



**GORDON  CONWELL**  
**THEOLOGICAL SEMINARY**

**FINANCIAL STATEMENTS**

**June 30, 2016 and 2015**

**With Independent Auditor's Report**



**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Gordon-Conwell Theological Seminary, Inc.

We have audited the accompanying financial statements of Gordon-Conwell Theological Seminary, Inc. (the Seminary), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Seminary as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*Berry Dunn McNeil & Parker, LLC*

Manchester, New Hampshire  
October 21, 2016

**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

**Statements of Financial Position**

**June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,321,762	\$ 598,766
Accounts receivable (less allowance of \$1,256,192 in 2016 and \$1,058,695 in 2015)	1,602,415	1,554,743
Student loans receivable	1,045,677	1,066,639
Pledges receivable (less present value discount and allowance of \$85,787 in 2016 and \$99,678 in 2015), at fair value	1,438,467	1,893,415
Prepaid expenses and other	700,983	612,566
Notes receivable	2,353,100	2,487,456
Beneficial interest in charitable remainder trusts	3,184,771	3,195,563
Investments	49,943,778	51,903,681
Land, buildings and equipment, net	<u>40,277,434</u>	<u>40,310,671</u>
Total assets	<u>\$101,868,387</u>	<u>\$103,623,500</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 824,479	\$ 716,208
Accrued payroll and employee benefits	1,263,097	1,188,136
Deferred income and student deposits	1,103,008	1,142,769
Obligation under capital leases	1,932,919	1,604,654
Notes payable	4,079,449	4,227,144
Annuities payable and trust obligations	2,748,800	3,013,842
Advances from government for federal student loans	<u>1,017,433</u>	<u>985,080</u>
Total liabilities	<u>12,969,185</u>	<u>12,877,833</u>
Net assets		
Unrestricted	26,719,650	28,031,534
Temporarily restricted	11,254,492	12,679,112
Permanently restricted	<u>50,925,060</u>	<u>50,035,021</u>
Total net assets	<u>88,899,202</u>	<u>90,745,667</u>
Total liabilities and net assets	<u>\$101,868,387</u>	<u>\$103,623,500</u>

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

**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

**Statement of Activities**

**Year Ended June 30, 2016  
(With Comparative Totals for the Year Ended June 30, 2015)**

	2016			2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Student tuition and fees	\$ 19,230,730	\$ -	\$ -	\$ 19,230,730
Less student aid	<u>(8,542,075)</u>	<u>-</u>	<u>-</u>	<u>(8,746,742)</u>
	10,688,655	-	-	10,974,072
Private gifts and grants	3,808,186	3,130,186	359,621	7,297,993
Government grants and contracts	126,677	-	-	126,677
Auxiliary enterprises	3,389,506	-	-	3,389,506
Other income	213,526	17,929	-	231,455
Investment (loss) income	(64,508)	824,715	540,656	1,300,863
Change in value of trusts and annuities payable	15,819	302,186	(10,238)	307,767
Net assets released from restrictions for operations	2,958,106	(2,958,106)	-	-
Net assets released from restrictions appropriated for capital purposes	481,036	(481,036)	-	-
Endowment support for operations	<u>2,260,494</u>	<u>(2,260,494)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>23,877,497</u>	<u>(1,424,620)</u>	<u>890,039</u>	<u>23,342,916</u>
Expenses				
Program				
Instruction	8,394,239	-	-	8,394,239
Academic support	3,426,096	-	-	3,426,096
Student services	1,867,913	-	-	1,867,913
Libraries	1,341,422	-	-	1,341,422
Auxiliary enterprises	3,902,029	-	-	3,902,029
Sponsored academic projects	<u>410,258</u>	<u>-</u>	<u>-</u>	<u>410,258</u>
Total program	19,341,957	-	-	19,341,957
Management and general	4,454,318	-	-	4,454,318
Fundraising	<u>1,393,106</u>	<u>-</u>	<u>-</u>	<u>1,393,106</u>
Total expenses	<u>25,189,381</u>	<u>-</u>	<u>-</u>	<u>25,189,381</u>
Change in net assets	(1,311,884)	(1,424,620)	890,039	(1,846,465)
Net assets, beginning of year	<u>28,031,534</u>	<u>12,679,112</u>	<u>50,035,021</u>	<u>90,745,667</u>
Net assets, end of year	<u>\$ 26,719,650</u>	<u>\$ 11,254,492</u>	<u>\$ 50,925,060</u>	<u>\$ 88,899,202</u>

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

**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

**Statement of Activities**

**Year Ended June 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support				
Student tuition and fees	\$ 19,720,814	\$ -	\$ -	\$ 19,720,814
Less student aid	<u>(8,746,742)</u>	<u>-</u>	<u>-</u>	<u>(8,746,742)</u>
	10,974,072	-	-	10,974,072
Private gifts and grants	3,510,488	4,077,463	276,251	7,864,202
Government grants and contracts	128,482	-	-	128,482
Auxiliary enterprises	3,525,228	-	-	3,525,228
Other income	268,389	8,493	-	276,882
Investment income (loss)	96,338	1,604,591	(129,755)	1,571,174
Change in value of trusts and annuities payable	(23,188)	(77,853)	(86,417)	(187,458)
Net assets released from restrictions for operations	2,125,986	(2,125,986)	-	-
Net assets released from restrictions appropriated for capital purposes	4,743,414	(4,743,414)	-	-
Endowment support for operations	<u>2,145,297</u>	<u>(2,145,297)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>27,494,506</u>	<u>(3,402,003)</u>	<u>60,079</u>	<u>24,152,582</u>
Expenses				
Program				
Instruction	8,856,996	-	-	8,856,996
Academic support	3,328,471	-	-	3,328,471
Student services	1,838,074	-	-	1,838,074
Libraries	1,326,551	-	-	1,326,551
Auxiliary enterprises	4,144,079	-	-	4,144,079
Sponsored academic projects	<u>336,272</u>	<u>-</u>	<u>-</u>	<u>336,272</u>
Total program	19,830,443	-	-	19,830,443
Management and general	4,166,142	-	-	4,166,142
Fundraising	<u>1,419,656</u>	<u>-</u>	<u>-</u>	<u>1,419,656</u>
Total expenses	<u>25,416,241</u>	<u>-</u>	<u>-</u>	<u>25,416,241</u>
Change in net assets	2,078,265	(3,402,003)	60,079	(1,263,659)
Net assets, beginning of year	<u>25,953,269</u>	<u>16,081,115</u>	<u>49,974,942</u>	<u>92,009,326</u>
Net assets, end of year	<u>\$ 28,031,534</u>	<u>\$ 12,679,112</u>	<u>\$ 50,035,021</u>	<u>\$ 90,745,667</u>

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

**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

**Statements of Cash Flows**

**Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Operating activities		
Change in net assets	\$ (1,846,465)	\$ (1,263,659)
Adjustments to reconcile change in net assets to net cash used for operating activities		
Gifts for long-term restricted purposes	(1,158,756)	(1,148,304)
Net market gain on investments	(293,742)	(581,484)
Depreciation	1,708,919	1,358,249
Uncollectible accounts receivable	197,497	136,768
Change in beneficial interest in charitable remainder trust	10,792	39,880
Change in annuities payable and trust obligations	(265,042)	(174,131)
Student loans cancelled	-	6,000
Student loans adjustment	(1,849)	(11,018)
Change in assets and liabilities		
Accounts receivable	(245,169)	(289,056)
Pledges receivable	301,927	(878,648)
Prepaid expenses and other	(88,417)	(45,140)
Accounts payable and accrued expenses	108,271	(133,219)
Accrued payroll and employee benefits	74,961	230,648
Deferred income and student deposits	<u>(39,761)</u>	<u>(56,278)</u>
Net cash used for operating activities	<u>(1,536,834)</u>	<u>(2,809,392)</u>
Investing activities		
Purchases of investments	(910,465)	(882,574)
Proceeds from sales of investments	3,164,110	7,950,755
Student loans collected	157,648	185,713
Student loans issued	(134,837)	(206,163)
Payments received on notes receivable	134,356	174,879
Equipment purchases and building renovations	<u>(854,703)</u>	<u>(5,144,134)</u>
Net cash provided by investing activities	<u>1,556,109</u>	<u>2,078,476</u>
Financing activities		
Restricted funds received for capital acquisitions	952,156	1,354,298
Receipt of gifts and other income for other long-term restricted purposes	359,621	276,251
Increase in advances from government for federal student loans	32,353	12,603
Payment on notes payable	(147,695)	(679,731)
Payments on capital leases	<u>(492,714)</u>	<u>(236,237)</u>
Net cash provided by financing activities	<u>703,721</u>	<u>727,184</u>
Net increase (decrease) in cash and cash equivalents	722,996	(3,732)
Cash and cash equivalents, beginning of year	<u>598,766</u>	<u>602,498</u>
Cash and cash equivalents, end of year	<u>\$ 1,321,762</u>	<u>\$ 598,766</u>

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

**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

**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 20 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; Charlotte, North Carolina; and Jacksonville, Florida.

The Seminary participates in student financial aid programs sponsored by the United States Department of Education which facilitate 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.

**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.



**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

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 fundraising activity.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as unrestricted support.

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.

**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.

**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, 2016 and 2015**

**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 reloaned by the Seminary after collection. Amounts advanced by the U.S. Government under this program are ultimately refundable and are classified as advances from government for federal student loans. Student loans receivable are stated at their unpaid principal balances. Management has evaluated the student loans and feels they are all collectible and, therefore, have not reserved for these balances.

Loans past due 30 days or more are considered delinquent. Loans are collectively evaluated for impairment; accordingly, no loans have been individually identified as impaired. Interest on loans is accrued at the contractual rate and credited to income based upon the principal amount outstanding. A loan is generally classified as non-accrual when it becomes 90 days past due as to interest or principal payments. All previously accrued but unpaid interest on non-accrual loans is reversed from interest income in the current period. Interest on non-accrual loans is only recorded when received. A loan remains on non-accrual status until all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The following is a loan aging analysis:

	<u>2016</u>	<u>2015</u>
Current	\$ 888,375	\$ 924,520
61 - 90 days past due	713	163
Greater than 90 days past due	<u>156,589</u>	<u>141,956</u>
Total	<u>\$ 1,045,677</u>	<u>\$ 1,066,639</u>

**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 7% discount rate.

**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

**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 were written for 10-year terms with adjustable interest rates ranging from 4% to 5% per annum.

**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 in realized and unrealized appreciation 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.

**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.

**Annuities Payable and Trust Obligations**

The annuities payable and trust obligations related to the charitable remainder trusts and pooled income funds are valued based on the actuarial expected lives of beneficiaries and ranges between 6 - 7% 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.

**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, 2016 and 2015**

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. 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.

**Functional Expense Allocation**

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

**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 statement of financial position.

**NOTE B - PLEDGES RECEIVABLE**

The Seminary has pledges receivable at June 30, 2016 and 2015 with expected payments to be collected as follows at June 30:

	<b><u>2016</u></b>	<b><u>2015</u></b>
Due within one year	\$ <b>966,670</b>	\$ 981,147
One to five years	<u><b>557,584</b></u>	<u>1,011,946</u>
Total pledges receivable	<b>1,524,254</b>	1,993,093
Less present value discount (3.25%)	<b>(65,787)</b>	(89,678)
Less allowance for uncollectible pledges	<u><b>(20,000)</b></u>	<u>(10,000)</u>
Net pledges receivable	<b><u>\$ 1,438,467</u></b>	<b><u>\$ 1,893,415</u></b>

Management has elected to record pledges at fair value by evaluating and adjusting, if necessary, the discount rate annually.

**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

**NOTE C - LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment consisted of the following:

	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 2,292,411	\$ 2,292,411
Building and improvements	52,824,583	52,454,943
Construction in progress	329,535	190,949
Furniture and equipment	<u>7,557,151</u>	<u>6,620,710</u>
	<b>63,003,680</b>	61,559,013
Less accumulated depreciation	<u>(22,726,246)</u>	<u>(21,248,342)</u>
Total	<u>\$ 40,277,434</u>	<u>\$ 40,310,671</u>

**NOTE D - INVESTMENTS**

Investments by type and corresponding fair value consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Pooled assets		
Cash and cash equivalents	\$ 2,125,003	\$ 4,039,396
Equity investments	19,790,850	21,729,854
Fixed income investments	<u>7,693,676</u>	<u>6,490,077</u>
	<u>29,609,529</u>	<u>32,259,327</u>
Nonpooled assets		
Cash and cash equivalents	1,529,429	3,044,462
Equity investments	13,716,595	13,304,878
Fixed income investments	5,069,451	3,276,240
Other	<u>18,774</u>	<u>18,774</u>
	<u>20,334,249</u>	<u>19,644,354</u>
	<u>\$ 49,943,778</u>	<u>\$ 51,903,681</u>

**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

Corporate bonds and notes (included in fixed income investments above) have varying maturities through 2067.

Investment income is comprised of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 1,007,121	\$ 989,690
Net market gain on investments	<u>293,742</u>	<u>581,484</u>
Total investment income	<b>1,300,863</b>	1,571,174
Less investment income appropriated for operations	<u>(2,260,494)</u>	<u>(2,145,297)</u>
Investment income, net of funds appropriated for operations	<u>\$ (959,631)</u>	<u>\$ (574,123)</u>

**NOTE E - ENDOWMENT**

**General**

The Seminary's endowment consists of two major endowment accounts. The largest account is a pooled fund (approximately 100 individual funds established for a variety of purposes), almost all of which is donor-restricted. As required by U.S. 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.

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 the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires the Seminary to retain as a fund of perpetual duration (i.e., underwater accounts). Deficiencies result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that are deemed prudent by the Board of Trustees. The total underwater accounts were \$245,195 and \$111,947 in 2016 and 2015, respectively.

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.

**Interpretation of Relevant Law**

The Seminary follows the general provisions of the 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 Seminary's interpretation of the UPMIFA legislation.

# GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

## Notes to Financial Statements

June 30, 2016 and 2015

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

1. The role that each investment or course of action plays within the overall investment portfolio of the fund;
2. General economic conditions;
3. The possible effect of inflation and deflation;
4. The expected total return from income and the appreciation of investments;
5. Other resources of the Seminary;
6. The needs of the Seminary and the fund to make distributions and to preserve capital; and
7. An asset's 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, 2016 and 2015.

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.

**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

**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.

By policy, the following transactions are prohibited without written approval of the Investment Committee: (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. At June 30, 2016 and 2015, the balance of this uncollateralized interfund loan totaled \$5,016,815 and \$3,929,917, respectively. This loan was collateralized in part by the Seminary's interest in a trust whose future use is unrestricted. At June 30, 2016 and 2015, the trust had a fair value of \$1,692,256 and \$1,736,666, respectively.



**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

**Endowment Net Asset Composition by Type of Fund**

As of June 30, 2016, 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	\$ (245,195)	\$ 4,984,375	\$ 34,600,406	\$ 39,339,586
Nonpooled funds	-	-	12,976,911	12,976,911
Board-designated funds	<u>1,469,865</u>	<u>-</u>	<u>-</u>	<u>1,469,865</u>
Total funds	<u>\$ 1,224,670</u>	<u>\$ 4,984,375</u>	<u>\$ 47,577,317</u>	<u>\$ 53,786,362</u>

As of June 30, 2015, 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	\$ (111,947)	\$ 6,577,729	\$ 34,240,784	\$ 40,706,566
Nonpooled funds	-	-	12,403,406	12,403,406
Board-designated funds	<u>972,602</u>	<u>-</u>	<u>-</u>	<u>972,602</u>
Total funds	<u>\$ 860,655</u>	<u>\$ 6,577,729</u>	<u>\$ 46,644,190</u>	<u>\$ 54,082,574</u>

At June 30, 2016, investments of \$49,943,778 included \$43,601,070 in endowment investments and \$6,342,708 related to investments in annuities, trusts and charitable remainder unitrust (CRUT) agreements for which the Seminary is the trustee. At June 30, 2015, investments of \$51,903,681 included \$45,296,939 in endowment investments and \$6,606,742 related to investments in annuities, trusts and CRUT agreements for which the Seminary is the trustee.

At June 30, 2016, total temporarily and permanently restricted endowment net assets of \$52,561,692 consisted of \$43,601,070 in endowment investments funds, \$1,571,933 in annuity investments available to be transferred to the endowment, \$2,371,874 in notes receivable and collectibles collateralized by home mortgages and collectibles, and \$5,016,815 in interfund loans for working capital. At June 30, 2015, total temporarily and permanently restricted endowment net assets of \$53,221,919 consisted of \$45,296,939 in endowment investments funds, \$1,488,833 in annuity investments available to be transferred to the endowment, \$2,506,230 in notes receivable collateralized by home mortgages and collectibles, and \$3,929,917 in interfund loans for working capital.

**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

**Changes in Endowment Net Assets**

For the fiscal year ended June 30, 2016, 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 at June 30, 2015	\$ 860,655	\$ 6,577,729	\$ 46,644,190	\$ 54,082,574
Investment return				
Net interest and dividend income	357,261	521,970	-	879,231
Net capital (depreciation) appreciation	(7,498)	269,415	573,505	835,422
Net capital depreciation of "underwater" accounts	<u>(133,246)</u>	<u>-</u>	<u>-</u>	<u>(133,246)</u>
Total investment return	216,517	791,385	573,505	1,581,407
Contributions to endowment	195,146	-	359,622	554,768
Appropriations for operations	(42,543)	(2,217,951)	-	(2,260,494)
Appropriations for capital purposes	<u>(5,105)</u>	<u>(166,788)</u>	<u>-</u>	<u>(171,893)</u>
Total change in net assets	<u>364,015</u>	<u>(1,593,354)</u>	<u>933,127</u>	<u>(296,212)</u>
Net assets at June 30, 2016	<u>\$ 1,224,670</u>	<u>\$ 4,984,375</u>	<u>\$ 47,577,317</u>	<u>\$ 53,786,362</u>

**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

For the fiscal year ended June 30, 2015, 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 at June 30, 2014	\$ 1,176,661	\$ 7,277,388	\$ 46,561,177	\$ 55,015,226
Investment return (loss)				
Net interest and dividend income	11,419	833,462	-	844,881
Net capital appreciation (depreciation)	17,125	733,643	(193,238)	557,530
Net capital depreciation of "underwater" accounts	<u>(14,289)</u>	<u>-</u>	<u>-</u>	<u>(14,289)</u>
Total investment return (loss)	14,255	1,567,105	(193,238)	1,388,122
Contributions to endowment	146,665	-	276,251	422,916
Appropriations to operations	(36,917)	(2,108,380)	-	(2,145,297)
Appropriations for capital purposes	(5,009)	(158,384)	-	(163,393)
Transfers for operations	<u>(435,000)</u>	<u>-</u>	<u>-</u>	<u>(435,000)</u>
Total change in net assets	<u>(316,006)</u>	<u>(699,659)</u>	<u>83,013</u>	<u>(932,652)</u>
Net assets at June 30, 2015	<u>\$ 860,655</u>	<u>\$ 6,577,729</u>	<u>\$ 46,644,190</u>	<u>\$ 54,082,574</u>

**NOTE F - FAIR VALUE MEASUREMENT**

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. U.S. 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.

**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

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, 2016 or 2015.

Assets and liabilities measured at fair value are summarized below:

	<u>June 30, 2016</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets</b>				
Pledges receivable	\$ <u>1,438,467</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,438,467</u>
Beneficial interest in CRUTs	\$ <u>3,184,771</u>	\$ <u>-</u>	\$ <u>3,184,771</u>	\$ <u>-</u>
<b>Investments</b>				
Cash and cash equivalents	\$ 3,654,432	\$ 3,654,432	\$ -	\$ -
Equity investments	33,507,445	33,507,445	-	-
Fixed income investments	12,763,127	12,558,877	204,250	-
Other	<u>18,774</u>	<u>18,774</u>	<u>-</u>	<u>-</u>
Total investments	\$ <u>49,943,778</u>	\$ <u>49,739,528</u>	\$ <u>204,250</u>	\$ <u>-</u>
<b>Liabilities</b>				
Annuities payable and trust obligations	\$ <u>2,748,800</u>	\$ <u>-</u>	\$ <u>2,748,800</u>	\$ <u>-</u>

**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

	June 30, 2015			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets</b>				
Pledges receivable	\$ <u>1,893,415</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,893,415</u>
Beneficial interest in CRUTs	\$ <u>3,195,563</u>	\$ <u>-</u>	\$ <u>3,195,563</u>	\$ <u>-</u>
<b>Investments</b>				
Cash and cash equivalents	\$ 7,083,858	\$ 7,083,858	\$ -	\$ -
Equity investments	35,034,732	35,034,732	-	-
Fixed income investments	9,766,317	9,551,317	215,000	-
Other	<u>18,774</u>	<u>18,774</u>	<u>-</u>	<u>-</u>
Total investments	\$ <u>51,903,681</u>	\$ <u>51,688,681</u>	\$ <u>215,000</u>	\$ <u>-</u>
<b>Liabilities</b>				
Annuities payable and trust obligations	\$ <u>3,013,842</u>	\$ <u>-</u>	\$ <u>3,013,842</u>	\$ <u>-</u>

The fair value for Level 3 pledges receivable is primarily based on an estimate of the present value of the underlying pledge, which is evaluated annually. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Changes in pledges receivable for 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Beginning pledges receivable	\$ <b>1,893,415</b>	\$ 1,497,012
New pledges	<b>422,000</b>	1,330,325
Payments and adjustments on pledges	<b>(890,839)</b>	(922,343)
Change in discount	<u><b>13,891</b></u>	<u>(11,579)</u>
Ending pledges receivable	\$ <u><b>1,438,467</b></u>	\$ <u>1,893,415</u>

The fair value for Level 2 beneficial interest in CRUTs and annuities payable and trust obligations is primarily based on an estimate of the market value of underlying securities invested in by the trusts. The fair value of corporate bonds is based on quoted market prices for similar investments.

**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

**NOTE G - TEMPORARILY RESTRICTED NET ASSETS**

Net assets released from restrictions consisted of the following:

	<u>2016</u>	<u>2015</u>
Academic and general	\$ 694,848	\$ 628,142
Sponsored academic projects	766,103	599,202
Operations and maintenance	68,053	17,540
Financial aid	<u>1,429,102</u>	<u>881,102</u>
Net assets released from restrictions for operations	<b>2,958,106</b>	2,125,986
Net assets released from restrictions appropriated for capital purposes	<u>481,036</u>	<u>4,743,414</u>
Total	<u>\$ 3,439,142</u>	<u>\$ 6,869,400</u>

Temporarily restricted net assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Unspent endowment gains:		
Academic and general	\$ 3,060,186	\$ 3,722,974
Financial aid	1,914,582	2,843,022
Endowment income unrestricted	8,926	10,402
Operations and maintenance	<u>681</u>	<u>1,331</u>
	<u>4,984,375</u>	<u>6,577,729</u>
Gifts restricted for purpose	4,009,225	4,135,587
Trusts restricted as to time	1,835,084	1,858,650
Gifts restricted for capital purchases	<u>425,808</u>	<u>107,146</u>
	<u>6,270,117</u>	<u>6,101,383</u>
Total	<u>\$ 11,254,492</u>	<u>\$ 12,679,112</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, 2016 and 2015**

**NOTE H - PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Endowment and trust funds whose income is restricted for:		
Academic and general	\$ 28,347,139	\$ 27,524,724
Financial aid	22,256,432	22,181,945
Operations and maintenance	<u>18,899</u>	<u>18,899</u>
	<b>50,622,470</b>	49,725,568
Endowment and trust funds whose income is unrestricted	<u>302,590</u>	<u>309,453</u>
Total	<u>\$ 50,925,060</u>	<u>\$ 50,035,021</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 year 2016 and 2015, the Seminary acquired additional equipment through capital leases of \$820,979 and \$1,568,076, respectively. Future minimum payments under capitalized leases are as follows:

<u>Year ending June 30,</u>	
2017	\$ 622,364
2018	568,962
2019	504,415
2020	374,231
2021	<u>50,492</u>
Total minimum lease payments	2,120,464
Less amounts representing interest	<u>(187,545)</u>
Present value of net minimum lease payments	<u>\$ 1,932,919</u>

**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

Interest expense for capital leases charged to operations was \$99,116 and \$42,371 in 2016 and 2015, respectively.

Assets held under capital leases included in land, buildings, and equipment consisted of the following:

	<u>2016</u>	<u>2015</u>
Furniture and improvements	\$ 2,657,800	\$ 1,872,952
Less accumulated depreciation	<u>(598,521)</u>	<u>(127,447)</u>
	<u>\$ 2,059,279</u>	<u>\$ 1,745,505</u>

**NOTE J - NOTES PAYABLE AND LINE OF CREDIT AGREEMENT**

The following is a summary of the Seminary's notes payable outstanding:

	<u>2016</u>	<u>2015</u>
<u>Roxbury Building Loan</u> Collateralized by a mortgage on the Center for Urban Ministerial Education building in Roxbury, Massachusetts. This loan is a seven-year loan that includes a fixed interest rate of 4.25%. The loan includes fixed monthly payments of \$8,609 that are amortized over the seven-year term, with a final balloon payment on April 21, 2022.	\$ 1,183,896	\$ 1,234,844
<u>Cass Bank \$3 Million Loan</u> In May 2015, the Seminary paid off an outstanding \$3 million line of credit with a seven-year term fixed interest rate loan. The loan includes a fixed interest rate of 4.25% and fixed monthly payments of \$18,679 in principal plus interest, with a final balloon payment on May 1, 2022. The loan is unsecured. However, under the loan terms, the Seminary agreed 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. In addition, the Seminary is prohibited from additional borrowings in excess of \$100,000 per year.	<u>2,895,553</u>	<u>2,992,300</u>
	<u>\$ 4,079,449</u>	<u>\$ 4,227,144</u>

The Roxbury Building Loan and Cass Bank \$3 million 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.



**GORDON-CONWELL THEOLOGICAL SEMINARY, INC.**

**Notes to Financial Statements**

**June 30, 2016 and 2015**

The maturities of these notes are as follows:

Year ending June 30,	
2017	\$ 154,689
2018	161,488
2019	168,586
2020	175,580
2021	183,713
Thereafter	<u>3,235,393</u>
	<u>\$ 4,079,449</u>

Interest expense for notes payable and the line of credit charged to operations was \$179,758 and \$158,028 in 2016 and 2015.

**NOTE K - OPERATING LEASES**

The Seminary leases certain equipment under operating lease arrangements that expire at various dates through 2020. Lease expense was \$148,444 and \$184,847 for the years ended June 30, 2016 and 2015, respectively. Minimum future rentals under noncancelable leases are as follows:

<u>Year ending June 30,</u>	
2017	\$ 70,552
2018	37,091
2019	20,587
2020	<u>3,245</u>
Total minimum future rental payments	<u>\$ 131,475</u>

**NOTE L - EMPLOYEE BENEFITS**

The Seminary's retirement plan (the 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.

# GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

## Notes to Financial Statements

June 30, 2016 and 2015

The Seminary makes a basic contribution of 3% as well as a matching contribution of 2%. Retirement plan expense was \$460,877 and \$419,914 for the years ended June 30, 2016 and 2015, respectively. Contributions may not exceed the limits imposed by the IRC. New eligible employees are immediately vested in their voluntary salary reduction contributions (i.e., elective deferrals); however, the Seminary's basic contributions and matching contributions do not become vested until the employee completes two years of service.

Effective October 1, 2013, the Seminary sponsored a 457(b) Deferred Compensation Plan for the President, which allows only employee deferrals.

### NOTE M - CASH FLOW INFORMATION

The Seminary paid interest of \$278,858 and \$200,398 during the years ended June 30, 2016 and 2015, respectively.

The Seminary had the following noncash activity for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Capital expenditures	\$ 1,694,416	\$ 6,287,426
Assets acquired through issuance of long-term obligations	(820,979)	(1,568,076)
Assets acquired through in-kind contribution	(18,734)	-
Add payments on prior year accounts payable used to finance capital expenditures	<u>-</u>	<u>424,784</u>
Equipment purchases and building renovations	<u>\$ 854,703</u>	<u>\$ 5,144,134</u>

### NOTE N - SUBSEQUENT EVENTS

For the purposes of the presentation of these financial statements in conformity with U.S. GAAP, management has considered transactions or events occurring through October 21, 2016, 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.