




GORDON  CONWELL
THEOLOGICAL SEMINARY

FINANCIAL STATEMENTS

June 30, 2019 and 2018

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, 2019 and 2018, and the related statements of activities, functional expenses 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, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in Note A to the financial statements, the Seminary adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958) during the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
January 23, 2020

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Statements of Financial Position

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 630,589	\$ 958,132
Accounts receivable (less allowance of \$1,072,972 in 2019 and \$1,184,554 in 2018)	1,372,196	1,216,592
Student loans receivable	622,895	754,927
Pledges receivable (less present value discount and allowance of \$28,654 in 2019 and \$36,899 in 2018), at fair value	108,515	234,472
Prepaid expenses and other	442,961	640,925
Notes receivable	2,568,100	2,718,100
Beneficial interest in charitable remainder trusts	3,192,961	3,336,929
Investments	56,684,683	55,187,616
Land, buildings and equipment, net	<u>37,025,049</u>	<u>38,100,705</u>
Total assets	<u>\$102,647,949</u>	<u>\$103,148,398</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 852,738	\$ 757,494
Accrued payroll and employee benefits	712,953	519,769
Deferred income and student deposits	520,009	581,288
Obligation under capital leases	450,587	959,483
Line of credit	3,950,000	4,750,000
Notes payable	3,594,708	3,763,288
Annuities payable and trust obligations	2,589,576	2,786,942
Advances from government for federal student loans	<u>737,066</u>	<u>704,949</u>
Total liabilities	<u>13,407,637</u>	<u>14,823,213</u>
Net assets		
Without donor restrictions	19,111,892	24,074,125
With donor restrictions	<u>70,128,420</u>	<u>64,251,060</u>
Total net assets	<u>89,240,312</u>	<u>88,325,185</u>
Total liabilities and net assets	<u>\$102,647,949</u>	<u>\$103,148,398</u>

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

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Statement of Activities

**Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)**

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues, gains and other support				
Student tuition and fees	\$ 17,300,285	\$ -	\$ 17,300,285	\$ 17,375,751
Less student aid	<u>(7,813,222)</u>	<u>-</u>	<u>(7,813,222)</u>	<u>(7,702,692)</u>
	9,487,063	-	9,487,063	9,673,059
Private gifts and grants	3,368,561	4,778,486	8,147,047	8,237,477
Government grants and contracts	98,486	-	98,486	222,484
Auxiliary enterprises	2,408,704	-	2,408,704	2,920,853
Other income	345,225	28,073	373,298	322,372
Investment income, net	142,459	3,781,490	3,923,949	725,934
Change in value of trusts and annuities payable	75,068	(297,360)	(222,292)	(246,829)
Net assets released from restrictions for operations	2,181,791	(2,181,791)	-	-
Net assets released from restrictions appropriated for capital purposes	231,538	(231,538)	-	-
Endowment support for operations	<u>2,368,294</u>	<u>-</u>	<u>2,368,294</u>	<u>2,368,424</u>
Total revenues, gains and other support	<u>20,707,189</u>	<u>5,877,360</u>	<u>26,584,549</u>	<u>24,223,774</u>
Expenses				
Salaries and wages	13,414,744	-	13,414,744	13,592,162
Employee benefits	<u>2,046,255</u>	<u>-</u>	<u>2,046,255</u>	<u>2,125,880</u>
Total salaries, wages and benefits	15,460,999	-	15,460,999	15,718,042
Services purchased	3,107,764	-	3,107,764	2,571,380
Occupancy and maintenance	2,119,762	-	2,119,762	2,026,047
Office expense, travel and other	2,755,447	-	2,755,447	3,226,706
Depreciation	1,745,775	-	1,745,775	1,694,677
Interest	<u>479,675</u>	<u>-</u>	<u>479,675</u>	<u>363,236</u>
Total expenses	<u>25,669,422</u>	<u>-</u>	<u>25,669,422</u>	<u>25,600,088</u>
Change in net assets	(4,962,233)	5,877,360	915,127	(1,376,314)
Net assets, beginning of year	<u>24,074,125</u>	<u>64,251,060</u>	<u>88,325,185</u>	<u>89,701,499</u>
Net assets, end of year	<u>\$ 19,111,892</u>	<u>\$ 70,128,420</u>	<u>\$ 89,240,312</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, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</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>(7,702,692)</u>
	9,673,059	-	9,673,059
Private gifts and grants	5,641,967	2,595,510	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 income, net	107,531	618,403	725,934
Change in value of trusts and annuities payable	1,785	(248,614)	(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>2,368,424</u>
Total revenues, gains and other support	<u>23,933,477</u>	<u>290,297</u>	<u>24,223,774</u>
Expenses			
Salaries and wages	13,592,162	-	13,592,162
Employee benefits	<u>2,125,880</u>	<u>-</u>	<u>2,125,880</u>
Total salaries, wages and benefits	15,718,042	-	15,718,042
Services purchased	2,571,380	-	2,571,380
Occupancy and maintenance	2,026,047	-	2,026,047
Office expense, travel and other	3,226,706	-	3,226,706
Depreciation	1,694,677	-	1,694,677
Interest	<u>363,236</u>	<u>-</u>	<u>363,236</u>
Total expenses	<u>25,600,088</u>	<u>-</u>	<u>25,600,088</u>
Change in net assets	(1,666,611)	290,297	(1,376,314)
Net assets, beginning of year	<u>25,740,736</u>	<u>63,960,763</u>	<u>89,701,499</u>
Net assets, end of year	<u>\$ 24,074,125</u>	<u>\$ 64,251,060</u>	<u>\$ 88,325,185</u>

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

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Statement of Functional Expenses

Year Ended June 30, 2019

	Program Activities				Support Activities			Total
	<u>Instruction</u>	<u>Academic Support</u>	<u>Student Services</u>	<u>Auxiliary Enterprises</u>	<u>Facilities Operation & Maintenance</u>	<u>Institutional Support</u>	<u>Fundraising</u>	
Salaries and wages	\$ 5,723,898	\$ 1,884,833	\$ 2,148,259	\$ 206,942	\$ 550,978	\$ 2,342,301	\$ 557,533	\$ 13,414,744
Employee benefits	<u>640,670</u>	<u>381,286</u>	<u>376,213</u>	<u>35,526</u>	<u>115,051</u>	<u>413,364</u>	<u>84,145</u>	<u>2,046,255</u>
Total salaries, wages and benefits	6,364,568	2,266,119	2,524,472	242,468	666,029	2,755,665	641,678	15,460,999
Services purchased	205,446	246,560	175,653	788,935	1,036,342	531,015	123,813	3,107,764
Occupancy and maintenance	30,043	16,812	16,447	508,692	1,489,285	54,982	3,501	2,119,762
Office expense, travel and other	610,270	328,441	556,267	137,732	66,627	766,540	289,570	2,755,447
Depreciation	589,290	27,271	104,607	364,491	91,560	568,556	-	1,745,775
Interest	<u>-</u>	<u>431,555</u>	<u>-</u>	<u>-</u>	<u>45,183</u>	<u>2,937</u>	<u>-</u>	<u>479,675</u>
	7,799,617	3,316,758	3,377,446	2,042,318	3,395,026	4,679,695	1,058,562	25,669,422
Facilities operation and maintenance allocation	<u>668,890</u>	<u>117,229</u>	<u>471,463</u>	<u>1,983,740</u>	<u>(3,395,026)</u>	<u>153,704</u>	<u>-</u>	<u>-</u>
Total expenses	<u>\$ 8,468,507</u>	<u>\$ 3,433,987</u>	<u>\$ 3,848,909</u>	<u>\$ 4,026,058</u>	<u>\$ -</u>	<u>\$ 4,833,399</u>	<u>\$ 1,058,562</u>	<u>\$ 25,669,422</u>

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

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Statement of Functional Expenses

Year Ended June 30, 2018

	Program Activities				Support Activities			Total
	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Facilities Operation & Maintenance	Institutional Support	Fundraising	
Salaries and wages	\$ 5,590,232	\$ 1,867,819	\$ 2,086,127	\$ 373,597	\$ 592,269	\$ 2,369,015	\$ 713,103	\$ 13,592,162
Employee benefits	<u>664,938</u>	<u>367,136</u>	<u>371,503</u>	<u>81,077</u>	<u>117,197</u>	<u>404,904</u>	<u>119,125</u>	<u>2,125,880</u>
Total salaries, wages and benefits	6,255,170	2,234,955	2,457,630	454,674	709,466	2,773,919	832,228	15,718,042
Services purchased	241,600	279,060	184,980	567,040	813,469	459,117	26,114	2,571,380
Occupancy and maintenance	28,439	19,426	16,295	503,337	1,429,555	24,233	4,762	2,026,047
Office expense, travel and other	647,984	570,748	513,316	139,214	88,345	961,313	305,786	3,226,706
Depreciation	588,705	27,271	104,607	360,256	78,183	535,655	-	1,694,677
Interest	<u>-</u>	<u>310,428</u>	<u>-</u>	<u>-</u>	<u>47,632</u>	<u>5,176</u>	<u>-</u>	<u>363,236</u>
	7,761,898	3,441,888	3,276,828	2,024,521	3,166,650	4,759,413	1,168,890	25,600,088
Facilities operation and maintenance allocation	<u>623,895</u>	<u>109,344</u>	<u>439,749</u>	<u>1,850,298</u>	<u>(3,166,650)</u>	<u>143,364</u>	<u>-</u>	<u>-</u>
Total expenses	<u>\$ 8,385,793</u>	<u>\$ 3,551,232</u>	<u>\$ 3,716,577</u>	<u>\$ 3,874,819</u>	<u>\$ -</u>	<u>\$ 4,902,777</u>	<u>\$ 1,168,890</u>	<u>\$ 25,600,088</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Cash received from student tuition and fees	\$ 9,187,248	\$ 9,980,213
Cash received from donors	7,442,028	7,411,249
Cash collected from contributions receivable	115,000	540,279
Cash collected from auxiliary enterprises	2,417,082	2,798,002
Cash collected from government grants and contracts	106,902	104,737
Interest and dividend income	1,385,840	1,174,208
Miscellaneous receipts	423,479	399,289
Cash paid to employees	(15,068,713)	(15,640,505)
Cash paid to vendors	(7,925,722)	(7,943,440)
Interest paid	<u>(386,318)</u>	<u>(267,780)</u>
Net cash used for operating activities	<u>(2,303,174)</u>	<u>(1,443,748)</u>
INVESTING ACTIVITIES		
Purchase of investments	(519,662)	(2,574,208)
Investment proceeds distributed, net of operations	3,803,591	226,806
Student loans collected	148,966	150,171
Notes receivable issued	(200,000)	(225,000)
Payments received on notes receivable	392,240	-
Equipment purchases and building renovations	<u>(616,213)</u>	<u>(560,704)</u>
Net cash provided by (used for) investing activities	<u>3,008,922</u>	<u>(2,982,935)</u>
FINANCING ACTIVITIES		
Net change in line of credit	(800,000)	4,250,000
Restricted funds received for capital acquisitions	259,103	519,691
Receipt of gifts for other long-term restricted purposes	431,276	272,610
Payments on annuity and trust obligations	(248,402)	(268,633)
Net change in advances from government for federal student loans	-	(323,735)
Payment on notes payable	(168,580)	(161,480)
Payments on capital leases	<u>(506,688)</u>	<u>(548,574)</u>
Net cash (used for) provided by financing activities	<u>(1,033,291)</u>	<u>3,739,879</u>
Net decrease in cash and cash equivalents	(327,543)	(686,804)
Cash and cash equivalents, beginning of year	<u>958,132</u>	<u>1,644,936</u>
Cash and cash equivalents, end of year	<u>\$ 630,589</u>	<u>\$ 958,132</u>

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

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2019 and 2018

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:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in furthering the Seminary's educational mission. These net assets may be used at the discretion of the Seminary's management and the Board of Trustees.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Seminary or by passage of time. Other donor-imposed stipulations are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Contributions

The Seminary reports gifts of cash and other assets as revenues with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2019 and 2018

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 support without donor restrictions.

The Seminary reports gifts of land, buildings, and equipment as support without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. 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, 2019 and 2018

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>2019</u>	<u>2018</u>
Current or not in repayment status	\$ 315,695	\$ 564,149
61 - 90 days past due	16,395	789
Greater than 90 days past due	<u>290,805</u>	<u>189,989</u>
Total	<u>\$ 622,895</u>	<u>\$ 754,927</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 8% and 6% discount rate for the years ending June 30, 2019 and 2018, respectively.

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, 2019 and 2018

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 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 7-9% and 5-6% as the interest rate basis to determine present value for the years ending June 30, 2019 and 2018, respectively.

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, 2019 and 2018

Functional Expense Allocation

Expenses are reported in the statement of functional expenses in categories recommended by the National Association of College and University Business Officers. The Seminary's primary program service is instruction. Expenses reported as academic support, student services, auxiliary enterprises, facilities operation and maintenance, institutional support and fundraising are incurred in support of this primary program service.

Expenses associated with the operation and maintenance of the Seminary plant assets, including interest and depreciation expense, are allocated on the basis of square footage utilized by the programs, as described in the functional categories.

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.

Recently Adopted Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), which makes targeted changes to the not-for-profit financial reporting model. The ASU marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. Under the ASU, net asset reporting is streamlined and clarified. The previous three category classification of net assets is replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions." The guidance for classifying deficiencies in endowment funds has also been simplified and clarified. New disclosures highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. The ASU also imposes several new requirements related to reporting expenses, including the addition of statements of functional expenses for the years ended June 30, 2019 and 2018. This ASU was adopted by the Seminary for the year ended June 30, 2019. This ASU also allows organizations to present the operating cash flows using the direct method without presenting the reconciliation of the indirect method of cash flows from operations. The adoption of the ASU had no impact on total net assets, changes in net assets and cash flows.

NOTE B. - AVAILABLE RESOURCES AND LIQUIDITY

The Seminary regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to optimize the investment of its available funds. The Seminary has various sources of liquidity at its disposal, including cash and cash equivalents, investments and a line of credit.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2019 and 2018

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Seminary considers all expenditures related to its ongoing activities of instruction, academic, and student services, as well as the conduct of services undertaken to support those activities. Student loans receivable are not included in the analysis as principal and interest on these loans are not available to meet current operating needs.

In addition to financial assets available to meet general expenditures over the next 12 months, the Seminary strives to operate with a balanced budget and anticipates collecting sufficient revenue to cover expenditures not covered by donor-restricted resources or, where appropriate, borrowings.

As of June 30, 2019, the following financial assets are expected to be available within one year of the statement of financial position date to meet general expenditures:

	<u>2019</u>
Cash and cash equivalents, excluding Perkins Loan cash and cash reserved for capital purposes	\$ 152,726
Accounts receivable, net	1,372,196
Pledges receivable due in one year or less, without donor restrictions for long-term purposes	40,000
Approved appropriation of donor-restricted endowed funds for use over the next 12 months	2,514,682
Approved appropriation of board-designated endowed funds for use over the next 12 months	<u>86,072</u>
	<u>\$ 4,165,676</u>

The Seminary's Board of Trustees has designated a portion of its resources without donor-imposed restrictions to act as endowment funds. Approved appropriation of these amounts is identified as board-designated in the table above. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board of Trustees.

The Seminary also has a line of credit available to meet short-term needs. See Note J for information about this arrangement.

The Seminary has incurred significant losses and used a significant amount of cash and cash equivalents for operating activities in recent years. In response to these losses, management has developed several initiatives they believe will improve the financial condition of the Seminary over the next twelve months including increasing enrollment and annual giving, expanding revenue opportunities and simplifying structure, policies and procedures in an effort to reduce expenses.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2019 and 2018

NOTE C - PLEDGES RECEIVABLE

The Seminary has pledges receivable at June 30, 2019 and 2018 with expected payments to be collected as follows at June 30:

	<u>2019</u>	<u>2018</u>
Due within one year	\$ 85,339	\$ 162,442
One to five years	<u>51,830</u>	<u>108,929</u>
Total pledges receivable	137,169	271,371
Less present value discount (5.5% and 5.0%, respectively)	(8,654)	(16,899)
Less allowance for uncollectible pledges	<u>(20,000)</u>	<u>(20,000)</u>
Net pledges receivable	<u>\$ 108,515</u>	<u>\$ 234,472</u>

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

NOTE D - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 2,292,411	\$ 2,292,411
Building and improvements	54,236,155	53,936,551
Construction in progress	-	102,993
Furniture and equipment	<u>8,439,534</u>	<u>7,966,026</u>
	64,968,100	64,297,981
Less accumulated depreciation	<u>(27,943,051)</u>	<u>(26,197,276)</u>
Total	<u>\$ 37,025,049</u>	<u>\$ 38,100,705</u>

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2019 and 2018

NOTE E - INVESTMENTS

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

	<u>2019</u>	<u>2018</u>
Pooled assets		
Cash and cash equivalents	\$ 1,322,197	\$ 2,892,543
Equity investments	22,817,029	19,887,770
Fixed income investments	<u>9,357,210</u>	<u>9,161,886</u>
	<u>33,496,436</u>	<u>31,942,199</u>
Nonpooled assets		
Cash and cash equivalents	1,046,423	2,715,647
Equity investments	16,037,021	14,599,168
Fixed income investments	6,086,029	5,911,828
Other	<u>18,774</u>	<u>18,774</u>
	<u>23,188,247</u>	<u>23,245,417</u>
	<u>\$ 56,684,683</u>	<u>\$ 55,187,616</u>

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

NOTE F - 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 and the Board of Trustees' interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the net assets associated with the pooled endowment funds are normally classified as follows: (1) the original gift corpus is classified as funds of perpetual duration and (2) accumulations to the gifts to be maintained in perpetuity made in accordance with the direction of the applicable gift instrument at the time the accumulation is added to the fund. If the donor-restricted endowment assets earn investment returns beyond the amount necessary to maintain the endowment assets' contributed value, that excess is included in net assets with donor restrictions until appropriated by the Board of Trustees and, if applicable, expended in accordance with the donors' restrictions. Funds designated by the Board of Trustees to function as endowments are classified as net assets without donor restrictions.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2019 and 2018

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 funds of perpetual duration.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Seminary to retain as a fund of perpetual duration. There were no deficiencies of this nature as of June 30, 2019. Deficiencies of this nature existed in 22 donor-restricted endowment funds, which together have an original gift value of \$1,771,102, a current fair value of \$1,656,711, and an accumulated deficiency of \$114,391 as of June 30, 2018. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions with donor-imposed restrictions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. The Seminary has interpreted UPMIFA to permit spending from funds with deficiencies in accordance with the prudent measures required under UPMIFA.

Interpretation of Relevant Law

The Seminary follows the general provisions of 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 UPMIFA legislation.

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.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2019 and 2018

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 4.8% of a three-year moving market value average (calculated as of the prior three fiscal year-ends) of its pooled endowment funds in 2019 and 4.9% in 2018. The Board appropriated a reduced rate of 3% of the total return calculation for all funds with deficiencies for the years ended June 30, 2019 and 2018. 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.

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.

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.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

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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. Under the guidelines, 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, 2019 and 2018, the balance of this interfund loan totaled \$4,928,560 and \$2,569,334, respectively. This loan was collateralized in part by the Seminary's interest in a trust whose future use is unrestricted and the available amount on the line of credit. At June 30, 2019 and 2018, the trust had a fair value of \$1,650,058 and \$1,599,017, respectively, and the funds available on the line of credit totaled \$1,050,000 and \$250,000 at June 30, 2019 and 2018, respectively. Interest expense for the interfund loan charged to operations was \$85,050 in 2019 and 2018.

Endowment Net Asset Composition by Type of Fund

As of June 30, 2019, the endowment net asset composition was as follows:

	Without Donor Restrictions	With Donor Restrictions			
		Funds Held in Perpetuity	Accumulated Gains and Other	Total With Donor Restrictions	Total Funds
Donor-restricted funds					
Pooled funds	\$ -	\$ 35,662,446	\$ 7,626,557	\$ 43,289,003	\$ 43,289,003
Nonpooled funds	-	15,991,988	-	15,991,988	15,991,988
Board-designated funds	<u>1,943,693</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,943,693</u>
Total funds	<u>\$ 1,943,693</u>	<u>\$ 51,654,434</u>	<u>\$ 7,626,557</u>	<u>\$ 59,280,991</u>	<u>\$ 61,224,684</u>

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2019 and 2018

As of June 30, 2018, the endowment net asset composition was as follows:

	Without Donor Restrictions	With Donor Restrictions			Total Funds
		Funds Held in Perpetuity	Accumulated Gains and Other	Total With Donor Restrictions	
Donor-restricted funds					
Pooled funds	\$ -	\$ 35,154,786	\$ 5,972,900	\$ 41,127,686	\$ 41,127,686
Nonpooled funds	-	14,315,634	-	14,315,634	14,315,634
Board-designated funds	<u>1,988,637</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,988,637</u>
Total funds	<u>\$ 1,988,637</u>	<u>\$ 49,470,420</u>	<u>\$ 5,972,900</u>	<u>\$ 55,443,320</u>	<u>\$ 57,431,957</u>

At June 30, 2019, investments of \$56,684,683 included \$49,576,064 in endowment investments and \$7,108,619 related to investments in annuities, trusts and charitable remainder unitrust (CRUT) agreements for which the Seminary is the trustee. 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 CRUT agreements for which the Seminary is the trustee.

At June 30, 2019, endowment net assets with donor restrictions of \$59,280,991 consisted of \$49,576,064 in endowment investments funds, \$2,189,494 in annuity investments available to be transferred to the endowment, \$2,586,873 in notes receivable collateralized by home mortgages and collectibles, and \$4,928,560 in interfund loans for working capital. At June 30, 2018, endowment net assets with donor restrictions of \$55,443,320 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 \$2,569,334 in interfund loans for working capital.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2019 and 2018

For the fiscal year ended June 30, 2019, the following activities resulted in the change in net assets by fund:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>			<u>Total Funds</u>
		<u>Funds Held in Perpetuity</u>	<u>Accumulated Gains and Other</u>	<u>Total With Donor Restrictions</u>	
Endowment net assets at June 30, 2018	\$ 1,988,637	\$ 49,470,420	\$ 5,972,900	\$ 55,443,320	\$ 57,431,957
Total investment return	153,617	1,676,352	3,994,866	5,671,218	5,824,835
Contributions to endowment	12,000	507,662	-	507,662	519,662
Appropriations for operations	(77,680)	-	(2,290,614)	(2,290,614)	(2,368,294)
Appropriations for capital purposes	(6,681)	-	(176,795)	(176,795)	(183,476)
Other adjustments	<u>(126,200)</u>	<u>-</u>	<u>126,200</u>	<u>126,200</u>	<u>-</u>
Total change in endowment net assets	<u>(44,944)</u>	<u>2,184,014</u>	<u>1,653,657</u>	<u>3,837,671</u>	<u>3,792,727</u>
Endowment net assets at June 30, 2019	<u>\$ 1,943,693</u>	<u>\$ 51,654,434</u>	<u>\$ 7,626,557</u>	<u>\$ 59,280,991</u>	<u>\$ 61,224,684</u>

For the fiscal year ended June 30, 2018, the following activities resulted in the change in net assets by fund:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>			<u>Total Funds</u>
		<u>Funds Held in Perpetuity</u>	<u>Accumulated Gains and Other</u>	<u>Total With Donor Restrictions</u>	
Endowment net assets at June 30, 2017	\$ 1,989,056	\$ 48,792,911	\$ 6,230,725	\$ 55,023,636	\$ 57,012,692
Total investment return	80,517	404,899	2,221,227	2,626,126	2,706,643
Contributions to endowment	166,446	272,610	-	272,610	439,056
Appropriations to operations	(66,181)	-	(2,302,243)	(2,302,243)	(2,368,424)
Appropriations for capital purposes	(6,201)	-	(176,809)	(176,809)	(183,010)
Transfers for operations	<u>(175,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(175,000)</u>
Total change in endowment net assets	<u>(419)</u>	<u>677,509</u>	<u>(257,825)</u>	<u>419,684</u>	<u>419,265</u>
Endowment net assets at June 30, 2018	<u>\$ 1,988,637</u>	<u>\$ 49,470,420</u>	<u>\$ 5,972,900</u>	<u>\$ 55,443,320</u>	<u>\$ 57,431,957</u>

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2019 and 2018

NOTE G - 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, 2019			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Pledges receivable	\$ <u>108,515</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>108,515</u>
Beneficial interest in CRUTs	\$ <u>3,192,961</u>	\$ <u>-</u>	\$ <u>3,192,961</u>	\$ <u>-</u>
Investments				
Cash and cash equivalents	\$ 2,368,620	\$ 2,368,620	\$ -	\$ -
Equity investments	38,854,050	38,854,050	-	-
Fixed income investments	15,443,239	14,921,908	521,331	-
Other	<u>18,774</u>	<u>18,774</u>	<u>-</u>	<u>-</u>
Total investments	\$ <u>56,684,683</u>	\$ <u>56,163,352</u>	\$ <u>521,331</u>	\$ <u>-</u>
Liabilities				
Annuities payable and trust obligations	\$ <u>2,589,576</u>	\$ <u>-</u>	\$ <u>2,589,576</u>	\$ <u>-</u>

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2019 and 2018

	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>

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>2019</u>	<u>2018</u>
Pledges receivable, beginning of year	\$ 234,472	\$ 740,825
New pledges	-	270,000
Payments and adjustments on pledges	(134,202)	(810,279)
Change in discount and allowance for uncollectible pledges	<u>8,245</u>	<u>33,926</u>
Pledges receivable, end of year	\$ <u>108,515</u>	\$ <u>234,472</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 for Level 2 fixed income investments, which consist of corporate bonds, is based on quoted market prices for similar investments.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2019 and 2018

NOTE H - NET ASSETS

Net assets with donor restrictions consisted of the following at June 30:

Funds maintained with donor restrictions temporary in nature:

	<u>2019</u>	<u>2018</u>
Unspent endowment gains:		
Academic and general	\$ 4,128,045	\$ 3,507,003
Financial aid	3,485,717	2,455,058
Operations and maintenance	<u>12,795</u>	<u>10,839</u>
	<u>7,626,557</u>	<u>5,972,900</u>
Gifts restricted for purpose	5,351,364	3,231,169
Trusts restricted as to time	<u>1,790,759</u>	<u>1,756,010</u>
	<u>7,142,123</u>	<u>4,987,179</u>
Total funds maintained with donor restrictions temporary in nature	<u>14,768,680</u>	<u>10,960,079</u>
Funds maintained in perpetuity:		
Endowment funds whose income is restricted for:		
Academic and general	\$ 30,007,124	\$ 28,226,974
Financial aid	21,604,715	21,200,851
Operations and maintenance	<u>42,595</u>	<u>42,595</u>
	<u>51,654,434</u>	<u>49,470,420</u>
Trust funds whose income is restricted for:		
Academic and general	1,826,640	1,889,039
Financial aid	1,573,405	1,600,894
Operations and maintenance	<u>305,261</u>	<u>330,628</u>
	<u>3,705,306</u>	<u>3,820,561</u>
Total funds maintained in perpetuity	<u>55,359,740</u>	<u>53,290,981</u>
Total net assets with donor restrictions	<u>\$ 70,128,420</u>	<u>\$ 64,251,060</u>

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

Notes to Financial Statements

June 30, 2019 and 2018

Net assets released from restrictions consisted of the following:

	<u>2019</u>	<u>2018</u>
Academic and general	\$ 961,310	\$ 1,014,548
Sponsored academic projects	383,623	568,369
Operations and maintenance	66,756	190,703
Financial aid	<u>770,102</u>	<u>715,163</u>
Net assets released from restrictions for operations	2,181,791	2,488,783
Net assets released from restrictions appropriated for capital purposes	<u>231,538</u>	<u>189,986</u>
Total	<u>\$ 2,413,329</u>	<u>\$ 2,678,769</u>

NOTE I - OBLIGATION UNDER CAPITAL LEASES

The Seminary periodically enters into leases for other equipment meeting the criteria for capital lease treatment for financial reporting purposes. During fiscal years 2019 and 2018, the Seminary did not acquire additional equipment through capital leases.

Future minimum payments under capitalized leases are as follows:

Year ending June 30	
2020	\$ 396,083
2021	63,671
2022	<u>2,454</u>
Total minimum lease payments	462,208
Less amounts representing interest (4.71%-5.96%)	<u>(11,621)</u>
Present value of net minimum lease payments	<u>\$ 450,587</u>

Interest expense for capital leases charged to operations was \$34,782 and \$60,604 in 2019 and 2018, respectively.

GORDON-CONWELL THEOLOGICAL SEMINARY, INC.

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

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 2,324,559	\$ 2,449,560
Less accumulated depreciation	<u>(1,877,375)</u>	<u>(1,552,658)</u>
	<u>\$ 447,184</u>	<u>\$ 896,902</u>

NOTE J - NOTES PAYABLE AND LINE OF CREDIT AGREEMENT

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

	<u>2019</u>	<u>2018</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 principal and interest payments of \$8,609, with a final balloon payment due on April 21, 2022.	\$ 1,016,766	\$ 1,074,890
<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>2,577,942</u>	<u>2,688,398</u>
	<u>\$ 3,594,708</u>	<u>\$ 3,763,288</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, 2019 and 2018

The maturities of these notes are as follows:

Year ending June 30	
2020	\$ 175,580
2021	183,712
2022	<u>3,235,416</u>
	<u>\$ 3,594,708</u>

The Seminary has a long-term line of credit agreement 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% (5.5% at June 30, 2019). The line is collateralized by a portion of the real estate assets on the Hamilton, Massachusetts campus. The outstanding balance on the line of credit was \$3,950,000 and \$4,750,000 for the years ended June 30, 2019 and 2018, respectively.

Interest expense for notes payable and the line of credit charged to operations was \$359,843 and \$217,582 in 2019 and 2018, respectively.

NOTE K - OPERATING LEASES

The Seminary leases certain equipment under operating lease arrangements that expire at various dates through 2028. Lease expense was \$63,621 and \$66,064 for the years ended June 30, 2019 and 2018, respectively. Minimum future rentals under noncancelable leases are as follows:

Year ending June 30	
2020	\$ 46,915
2021	43,669
2022	43,669
2023	37,768
2024	32,577
Thereafter	<u>146,370</u>
Total minimum future rental payments	<u>\$ 350,968</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, 2019 and 2018

The Seminary makes a basic contribution of 3% as well as a matching contribution of 2%. Retirement plan expense was \$463,493 and \$421,320 for the years ended June 30, 2019 and 2018, 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 during fiscal year 2019, the Seminary sponsored a 457(b) Deferred Compensation Plan for the outgoing President, which allows only employee deferrals. Effective April 1, 2019, the Seminary sponsors a 403(b)(9) retirement savings plan for the current President, administered by Fidelity Investments, with all employer and employee contributions immediately vested. Employer contributions totaled \$6,750 for the year ended June 30, 2019.

NOTE M - CASH FLOW INFORMATION

The Seminary had the following noncash activity for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Capital expenditures	\$ 670,118	\$ 560,704
Less accounts payable as of year-end	(36,905)	-
Assets acquired through in-kind contribution	<u>(17,000)</u>	<u>-</u>
Payments for equipment purchases and building renovations	<u>\$ 616,213</u>	<u>\$ 560,704</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 January 23, 2020, 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.