DALLAS THEOLOGICAL SEMINARY

DALLAS THEOLOGICAL SEMINARY

Consolidated Financial Statements
With Independent Auditors' Report

June 30, 2020 and 2019

CAPINCROUSE LLP

DALLAS THEOLOGICAL SEMINARY

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CAPINCROUSE LLP

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, 2020 and 2019, and the related consolidated statements of revenues, expenses, and other changes in net assets 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.

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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, 2020 and 2019, 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 25, 2020

DALLAS THEOLOGICAL SEMINARY

Consolidated Balance Sheet

	June 30, 2020	June 30, 2019
ASSETS:		
Cash and cash equivalents	$ 24,285,218	$ 16,257,462
Accounts and notes receivable–net	1,190,768	864,813
Contributions receivable–net	1,400,624	1,746,065
Prepaid expenses	934,105	616,345
Inventory	4,593,225	5,010,433
Investments	92,557,694	91,699,668
Perpetual trusts held by others	503,174	515,290
Operating lease right-of-use assets	1,411,956	1,708,785
Property and equipment–net	52,431,823	52,132,271
Total Assets	$ 179,308,587	$ 170,551,132
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued liabilities	$ 6,743,439	$ 4,270,674
Deferred revenue	2,610,457	2,563,731
Student deposits and refundable advances	6,190,161	6,330,073
Annuity obligations	3,183,980	3,539,370
Amounts held on behalf of others	14,295,602	17,308,111
Liabilities under split-interest agreements	1,299,891	1,426,523
Operating lease liabilities	1,565,848	1,844,573
Notes payable	12,536,236	13,285,258
Liability for pension benefits	17,349,162	13,602,753
	65,774,776	64,171,066
Net assets:		
Net assets without donor restrictions	43,759,675	44,613,135
Net assets with donor restrictions:		
Restricted by purpose or time	27,036,730	21,986,944
Restricted in perpetuity	42,737,406	39,779,987
	69,774,136	61,766,931
	113,533,811	106,380,066
Total Liabilities and Net Assets	$ 179,308,587	$ 170,551,132

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidated Statements of Revenues, Expenses, and Other Changes in Net Assets
Without Donor Restrictions

	Year Ended June 30, 2020	Year Ended June 30, 2019
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Operating Revenues and Other Additions:		
Tuition and fees	$ 16,865,735	$ 17,029,580
Contributions	19,201,393	10,564,641
Investment return (excluding donor endowment)	743,471	1,016,092
Educational activities and other income	659,186	782,280
Auxiliary enterprises	3,152,174	3,238,540
Total Operating Revenues	40,621,959	32,631,133
Net assets released from restriction:		
Satisfaction of program restrictions	2,849,653	3,442,417
Appropriation from donor endowment and subsequent of any related donor restrictions	2,235,940	2,051,855
Total Operating Revenues and Other Additions	45,707,552	38,125,405
Expenses:		
Salaries and wages	20,139,672	18,174,740
Employee benefits	5,879,954	4,770,041
Services, supplies, and other	7,368,767	7,499,481
Occupancy, utilities, and maintenance	2,095,357	2,493,922
Grants to others	3,030,789	3,206,076
Depreciation and amortization	2,296,506	2,184,297
Interest	699,924	730,097
Operating Expenses	41,510,969	39,058,654
Change in Net Assets from Operations	4,196,583	(933,249)
Non-Operating Change in Net Assets Without Donor Restrictions:		
Net periodic pension cost other than service cost	(1,724,019)	(1,255,989)
Pension-related changes other than net periodic pension costs	(3,536,866)	(1,252,060)
Net assets released from restrictions due to acquisition of long-lived assets	-	1,000,000
Change in value of annuity agreements	210,842	(132,143)
Change in Net Assets from Non-Operating Activities	(5,050,043)	(1,640,192)
Change in Net Assets Without Donor Restrictions	$ (853,460)	$ (2,573,441)

(continued)

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidated Statements of Changes in Net Assets

(continued)

	Year Ended June 30,	
	2020	2019
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Operating revenues and other additions	$ 45,707,552	$ 38,125,405
Operating expenses	(41,510,969)	(39,058,654)
Change in Net Assets from Operations	4,196,583	(933,249)
Change in Net Assets from Non-Operating Activities	(5,050,043)	(1,640,192)
Change in Net Assets Without Donor Restrictions	(853,460)	(2,573,441)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	10,807,134	13,084,929
Investment return, net	2,269,398	2,341,822
Change in value of split-interest agreements	16,266	50,756
Net assets released from restrictions:		
Release of appropriated endowment amounts	(2,235,940)	(2,051,855)
Release from restrictions due to acquisition of long-lived assets	-	(1,000,000)
Release of other time and purpose restrictions	(2,849,653)	(3,442,417)
Change in Net Assets With Donor Restrictions	8,007,205	8,983,235
Change in Net Assets	7,153,745	6,409,794
Net Assets, Beginning of Year	106,380,066	99,970,272
Net Assets, End of Year	$113,533,811	$ 106,380,066

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidated Statements of Cash Flows

	Year Ended June 30, 2020	Year Ended June 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from tuition and fees	$ 16,132,286	$ 16,442,514
Cash received from donors	18,945,920	13,804,533
Cash collected from contributions receivable	3,246,921	789,381
Cash received from auxiliary enterprises	3,129,504	3,246,586
Interest and dividends received	1,379,421	1,373,927
Miscellaneous receipts	661,796	773,253
Cash paid to employees	(18,285,015)	(17,994,714)
Cash paid for benefits	(6,494,552)	(5,780,820)
Cash paid to suppliers and vendors	(10,135,199)	(10,002,331)
Interest paid	(693,769)	(730,708)
Grants paid	(3,006,130)	(3,142,821)
Net Cash Provided (Used) by Operating Activities	4,881,183	(1,221,200)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,581,595)	(3,039,682)
Proceeds from note receivable collection	-	8,569
Proceeds on sale of investments	5,072,233	12,321,014
Purchase of investments	(5,901,063)	(11,333,547)
Net Cash Used by Investing Activities	(2,410,425)	(2,043,646)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for:		
Investment in perpetual endowment	3,018,560	1,220,316
Investment in term endowment	302,538	253,952
Investments subject to annuity and trust agreements	201,089	418,335
Investment in property and equipment	3,829,584	8,223,070
Other financing activities:		
Payments on annuity and trust obligations	(895,056)	(988,426)
Distribution of matured trust and annuities	(150,695)	16,500
Payments on notes payable	(749,022)	(729,510)
Net Cash Provided by Financing Activities	5,556,998	8,414,237
Change in Cash and Cash Equivalents	8,027,756	5,149,391
Cash and Cash Equivalents, Beginning of Year	16,257,462	11,108,071
Cash and Cash Equivalents, End of Year	$ 24,285,218	$ 16,257,462

(continued)

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Consolidated Statements of Cash Flows

(continued)

	Year Ended June 30,	
	2020	2019
SUPPLEMENTAL DISCLOSURE:		
Noncash contributions	$ 3,478,600	$ 4,478,102
Property and equipment acquired through accounts payable	$ 954,573	$ 215,533

See notes to consolidated financial statements

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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 of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

   OPERATING AND NONOPERATING REVENUES, EXPENSES, AND OTHER CHANGES IN NET ASSETS

   The consolidated statements of revenues, expenses, and other changes in net assets 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

OPERATING AND NONOPERATING REVENUES, EXPENSES, AND OTHER CHANGES IN NET ASSETS, continued

Nonoperating activities consist primarily of (a) pension related changes other than service cost, (b) investment return in excess of amounts utilized for operations as defined by the Seminary's spending policy, (c) release of restrictions from contributions given for the acquisition of property and equipment when acquired assets are placed into service, and (d) changes in value of annuity 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. Cash and cash equivalents, at times, may exceed federally insured limits. As of June 30, 2020 and 2019, 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 because the Seminary chooses to deposit with financial institutions of excellent financial health.

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, 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, 2020 and 2019. Management believes all amounts are 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS
Investments are reported at fair value with gains and losses reported in the consolidated statements of revenues, expenses, and other changes in net assets. 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 that do not trade in secondary markets and are not redeemable with the issuer on demand in current transactions, such as 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 trustees 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. Trust terms provide that the Seminary is to receive annually all or a portion of the income earned by the trust assets. 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 that 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 are 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, 2019 was recognized as revenue during the following year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

ANNUITY OBLIGATIONS
The Seminary has issued charitable gift annuity agreements. Under these agreements, a donor transfers 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 transferred for the gift annuity and the liability for future payments, which is 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 annuity agreements in the consolidated statements of revenues, expenses and other changes in net assets without donor restrictions. 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 $4,166,928 and $4,602,658 as of June 30, 2020 and 2019, 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.

CHARITABLE TRUSTS (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 the trusts' assets are offset in the balance sheet by refundable advances until an irrevocable beneficiary is specified. At the grantor's death, the remaining trust assets, if designated for the Seminary, will be recorded as gifts. If instead the remaining trust assets are designated for other beneficiaries, the trust assets will be distributed in accordance with the trust agreement. All trust income, deductions, and credits are reportable by the grantor for tax purposes.

Other trusts have named the Seminary as the irrevocable remainder beneficiary. The present value of the lifetime beneficiaries' interests are reported as liabilities under split-interest agreements using a market discount rate (currently between 2 and 5%) and mortality tables. The present value of the Seminary's remainder interest is reported as a restricted contribution in the period the agreement is signed, which increases net assets with donor restrictions. At the death of the lifetime beneficiaries, the time restriction on the net assets expires. If the grantor specified that remainder interest should support the Seminary without restriction, the net assets are reclassified to net assets without donor restrictions. If the grantor specified that the remainder interest should be used for a specified purpose, the net assets remain in net assets with donor restrictions until that purpose is accomplished, at which time the net assets are reclassified to net assets without donor restrictions. Certain trusts contain provisions to distribute assets to remaindermen other than the Seminary upon the death of the lifetime beneficiaries. If so, the portion attributable to the other remaindermen is included as a part of liabilities under split-interest agreements on the consolidated balance sheet. Note 7 provides additional information about the charitable trusts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

OPERATING LEASE RIGHT-OF-USE ASSETS AND LIABILITIES
In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The standard requires lessees to recognize the assets and liabilities that arise from leases in the balance sheet. Additionally, in July 2018, the FASB issued ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements*, which, among other things, provides an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the consolidated financial statements and instead recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. The Seminary adopted ASU 2016-02 and its related amendments as of June 30, 2020, which resulted in the recognition of operating right-of-use assets totaling $1,411,956 and $1,708,785 in 2020 and 2019, respectively, as well as operating lease liabilities totaling $1,565,848 and $1,844,573, respectively. The Seminary elected to adopt the transition relief provisions from ASU 2018-11 and recorded the impact of adoption as of July 1, 2019 without restating any prior-year amounts. The additional lease disclosures can be found in Note 8. There was no cumulative effect adjustment to the opening balance of net assets required.

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

Net assets without donor restrictions are resources 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 11, or invested in property and equipment.

Net assets with donor restrictions are resources whose use is subject to donors' stipulations 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 is recognized 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, the net assets related to the restricted contribution are reclassified from net assets with donor restrictions to net assets without donor restrictions to reflect that net assets are no longer restricted. The reclassification is reported in the consolidated statements of revenues, expenses, and other changes in net assets as net assets released from restrictions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUE AND EXPENSES, continued

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

The Seminary reports gifts of land, buildings, and equipment as support increasing net assets without donor restrictions 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 support increasing net assets with donor restrictions. 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 on the statement of revenues, expenses, and other changes in net assets without donor restrictions. Note 14 provides further information about expenses by both functional and natural classification.

ADVERTISING

Advertising costs are expensed as they are incurred. The Seminary expended approximately $466,000 and $385,000 for advertising for the years ended June 30, 2020 and 2019, 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.

3. ACCOUNTS AND NOTES RECEIVABLE–NET:
Accounts and notes receivable–net consist of:

	June 30, 2020	June 30, 2019
Student accounts receivable	$ 1,256,433	$ 834,591
Less allowance for doubtful accounts	(114,507)	(78,904)
	1,141,926	755,687
Other accounts receivable	48,842	109,126
	$ 1,190,768	$ 864,813

4. CONTRIBUTIONS RECEIVABLE–NET:
The Seminary recognizes contributions receivable for pledges, estate gifts receivable, and for irrevocable remainder interests in trusts held by others. As of June 30, 2020 and 2019, contributions receivable includes estate and trust gifts receivable totaling $1,043,199 and $1,746,065, respectively. Contributions receivable are expected to be collected in the following manner:

	June 30, 2020	June 30, 2019
Less than one year	$ 1,027,992	$ 1,558,275
One to five years	360,115	160,842
More than five years	72,767	44,207
	1,460,874	1,763,324
Less unamortized discount	(60,250)	(17,259)
	$ 1,400,624	$ 1,746,065

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

5. INVESTMENTS AND FAIR VALUE DISCLOSURES:

Investments are held for the following purposes:

	June 30, 2020	June 30, 2019
Endowment investments	$ 51,777,865	$ 47,935,179
Annuity investments, including reserves	4,166,928	4,602,658
Charitable trusts	8,206,299	8,504,592
Amounts held for others	14,810,837	17,445,647
Donor-advised funds	10,900,101	11,516,039
Other invested assets	2,695,664	1,695,553
	$ 92,557,694	$ 91,699,668

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 for the purpose of indicating the relative levels of uncertainty in the fair value measurements as of the reporting date. 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 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. 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. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

The estimated fair value of alternative investments, that is 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 discussions 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.

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

5. INVESTMENTS AND FAIR VALUE DISCLOSURES, continued:

The following tables present the fair value measurements of assets reported in the accompanying consolidated balance sheet 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, 2020:				
Investments assigned to hierarchical valuation levels:				
Fixed income:				
Domestic	$ 18,636,414	$ 18,636,414	$ -	$ -
International	2,846,758	2,846,758	-	-
	21,483,172	21,483,172	-	-
Equity:				
Domestic	22,604,293	22,604,293	-	-
International	23,946,807	23,946,807	-	-
	46,551,100	46,551,100	-	-
Natural resources	1,689,566	1,689,566	-	-
Real estate funds	2,953,231	2,070,843	-	882,388
Listed infrastructure fund	2,952,201	2,952,201	-	-
Private equity	275,166	-	-	275,166
	75,904,436	$ 74,746,882	$ -	$ 1,157,554
Investments measured at cost:				
Cash and cash equivalents	3,721,438			
Investments measured at net asset value:				
Master limited partnerships	411,314			
Real estate partnerships	474,500			
Hedge funds – fund of funds	9,962,071			
Private equity partnerships	2,083,935			
	$ 92,557,694			
Perpetual trusts held by others	$ 503,174	$ -	$ -	$ 503,174

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

5. INVESTMENTS AND FAIR VALUE DISCLOSURES, 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, 2019:				
Investments assigned 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	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 partnerships	340,951			
Hedge funds – fund of funds	9,952,078			
Private equity partnerships	2,119,085			
	$ 91,699,668			
Perpetual trusts held by others	$ 515,290	$ -	$ -	$ 515,290

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Notes to Consolidated Financial Statements

June 30, 2020 and 2019

5. INVESTMENTS AND FAIR VALUE DISCLOSURES, 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 assigned to hierarchical valuation levels:				
As of June 30, 2020:				
Fixed income:				
Domestic	$ 12,625,760	$ 12,625,760	$ -	$ -
Equity:				
Domestic	6,797,426	6,797,426	-	-
International	7,427,542	7,427,542	-	-
	14,224,968	14,224,968	-	-
Real estate	953,055	953,055	-	-
Listed infrastructure fund	631,754	631,754	-	-
	28,435,537	$ 28,435,537	$ -	$ -
Investments measured at cost:				
Cash and cash equivalents	305,342			
Investments measured at net asset value:				
Hedge funds – fund of funds	3,047,909			
Pension plan investments	$ 31,788,788			
Cash	$ 21,942			
Accounts receivable	8,000			
Total Plan Assets	$ 31,818,730			

5. INVESTMENTS AND FAIR VALUE DISCLOSURES, 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 assigned to hierarchical valuation levels:				
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	97,877			
Total Plan Assets	$ 30,741,028			

5. INVESTMENTS AND FAIR VALUE DISCLOSURES, continued:

Changes in investments and perpetual trusts held by others using fair value measurements using significant unobservable inputs (Level 3) for the year ended June 30, 2020:

	Perpetual trusts	Real Estate	Private Equity	Total
Beginning balance as of June 30, 2019	$ 515,290	$ 192,610	$ 261,636	$ 969,536
Total unrealized gains or losses included in investment income	(12,116)	34	13,530	1,448
Purchases, issuances, sales, and settlements:				
Purchases	-	689,744	-	689,744
Ending balance as of June 30, 2020	$ 503,174	$ 882,388	$ 275,166	$ 1,660,728

Changes in investments and perpetual trusts held by others 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

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, 2020:

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	$ 9,962,071	2	N.A.	$ -	No lockup	Redemption annually with 90 day notice	None
Real Assets – Illiquid							
Real Estate (REITS) and natural resources	885,814	5	Upon liquidation of underlying investments	836,107	N.A	N.A*	N.A
Private Equity:							
Secondary private investments	361,786	1	12 years	696,268	N.A	N.A*	N.A
Distressed, buyout, and venture capital	1,722,149	7	4 to 10 years	1,064,071	N.A	N.A*	N.A
	$ 12,931,820			$ 2,596,446			

* 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, 2020 and 2019, the Seminary had unfunded commitments of $2,596,446 and $3,334,722, 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, 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	2,054,123	8	4 to 10 years	1,327,940	N.A	N.A*	N.A
	$ 12,941,120			$ 3,334,722			

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

6. ENDOWMENT FUNDS:

The Seminary's endowment consists of 188 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, 2020:

		With donor restrictions			
	Without Donor Restrictions	Original Gift Amount	Accumulated Gains (Losses) and Other	Total with Donor Restrictions	Total Funds
Donor-restricted funds	$ -	$ 42,234,232	$ 9,012,324	$ 51,246,556	$ 51,246,556
Board-designated funds	637,757	-	-	-	637,757
	$ 637,757	$ 42,234,232	$ 9,012,324	$ 51,246,556	$ 51,884,313

Term endowments, which total $1,270,049 and $949,035 at June 30, 2020 and June 30, 2019, respectively, are included in accumulated gains (losses) and other. Term endowments, which 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, 2020:

		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	$ 642,427	$ 39,264,697	$ 8,435,112	$ 47,699,809	$ 48,342,236
Investment return, net	26,894	-	2,461,011	2,461,011	2,487,905
Contributions	-	3,018,560	302,538	3,321,098	3,321,098
Amounts appropriated for expenditure	(31,564)	-	(2,235,362)	(2,235,362)	(2,266,926)
Reclassification	-	(49,025)	49,025	-	-
	(4,670)	2,969,535	577,212	3,546,747	3,542,077
Endowment net assets, end of year	$ 637,757	$ 42,234,232	$ 9,012,324	$ 51,246,556	$ 51,884,313

DALLAS THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

6. ENDOWMENT FUNDS, continued:

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

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

		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	$ 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

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. There were no such deficiencies as of June 30, 2020 and 2019.

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. 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 for the current year 5 percent of its endowment fund's average fair value over the trailing 12 previous calendar quarters. 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.

7. CHARITABLE TRUSTS (SPLIT-INTEREST AGREEMENTS):

As explained in Note 2, the Seminary serves as trustee for irrevocable charitable remainder trusts. Until the death of the lifetime beneficiaries, the Seminary must invest the trust assets and comply with the trust terms. If the Seminary is the irrevocable beneficiary of the remainder interest of a trust, the difference between the trust's assets and its liability to make payments during the trust term is reported as net assets with donor restrictions. If another entity is the irrevocable beneficiary of the remainder interest, the difference between the trusts's assets and its liability is reported as an amount held on behalf of others. If the grantor has the ability to change the remainder beneficiary, a refundable advance is reported equal to the trust assets. The assets and related liabilities of the charitable trusts for which the Seminary is trustee are included in the consolidated balance sheet, as shown below:

	June 30, 2020	June 30, 2019
Trust assets (at fair value):		
Investments	$ 8,206,299	$ 8,459,630
Prepaid expense	-	12,775
	$ 8,206,299	$ 8,472,405
Trust liabilities and net assets:		
Refundable advances (revocable beneficiaries)	$ 5,443,417	$ 5,540,450
Amounts held on behalf of others	622,103	688,692
Liabilities under split-interest agreements	1,299,891	1,432,868
Total trust net assets–with donor restrictions	840,888	810,395
	$ 8,206,299	$ 8,472,405

8. OPERATING LEASE RIGHT-OF-USE ASSETS AND LIABILITIES:

The Seminary leases facilities under noncancelable operating lease agreements expiring at various dates through 2025. The lease for the Houston campus represents substantially all of the lease liability. The discount rate represents the Seminary's estimated incremental borrowing rate at July 1, 2018, the beginning of the earliest comparative period. Nonlease components, such as payments required under the lease for common area maintenance, are not included in the measurement of the lease liability. These are expensed as incurred. Variable lease expense includes in-kind services provided to the landlord. The Seminary has the right to extend the Houston campus facility lease for two additional periods of up to five years each. These additional periods were not included in the lease liability due to their lack of sufficient economic incentive. The Seminary does not have finance type leases.

	June 30, 2020	June 30, 2019
Operating lease right-of-use assets	$ 1,411,956	$ 1,708,785
Operating lease liabilities	$ 1,565,848	$ 1,844,573
Operating lease cost	$ 361,804	$ 361,706
Variable lease cost	$ 8,320	$ 9,847
Cash paid for amounts included in the measurement	$ 343,699	$ 334,549
Weighted-average remaining lease term	4.9 Years	5.9 Years
Weighted-average discount rate	3.8%	3.8%

Maturities of operating lease liabilities are as follows:

Years Ending June 30,	Amounts
2021	$ 345,287
2022	330,876
2023	339,831
2024	348,883
2025	357,936
Total lease payments	1,722,813
Less imputed interest	(156,965)
Total	$ 1,565,848

9. PROPERTY AND EQUIPMENT–NET:

Property and equipment–net consists of:

	June 30, 2020	June 30, 2019
Land	$ 7,262,267	$ 7,262,267
Land improvements	1,040,699	1,040,699
Buildings	79,587,948	80,414,908
Library acquisitions	7,371,744	7,201,608
Equipment	2,447,767	2,502,917
	97,710,425	98,422,399
Less accumulated depreciation	(47,762,072)	(46,859,170)
	49,948,353	51,563,229
Construction in progress	2,483,470	569,042
	52,431,823	52,132,271
Less notes payable secured by property and equipment	(12,536,236)	(13,285,258)
Net investment in property and equipment	$ 39,895,587	$ 38,847,013

10. NOTES PAYABLE:

Notes payable consist of:

	June 30, 2020	June 30, 2019
Note payable to Frost Bank of $10,000,000, fixed interest rate of 5.34%, with a $5,367,042 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.	$ 5,949,248	$ 6,337,193
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.	6,586,988	6,948,065
	$ 12,536,236	$ 13,285,258

10. NOTES PAYABLE, continued:

Future minimum payments for notes payable consist of:

Year Ended June 30,		
2021	$	784,779
2022		5,937,540
2023		412,697
2024		5,401,220
	$	12,536,236

The notes payable agreements contain covenants which include minimum liquidity and debt service coverage ratios. At June 30, 2020, management believes they are in compliance with these covenants.

11. NET ASSETS:

Net assets consist of:

	June 30, 2020	June 30, 2019
Net assets without donor restrictions:		
Undesignated	$ 5,893,863	$ 3,115,195
Donor-advised funds	10,924,583	11,562,697
Board-designated for debt repayment	1,500,000	1,500,000
Board-designated endowment	637,757	642,427
State-required annuity reserves	2,257,047	2,548,556
Pension benefit obligation	(17,349,162)	(13,602,753)
Net investment in property and equipment	39,895,587	38,847,013
Total net assets without donor restrictions	43,759,675	44,613,135

(continued)

11. NET ASSETS, continued:

	June 30, 2020	June 30, 2019
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Scholarships and grants	$ 4,780,745	$ 3,468,442
Academic, student programs, and support	749,246	1,339,017
Buildings and equipment	11,468,065	7,686,641
	16,998,056	12,494,100
Subject to the passage of time:		
Contributions receivable from third-party trusts	185,462	247,337
Remainder interests in split-interest agreements	840,888	810,395
	1,026,350	1,057,732
Subject to the Seminary's spending policy and appropriation:		
Accumulated gains and term endowments	9,012,324	8,435,112
Endowment funds restricted in perpetuity	42,234,232	39,264,697
	51,246,556	47,699,809
Subject to restriction in perpetuity:		
Perpetual trusts held by others	503,174	515,290
	503,174	515,290
Total net assets with donor restrictions	69,774,136	61,766,931
Total net assets	$ 113,533,811	$ 106,380,066

The Seminary's governing board through specific action has created self-imposed limits on net assets without donor restrictions. These net assets can be drawn upon for any purpose if the board approves such action.

12. LIQUIDITY AND FINANCIAL ASSETS AVAILABLE:

The following table reflects the Seminary's financial assets as of June 30, 2020 and 2019, 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 financial assets set aside by board designations could be drawn upon if the board approves that action.

	June 30, 2020	June 30, 2019
Financial assets:		
Cash and cash equivalents	$ 24,285,218	$ 16,257,462
Accounts, notes, and contributions receivable	2,591,392	2,610,878
Investments	92,557,694	91,699,668
Perpetual trusts held by others	503,174	515,290
Financial assets, at year-end	119,937,478	111,083,298
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	(4,162,299)	(4,004,548)
Accounts, notes and contributions receivable collectible beyond one year	(372,632)	(187,790)
Investments and other financial assets held for others	(15,076,047)	(18,464,219)
Perpetual and term endowments and accumulated earnings subject to appropriation beyond one year	(46,739,010)	(43,072,641)
Investments held in trusts and various state-required annuity reserves	(10,463,346)	(11,008,186)
Investments in board-designated endowments	(637,757)	(642,427)
Cash restricted for acquisition of long-lived assets	(8,984,595)	(7,117,599)
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	$ 32,001,792	$ 25,085,888

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, 2021. The interest rate is prime plus 0.25% (3.5% as of June 30, 2020), with interest due monthly and principal due upon maturity. No funds were borrowed under this agreement during the fiscal year ended June 30, 2020.

13. TUITION AND FEES:

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, 2020	Year Ended June 30, 2019
Tuition and fees	$ 21,517,984	$ 20,867,682
Less financial aid and scholarships	(4,652,249)	(3,838,102)
	$ 16,865,735	$ 17,029,580

14. EXPENSES BY BOTH NATURE AND FUNCTION:

The consolidated 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 based 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, 2020:

	Program Activities			Supporting Activities			
	Academic and Student Programs	Public Service	Auxiliaries	Administrative Support	Facilities Operation & Maintenance	Fundraising	Total Expense
Salaries and wages	$ 12,252,886	$ 368,929	$ 883,415	$ 4,161,663	$ 1,072,458	$ 1,400,321	$ 20,139,672
Employee benefits	3,979,815	117,427	294,952	2,430,384	360,116	421,279	7,603,973
Services, supplies, and other	2,848,350	138,744	598,715	1,412,903	710,196	1,659,859	7,368,767
Occupancy, utilities, and maintenance	88,284	1,119	464,989	26,996	1,509,227	4,742	2,095,357
Grants to others*	855,963	2,174,826	-	-	-	-	3,030,789
Depreciation and amortization	706,935	2,933	1,028,822	273,115	234,055	50,646	2,296,506
Interest	-	-	690,723	9,201	-	-	699,924
	20,732,233	2,803,978	3,961,616	8,314,262	3,886,052	3,536,847	43,234,988
Facilities operation and maintenance	2,337,955	146,054	442,871	769,924	(3,886,052)	189,248	-
Total expenses	$ 23,070,188	$ 2,950,032	$ 4,404,487	$ 9,084,186	$ -	$ 3,726,095	$ 43,234,988

*Grants to others includes student scholarships funded by HEERF funding in the amount of $215,445.

14. EXPENSES BY BOTH NATURE AND FUNCTION, continued:

Functional expenses by natural classification as of June 30, 2019:

	Program Activities			Supporting Activities			
	Academic and Student Programs	Public Service	Auxiliaries	Administrative Support	Facilities Operation & Maintenance	Fundraising	Total Expense
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

15. EMPLOYEE BENEFIT PLANS:

The Seminary has a noncontributory defined benefit pension plan (the Plan) covering approximately one third of its full-time employees. The benefits are based on years of service and the average of the employee's highest-paid five consecutive years of employment. The plan was frozen to new employees effective January 1, 2003.

The Seminary uses June 30 of the current fiscal year as the measurement date for its plan.

ASC Topic 715, *Compensation –Retirement Benefits*, requires employers to fully recognize the overfunded or underfunded positions (the difference between the fair value of plan assets and the benefit obligation) of defined benefit pension, retiree healthcare, and other postretirement plans in their balance sheets. For a pension plan, the benefit obligation would be the projected 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 $17,349,162 and $13,602,753 as of June 30, 2020 and 2019, respectively. The application of ASC Topic 715 resulted in a decrease in net assets of $3,746,409 and a decrease in net assets of $946,309 for the years ended June 30, 2020 and 2019, 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,	
	2020	2019
Projected benefit obligation	$ (49,167,892)	$ (44,343,781)
Plan assets at fair value	31,818,730	30,741,028
Funded status	$ (17,349,162)	$ (13,602,753)
Accumulated benefit obligation	$ 45,884,492	$ 41,643,580

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

	2020	2019
Net gain	$ 20,857,643	$ 17,328,777
Funded status	$ 20,857,643	$ 17,328,777

15. EMPLOYEE BENEFIT PLANS, continued:

Net periodic benefit cost, included in functional expenses:

	Year Ended June 30,	
	2020	2019
Service costs	$ 523,524	$ 506,259
Interest costs	1,504,984	1,608,785
Expected return on plan assets	(1,681,014)	(1,684,621)
Reclassification of net gain or loss	1,900,049	1,331,825
Net periodic pension cost other than service cost	1,724,019	1,255,989
Net periodic pension costs	$ 2,247,543	$ 1,762,248

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

	Year Ended June 30,	
	2020	2019
Net gain	$ 5,436,915	$ 2,583,885
Amortization of net loss to net periodic benefit cost	(1,900,049)	(1,331,825)
	$ 3,536,866	$ 1,252,060

15. EMPLOYEE BENEFIT PLANS, continued:

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

	June 30,	
	2020	2019
Net gain	$ 2,316,984	$ 1,516,987
Funded status	$ 2,316,984	$ 1,516,987

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

	June 30,	
	2020	2019
Discount rate:		
Net periodic pension cost	3.39%	3.96%
Benefit obligations	2.56%	3.39%
Expected return on plan assets, beginning of fiscal year	5.50%	5.75%
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, 2019	July 1, 2018
Measurement date	June 30, 2020	June 30, 2019

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 $2,038,000 and $2,068,000 during the fiscal years ended June 30, 2020 and 2019, respectively. The Seminary expects to contribute $2,046,000 to its pension plan in 2020.

15. EMPLOYEE BENEFIT PLANS, continued:

For the years ended June 30, 2020 and 2019, benefits paid from the plan were $2,138,571 and $2,268,691 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,	
2021	$ 2,452,707
2022	2,575,026
2023	2,591,211
2024	2,656,584
2025	2,649,011
Thereafter	12,886,445
	$ 25,810,984

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. The target rate of return objective is 5.5% net of fees.

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:

	June 30, 2020	June 30, 2019	Target
Asset Category:			
Cash and cash equivalents	1%	1%	1%
Equities	44%	46%	35%
Fixed income	40%	40%	44%
Real assets	5%	3%	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.

16. 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, 2020 and 2019, was approximately $1,264,297 and $751,483, respectively.

17. FEDERAL GRANTS:

During April 2020, the Seminary applied for and received the Higher Education Emergency Relief Fund (HEERF) grant to provide emergency financial aid grants to students for expenses related to the disruption of campus operations due to the coronavirus (COVID-19) outbreak. Under HEERF, the Seminary was allocated $153,373 to provide emergency grants to students. As of June 30, 2020, the full amount of $153,373 of grants had been awarded to students and is included in contributions with donor restrictions on the consolidated statements of changes in net assets.

Under HEERF, the Seminary was also eligible to receive $153,373 of funds to be used for institutional support. As of June 30, 2020, the Seminary used $62,073 for additional emergency student aid grants, reimbursed themselves $48,800 for refunds to students of graduation fees, and used $21,127 for laptop computers for faculty teaching remotely, needed due to the impact of COVID-19, thus meeting the conditions of the grant. This is included in contributions with donor restrictions on the consolidated statements of changes in net assets.

18. 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, 2020 and 2019, were $327,000 and $257,000, respectively. While management believes these reserves are adequate, the ultimate liabilities may be more or less than the amounts provided.

The Seminary entered into a construction contract for a new chapel and student life center. The amount of future commitments for construction payments were approximately $11,300,000 at June 30, 2020.

18. COMMITMENTS AND CONTINGENCIES, continued:

The Seminary received a Paycheck Protection Program (PPP) loan of $4,600,600 granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). PPP loans are considered conditional contributions, with a right-of return in the form of an obligation to be repaid if a barrier to entitlement is not met. The barrier is that PPP loan funds must be used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent and utilities) incurred following receipt of the funds. Substantially all of the conditions were met by June 30, 2020 and $4,600,600 was recognized as a contribution without donor restrictions in the consolidated statements of revenues, expenses and other changes in net assets without donor restrictions and the consolidated statements of changes in net assets. Application for forgiveness of the loan will be made when the bank notifies the Seminary it is accepting applications, with inclusion of compliance substantiation and certification therein. However, at the time of issuance of the consolidated financial statements, notice of forgiveness had not been received from the lender. However, if a portion of the grant must be repaid, the terms (1% per annum, repayable over a maximum of five years with a six-month deferral period) are such that the institution has sufficient liquidity to repay the unforgiven portion.

19. RISKS AND UNCERTAINTIES:

In March of 2020, the World Health Organization declared the outbreak of the COVID-19 a pandemic which continues to spread throughout the United States. COVID-19 has caused a severe negative impact on the world economy and has contributed to significant declines and volatility in financial markets. In response to a statewide order for institutions of higher education to take precautions minimizing the spread of the virus, the Seminary announced in mid-March that the spring semester classes would be completed using remote instruction. Initially, the Seminary held significant uncertainty as to future enrollment levels and expectations of donor giving capabilities. Thus, contingency planning commenced. By June 30, 2020, summer term enrollment levels remained stable and donor giving remained strong. Auxiliary, conference, and tour revenues declined but this was substantially offset by lower related expenses. Costs incurred to ensure the safety of students and employees were not deemed significant. To offset expected revenue shortfalls, the Seminary implemented a voluntary employee reduction plan which allowed for reduction in budgeted expenses for fiscal year 2020-2021. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Seminary for future periods. Management is carefully monitoring the situation and evaluating its options as circumstances evolve.

20. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through September 25, 2020, which is the date the consolidated financial statements were available to be issued.