Net periodic pension cost other than service cost	1,255,989	1,431,045
Net periodic pension costs	<u>\$ 1,762,248</u>	<u>\$ 2,015,749</u>

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

	Year Ended June 30,	
	2019	2018
Net gain	\$ 2,583,886	\$ 198,951
Amortization of net loss to net periodic benefit cost	(1,331,825)	(1,551,904)
	<u>\$ 1,252,061</u>	<u>\$ (1,352,953)</u>

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

13. EMPLOYEE BENEFIT PLANS, continued:

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

	June 30,	
	2019	2018
Net gain	\$ 1,516,987	\$ 1,301,443
Funded status	\$ 1,516,987	\$ 1,301,443

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

	June 30,	
	2019	2018
Discount rate		
Net periodic pension cost	3.96%	3.72%
Benefit obligations	3.39%	3.96%
Expected return on plan assets, beginning of fiscal year	5.75%	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, 2018	July 1, 2017
Measurement date	June 30, 2019	June 30, 2018

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 Seminary contributed \$2,068,000 and \$2,098,000 during the fiscal years ended June 30, 2019 and 2018, respectively. The Seminary expects to contribute \$2,038,000 to its pension plan in 2019.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

13. EMPLOYEE BENEFIT PLANS, continued:

For the years ended June 30, 2019 and 2018, benefits paid from the plan were \$2,268,691 and \$2,042,826, 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,	
2020	\$ 2,364,344
2021	2,396,610
2022	2,505,714
2023	2,515,645
2024	2,595,269
Thereafter	12,717,055
	\$ 25,094,637

The plan's assets are invested in a manner that is intended to preserve the purchasing power of the plan's assets and provide payments to beneficiaries. Thus, a rate of return object of inflation plus 6.5 percent net of fees is targeted.

The investment portfolio of the plan, which is invested with external investment managers, is diversified in a manner that is intended to achieve the return objective and reduce the volatility of returns. The plan 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) over a long-term time horizon.

Actual and investment policy target allocations by the plan's investments by asset class were as follows at June 30:

Asset Category:	June 30,		Target
	2019	2018	
Cash and cash equivalents	1%	4%	1%
Equities	44%	34%	35%
Fixed income	40%	44%	44%
Real assets	5%	7%	10%
Hedge funds - fund of funds	10%	10%	10%
	100%	100%	100%

Asset allocation targets reflect the need for a modestly higher weighting in equity-based investments to achieve the return objective. Decisions regarding allocations among asset classes are made when such actions are expected to produce incremental return, reduce risk, or both. The investment characteristics of an asset class - including expected return, risk, correlation, and its overall role in the portfolio - are analyzed by the Investment Committee of the Seminary. With each investment category, assets are allocated to various investment styles. Periodically, the entire portfolio is rebalanced to maintain these percentages and the investment policy is reviewed. Professional managers manage all assets for the Plan and independent consultants assist the Plan in the attainment of its objectives.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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, 2019 and 2018, was approximately \$800,170 and \$681,802, 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, 2019 and 2018, were \$257,000 and \$284,000, 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 2025. Total lease expense for the years ended June 30, 2019 and 2018, was \$326,695 and \$318,100, respectively.

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

<u>Year Ending June 30,</u>		
2020	\$	343,699
2021		345,284
2022		330,876
2023		339,831
2024		348,883
Thereafter		<u>357,936</u>
	\$	<u><u>2,066,509</u></u>

17. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through September 24, 2019, which is the date the consolidated financial statements were available to be issued.

The Seminary entered into a ten-year contract for enterprise-wide software services, effective July 1, 2019. License fees are approximately \$21,000 per month. Subsequent events after that date have not been evaluated.