



Gordon-Conwell Theological Seminary

FINANCIAL STATEMENTS

June 30, 2011 and 2010

With Independent Auditors' Report



GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Gordon-Conwell Theological Seminary, Inc.

We have audited the accompanying statements of financial position of Gordon-Conwell Theological Seminary, Inc. (the Seminary) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Seminary's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gordon-Conwell Theological Seminary, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
October 12, 2011

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Statements of Financial Position

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 437,606	\$ 523,625
Accounts receivable (less allowance of \$579,879 in 2011 and \$523,100 in 2010)	1,181,791	1,119,828
Student loans	949,341	890,304
Pledges receivable (less present value discount of \$284,562 in 2011 and \$403,900 in 2010)	2,812,614	870,464
Inventories and supplies	282,852	246,783
Prepaid expenses and other	487,213	376,352
Notes receivable	2,268,861	2,268,861
Beneficial interest in charitable remainder trusts	3,407,658	2,989,660
Investments	42,748,221	38,191,471
Land, buildings and equipment - net	<u>34,031,192</u>	<u>34,409,184</u>
Total assets	<u>\$ 88,607,349</u>	<u>\$ 81,886,532</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 622,412	\$ 454,112
Accrued payroll and employee benefits	919,418	832,351
Deferred income and student deposits	851,505	797,985
Obligation under capital leases	333,287	324,500
Note payable	1,521,995	1,842,090
Annuities payable and trust obligations	2,293,221	1,816,844
Conditional asset retirement obligations	192,733	192,733
Advances from government for Federal student loans	<u>945,488</u>	<u>982,953</u>
Total liabilities	<u>7,680,059</u>	<u>7,243,568</u>
Commitments (Notes A, K and L)		
NET ASSETS		
Unrestricted	26,469,943	25,558,849
Temporarily restricted	10,656,121	7,355,172
Permanently restricted	<u>43,801,226</u>	<u>41,728,943</u>
Total net assets	<u>80,927,290</u>	<u>74,642,964</u>
Total liabilities and net assets	<u>\$ 88,607,349</u>	<u>\$ 81,886,532</u>

The accompanying notes are an integral part of these financial statements.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Statement of Activities

For the year ended June 30, 2011

(with summarized financial information for the year ended June 30, 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2010</u>
OPERATING ACTIVITIES:					
Revenues, gains and other support:					
Student tuition and fees	\$ 15,010,603	\$ -	\$ -	\$ 15,010,603	\$ 14,650,503
Less student aid	<u>(4,256,351)</u>	<u>-</u>	<u>-</u>	<u>(4,256,351)</u>	<u>(4,258,882)</u>
	10,754,252	-	-	10,754,252	10,391,621
Private gifts and grants	2,200,810	-	-	2,200,810	2,080,250
Government grants and contracts	124,810	-	-	124,810	113,764
Investment income appropriated for operations	1,947,855	-	-	1,947,855	1,947,605
Other income	311,615	-	-	311,615	300,465
Auxiliary enterprises	3,736,815	-	-	3,736,815	3,683,140
Net assets released from restrictions	<u>1,696,009</u>	<u>-</u>	<u>-</u>	<u>1,696,009</u>	<u>1,706,738</u>
Total revenues, gains and other support	<u>20,772,166</u>	<u>-</u>	<u>-</u>	<u>20,772,166</u>	<u>20,223,583</u>
Expenses:					
Program					
Instruction	7,543,656	-	-	7,543,656	7,282,309
Academic support	1,507,129	-	-	1,507,129	1,391,976
Student services	1,613,947	-	-	1,613,947	1,493,722
Libraries	1,428,049	-	-	1,428,049	1,331,222
Auxiliary enterprises	3,990,586	-	-	3,990,586	3,674,871
Sponsored academic projects	<u>493,542</u>	<u>-</u>	<u>-</u>	<u>493,542</u>	<u>290,845</u>
Total program	16,576,909	-	-	16,576,909	15,464,945
Management and general	3,661,914	-	-	3,661,914	3,356,085
Fundraising	<u>1,690,629</u>	<u>-</u>	<u>-</u>	<u>1,690,629</u>	<u>1,362,706</u>
Total expenses	<u>21,929,452</u>	<u>-</u>	<u>-</u>	<u>21,929,452</u>	<u>20,183,736</u>
Change in net assets from operating activities	(1,157,286)	-	-	(1,157,286)	39,847
NON-OPERATING ACTIVITIES:					
Other gifts	120,935	3,169,483	142,511	3,432,929	2,955,859
Change in swap value and other income	18,050	94,520	452	113,022	35,281
Change in value of trusts and annuities payable	833	168,975	(122,164)	47,644	(2,845)
Investment income net after operations	1,475,796	2,016,746	2,051,484	5,544,026	1,932,440
Net assets released from restrictions appropriated for capital purposes	452,766	(452,766)	-	-	-
Net assets released from restrictions – operations	<u>-</u>	<u>(1,696,009)</u>	<u>-</u>	<u>(1,696,009)</u>	<u>(1,706,738)</u>
CHANGE IN NET ASSETS	911,094	3,300,949	2,072,283	6,284,326	3,253,844
NET ASSETS AT BEGINNING OF YEAR	<u>25,558,849</u>	<u>7,355,172</u>	<u>41,728,943</u>	<u>74,642,964</u>	<u>71,389,120</u>
NET ASSETS AT END OF YEAR	<u>\$ 26,469,943</u>	<u>\$ 10,656,121</u>	<u>\$ 43,801,226</u>	<u>\$ 80,927,290</u>	<u>\$ 74,642,964</u>

The accompanying notes are an integral part of these financial statements.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Statement of Activities

For the year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING ACTIVITIES:				
Revenues, gains and other support:				
Student tuition and fees	\$ 14,650,503	\$ -	\$ -	\$ 14,650,503
Less student aid	<u>(4,258,882)</u>	<u>-</u>	<u>-</u>	<u>(4,258,882)</u>
	10,391,621	-	-	10,391,621
Private gifts and grants	2,080,250	-	-	2,080,250
Government grants and contracts	113,764	-	-	113,764
Investment income appropriated for operations	1,947,605	-	-	1,947,605
Other income	300,465	-	-	300,465
Auxiliary enterprises	3,683,140	-	-	3,683,140
Net assets released from restrictions	<u>1,706,738</u>	<u>-</u>	<u>-</u>	<u>1,706,738</u>
Total revenues, gains and other support	<u>20,223,583</u>	<u>-</u>	<u>-</u>	<u>20,223,583</u>
Expenses:				
Program				
Instruction	7,282,309	-	-	7,282,309
Academic support	1,391,976	-	-	1,391,976
Student services	1,493,722	-	-	1,493,722
Libraries	1,331,222	-	-	1,331,222
Auxiliary enterprises	3,674,871	-	-	3,674,871
Sponsored academic projects	<u>290,845</u>	<u>-</u>	<u>-</u>	<u>290,845</u>
Total program	15,464,945	-	-	15,464,945
Management and general	3,356,085	-	-	3,356,085
Fundraising	<u>1,362,706</u>	<u>-</u>	<u>-</u>	<u>1,362,706</u>
Total expenses	<u>20,183,736</u>	<u>-</u>	<u>-</u>	<u>20,183,736</u>
Change in net assets from operating activities	39,847	-	-	39,847
NON-OPERATING ACTIVITIES:				
Other gifts	51,886	2,781,315	122,658	2,955,859
Change in swap value and other income	(2,605)	37,886	-	35,281
Change in value of trusts and annuities payable	(13,709)	229,481	(218,617)	(2,845)
Investment income net after operations	624,971	318,275	989,194	1,932,440
Net assets released from restrictions appropriated for capital purposes	170,148	(170,148)	-	-
Net assets released from restrictions – operations	<u>-</u>	<u>(1,706,738)</u>	<u>-</u>	<u>(1,706,738)</u>
CHANGE IN NET ASSETS	870,538	1,490,071	893,235	3,253,844
NET ASSETS AT BEGINNING OF YEAR	<u>24,688,311</u>	<u>5,865,101</u>	<u>40,835,708</u>	<u>71,389,120</u>
NET ASSETS AT END OF YEAR	<u>\$ 25,558,849</u>	<u>\$ 7,355,172</u>	<u>\$ 41,728,943</u>	<u>\$ 74,642,964</u>

The accompanying notes are an integral part of these financial statements.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Statements of Cash Flows

For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING ACTIVITIES:		
Change in net assets	\$ 6,284,326	\$ 3,253,844
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gifts for long-term restricted purposes	(147,707)	(296,149)
Net unrealized and realized gain on investments	(6,519,630)	(2,963,061)
Depreciation	1,125,658	1,192,782
Provision for uncollectible accounts receivable	18,511	18,510
Change in value of interest rate swap	(18,050)	2,065
Change in overall operating assets and liabilities:		
Accounts receivable	(80,474)	10,959
Student loans	(59,037)	121,237
Pledges receivable	(1,942,150)	125,103
Contribution receivable – remainder trusts	(417,998)	(575,314)
Inventories and supplies	(36,069)	32,797
Prepaid expenses and other	(110,861)	(123,882)
Accounts payable	168,300	58,957
Accrued payroll	87,067	(4,701)
Deferred income and student deposits	53,520	(84,002)
Annuities payable	<u>476,377</u>	<u>154,204</u>
Net cash (used for) provided by operating activities	<u>(1,118,217)</u>	<u>923,349</u>
INVESTING ACTIVITIES:		
Purchases of investments	(15,786,345)	(20,490,747)
Proceeds from sales of investments	17,749,225	20,772,917
Issuance of notes receivable	-	(380,000)
Equipment purchases and building renovations	<u>(622,038)</u>	<u>(529,244)</u>
Net cash provided by (used for) investing activities	<u>1,340,842</u>	<u>(627,074)</u>
FINANCING ACTIVITIES:		
Receipt of gifts and other income for long-term restricted purposes	147,707	292,806
(Decrease) increase in advances from government	(37,465)	25,375
Payment on note payable	(302,045)	(301,590)
Payments on capital leases	<u>(116,841)</u>	<u>(150,653)</u>
Net cash used for financing activities	<u>(308,644)</u>	<u>(134,062)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(86,019)	162,213
Cash and cash equivalents at beginning of year	<u>523,625</u>	<u>361,412</u>
Cash and cash equivalents at end of year	<u>\$ 437,606</u>	<u>\$ 523,625</u>
Cash paid for interest	<u>\$ 86,797</u>	<u>\$ 99,783</u>
Non-cash transactions		
Equipment purchased through the issuance of capital leases	<u>\$ 125,628</u>	<u>\$ 66,354</u>

The accompanying notes are an integral part of these financial statements.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

NOTE A – ORGANIZATIONAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Gordon-Conwell Theological Seminary, Inc. (the Seminary) is a multi-denominational, educational institution with a mission to train students, in cooperation with the evangelical Church, to become skilled in ministry. The Seminary offers fourteen separate masters and doctoral degree programs. The Seminary also offers non-degree certificate programs for individuals seeking adult continuing education without a degree. The Seminary's campuses are located in Hamilton and Boston, Massachusetts and Charlotte, North Carolina. The Charlotte campus has an extension site in Jacksonville, Florida.

The Seminary participates in student financial aid programs sponsored by the United States Department of Education which facilitates the payment of tuition and other expenses for certain students.

Financial Statement Presentation

The financial statements of the Seminary have been prepared on the accrual basis of accounting.

The accompanying financial statements have been prepared to focus on the Seminary as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. The Seminary's transactions are categorized as follows:

Permanently Restricted Activities - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Seminary. Generally, the donors of these assets permit the institution to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted Activities - Net assets subject to donor-imposed stipulations that can be fulfilled and removed by actions of the Seminary and/or the passage of time.

Unrestricted Activities - Net assets not subject to donor-imposed stipulations.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

**NOTE A – ORGANIZATIONAL INFORMATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES – Continued**

Contributions

The Seminary reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. As donor stipulated time restrictions end or purpose restrictions are accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date received.

Contributions to be received after one year are discounted using a rate of interest commensurate with the risk involved for instruments of similar duration. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution and nature of fund-raising activity.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class. A reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

The Seminary reports gifts of land, buildings, and equipment as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Seminary reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

**NOTE A – ORGANIZATIONAL INFORMATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES – Continued**

Conditional Asset Retirement Obligations

In the normal course of its operations, the Seminary incurs legal obligations to perform certain retirement activity with regard to the ultimate disposition of some of its tangible long-lived assets due to the nature of material used in their construction or operation. The timing of the performance of these retirement activities is within the control of the Seminary and, due to the long useful lives of these assets, will be performed at some future date. The Seminary had recorded an estimated liability of approximately \$192,733 for these activities as of June 30, 2007. The estimates at June 30, 2011 and 2010 remain at \$192,733. The estimated liability relates principally to buildings that are substantially depreciated.

Cash and Cash Equivalents, including Concentration of Credit Risk

The Seminary considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. Cash equivalents held temporarily by the Seminary's investment managers are considered part of investments. The Seminary maintains its cash in bank deposit accounts and money market accounts, which at times may exceed federally insured limits of \$250,000. The Seminary has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash and cash equivalents.

Inventories and Supplies

Inventories consisting of text books, stationery, clothing, cards and gifts are stated at the lower of cost (first-in, first-out) or market.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Seminary provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Seminary has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

**NOTE A – ORGANIZATIONAL INFORMATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES – Continued**

Student Loans Receivable

The balance of student loans receivable includes both funds advanced to the Seminary by the United States Department of Education under the Federal Perkins Student Loan Program and amounts funded by the Seminary from unrestricted net assets. Repayments of principal and interest on student loans receivable generally do not commence until after the borrower graduates or otherwise ceases enrollment. The Federal Perkins Student Loan Program has provisions for deferment, forbearance and cancellation of the individual loans. Principal payments, interest, and losses due to cancellation are shared by the Seminary and the U.S. Government in proportion to their share of funds provided. Such funds may be re-loaned by the Seminary after collection. Amounts advanced by the federal government under this program are ultimately refundable and are classified as advances from government for Federal student loans.

Investments

Investments are reported at fair value. All of the Seminary's investments are in securities for which a readily determinable fair value exists. The net increase (decrease) in realized and unrealized appreciation (depreciation) in the fair value of investments is included in the statement of activities in the appropriate net asset classification.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost less accumulated depreciation. Contributions of property and equipment are recorded at fair market value on the date of the contribution.

Depreciation is recorded on the straight-line basis over the estimated useful lives of buildings and improvements (20 to 50 years), furniture and equipment (10 years) and computer equipment (5 years). Estimated salvage values of 25% of original cost are used in computing depreciation for buildings.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

**NOTE A – ORGANIZATIONAL INFORMATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES – Continued**

Deferred Income and Student Deposits

Deferred income and student deposits generally represent tuition paid in advance, which is recognized as income when the related educational services are provided.

Annuity Payment Liability

The annuity value related to the charitable remainder trusts and pooled income funds is valued based on the actuarial expected lives of beneficiaries normally using 6% as the interest rate basis to determine present value.

Tuition, Fees and Auxiliary Services

Tuition, fees and auxiliary services are recognized as revenues when earned.

Notes Receivable

Notes receivable consist of junior mortgage loans to faculty and staff members collateralized by their primary residence. Most loans do not require the payment of annual interest. Rather, interest is calculated and paid based on the shared appreciation on the underlying property, but limited to no more than 9% per annum. Certain loans are written for 10-year terms with adjustable interest rates ranging from 4% to 5% per annum.

Beneficial Interest in Charitable Remainder Trusts

Charitable remainder trusts were valued based on quoted market prices of the underlying investments and the actuarial expected lives of beneficiaries present valued using a 6% discount rate.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation.

Income Tax Status

The Seminary is exempt from income taxes under Section 501(c)(3) and 509(a)(1) of the Internal Revenue Code (IRC).

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

**NOTE A – ORGANIZATIONAL INFORMATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES – Continued**

Derivative Instruments and Hedging Activities

Generally accepted accounting principles (GAAP) require that every derivative instrument be recorded in the statement of financial position as either an asset or a liability measured at its fair value. Not-for-Profit Organizations shall recognize the gain or loss on a hedging instrument and a non-hedging derivative instrument as a change in net assets in the period of change unless the hedging instrument is designated as a hedge of the foreign currency exposure of a net investment in a foreign operation.

The interest rate swap contract entered into in May 2006 represents the Seminary's only derivative financial instrument.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Management believes the most significant of those estimates are the allowances for valuation investments, valuation of accounts and pledges receivables, valuation of split-interest agreements, depreciable lives and salvage values of buildings and equipment, the fair value of the interest rate swap agreement, and the functional allocation of expenses. Actual results could differ from those estimates.

Non-operating Activities

Non-operating activities include all temporarily and permanently restricted contribution revenue, the investment return in excess of amounts appropriated for current operations and miscellaneous non-recurring income.

Functional Expense Allocation

Costs, including depreciation expense, have been allocated to functions based on percentage of effort, usage, square footage and other criteria.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

**NOTE A – ORGANIZATIONAL INFORMATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES – Continued**

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to the changes in the value of investment securities, it is at least reasonably possible that changes in the near term would materially affect the amounts reported in the statements of financial position and activities.

NOTE B – PLEDGES RECEIVABLE

Pledges receivable consists of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Pledges receivable	\$ 3,097,176	\$ 976,226
Less: present value discount	<u>284,562</u>	<u>105,762</u>
Net pledges receivable	\$ <u>2,812,614</u>	\$ <u>870,464</u>

Expected payments on pledges are as follows at June 30, 2011:

2012	\$ 1,544,636
2013	524,180
2014	424,180
2015	424,180
2016	<u>180,000</u>
Total pledges receivable	3,097,176
Less net present value discount (6%)	<u>284,562</u>
Net pledges receivable	\$ <u>2,812,614</u>

Management considers all pledges collectible at June 30, 2011.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

NOTE C – LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Land and improvements	\$ 2,292,411	\$ 2,292,411
Building and improvements	44,109,415	43,900,901
Construction in progress	89,447	-
Furniture and improvements	<u>6,297,774</u>	<u>5,848,069</u>
	52,789,047	52,041,381
Less accumulated depreciation	<u>18,757,855</u>	<u>17,632,197</u>
Total	<u>\$ 34,031,192</u>	<u>\$ 34,409,184</u>

NOTE D – INVESTMENTS

Investments consisted of the following at June 30:

	<u>2011</u>		<u>2010</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Pooled assets:				
Cash and cash equivalents	\$ 2,354,838	\$ 2,354,838	\$ 905,736	\$ 905,736
Equity investments	23,590,667	19,770,765	23,233,646	22,641,655
Corporate bonds and notes	1,980,302	1,928,533	1,340,104	1,256,929
U.S. Government agency bonds	<u>72,589</u>	<u>71,617</u>	<u>116,341</u>	<u>113,939</u>
	<u>27,998,396</u>	<u>24,125,753</u>	<u>25,595,827</u>	<u>24,918,259</u>
Nonpooled assets:				
Cash and cash equivalents	2,264,401	2,264,401	1,374,828	1,374,828
Equity investments	10,903,811	9,178,571	10,199,946	9,924,011
Corporate bonds and notes	1,554,459	1,476,016	994,306	890,828
U.S. Government agency bonds	8,380	8,172	9,290	9,048
Other	<u>18,774</u>	<u>18,774</u>	<u>17,274</u>	<u>17,274</u>
	<u>14,749,825</u>	<u>12,945,934</u>	<u>12,595,644</u>	<u>12,215,989</u>
	<u>\$ 42,748,221</u>	<u>\$ 37,071,687</u>	<u>\$ 38,191,471</u>	<u>\$ 37,134,248</u>

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

NOTE D – INVESTMENTS – Continued

Corporate bonds and notes and U.S. Government and agency securities have varying maturities through 2030.

Investment income is comprised of the following for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 972,251	\$ 916,984
Net market gain on investments	<u>6,519,630</u>	<u>2,963,061</u>
Total investment income earned	7,491,881	3,880,045
Less: investment income appropriated for operations	<u>1,947,855</u>	<u>1,947,605</u>
Investment gain net of funds appropriated for operations	<u>\$ 5,544,026</u>	<u>\$ 1,932,440</u>

NOTE E – ENDOWMENT**General**

The Seminary's endowment consists of two major endowment accounts. The largest account is a pooled fund of approximately 100 individual funds established for a variety of purposes almost all of which is donor restricted. As required by GAAP, the net assets associated with the pooled endowment funds are normally classified as follows: (1) the original gift corpus is classified as permanently restricted funds and (2) the unused accumulated appreciation is recorded as temporarily restricted funds. Due to the extraordinary market conditions experienced during the fiscal year ended June 30, 2009, a significant number of the endowment account net asset values fell below the original gift corpus (i.e., "underwater accounts"). The total "underwater" accounts were \$224,088 in 2011 and \$1,360,658 in 2010. For the year ended June 30, 2011, these "underwater accounts" recognized capital gains of \$1,136,570 which were recorded in unrestricted funds. In future years, if these specific accounts appreciate in value, those capital gains will be recorded in the unrestricted funds until the accounts are equal to the original gift corpus value.

The other major endowment fund was established as a separate account because of unique donor restrictions requiring that all capital gains be accumulated as additions to the original gift corpus – with only dividends and interest appropriated for operations. The net assets of this unique endowment account are classified as permanently restricted.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

NOTE E – ENDOWMENT – Continued

Interpretation of Relevant Law

The Seminary follows the general provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the Commonwealth of Massachusetts on July 2, 2010. The method by which the Seminary classifies endowment net assets is in conformity with the UPMIFA legislation.

In managing and investing the endowment funds, the Seminary Board considers the following, along with other factors not listed:

1. The investment policies of the Seminary;
2. General economic conditions;
3. The possible effect of inflation or deflation;
4. The total expected return from income and the appreciation of investments;
5. The resources of the Seminary;
6. The needs of the Seminary and the fund to make distributions and to preserve capital;
7. An assets special relationship or special value, if any, to the charitable purposes of the Seminary.

These practices are consistent with UPMIFA.

Spending Policy

The Seminary's Board utilizes an Investment Committee to develop and adopt investment and spending policies that are approved and periodically reviewed by the entire Board. As deemed prudent and not in violation of specific endowment restrictions, the Investment Committee has adopted a general guideline of spending 5% of a three year moving market value average (calculated as of the prior three fiscal year ends) of its pooled endowment funds. As there may be special circumstances requiring a higher percentage level of spending from endowment assets in order to assure the short-term economic health of the Seminary, the Investment Committee is authorized, with the approval of the Finance Committee and the Board of Trustees, to increase the spending rate as necessary, but not so as to be in violation of fund restrictions and/or the laws of Massachusetts.

Due to the needs of the Seminary's operating budget, the Board appropriated 5% of the total return valuation calculation for all pooled accounts, even those "underwater" as of June 30, 2011 and 2010.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

NOTE E – ENDOWMENT – Continued

Over the long-term, the Seminary's objective is to provide a reliable revenue stream for operations but also to maintain the purchasing power of the endowment assets held in perpetuity. The Seminary's goal is to provide real growth through new gifts and investment return in excess of funds appropriated for operations. In order to ensure a reliable revenue stream for operations, the Board has determined that the total return method at the 5% spending rule will be generally used for all accounts except those requiring special distribution methods based on unique donor restrictions.

Return Objectives, Strategies for Achieving Objectives and Risk Parameters

The investment policies are designed to maintain the purchasing power of the endowment funds while providing for a reliable revenue stream for operations through a prudent spending policy. 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 income (dividends and interest). Therefore the asset mix of the endowment funds and other investments is reviewed and adjusted periodically by the Investment Committee in order to achieve the Seminary's investment objectives. In its investment decisions the Seminary maintains a prudent investment posture with an appropriate emphasis on portfolio quality. The Seminary's policies refrain from speculation and by prudent management prevent exposure to undue and unnecessary risk.

Guidelines on the percentage of long-term debt and equity securities holdings are defined from time to time by the Investment Committee in response to changing market conditions and in accordance with the overall income and capital appreciation objectives of the endowment accounts. The portfolio shall consist of securities representing a reasonable diversification of economic groupings and industry representations. Investment in the securities of any one corporation shall not be in excess of 2% of the total issued and outstanding securities of the corporation. Investment in the common stock of a single corporation shall not be in excess of 5% of the total market value of the equity assets under management. Investment in debt obligations of a single issuer shall not be in excess of 5% of the total market value of the fixed income assets under management, with the exception of Treasuries and other instrumentalities of the U.S. Government.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

NOTE E – ENDOWMENT – Continued

By policy, the following transactions are prohibited without written approval of the Investment Committee, including such things as (1) making short sales, naked option writing or over-writing programs; (2) entering into margin purchases or other forms of stock borrowing; (3) buying privately placed or other non-marketable securities; (4) buying common stocks not listed on the New York or American Stock Exchanges or NASDAQ (over-the-counter markets); (5) buying options, including the purchase, sale or writing of options unless such options are “covered” by equity or debt securities; (6) investing in commodities or futures; or (7) making venture capital investments.

Based on cash flow requirements for operations, the Seminary utilizes the endowment fund for working capital needs rather than the use of an external “line of credit” loan. At June 30, 2011 and 2010, these loans totaled \$4,142,619 and \$4,334,674 respectively. At June 30, 2011 and 2010, these loans were collateralized in part by the Seminary’s interest in a trust whose future use is unrestricted. At June 30, 2011 and 2010, the trust had a fair value of \$1,672,622 and \$1,503,647, respectively. In addition, at July 22, 2011, the Seminary established a \$3 million line of credit for working capital needs that will be used to repay \$3 million of this interfund loan.

Endowment Net Asset Composition by Type of Fund

As of June 30, 2011, the endowment net asset composition was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds:				
Pooled funds	\$ (224,088)	\$ 4,733,195	\$ 30,327,109	\$ 34,836,216
Nonpooled funds	-	-	10,469,278	10,469,278
Board-designated funds	<u>973,868</u>	<u>-</u>	<u>-</u>	<u>973,868</u>
Total funds	<u>\$ 749,780</u>	<u>\$ 4,733,195</u>	<u>\$ 40,796,387</u>	<u>\$ 46,279,362</u>

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

NOTE E – ENDOWMENT – Continued

As of June 30, 2010, the endowment net asset composition was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds:				
Pooled funds	\$ (1,360,658)	\$ 2,731,585	\$ 30,299,429	\$ 31,670,356
Nonpooled funds	-	-	8,948,160	8,948,160
Board-designated funds	<u>786,320</u>	<u>-</u>	<u>-</u>	<u>786,320</u>
Total funds	<u>\$ (574,338)</u>	<u>\$ 2,731,585</u>	<u>\$ 39,247,589</u>	<u>\$ 41,404,836</u>

At June 30, 2011, investments of \$42,748,221 included \$37,952,851 in endowment investments and \$4,795,370 related to investments in annuities, trusts and charitable remainder unitrust (CRUT) agreements for which the Seminary is the trustee. At June 30, 2010, investments of \$38,191,471 included \$34,416,787 in endowment investments and \$3,774,684 related primarily to investments in annuities, trusts and CRUT agreements for which the Seminary is the trustee. At June 30, 2011, total restricted endowment net assets of \$45,529,582 consisted of \$39,099,329 in endowment investments funds and annuity investments to be transferred to the endowment, \$2,287,634 in notes receivable and collectibles collateralized by home mortgages and collectibles, and \$4,142,619 in interfund loans for working capital. At June 30, 2010, restricted endowment net assets of \$41,979,174 consisted of \$35,356,866 in endowment investments and annuity investments to be transferred to the endowment, \$2,287,634 in notes receivable collateralized by home mortgages, and \$4,334,674 in interfund loans for working capital.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

NOTE E – ENDOWMENT – Continued**Endowment Related Activities**

For the fiscal year ended June 30, 2011, the Seminary had the following endowment related activities:

	Donor- Restricted Endowment Funds	Board Designated Endowment Funds	Total
Investment returns:			
Investment income	\$ 821,356	\$ 13,320	\$ 834,676
Net capital gains	4,647,642	115,258	4,762,900
Net capital appreciation for “underwater” accounts	<u>-</u>	<u>1,136,570</u>	<u>1,136,570</u>
Total investment gain	5,468,998	1,265,148	6,734,146
Contributions to perpetual endowment	29,265	88,302	117,567
Amounts appropriated for expenditure	<u>(1,947,855)</u>	<u>(29,332)</u>	<u>(1,977,187)</u>
Total changes in endowment funds	<u>\$ 3,550,408</u>	<u>\$ 1,324,118</u>	<u>\$ 4,874,526</u>

For the fiscal year ended June 30, 2010, the Seminary had the following endowment related activities:

	Donor- Restricted Endowment Funds	Board Designated Endowment Funds	Total
Investment returns:			
Investment income	\$ 871,702	\$ -	\$ 871,702
Net capital gains	<u>2,080,411</u>	<u>529,525</u>	<u>2,609,936</u>
Total investment gain	2,952,113	529,525	3,481,638
Contributions to perpetual endowment	78,556	50,000	128,556
Amounts appropriated for expenditure	(1,947,605)	(66,097)	(2,013,702)
Other transfers	<u>(37,496)</u>	<u>227,103</u>	<u>189,607</u>
Total changes in endowment funds	<u>\$ 1,045,568</u>	<u>\$ 740,531</u>	<u>\$ 1,786,099</u>

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

NOTE E – ENDOWMENT – Continued**Changes in Endowment Net Assets**

For the fiscal year ended June 30, 2011, the following activities resulted in the change in net assets by fund:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets – beginning of year	\$ (574,338)	\$ 2,731,585	\$ 39,247,589	\$ 41,404,836
Investment return:				
Investment income	13,320	821,356	-	834,676
Net capital appreciation	115,258	3,128,109	1,519,533	4,762,900
Net capital appreciation for “underwater” accounts	<u>1,136,570</u>	<u>-</u>	<u>-</u>	<u>1,136,570</u>
Total investment gains	1,265,148	3,949,465	1,519,533	6,734,146
Contributions	88,302	-	29,265	117,567
Appropriated for operations	<u>(29,332)</u>	<u>(1,947,855)</u>	<u>-</u>	<u>(1,977,187)</u>
Net assets – end of year	<u>\$ 749,780</u>	<u>\$ 4,733,195</u>	<u>\$ 40,796,387</u>	<u>\$ 46,279,362</u>

For the fiscal year ended June 30, 2010, the following activities resulted in the change in net assets by fund:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets – beginning of year	\$ (1,314,869)	\$ 2,443,433	\$ 38,490,173	\$ 39,618,737
Investment return:				
Investment income	-	871,702	-	871,702
Net capital gains	-	1,401,551	678,860	2,080,411
Net capital appreciation for “underwater” accounts	<u>529,525</u>	<u>-</u>	<u>-</u>	<u>529,525</u>
Total investment gains	529,525	2,273,253	678,860	3,481,638
Contributions	50,000	-	78,556	128,556
Appropriated for operations	(66,097)	(1,947,605)	-	(2,013,702)
Other transfers	<u>227,103</u>	<u>(37,496)</u>	<u>-</u>	<u>189,607</u>
Net assets – end of year	<u>\$ (574,338)</u>	<u>\$ 2,731,585</u>	<u>\$ 39,247,589</u>	<u>\$ 41,404,836</u>

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

NOTE F - FAIR VALUE MEASUREMENTS AND DISCLOSURES

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data. The June 30, 2010, interest rate swap liability is based on mid-market, benchmark levels of swap transactions, which is the best estimate of the actual value of the transaction, were it to be terminated on the referenced date. For fiscal year ended June 30, 2011, the interest rate swap liability is based on the actual pay-off amount paid on July 21, 2011 when the Seminary paid-off the interest rate swap agreement in conjunction with refinancing the loan with which it was related. Fair value for investments valued using level 2 inputs is based on quoted market prices of similar instruments.

Level 3: Significant unobservable inputs that reflect the Seminary's own assumptions about the assumptions that market participants would use in pricing an asset or liability. The Seminary had no financial instruments valued using unobservable inputs at June 30, 2011 or 2010.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

NOTE F - FAIR VALUE MEASUREMENTS AND DISCLOSURES – Continued

Assets and liabilities measured at fair value are summarized below.

	<u>June 30, 2011</u>	Quoted Prices In Active Markets for Identical (<u>Level 1</u>)	Significant Other Observable Inputs (<u>Level 2</u>)
Recurring basis			
Assets:			
Beneficial interest in CRUTs	\$ 3,407,658	\$ -	\$ 3,407,658
Investments			
Cash and cash equivalents	4,619,239	4,619,239	-
U.S. Government agency bonds			
Aaa	80,969	-	80,969
Corporate bonds and notes			
Aa3	1,373,430	-	1,373,430
A3	925,546	-	925,546
Baa1	375,235	-	375,235
Baa2	546,909	-	546,909
Baa3	-	-	-
Ba1	286,750	-	286,750
Unrated	26,891	-	26,891
Total corporate bonds and notes	<u>3,534,761</u>	<u>-</u>	<u>3,534,761</u>
Equity investments			
Common stocks			
Foreign equities	6,530,087	6,530,087	-
Capital goods	3,661,235	3,661,235	-
Financial	2,530,353	2,530,353	-
Business products and services	1,985,394	1,985,394	-
Consumer non-durables	1,689,257	1,689,257	-
Energy	1,217,268	1,217,268	-
Utilities	740,046	740,046	-
Consumer durables	575,043	575,043	-
Consumer services	390,400	390,400	-
Transportation	383,925	383,925	-
Industrial electronics	92,373	92,373	-
Total common stocks	<u>19,795,381</u>	<u>19,795,381</u>	<u>-</u>
Mutual funds			
Fixed income	7,633,019	7,633,019	-
Foreign	3,985,183	3,985,183	-
Large cap	1,538,784	1,538,784	-
Index funds - gold	700,805	700,805	-
Small cap	597,419	597,419	-
Mid cap	243,887	243,887	-
Total mutual funds	<u>14,699,097</u>	<u>14,699,097</u>	<u>-</u>
Total equity investments	<u>34,494,478</u>	<u>34,494,479</u>	<u>-</u>
Other	<u>18,774</u>	<u>18,774</u>	<u>-</u>
Total investments	<u>42,748,221</u>	<u>39,132,491</u>	<u>3,615,730</u>
Liabilities:			
Interest rate swap	85,500	-	85,500
Annuities payable and trust obligations	2,293,221	-	2,293,221

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

NOTE F – FAIR VALUE MEASUREMENTS AND DISCLOSURES – Continued

	<u>June 30, 2010</u>	Quoted Prices In Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)
Recurring basis			
Assets:			
Beneficial interest in CRUTs	\$ 2,989,660	\$ -	\$ 2,989,660
Investments			
Cash and cash equivalents	2,280,564	2,280,564	-
U.S. Government agency bonds			
Aaa	125,631	-	125,631
Corporate bonds and notes			
A2	428,609	-	428,609
A3	604,679	-	604,679
Baa1	490,178	-	490,178
Baa2	69,343	-	69,343
Baa3	716,432	-	716,432
Ba1	25,169	-	25,169
Total corporate bonds and notes	<u>2,334,410</u>	-	2,334,410
Equity investments			
Common stocks			
Foreign equities	3,839,822	3,839,822	-
Capital goods	3,297,460	3,297,460	-
Financial	1,516,233	1,516,233	-
Business products and services	2,107,594	2,107,594	-
Consumer non-durables	3,411,908	3,411,908	-
Energy	902,655	902,655	-
Utilities	614,946	614,946	-
Consumer durables	640,080	640,080	-
Consumer services	1,090,583	1,090,583	-
Transportation	258,825	258,825	-
Total common stocks	<u>17,680,106</u>	17,680,106	-
Mutual funds			
Fixed income	9,210,132	9,210,132	-
Foreign	3,321,110	3,321,110	-
Large cap	709,740	709,740	-
Index funds - gold	596,232	596,232	-
Small cap	1,204,218	1,204,218	-
Mid cap	188,793	188,793	-
Index funds – biotech	523,260	523,260	-
Total mutual funds	<u>15,753,486</u>	15,753,486	-
Total equity investments	<u>33,433,592</u>	33,433,592	-
Other	17,274	17,274	-
Total investments	<u>38,191,471</u>	35,731,430	2,460,041
Liabilities:			
Interest rate swap	104,005	-	104,005
Annuities payable and trust obligations	1,816,844	-	1,816,844

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

NOTE F – FAIR VALUE MEASUREMENTS AND DISCLOSURES – Continued

The Seminary's financial instruments consist of cash and cash equivalents, accounts receivable and payable, notes and student loans receivable, pledges receivable, beneficial interest in charitable remainder trusts, investments, accrued expenses and other current liabilities, obligation under capital leases, notes payable, an interest rate swap, annuity and trust obligations, conditional asset retirement obligations, and U.S. government loan advances. The fair values of all financial instruments approximate their carrying values.

NOTE G – TEMPORARILY RESTRICTED NET ASSETS

Net assets released from restrictions consisted of the following for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Academic and general	\$ 861,330	\$ 842,864
Sponsored academic projects	232,480	156,440
Operations and maintenance	336,761	505,469
Financial aid	<u>265,438</u>	<u>201,965</u>
Net assets released from restrictions - operations	1,696,009	1,706,738
Net assets released from restrictions appropriated for capital purposes	<u>452,766</u>	<u>170,148</u>
Total	<u>\$ 2,148,775</u>	<u>\$ 1,876,886</u>

Temporarily restricted net assets consist of the following at June 30:

	<u>2011</u>	2010
Unspent endowment gains:		
Academic and general	\$ 3,156,505	\$ 2,263,791
Financial aid	1,571,534	461,559
Endowment income unrestricted	<u>5,156</u>	<u>6,235</u>
	<u>4,733,195</u>	<u>2,731,585</u>
Gifts restricted for purpose	2,867,604	2,923,853
Trust restricted as to time	1,672,622	1,503,647
Gifts restricted for capital purchases	<u>1,382,700</u>	<u>196,087</u>
	<u>5,922,926</u>	<u>4,623,587</u>
Total	<u>\$ 10,656,121</u>	<u>\$ 7,355,172</u>

Unspent endowment gains are classified as temporarily restricted until the Seminary appropriates and spends such sums in accordance with the underlying endowment funds, at which time, they will be classified as net assets released from restrictions. See Note A.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

NOTE H – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Endowment and trust funds whose income is restricted for:		
Academic and general	\$ 25,305,101	\$ 23,580,232
Financial aid	18,236,402	17,984,946
Operations and maintenance	<u>28,899</u>	<u>18,899</u>
Total	<u>43,570,402</u>	41,584,077
Endowment and trust funds whose income is unrestricted	<u>230,824</u>	<u>144,866</u>
Total	<u>\$ 43,801,226</u>	<u>\$ 41,728,943</u>

NOTE I – OBLIGATION UNDER CAPITAL LEASES

The Seminary periodically enters into leases for other equipment meeting the criteria for capital lease treatment for financial reporting purposes. During fiscal years 2011 and 2010, the Seminary acquired additional equipment through capital leases of \$125,628 and \$66,354, respectively. Future minimum payments under capitalized leases are as follows:

Year ending	
<u>June 30,</u>	
2012	\$ 192,360
2013	76,357
2014	53,325
2015	<u>34,229</u>
Total minimum lease payments	356,271
Less: Amounts representing interest	<u>22,984</u>
Present value of net minimum lease payments	<u>\$ 333,287</u>

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

NOTE J – NOTES PAYABLE AND LINE OF CREDIT AGREEMENT

The Seminary's note payable to a bank amounted to \$1,521,995 and \$1,842,090 at June 30, 2011 and 2010, respectively. This loan related to the purchase and renovation of its Center for Urban Ministerial Education (CUME) building in Roxbury, Massachusetts. The note payable was collateralized by a mortgage on the CUME building.

On July 21, 2011, the Seminary refinanced this loan with another bank by paying-off the outstanding loan balance along with the interest rate swap agreement related to the prior loan. The total pay-off amount of the outstanding loan at July 21, 2011 amounted to \$1,422,052 including closing costs in addition to \$85,500 related to the liability on the interest rate swap agreement. This swap liability was reflected in the financial statements at June 30, 2011 at the pay-off amount of \$85,500. The interest rate swap agreement had been designed as a part of the original loan to manage interest rate exposure in a rising rate environment.

The new loan amounts to \$1,530,000 and is collateralized by a mortgage on the CUME building. The five-year loan terms include a variable interest rate based on the Wall Street Journal Prime Rate ("index rate"), floating, with a floor of 3.25% and a ceiling of 6.25%. At the time of the loan, the index rate was 3.25%. The five-year note includes fixed monthly payments of \$6,375 in principal plus interest along with a final balloon principal payment on July 21, 2016.

The loan terms include covenants that require the Seminary to maintain a minimum level of "Total Net Assets" of at least \$60 million and maintain a maximum level of "Total Liabilities" of \$25 million. In addition, under the loan terms, the Seminary agrees to keep its real estate assets in Hamilton, Massachusetts free and clear of all liens and also to not pledge these real estate assets as collateral.

Under the July 21, 2011 loan, maturities of this note are as follows:

<u>Year Ending June 30,</u>	
2012	\$ 70,125
2013	76,500
2014	76,500
2015	76,500
2016	76,500
Thereafter	<u>1,153,875</u>
	<u>\$1,530,000</u>

In addition, the Seminary entered into a \$3 million line of credit agreement with the same bank on July 21, 2011. This line of credit is for working capital purposes and is unsecured. The terms include a three year maturity with monthly interest only payments. The interest rate is the Wall Street Journal prime rate ("index rate"), floating, with an interest rate floor of 3.25%. At the time of the line of credit agreement, the index rate was 3.25%.

Interest expense charged to operations was \$165,101 in 2011 and \$184,832 in 2010.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

NOTE K – OPERATING LEASES

The Seminary leases certain equipment under operating lease arrangements that expire at various dates through 2016. Lease expense was \$202,003 and \$179,428 for the years ended June 30, 2011 and 2010, respectively. Minimum future rentals under noncancelable leases are as follows:

Year ending June 30,

2012	\$	186,350
2013		107,336
2014		31,535
2015		19,935
2016		<u>7,528</u>
Total minimum future rental payments	\$	<u>352,684</u>

NOTE L – EMPLOYEE BENEFIT

The Seminary's Retirement Plan is a defined contribution plan that operates under Section 403(b) of the IRC. The purpose of the plan is to provide retirement benefits for participating employees. Benefits are provided through the fund sponsors. Teachers Insurance and Annuity Association (TIAA), provides a traditional annuity and variable annuity through its real estate account, and College Retirement Equities Fund, which is TIAA's companion institution, provides variable annuities. All eligible employees may elect to participate in the plan and receive contributions based upon a percentage of their base compensation.

Normally, the Seminary makes a basic contribution of 6% of eligible compensation on behalf of eligible employees. The Seminary also may make a matching contribution of 2% of eligible compensation on behalf of eligible employees if an employee elects to make a voluntary 2% salary reduction contribution. Contributions may not exceed the limits imposed by the IRC. Employee participants are fully and immediately vested in the benefit arising from all contributions made under this plan.

Due to budget constraints, the Seminary made no pension contributions for the years ended June 30, 2011 and 2010.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2011 and 2010

NOTE M – SUBSEQUENT EVENTS

For the purposes of the presentation of these financial statements in conformity with GAAP, management has considered transactions or events occurring through October 12, 2011, which is the date that the financial statements were available to be issued. Management has not evaluated subsequent events after that date for inclusion in the financial statements. On July 21, 2011, the Seminary refinanced its note payable and terminated its interest rate swap agreement related to the prior loan. See Note J for additional information.

