

# GORDON CONWELL

## THEOLOGICAL SEMINARY

### Review of Audited Financial Statements

#### **Audit Report**

Gordon-Conwell Theological Seminary recently completed its FY2019 audit and received a clean unmodified opinion, with no audit findings or issues.

#### **Statement of Financial Position**

In the Statement of Financial Position - Total Net Assets increased by \$915,000. As is evidenced below, this is not a single-line change, but is made up of many inputs, some positive, and some negative.

#### **Investments**

The balance of investments (primarily Permanently Restricted), increased from \$55.2 million to \$56.7 million – a growth in invested funds of around \$1.5 million. It should also be noted that the spend rate was reduced from 5.0% in 2017 to 4.9% in 2018 to 4.8% in 2019, and is budgeted to continue being reduced until the spend rate reaches the goal of 4.0%.

#### **Capital Leases**

Capital Leases decreased by an additional \$500,000 during 2019, as the seminary purposely and strategically move away from these types of leases as its method for funding capital improvements and equipment acquisitions. By 2021, this amount should be under \$100,000, and will realize savings of \$80,000 to \$100,000 per year in interest and fees that are related.

#### **Line of Credit**

The balance of the \$5 million Line of Credit as of the end of FY2019 was \$3,950,000, a decrease of \$800,000 from the prior year. As of the writing of this report, the outstanding balance is approximately \$4,500,000. This is a very fluid balance, fluctuating up and down as cash becomes available or as cash is needed. This is managed weekly through a very detailed analysis of anticipated deposits, outstanding checks, and projected accounts payable.

#### **Endowment Borrowing**

Borrowings on the endowment increased to \$4.9 million at June 30, 2019 vs. \$2.6 million at June 30, 2018. This was due to the Seminary drawing \$4.4 million from the endowment account, compared to the annual amount appropriated for expenditure of \$2.4 million. While the additional amount was from prior year undistributed appropriations, it still made the endowment borrowing increase.

#### **Statement of Activities - Revenue**

Revenue increased in total by \$2.4 million in 2019, however, most of this increase came from investment income, which was described above. Revenue Without Donor Restrictions compared to prior year decreased by \$3.2 million, most of which comes from the decrease in private gifts and grants, which is described below.

**Tuition**

Net Tuition was down by approximately \$200,000 as a result of enrollment declines. This was especially acute at the Hamilton campus, where net tuition was down by over \$560,000. This is the most frustrating loss in 2019. It has shown a precipitous decline, which negatively impacts all areas of the Seminary operation. It is exacerbated at the Hamilton residential campus because of the under-utilization of the apartments, which resulted in a decrease of over \$500,000 in apartment revenue.

**Discount Rate**

The total discount rate for Gordon-Conwell has remained very consistent, only varying by a fraction of a percentage point over the last four years. A 45% discount rate, coupled with the tuition rate, keeps net tuition in line with other schools that represent the seminary's primary competition for students.

**Private Gifts**

While annual private gifts and grants for operations decreased by over \$2 million, this was primarily due to a \$2 million bequest gift received in the prior fiscal year. However, annual giving was impacted by the departure of the VP for Advancement at the beginning of the fiscal year, with the position remaining open for the rest of the fiscal year. Annual giving missed budgeted expectations by over \$500,000. The good news is the VP of Advancement position was filled in November 2019 and annual giving looks to be bouncing back.

**Statement of Activities - Expenses**

Expenses compared to prior year were virtually the same.

**Expenses**

Expenses remained steady and did not substantially increase during 2019. Both revenue enhancements and cost cutting are being looked at to balance the budget in the future.

**DOE Ratio**

Due to the disappointing financial results in 2019, the seminary's Department of Education Composite score is expected to be 0.7, well below the acceptable level of 1.8. This is the first time in 10 years that the score has dropped below the 1.5 threshold. The seminary is working hard in multiple areas to bring the score back up. A letter of credit may be required by the Department of Education, however, this should not pose a credit issue for the seminary.