



GORDON  CONWELL
THEOLOGICAL SEMINARY

FINANCIAL STATEMENTS

June 30, 2018 and 2017

With Independent Auditor's Report



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, 2018 and 2017, 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, 2018 and 2017, 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
December 19, 2018

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Statements of Financial Position

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 958,132	\$ 1,644,936
Accounts receivable (less allowance of \$1,184,554 in 2018 and \$1,272,129 in 2017)	1,216,592	1,718,944
Student loans receivable	754,927	884,397
Pledges receivable (less present value discount and allowance of \$36,899 in 2018 and \$70,825 in 2017), at fair value	234,472	740,825
Prepaid expenses and other	640,925	478,545
Notes receivable	2,718,100	2,493,100
Beneficial interest in charitable remainder trusts	3,336,929	3,294,667
Investments	55,187,616	51,020,809
Land, buildings and equipment, net	<u>38,100,705</u>	<u>39,234,678</u>
Total assets	<u>\$103,148,398</u>	<u>\$101,510,901</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 757,494	\$ 745,295
Accrued payroll and employee benefits	519,769	492,541
Deferred income and student deposits	581,288	823,109
Obligation under capital leases	959,483	1,508,057
Line of credit	4,750,000	500,000
Notes payable	3,763,288	3,924,768
Annuities payable and trust obligations	2,786,942	2,790,820
Advances from government for federal student loans	<u>704,949</u>	<u>1,024,812</u>
Total liabilities	<u>14,823,213</u>	<u>11,809,402</u>
Net assets		
Unrestricted	23,959,734	25,620,834
Temporarily restricted	11,074,470	11,518,233
Permanently restricted	<u>53,290,981</u>	<u>52,562,432</u>
Total net assets	<u>88,325,185</u>	<u>89,701,499</u>
Total liabilities and net assets	<u>\$103,148,398</u>	<u>\$101,510,901</u>

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

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Statement of Activities

**Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)**

	2018			2017
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support				
Student tuition and fees	\$ 17,375,751	\$ -	\$ -	\$ 17,375,751
Less student aid	<u>(7,702,692)</u>	<u>-</u>	<u>-</u>	<u>(8,237,841)</u>
	9,673,059	-	-	10,178,441
Private gifts and grants	5,641,967	2,322,900	272,610	8,237,477
Government grants and contracts	222,484	-	-	222,484
Auxiliary enterprises	2,920,853	-	-	2,920,853
Other income	318,605	3,767	-	322,372
Investment (loss) income, net	169,868	(63,344)	676,236	782,760
Change in value of trusts and annuities payable	1,785	(28,317)	(220,297)	(246,829)
Net assets released from restrictions for operations	2,488,783	(2,488,783)	-	-
Net assets released from restrictions appropriated for capital purposes	189,986	(189,986)	-	-
Endowment support for operations	<u>2,368,424</u>	<u>-</u>	<u>-</u>	<u>2,368,424</u>
				<u>2,392,260</u>
Total revenues, gains and other support	<u>23,995,814</u>	<u>(443,763)</u>	<u>728,549</u>	<u>24,280,600</u>
Expenses				
Program				
Instruction	8,385,793	-	-	8,385,793
Academic support	3,346,000	-	-	3,346,000
Student services	2,275,648	-	-	2,275,648
Libraries	1,440,930	-	-	1,440,930
Auxiliary enterprises	3,874,820	-	-	3,874,820
Sponsored academic projects	<u>262,057</u>	<u>-</u>	<u>-</u>	<u>262,057</u>
Total program	19,585,248	-	-	19,585,248
Management and general	4,902,777	-	-	4,902,777
Fundraising	<u>1,168,889</u>	<u>-</u>	<u>-</u>	<u>1,168,889</u>
Total expenses	<u>25,656,914</u>	<u>-</u>	<u>-</u>	<u>25,656,914</u>
Change in net assets	(1,661,100)	(443,763)	728,549	(1,376,314)
Net assets, beginning of year	<u>25,620,834</u>	<u>11,518,233</u>	<u>52,562,432</u>	<u>89,701,499</u>
Net assets, end of year	<u>\$ 23,959,734</u>	<u>\$ 11,074,470</u>	<u>\$ 53,290,981</u>	<u>\$ 88,325,185</u>

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

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Statement of Activities

Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support				
Student tuition and fees	\$ 18,416,282	\$ -	\$ -	\$ 18,416,282
Less student aid	<u>(8,237,841)</u>	<u>-</u>	<u>-</u>	<u>(8,237,841)</u>
	10,178,441	-	-	10,178,441
Private gifts and grants	3,934,746	1,679,083	281,771	5,895,600
Government grants and contracts	106,586	-	-	106,586
Auxiliary enterprises	2,951,323	-	-	2,951,323
Other income	233,678	2,932	-	236,610
Investment income	465,467	1,562,124	1,416,426	3,444,017
Change in value of trusts and annuities payable	(23,259)	(127,656)	(60,825)	(211,740)
Net assets released from restrictions for operations	2,400,284	(2,400,284)	-	-
Net assets released from restrictions appropriated for capital purposes	452,458	(452,458)	-	-
Endowment support for operations	<u>2,392,260</u>	<u>-</u>	<u>-</u>	<u>2,392,260</u>
Total revenues, gains and other support	<u>23,091,984</u>	<u>263,741</u>	<u>1,637,372</u>	<u>24,993,097</u>
Expenses				
Program				
Instruction	7,790,129	-	-	7,790,129
Academic support	3,176,061	-	-	3,176,061
Student services	1,945,866	-	-	1,945,866
Libraries	1,404,013	-	-	1,404,013
Auxiliary enterprises	3,681,987	-	-	3,681,987
Sponsored academic projects	<u>416,735</u>	<u>-</u>	<u>-</u>	<u>416,735</u>
Total program	18,414,791	-	-	18,414,791
Management and general	4,480,045	-	-	4,480,045
Fundraising	<u>1,295,964</u>	<u>-</u>	<u>-</u>	<u>1,295,964</u>
Total expenses	<u>24,190,800</u>	<u>-</u>	<u>-</u>	<u>24,190,800</u>
Change in net assets	(1,098,816)	263,741	1,637,372	802,297
Net assets, beginning of year	<u>26,719,650</u>	<u>11,254,492</u>	<u>50,925,060</u>	<u>88,899,202</u>
Net assets, end of year	<u>\$ 25,620,834</u>	<u>\$ 11,518,233</u>	<u>\$ 52,562,432</u>	<u>\$ 89,701,499</u>

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

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating activities		
Change in net assets	\$ (1,376,314)	\$ 802,297
Adjustments to reconcile change in net assets to net cash used for operating activities		
Gifts for long-term restricted purposes	(587,788)	(417,965)
Net market gain on investments	(1,891,926)	(4,620,344)
Depreciation	1,694,677	1,776,353
Uncollectible accounts receivable	87,575	15,937
Change in beneficial interest in charitable remainder trust	(42,262)	(109,896)
Noncash change in annuities payable and trust obligations	(3,878)	42,020
Student loans adjustment	(7,521)	(4,029)
Change in assets and liabilities		
Accounts receivable	414,777	(132,466)
Pledges receivable	301,840	716,983
Prepaid expenses and other	(162,380)	222,438
Accounts payable and accrued expenses	12,199	(79,184)
Accrued payroll and employee benefits	27,228	(770,556)
Deferred income and student deposits	(241,821)	(279,899)
Net cash used for operating activities	<u>(1,775,594)</u>	<u>(2,838,311)</u>
Investing activities		
Purchases of investments	(2,520,735)	(1,085,822)
Proceeds from sales of investments	245,854	4,629,135
Student loans collected	136,991	165,309
Notes receivable issued	(225,000)	(375,000)
Payments received on notes receivable	-	235,000
Equipment purchases and building renovations	(560,704)	(594,723)
Net cash (used) provided by investing activities	<u>(2,923,594)</u>	<u>2,973,899</u>
Financing activities		
Borrowing on line of credit, net	4,250,000	500,000
Restricted funds received for capital acquisitions	519,691	116,853
Receipt of gifts for other long-term restricted purposes	272,610	281,771
(Decrease) increase in advances from government for federal student loans	(319,863)	7,379
Payment on notes payable	(161,480)	(154,681)
Payments on capital leases	(548,574)	(563,736)
Net cash provided by financing activities	<u>4,012,384</u>	<u>187,586</u>
Net (decrease) increase in cash and cash equivalents	(686,804)	323,174
Cash and cash equivalents, beginning of year	<u>1,644,936</u>	<u>1,321,762</u>
Cash and cash equivalents, end of year	<u>\$ 958,132</u>	<u>\$ 1,644,936</u>

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

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017

Student Loans Receivable

The balance of student loans receivable represents funds advanced to the Seminary by the United States Department of Education under the Federal Perkins Loan Program. 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 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. 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, has 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>2018</u>	<u>2017</u>
Current	\$ 564,149	\$ 711,757
61 - 90 days past due	789	748
Greater than 90 days past due	<u>189,989</u>	<u>171,892</u>
Total	<u>\$ 754,927</u>	<u>\$ 884,397</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 6% discount rate.

Notes Receivable

Notes receivable consist of junior mortgage loans to faculty and staff members collateralized by their primary residences. These 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.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2018 and 2017

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 5 - 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.

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).

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.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2018 and 2017

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, 2018 and 2017 with expected payments to be collected as follows at June 30:

	<u>2018</u>	<u>2017</u>
Due within one year	\$ 162,442	\$ 630,637
One to five years	<u>108,929</u>	<u>181,013</u>
Total pledges receivable	271,371	811,650
Less present value discount (5.00% and 4.25%, respectively)	(16,899)	(31,090)
Less allowance for uncollectible pledges	<u>(20,000)</u>	<u>(39,735)</u>
Net pledges receivable	<u>\$ 234,472</u>	<u>\$ 740,825</u>

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, 2018 and 2017

NOTE C - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consisted of the following:

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 2,292,411	\$ 2,292,411
Building and improvements	53,936,551	53,555,476
Construction in progress	102,993	116,104
Furniture and equipment	<u>7,966,026</u>	<u>7,773,286</u>
	64,297,981	63,737,277
Less accumulated depreciation	<u>(26,197,276)</u>	<u>(24,502,599)</u>
Total	<u>\$ 38,100,705</u>	<u>\$ 39,234,678</u>

NOTE D - INVESTMENTS

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

	<u>2018</u>	<u>2017</u>
Pooled assets		
Cash and cash equivalents	\$ 2,892,543	\$ 1,133,070
Equity investments	19,887,770	19,307,982
Fixed income investments	<u>9,161,886</u>	<u>8,388,297</u>
	<u>31,942,199</u>	<u>28,829,349</u>
Nonpooled assets		
Cash and cash equivalents	2,715,647	1,494,992
Equity investments	14,599,168	15,225,472
Fixed income investments	5,911,828	5,452,222
Other	<u>18,774</u>	<u>18,774</u>
	<u>23,245,417</u>	<u>22,191,460</u>
	<u>\$ 55,187,616</u>	<u>\$ 51,020,809</u>

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2018 and 2017

Corporate bonds and notes (included in fixed income investments above) have varying maturities through 2048.

Investment income is comprised of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 1,259,258	\$ 1,215,933
Net market gain on investments	<u>1,891,926</u>	<u>4,620,344</u>
Total investment income	3,151,184	5,836,277
Less investment income appropriated for operations	<u>(2,368,424)</u>	<u>(2,392,260)</u>
Investment income, net of funds appropriated for operations	<u>\$ 782,760</u>	<u>\$ 3,444,017</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 \$114,391 and \$119,902 in 2018 and 2017, 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. 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, 2018 and 2017

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 the 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 4.9% of a three-year moving market value average (calculated as of the prior three fiscal year-ends) of its pooled endowment funds in 2018 and 5% in 2017. 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 4.9% of the total return valuation calculation for all pooled accounts in 2018 and 5% in 2017. The Board appropriated a reduced rate of 3% of the total return calculation for all "underwater" accounts as of June 30, 2018 and 5% in 2017.

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 of the designated 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, 2018 and 2017

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, 2018 and 2017, the balance of this uncollateralized interfund loan totaled \$2,683,725 and \$6,653,436, respectively. This loan was collateralized in part by the Seminary's interest in a trust whose future use is unrestricted. At June 30, 2018 and 2017, the trust had a fair value of \$1,599,017 and \$1,599,159, respectively.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2018 and 2017

Endowment Net Asset Composition by Type of Fund

As of June 30, 2018, 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	\$ (114,391)	\$ 6,087,291	\$ 35,154,786	\$ 41,127,686
Nonpooled funds	-	-	14,315,634	14,315,634
Board-designated funds	<u>1,988,637</u>	<u>-</u>	<u>-</u>	<u>1,988,637</u>
Total funds	<u>\$ 1,874,246</u>	<u>\$ 6,087,291</u>	<u>\$ 49,470,420</u>	<u>\$ 57,431,957</u>

As of June 30, 2017, 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	\$ (119,902)	\$ 6,350,627	\$ 34,882,176	\$ 41,112,901
Nonpooled funds	-	-	13,910,734	13,910,734
Board-designated funds	<u>1,989,056</u>	<u>-</u>	<u>-</u>	<u>1,989,056</u>
Total funds	<u>\$ 1,869,154</u>	<u>\$ 6,350,627</u>	<u>\$ 48,792,910</u>	<u>\$ 57,012,691</u>

At June 30, 2018, investments of \$55,187,616 included \$48,255,947 in endowment investments and \$6,931,669 related to investments in annuities, trusts and charitable remainder unitrust (CRUT) agreements for which the Seminary is the trustee. At June 30, 2017, investments of \$51,020,809 included \$44,234,352 in endowment investments and \$6,786,457 related to investments in annuities, trusts and CRUT agreements for which the Seminary is the trustee.

At June 30, 2018, total temporarily and permanently restricted endowment net assets of \$55,557,711 consisted of \$48,255,947 in endowment investments funds, \$1,881,166 in annuity investments available to be transferred to the endowment, \$2,736,873 in notes receivable collateralized by home mortgages and collectibles, and \$2,683,725 in interfund loans for working capital. At June 30, 2017, total temporarily and permanently restricted endowment net assets of \$55,143,537 consisted of \$44,234,352 in endowment investments funds, \$1,743,876 in annuity investments available to be transferred to the endowment, \$2,511,873 in notes receivable collateralized by home mortgages and collectibles, and \$6,653,436 in interfund loans for working capital.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2018 and 2017

Changes in Endowment Net Assets

For the fiscal year ended June 30, 2018, 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>
Endowment net assets at June 30, 2017	\$ 1,869,154	\$ 6,350,627	\$ 48,792,910	\$ 57,012,691
Investment return				
Net interest and dividend income	27,349	1,110,218	-	1,137,567
Net capital appreciation	53,168	1,105,498	404,900	1,563,566
Net capital appreciation of underwater accounts	<u>5,511</u>	<u>-</u>	<u>-</u>	<u>5,511</u>
Total investment return	86,028	2,215,716	404,900	2,706,644
Contributions to endowment	166,446	-	272,610	439,056
Appropriations for operations	(66,181)	(2,302,243)	-	(2,368,424)
Appropriations for capital purposes	(6,201)	(176,809)	-	(183,010)
Transfer for operations	<u>(175,000)</u>	<u>-</u>	<u>-</u>	<u>(175,000)</u>
Total change in endowment net assets	<u>5,092</u>	<u>(263,336)</u>	<u>677,510</u>	<u>419,266</u>
Endowment net assets at June 30, 2018	<u>\$ 1,874,246</u>	<u>\$ 6,087,291</u>	<u>\$ 49,470,420</u>	<u>\$ 57,431,957</u>

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2018 and 2017

For the fiscal year ended June 30, 2017, 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>
Endowment net assets at June 30, 2016	\$ 1,224,670	\$ 4,984,375	\$ 47,577,317	\$ 53,786,362
Investment return				
Net interest and dividend income	26,352	1,061,526	-	1,087,878
Net capital appreciation	139,318	2,807,857	933,822	3,880,997
Net capital appreciation of underwater accounts	<u>125,293</u>	<u>-</u>	<u>-</u>	<u>125,293</u>
Total investment return	290,963	3,869,383	933,822	5,094,168
Contributions to endowment	412,000	-	281,771	693,771
Appropriations to operations	(52,755)	(2,339,505)	-	(2,392,260)
Appropriations for capital purposes	<u>(5,724)</u>	<u>(163,626)</u>	<u>-</u>	<u>(169,350)</u>
Total change in endowment net assets	<u>644,484</u>	<u>1,366,252</u>	<u>1,215,593</u>	<u>3,226,329</u>
Endowment net assets at June 30, 2017	<u>\$ 1,869,154</u>	<u>\$ 6,350,627</u>	<u>\$ 48,792,910</u>	<u>\$ 57,012,691</u>

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2018 and 2017

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.

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.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	June 30, 2018			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Pledges receivable	\$ <u>234,472</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>234,472</u>
Beneficial interest in CRUTs	\$ <u>3,336,929</u>	\$ <u>-</u>	\$ <u>3,336,929</u>	\$ <u>-</u>
Investments				
Cash and cash equivalents	\$ 5,608,190	\$ 5,608,190	\$ -	\$ -
Equity investments	34,486,938	34,486,938	-	-
Fixed income investments	15,073,714	14,586,605	487,109	-
Other	<u>18,774</u>	<u>18,774</u>	<u>-</u>	<u>-</u>
Total investments	\$ <u>55,187,616</u>	\$ <u>54,700,507</u>	\$ <u>487,109</u>	\$ <u>-</u>
Liabilities				
Annuities payable and trust obligations	\$ <u>2,786,942</u>	\$ <u>-</u>	\$ <u>2,786,942</u>	\$ <u>-</u>

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2018 and 2017

	June 30, 2017			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Pledges receivable	\$ <u>740,825</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>740,825</u>
Beneficial interest in CRUTs	\$ <u>3,294,667</u>	\$ <u>-</u>	\$ <u>3,294,667</u>	\$ <u>-</u>
Investments				
Cash and cash equivalents	\$ 2,628,062	\$ 2,628,062	\$ -	\$ -
Equity investments	34,533,454	34,533,454	-	-
Fixed income investments	13,840,519	13,638,519	202,000	-
Other	<u>18,774</u>	<u>18,774</u>	<u>-</u>	<u>-</u>
Total investments	\$ <u>51,020,809</u>	\$ <u>50,818,809</u>	\$ <u>202,000</u>	\$ <u>-</u>
Liabilities				
Annuities payable and trust obligations	\$ <u>2,790,820</u>	\$ <u>-</u>	\$ <u>2,790,820</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 the years ended June 30 are as follows:

	<u>2018</u>	<u>2017</u>
Pledges receivable, beginning of year	\$ 740,825	\$ 1,438,467
New pledges	270,000	200,000
Payments and adjustments on pledges	(810,279)	(912,604)
Change in discount and allowance for uncollectible pledges	<u>33,926</u>	<u>14,962</u>
Pledges receivable, end of year	\$ <u>234,472</u>	\$ <u>740,825</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 and the actuarial expected lives of beneficiaries. 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, 2018 and 2017

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

Net assets released from restrictions consisted of the following:

	<u>2018</u>	<u>2017</u>
Academic and general	\$ 1,014,548	\$ 786,295
Sponsored academic projects	568,369	697,251
Operations and maintenance	190,703	66,803
Financial aid	<u>715,163</u>	<u>849,935</u>
Net assets released from restrictions for operations	2,488,783	2,400,284
Net assets released from restrictions appropriated for capital purposes	<u>189,986</u>	<u>452,458</u>
Total	<u>\$ 2,678,769</u>	<u>\$ 2,852,742</u>

Temporarily restricted net assets consisted of the following:

	<u>2018</u>	<u>2017</u>
Unspent endowment gains:		
Academic and general	\$ 3,511,135	\$ 3,631,180
Financial aid	2,565,274	2,708,184
Endowment income unrestricted	1,034	10,112
Operations and maintenance	<u>9,848</u>	<u>1,151</u>
	<u>6,087,291</u>	<u>6,350,627</u>
Gifts restricted for purpose	3,231,169	3,411,993
Trusts restricted as to time	1,756,010	1,752,987
Gifts restricted for capital purchases	<u>-</u>	<u>2,626</u>
	<u>4,987,179</u>	<u>5,167,606</u>
Total	<u>\$ 11,074,470</u>	<u>\$ 11,518,233</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, 2018 and 2017

NOTE H - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consisted of the following:

	<u>2018</u>	<u>2017</u>
Endowment and trust funds whose income is restricted for:		
Academic and general	\$ 30,116,013	\$ 29,663,188
Financial aid	22,801,744	22,548,145
Operations and maintenance	<u>18,899</u>	<u>18,899</u>
	52,936,656	52,230,232
Endowment and trust funds whose income is unrestricted	<u>354,325</u>	<u>332,200</u>
Total	<u>\$ 53,290,981</u>	<u>\$ 52,562,432</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 2018, the Seminary did not acquire additional equipment through capital leases. During fiscal year 2017, the Seminary acquired additional equipment through capital leases of \$138,874.

Future minimum payments under capitalized leases are as follows:

<u>Year ending June 30,</u>	
2019	\$ 543,614
2020	396,083
2021	63,671
2022	<u>2,518</u>
Total minimum lease payments	1,005,886
Less amounts representing interest (0.72%-6.47%)	<u>(46,403)</u>
Present value of net minimum lease payments	<u>\$ 959,483</u>

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2018 and 2017

Interest expense for capital leases charged to operations was \$60,604 and \$87,716 in 2018 and 2017, respectively.

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

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 2,449,560	\$ 2,791,421
Less accumulated depreciation	<u>(1,552,658)</u>	<u>(1,103,361)</u>
	<u>\$ 896,902</u>	<u>\$ 1,688,060</u>

NOTE J - NOTES PAYABLE AND LINE OF CREDIT AGREEMENT

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

	<u>2018</u>	<u>2017</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% with fixed monthly payments of \$8,609, with a final balloon payment due on April 21, 2022.	\$ 1,074,890	\$ 1,130,564
<u>Cass Bank \$3 Million Loan</u>		
This loan is a seven-year term loan that includes a fixed interest rate of 4.25% with fixed monthly principal and interest payments of \$18,679, with a final balloon payment due 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. These terms remain in effect and are not impacted by the additional \$5 million line of credit agreement, also provided by Cass Bank.	<u>2,688,398</u>	<u>2,794,204</u>
	<u>\$ 3,763,288</u>	<u>\$ 3,924,768</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, 2018 and 2017

The maturities of these notes are as follows:

Year ending June 30,	
2019	\$ 168,585
2020	175,580
2021	183,712
2022	<u>3,235,411</u>
	<u>\$ 3,763,288</u>

The Seminary obtained a short-term line of credit from Cass Bank on June 26, 2017 allowing it to borrow up to \$1,250,000 for the purpose of working capital, with a maturity date of August 26, 2017. As of June 30, 2017, \$500,000 of the line of credit was outstanding.

On August 18, 2017, a new long-term line of credit agreement was obtained from Cass Bank with a maximum borrowing limit of \$5,000,000, which expires June 1, 2020. Interest payments are due monthly with one payment of all outstanding principal due upon maturity. The interest rate is the Wall Street Journal Prime Rate, floating, with a floor of 4.00% (5.00% at June 30, 2018). The line is collateralized by a portion of the real estate assets on the Hamilton, Massachusetts campus. As of June 30, 2018, \$4,750,000 of the line of credit was outstanding.

Interest expense for notes payable and the line of credit charged to operations was \$217,582 and \$172,890 in 2018 and 2017, respectively.

NOTE K - OPERATING LEASES

The Seminary leases certain equipment under operating lease arrangements that expire at various dates through 2022. Lease expense was \$66,064 and \$82,685 for the years ended June 30, 2018 and 2017, respectively. Minimum future rentals under noncancelable leases are as follows:

<u>Year ending June 30,</u>	
2019	\$ 28,714
2020	12,368
2021	9,123
2022	9,123
2023	<u>3,221</u>
Total minimum future rental payments	<u>\$ 62,549</u>

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2018 and 2017

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.

The Seminary makes a basic contribution of 3% as well as a matching contribution of 2%. Retirement plan expense was \$554,876 and \$517,949 for the years ended June 30, 2018 and 2017, 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 \$278,186 and \$260,606 during the years ended June 30, 2018 and 2017, respectively.

The Seminary had the following noncash activity for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Capital expenditures	\$ 560,704	\$ 733,597
Assets acquired through issuance of long-term capital lease obligations	<u>-</u>	<u>(138,874)</u>
Equipment purchases and building renovations	<u>\$ 560,704</u>	<u>\$ 594,723</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 December 19, 2018, 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.