DALLAS THEOLOGICAL SEMINARY

DALLAS THEOLOGICAL SEMINARY

Consolidated Financial Statements
With Independent Auditors' Report

June 30, 2017 and 2016

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, 2017 and 2016, and the related 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial position of Dallas Theological Seminary as of June 30, 2017 and 2016, 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.

Emphasis of Matter
The Seminary has adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as described in Note 2. This has had a material effect on the presentation of the June 30, 2017 and 2016 financial statements.

Capin Crouse LLP

Grapevine, Texas
September 22, 2017

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Consolidated Balance Sheet

	June 30, 2017	June 30, 2016
ASSETS:		
Cash and cash equivalents	$ 8,458,156	$ 7,592,473
Accounts and notes receivable–net	661,135	610,024
Contributions receivable–net	3,502,495	3,646,381
Prepaid expenses and deferred charges	567,139	417,094
Inventory	5,709,702	2,473,944
Investments	93,608,836	86,604,473
Perpetual trusts held by others	511,721	519,218
Property and equipment–net	52,663,862	54,072,070
Total Assets	$ 165,683,046	$ 155,935,677
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued liabilities	$ 4,629,039	$ 3,010,400
Deferred revenue	2,404,210	1,891,499
Student deposits and refundable advances	839,586	871,712
Annuity obligations	2,669,239	2,741,002
Amounts held on behalf of others	24,219,646	18,834,809
Liabilities under split-interest agreements	7,065,380	7,021,972
Notes payable	14,691,596	15,350,265
Asset retirement obligations	718,102	656,015
Liability for pension benefits	14,091,648	17,890,979
Total Liabilities	71,328,446	68,268,653
Net assets:		
Net Assets Without Donor Restrictions	45,391,392	41,724,674
Net Assets With Donor Restrictions:		
Restricted by purpose or time	12,512,555	10,560,660
Restricted in perpetuity	36,450,653	35,381,690
	48,963,208	45,942,350
Total Net Assets	94,354,600	87,667,024
Total Liabilities and Net Assets	$ 165,683,046	$ 155,935,677

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidating Statement of Activities

Year Ended June 30, 2017
(with comparative totals for 2016)

	2017	2016
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Operating Revenues and Other Additions:		
Tuition and fees, net	$ 15,556,692	$ 15,008,697
Contributions	12,513,846	14,945,333
Investment return appropriated for spending	1,086,569	759,501
Educational activities and other income	796,917	716,748
Auxiliary enterprises	3,221,329	3,171,122
Total Operating Revenues	33,175,353	34,601,401
Net assets released from restriction:		
Satisfaction of program restrictions	3,761,820	3,446,525
Appropriation from donor endowment and subsequent of any related donor restrictions	1,928,370	1,849,666
Total Operating Revenues and Other Additions	38,865,543	39,897,592
Expenses:		
Salaries and wages	17,047,765	16,268,578
Employee benefits	4,937,925	5,357,658
Services, supplies, and other	6,314,236	6,089,625
Occupancy, utilities, and maintenance	2,170,897	2,987,822
Grants to others	3,498,599	2,696,718
Depreciation and amortization	2,308,899	2,572,531
Interest	659,013	689,145
Operating Expenses	36,937,334	36,662,077
Change in Net Assets from Operations	1,928,209	3,235,515
Non-Operating Change in Net Assets Without Donor Restrictions:		
Other components of net periodic pension cost	(1,854,647)	(1,708,765)
Pension-related changes other than net periodic pension costs	4,163,531	(3,560,167)
Investment return, net in excess of amounts appropriated for spending	(666,066)	(126,738)
Change in value of split-interest agreements	95,691	(328,031)
Net assets released from restrictions due to acquisition of long-lived assets	-	12,234,065
Change in Net Assets from Non-Operating Activities	1,738,509	6,510,364
Change in Net Assets Without Donor Restrictions	$ 3,666,718	$ 9,745,879

(continued)

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidating Statement of Activities

Year Ended June 30, 2017
(with comparative totals for 2016)
(continued)

	2017	2016
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Operating revenues and other additions	$ 38,865,543	$39,897,592
Operating expenses	(36,937,334)	(36,662,077)
Change in Net Assets from Operations	1,928,209	3,235,515
Change in Net Assets from Non-operating Activities	1,738,509	6,510,364
Change in Net Assets Without Donor Restrictions	3,666,718	9,745,879
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	4,750,511	6,624,540
Investment return, net	3,732,659	106,504
Change in value of split-interest agreements	227,878	185,865
Net assets released from restrictions:		
Release of appropriated endowment amounts	(1,928,370)	(1,849,666)
Releases from restrictions due to acquisition of long-lived assets	-	(12,234,065)
Release of other restrictions	(3,761,820)	(3,446,525)
Change in Net Assets With Donor Restrictions	3,020,858	(10,613,347)
Change in Net Assets	6,687,576	(867,468)
Net Assets, Beginning of Year	87,667,024	88,534,492
Net Assets, End of Year	$ 94,354,600	$ 87,667,024

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidated Statement of Cash Flows

Year Ended June 30, 2017
(with comparative totals for 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from tuition and fees	$ 15,989,828	$ 15,324,808
Cash received from donors	14,862,952	14,981,883
Cash collected from contributions receivable	1,059,871	2,162,147
Cash received from auxiliary enterprises	3,207,568	3,157,109
Interest and dividends received	1,241,133	1,071,499
Miscellaneous receipts	801,271	948,238
Cash paid to employees	(17,038,182)	(16,294,206)
Cash paid for benefits	(6,341,991)	(6,802,595)
Cash paid to suppliers and vendors	(10,276,191)	(10,112,733)
Interest paid	(660,774)	(690,825)
Grants paid	(3,529,742)	(2,696,718)
Net Cash Provided (Used) by Operating Activities	(684,257)	1,048,607
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(865,814)	(3,942,721)
Proceeds on sale of investments	17,454,664	24,039,681
Purchase of investments	(15,070,557)	(25,950,085)
Net Cash Provided (Used) by Investing Activities	1,518,293	(5,853,125)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for:		
Investment in perpetual endowment	1,339,295	3,224,386
Investment in term endowment	24,675	14,830
Investment in property and equipment	68,968	661,925
Proceeds from note receivable collection	34,610	31,988
Other financing activities:		
Payments on annuity and trust obligations	(777,232)	(958,589)
Payments on notes payable	(658,669)	(628,618)
Net Cash Provided (Used) by Financing Activities	31,647	2,345,922
Change in Cash and Cash Equivalents	865,683	(2,458,596)
Cash and Cash Equivalents, Beginning of Year	7,592,473	10,051,069
Cash and Cash Equivalents, End of Year	$ 8,458,156	$ 7,592,473

(continued)

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidated Statement of Cash Flows

Year Ended June 30, 2017
(with comparative totals for 2016)
(continued)

	2017	2016
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest, none capitalized	$ 660,774	$ 690,825
Taxes paid	$ 12,500	$ 12,086
Noncash contributions	$ 5,272,419	$ 7,683,413
Property and equipment acquired through accounts payable	$ 26,264	$ 1,072,700

See notes to consolidated financial statements

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

OPERATING AND NONOPERATING ACTIVITIES
The consolidated statement of activities presents the changes in net assets of the Seminary from operating activities and from nonoperating activities. Operating revenues and expenses relate primarily to educational programs and grant activities provided by the Seminary. The portion of investment return appropriated on long-term investments held for endowments and similar purposes under the Seminary's total return spending policy is considered operating revenue.

Nonoperating activities consist primarily of (a) pension related changes other than net periodic pension costs, (b) other components of net periodic pension costs, (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. 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, 2017 and 2016. Management has deemed all amounts fully collectible, and has not established an allowance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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

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

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 statement of activities. The Seminary maintains separate reserve funds adequate to meet future payments under its charitable gift annuity contracts as required by governing states' laws. The total amount held in separate reserve funds was $3,389,715 and $3,446,380 as of June 30, 2017 and 2016, 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. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

ASSET RETIREMENT OBLIGATIONS
Asset retirement obligations (ARO) are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the Seminary records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The Seminary derecognizes ARO liabilities when the assets are retired and the related obligations are settled.

CLASSES OF NET ASSETS
The consolidated financial statements report amounts by class of net assets.

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
Revenue is recognized when earned and support when contributions are made, which may be when cash is received, unconditional promises to give are made, or ownership of other assets is transferred to the Seminary.

The Seminary reports gifts of cash and other assets as restricted revenue if they are received with donor stipulations that limit the use of the donated net assets. When a stipulated time restriction expires or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Donated goods are recorded at their estimated fair value when received. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation.

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.

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 $458,000 and $358,000 for advertising for the years ended June 30, 2017 and 2016, respectively.

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

UNCERTAIN TAX POSITIONS
The consolidated financial statement effects of a tax position taken or expected to be taken are recognized in the consolidated financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the consolidated statement of activities. As of June 30, 2017, the Seminary had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

The Seminary files information tax returns in the United States of America (U.S.) and various states. The Seminary is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2014.

RECENTLY ISSUED ACCOUNTING STANDARDS
In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The Seminary adopted the provisions of this new standard during the year ended June 30, 2017. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources (Note 10), and disclosures related to functional allocation of expenses were expanded (Note 12).

In 2017, FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The Seminary adopted the provisions of this new standard in the current year. Adoption of these standards had no effect on change in net assets by class of net assets or in total.

RECLASSIFICATIONS
Certain consolidated financial statement and footnote information from the prior year consolidated financial statements has been reclassified to conform with current year presentation format.

3. ACCOUNTS AND NOTES RECEIVABLE–NET:

Accounts and notes receivable consist of:

	June 30, 2017	June 30, 2016
Student accounts receivable	$ 596,113	$ 560,132
Less allowance for doubtful accounts	(50,649)	(61,972)
	545,464	498,160
Other accounts receivable	73,222	34,805
Notes receivable with maturities beyond one year	42,449	77,059
	$ 661,135	$ 610,024

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, 2017 and 2016, contributions receivable includes estate and trust gifts receivable totaling $3,502,495 and $3,646,381, respectively. Contributions receivable are expected to be collected in the following manner:

	June 30, 2017	June 30, 2016
Less than one year	$ 2,002,765	$ 3,338,567
One to five years	1,507,806	335,937
More than five years	84,939	83,580
	3,595,510	3,758,084
Less unamortized discount	(93,015)	(111,703)
	$ 3,502,495	$ 3,646,381

5. INVESTMENTS AND FAIR VALUE:

Investments consist of:

	June 30, 2017	June 30, 2016
Endowment investments	$ 43,512,443	$ 40,112,359
Annuity investments, including reserves	3,448,664	3,446,380
Trust assets	8,207,634	7,915,889
Pooled common fund and amounts held for others	24,264,565	19,184,377
Donor advised funds	13,148,021	14,182,372
Other invested assets	1,027,509	1,763,096
	$ 93,608,836	$ 86,604,473

	2017	2016
Trust assets (at fair value):		
Accounts and notes receivable–net	$ 42,504	$ 77,059
Prepaid expense	15,581	19,059
Investments	8,207,634	7,915,889
	$ 8,265,719	$ 8,012,007
Trust liabilities and net assets:		
Accounts payable	$ 650	$ 650
Deferred revenue	4,159	2,116
Refundable advances	203,352	231,316
Amounts held on behalf of others	98,835	98,835
Liabilities under split-interest agreements	7,065,380	7,021,972
Total trust net assets–with donor restrictions	893,343	657,118
	$ 8,265,719	$ 8,012,007

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, 2017, 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.

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Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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, 2017:				
Investments measured using hierarchical valuation techniques:				
Cash and cash equivalents	$ 3,369,949	$ 3,369,949	$ -	$ -
Fixed income:				
Domestic	20,406,494	20,406,494	-	-
International	2,745,720	2,745,720	-	-
	23,152,214	23,152,214	-	-
Equity:				
Domestic	20,794,999	20,794,999	-	-
International	21,903,522	21,903,522	-	-
	42,698,521	42,698,521	-	-
Natural resources	5,673,206	5,673,206	-	-
Real estate	4,721,717	3,896,475	-	825,242
Private equity	258,375	-	-	258,375
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	1,888,529			
	$ 93,608,836	$ 78,790,365	$ -	$ 1,083,617
Perpetual trusts held by others	$ 511,721	$ -	$ 511,721	$ -

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, 2016:				
Investments measured using hierarchical valuation techniques:				
Cash and cash equivalents	$ 3,220,132	$ 3,220,132	$ -	$ -
Fixed income:				
Domestic	16,879,012	16,879,012	-	-
International	3,436,652	3,436,652	-	-
	20,315,664	20,315,664	-	-
Equity:				
Domestic	18,623,693	18,623,693	-	-
International	19,121,928	19,121,928	-	-
	37,745,621	37,745,621	-	-
Natural resources	5,919,976	5,919,976	-	-
Real estate	5,461,595	3,586,353	-	1,875,242
Private equity	272,532	-	-	272,532
Investments measured at net asset value:				
Equity domestic	109,036			
Natural resources	693,704			
Real estate	643,933			
Hedge funds - fund of funds	10,275,274			
Private equity	1,947,006			
	$ 86,604,473	$ 70,787,746	$ -	$ 2,147,774
Perpetual trusts held by others	$ 519,218	$ -	$ 519,218	$ -

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, 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:			
Purchases	-	-	-
Sales	(209,301)	-	(209,301)
Ending balance, June 30, 2017	$ 825,242	$ 258,375	$ 1,083,617

Changes in investments using fair value measurements using significant unobservable inputs (Level 3) for the year ended June 30, 2016:

	Natural Resources	Real estate	Private Equity	Total
Beginning balance as of June 30, 2015	$ 6,508	$ 2,196,242	$ 312,961	$ 2,509,203
Total unrealized gains or losses included in investment income	(6,508)	(86,000)	(23,279)	(109,279)
Purchases, issuances, sales and settlements				
Purchases	-	15,000	-	15,000
Sales	-	(250,000)	(17,150)	(267,150)
Ending balance, June 30, 2016	$ -	$ 1,875,242	$ 272,532	$ 2,147,774

5. INVESTMENTS AND FAIR VALUE, continued:

The Seminary uses Net Asset Value (NAV) to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Per ASU 2009-12, *Fair Value Measurements and Disclosures,* the following table lists investments in other investment companies (in partnership format) by major category for the year ended June 30, 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	2,001,465	8	4 to 10 years	1,805,630	N.A	N.A*	N.A
	$ 13,734,854			$ 2,938,200			

* 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, 2017 and 2016, the Seminary had unfunded commitments of $2,938,200 and $2,057,636, respectively.

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, 2016.

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	$ 10,275,274	2	N.A.	$ -	No lockup	Redemption annually with 90 day notice	None
Real Assets - Illiquid							
Real Estate (REITS) and natural resources	1,337,637	3	Upon liquidation of underlying investments	132,570	N.A	N.A*	N.A
Private Equity							
Distressed, buyout, and venture capital	2,056,042	8	4 to 10 years	1,925,066	N.A	N.A*	N.A
	$ 13,668,953			$ 2,057,636			

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

6. ENDOWMENT FUNDS:

The Seminary's endowment consists of 160 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, 2017:

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

Included in accumulated gains (losses) and other are accumulated investment returns and term endowment funds which total $576,785 and $744,104 at June 30, 2017 and June 30, 2016, respectively. 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.

6. ENDOWMENT FUNDS, continued:

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

		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	$ 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)
	28,498	1,076,460	1,818,098	2,894,558	2,923,056
Endowment net assets, end of year	$ 632,584	$ 35,924,567	$ 6,478,264	$ 42,402,831	$ 43,035,415

6. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of June 30, 2016:

	Without donor restrictions	With donor restrictions: Original gift amount	With donor restrictions: Accumulated gains (losses) and other	With donor restrictions: Total with donor restrictions	Total funds
Donor-restricted funds	$ -	$ 34,848,107	$ 4,660,166	$ 39,508,273	$ 39,508,273
Board-designated funds	604,086	-	-	-	604,086
	$ 604,086	$ 34,848,107	$ 4,660,166	$ 39,508,273	$ 40,112,359

Included in accumulated gains (losses) and other are accumulated investment returns and term endowment funds which total $744,104 at June 30, 2016. 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, 2016:

	Without donor restrictions	With donor restrictions: Original gift amount	With donor restrictions: Accumulated gains (losses) and other	With donor restrictions: Total with donor restrictions	Total funds
Endowment net assets, beginning of year	$ 639,979	$ 31,731,865	$ 6,438,486	$ 38,170,351	$ 38,810,330
Investment return, net	(3,411)	-	(79,631)	(79,631)	(83,042)
Contributions	-	3,224,386	14,830	3,239,216	3,239,216
Amounts appropriated for expenditure	(32,482)	-	(1,849,721)	(1,849,721)	(1,882,203)
Reclassification	-	(108,144)	136,202	28,058	28,058
	(35,893)	3,116,242	(1,778,320)	1,337,922	1,302,029
Endowment net assets, end of year	$ 604,086	$ 34,848,107	$ 4,660,166	$ 39,508,273	$ 40,112,359

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 $59,930, and a deficiency of $2,850 as of June 30, 2017. In the prior year, deficiencies existed in six donor-restricted endowment funds, which together had an original gift value of $1,261,109, a current fair value of $1,251,172, and a deficiency of $9,937 as of June 30, 2016. 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 5.5 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 2.5 percent annually. The Seminary's policy is to not spend from underwater endowments unless directed otherwise by the donor.

7. PROPERTY AND EQUIPMENT–NET:

Property and equipment–net consists of:

	June 30,	
	2017	2016
Land	$ 7,262,267	$ 7,262,267
Land improvements	1,040,699	1,033,397
Buildings	78,263,439	77,808,403
Library acquisitions	6,637,703	6,432,322
Equipment	2,297,060	2,151,095
	95,501,168	94,687,484
Less accumulated depreciation	(42,837,306)	(40,615,414)
	52,663,862	54,072,070
Less notes payable secured by specific assets	(14,691,596)	(15,350,265)
Net investment in property and equipment	$ 37,972,266	$ 38,721,805

8. NOTES PAYABLE:

Notes and bonds payable consist of:

	June 30, 2017	June 30, 2016
Note payable to Frost Bank of $10,000,000, fixed interest rate of 4.39%, with a $5,366,836 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.	$ 7,065,605	$ 7,406,961
Note payable to Frost Bank of $10,000,000, fixed interest rate of 4.39%, with a $5,365,756 balloon payment maturing July 31, 2023, secured by the single student apartments, due in monthly principal and interest installments of $54,976.	7,625,991	7,943,304
	$ 14,691,596	$ 15,350,265

Maturities of notes payable are as follows:

Year Ended June 30,	
2018	$ 688,173
2019	718,999
2020	749,651
2021	784,786
2022	5,936,045
Thereafter	5,813,942
	$ 14,691,596

The notes and bonds payable agreements contain covenants which include minimum liquidity and debt service coverage ratios. At June 30, 2017, management believes they are in compliance with these covenants.

9. NET ASSETS:

Net assets consist of:

	June 30, 2017	June 30, 2016
Net Assets Without Donor Restrictions:		
Undesignated	$ 5,963,471	$ 4,318,576
Donor advised funds	13,150,421	14,182,372
Board designated endowment	632,584	594,149
Designated–annuity reserves	1,764,298	1,798,751
Pension benefit obligation	(14,091,648)	(17,890,979)
Net investment in property and equipment	37,972,266	38,721,805
Total net assets without donor restrictions	45,391,392	41,724,674
Net Assets With Donor Restrictions:		
Subject to expenditure for specified purpose:		
Scholarships and grants	3,496,129	3,606,427
Academic, student programs and support	1,310,902	1,269,315
	4,807,031	4,875,742
Subject to the passage of time:		
Contributions receivable from third party trusts	333,917	367,634
Life income funds	893,343	657,118
	1,227,260	1,024,752
Subject to the Seminary's spending policy and appropriation:		
Accumulated gains and term endowments	6,478,264	4,660,166
Endowment funds restricted in perpetuity	35,924,567	34,848,107
	42,402,831	39,508,273
Subject to restriction in perpetuity:		
Perpetual trusts held by others	511,721	519,218
Annuity funds	14,365	14,365
	526,086	533,583
Total net assets with donor restrictions	48,963,208	45,942,350
	$ 94,354,600	$ 87,667,024

The Seminary's governing board through specific action has created self-imposed limits on net assets without donor restrictions. The board has earmarked $1,958,584 for the following purposes as of June 30, 2017. These net assets can be drawn upon if the board approves such action.

	June 30, 2017	June 30, 2016
For investment as a board designated-endowment	$ 632,584	$ 604,086
For repayment of debt	1,000,000	-
Reserves for health insurance contingency	326,000	326,000
	$ 1,958,584	$ 930,086

10. LIQUIDITY AND FUNDS AVAILABLE:

The following table reflects the Seminary's financial assets as of June 30, 2017, 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 a specific contingency reserve or a long-term investment as board designated endowments. These board designations could be drawn upon if the board approves that action.

	June 30, 2017	June 30, 2016
Financial assets:		
Cash and cash equivalents	$ 8,458,156	$ 7,592,473
Accounts and contributions receivable	4,163,630	4,256,405
Investments	93,608,836	86,604,473
Perpetual trusts held by others	511,721	519,218
Financial assets, at year-end	106,742,343	98,972,569
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	(2,998,357)	(2,954,525)
Contribution and accounts receivable collectible beyond one year	(1,559,603)	(1,593,323)
Investments and other financial assets held for others	(28,404,703)	(18,671,223)
Perpetual and term endowments and accumulated earnings subject to appropriation beyond one year	(35,191,761)	(35,479,448)
Investments held in trusts and various state required annuity reserves	(9,976,066)	(9,714,640)
Investments in board designated endowments	(632,584)	(604,086)
Board designated reserves for future contingencies	(326,000)	(326,000)
Board designated reserves for debt retirement	(1,000,000)	-
Financial assets available to meet cash needs for general expenditures within one year	$ 26,653,269	$ 29,629,324

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, 2017. The interest rate is PRIME (4.25% as of June 30, 2017), with interest due monthly and principal due upon maturity. No funds were borrowed under this agreement during the fiscal year ended June 30, 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,	
	2017	2016
Tuition and fees	$ 19,913,972	$ 18,282,193
Less financial aid and scholarships	(4,357,280)	(3,273,496)
	$ 15,556,692	$ 15,008,697

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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 expense include all operating expenses and the nonoperating expense of other components of net periodic pension cost.

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

	Program Activities			Supporting Activities			
	Academic and Student Programs	Public Service	Auxiliaries	Administrative Support	Facilities Operation & Maintenance	Fundraising	Total Expense
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
	17,843,289	3,758,402	4,024,169	6,948,494	3,130,112	3,087,515	38,791,981
Facilities operation and maintenance	886,175	42,542	1,606,357	517,760	(3,130,112)	77,278	
Total expenses	$ 18,729,464	$ 3,800,944	$ 5,630,526	$ 7,466,254	$ -	$ 3,164,793	$ 38,791,981

12. EXPENSES BY BOTH NATURE AND FUNCTION, continued:

Functional expenses by natural classification as of June 30, 2016:

	Program Activities			Supporting Activities			
	Academic and Student Programs	Public Service	Auxiliaries	Administrative Support	Facilities Operation & Maintenance	Fundraising	Total Expense
Salaries and wages	$ 9,752,551	$ 249,324	$ 622,666	$ 3,464,687	$ 884,895	$ 1,294,455	$ 16,268,578
Employee benefits	3,813,821	67,271	268,347	1,878,249	484,827	553,908	7,066,423
Services, supplies, and other	2,716,322	217,625	607,527	1,072,820	306,833	1,168,498	6,089,625
Occupancy, utilities, and maintenance	83,221	1,339	499,092	94,233	2,303,240	6,697	2,987,822
Grants to others	287,657	2,409,061	-	-	-	-	2,696,718
Depreciation and amortization	808,039	26,947	1,394,612	284,312	49,833	8,788	2,572,531
Interest	-	-	689,145	-	-	-	689,145
	17,461,611	2,971,567	4,081,389	6,794,301	4,029,628	3,032,346	38,370,842
Facilities operation and maintenance	1,859,326	76,466	897,467	1,022,227	(4,029,628)	174,142	
Total expenses	$ 19,320,937	$ 3,048,033	$ 4,978,856	$ 7,816,528	$ -	$ 3,206,488	$ 38,370,842

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 $14,091,648 and $17,890,979 as of June 30, 2017 and 2016, respectively. The application of ASC Topic 715 resulted in an increase in net assets of $3,791,077 and a decrease in net assets of $3,689,067 for the years ended June 30, 2017 and 2016, respectively, in the accompanying consolidated financial statements.

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

	Year Ended June 30, 2017	Year Ended June 30, 2016
Projected benefit obligation	$ (42,364,281)	$ (44,038,498)
Plan assets at fair value	28,272,633	26,147,519
Funded status	$ (14,091,648)	$ (17,890,979)
Accumulated benefit obligation	$ 39,514,100	$ 40,318,901

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

	2017	2016
Transition obligation	$ -	$ -
Prior service (credit)	-	-
Net loss	17,249,669	21,601,453
Funded status	$ 17,249,669	$ 21,601,453

13. EMPLOYEE BENEFIT PLANS:

Net periodic benefit cost, included in functional expenses:

	Year Ended June 30,	
	2017	2016
Service costs	$ 685,806	$ 594,834
Interest costs	1,498,498	1,645,127
Expected return on plan assets	(1,574,380)	(1,505,805)
Reclassification of net gain or loss	1,930,529	1,588,463
Reclassification of net prior service costs	-	(19,020)
Other Components of Net Periodic Pension Cost	1,854,647	1,708,765
Net periodic pension costs	$ 2,540,453	$ 2,303,599

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

	Year Ended June 30,	
	2017	2016
Net loss	$ (2,241,255)	$ 5,122,911
Amortization of net loss to net periodic benefit cost	(1,930,529)	(1,588,463)
Amortization of prior service cost to net periodic benefit cost	-	19,020
	$ (4,171,784)	$ 3,553,468

13. EMPLOYEE BENEFIT PLANS, continued:

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

	June 30, 2017	June 30, 2016
Net loss	$ 1,442,199	$ 1,839,906
Funded status	$ 1,442,199	$ 1,839,906

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

	June 30, 2017	June 30, 2016
Discount rate		
Net periodic pension cost	3.44%	4.22%
Benefit obligations	3.72%	3.44%
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, 2016	July 1, 2015
Measurement date	June 30, 2017	June 30, 2016

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 36% of plan assets in equity securities, 43% 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	36%
Debt securities	43%
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 $2,168,000 and $2,168,000 during the fiscal years ended June 30, 2017 and 2016, respectively. The Seminary expects to contribute $2,098,000 to its pension plan in 2018.

13. EMPLOYEE BENEFIT PLANS, continued:

For the years ended June 30, 2017 and 2016, benefits paid from the plan were $1,659,324 and $1,348,877 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,	
2018	$ 2,126,451
2019	2,240,154
2020	2,347,063
2021	2,371,726
2022	2,464,861
Thereafter	12,496,678
	$ 24,046,933

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, 2017 and 2016, was approximately $612,421 and $422,726 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, 2017 and 2016, were $425,000 and $460,000, 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, 2017 and 2016, was $337,717 and $369,310, respectively.

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

Year Ending June 30,		
2018	$	318,100
2019		311,152
2020		313,301
2021		321,726
2022		330,778
Thereafter		1,046,650
	$	2,641,707

17. ASSET RETIREMENT OBLIGATION:

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

	June 30,			
	2017		2016	
Beginning of year	$	656,015	$	611,378
Accretion expense–net		62,087		44,637
End of year	$	718,102	$	656,015

18. SUBSEQUENT EVENTS:

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