GORDON CONWELL
THEOLOGICAL SEMINARY

Review of Audited Financial Statements

Audit Report
Gordon-Conwell Theological Seminary recently completed its FY2021 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 $13 million. This was primarily due to favorable market returns on investments, which increased Net Assets With Donor Restrictions by $13.3 million. Net Assets Without Donor Restrictions increased by $450,000 prior to the cumulative effect of adopting FASB ASU 2014-09 (Revenue Recognition), which reduced net assets by $670,000.

Notes Receivable
Notes receivable was reduced by $625,000 because of five faculty and staff members paying off their seminary-issued junior mortgage loans. These loans resulted in shared-appreciation interest revenue of $113,000.

Investments
The balance of investments increased from $56.9 million to $70.2 million – a growth in invested funds of around $13 million. This was due to very favorable market returns in 2020/2021, which resulted in over $15 million investment income prior to the annual endowment distribution to operations. It should also be noted that the endowment spend rate was reduced from 4.7% in 2020 to 4.6% in 2021.

Line of Credit
The balance of the $8.5 million Line of Credit as of the end of FY2021 was $3,850,000, a reduction of $1.9 million from the prior year. As of the writing of this report, the seminary is at a low point in the fiscal year cash cycle and still have over $3 million available. The cash position and line of credit are managed weekly through a very detailed analysis of anticipated deposits, outstanding checks, and projected accounts payable.

Endowment Interfund Borrowing
The balance of the endowment interfund borrowing was reduced from $3.6 million to $2.9 million, continuing the positive recent trend of reducing the endowment interfund borrowing incrementally each year.

Statement of Activities - Revenue
Revenue increased in total by $11.5 million in 2021, however, most of this increase came from investment income, which was described above. Revenue Without Donor Restrictions compared to prior year was virtually the same.

Tuition
Net Tuition was down by $668,000 (-7%) because of enrollment declines. However, considering the continuing impact of COVID, the seminary is thankful the declines are not worse and are, for the most part, isolate to two programs with known causes that are actively being addressed. Focused efforts continue on growth areas and managing the whole admissions process to build efficiency and overall effectiveness across the board.

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 few 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. In addition, the funded portion of the discount increased from the prior year, both from restricted and endowment funding, and unrestricted funding specific to scholarships.

Private Gifts

While annual private gifts and grants for operations decreased by $2.2 million, this was due to specific fundraising in FY2020 that did not repeat in FY2021. FY2020 reflected two specific fundraising efforts: 1) a special "mini-campaign" to support President Sunquist's first year as president ($1.2 million); and 2) a significant endowment pledge ($3 million) for a key leadership position. While the donors to these specific fundraising efforts remain engaged in giving to the seminary, their giving has returned to normal levels. Advancement has been working to expand the donor pool and has brought in some new donors who have significant future potential.

Government Funds

In May 2020, the Seminary received a $2.7 million Paycheck Protection Program (PPP) loan and was able to use half of it to retain staff in May/June 2020. The Seminary used the second half of the PPP loan to cover payroll expenses in July/August 2020. Since the PPP loan forgiveness application was still in process at fiscal year-end 2021, only $1.0 million was recognized in FY21 and just under $400K remains as a potential liability on the balance sheet. As of October 15th, the full amount of the PPP Loan ($2.7 million) was forgiven by the SBA.

In 2020, the Seminary was awarded approx. $500,000 in HEERF I funding, which was used in 2021 for both student awards and qualifying institutional purposes. The Seminary was also awarded approx. $1.4 million in HEERF II & III funds, most of which will be awarded and utilized in FY2022.

Net Assets Released

Net assets released from restrictions for operations increased by approx. $1 million, which was primarily from additional financial aid scholarships ($492,000), a new academic staff position ($111,000), and other general restricted purposes ($137,000).

<u>Statement of Activities - Expenses</u>

Expenses decreased in total by $1.5 million in 2021.

Salaries & Benefits

Salaries and benefits were reduced by $1.3 million (-9%) in FY2021. There were two main reasons for this: 1) Several positions were reduced or retired in FY20, which resulted in savings in FY21; and 2) most of the faculty and staff endured a reduction in pay for the last two months of the fiscal year and a suspension of institutional retirement contributions during the last three months of the fiscal year. These pay and retirement reductions were restored at the beginning of FY2022.

Other Expenses
Cost containment held other expenses in check. Some areas increased due to the HEERF institutional funding that was used to outfit several classrooms for multi-modality technological learning. Other areas, such as travel, were reduced because of the ongoing pandemic.

Cash Flow
Cash provided by operating activities was net positive by $377,000, which came from the above-mentioned salary and benefit savings and an executive compensation life insurance policy payout.

Cash provided by investing activities was net positive by $720,000, which came primarily from the above-mentioned notes receivable repayment by five faculty and staff members who paid off their seminary-issued junior mortgage loans.

Cash provided by financing activities was a net decrease of $2.1 million, which was primarily a result of the above mentioned $1.9 million repayment of the line of credit.

DOE Ratio
Due to favorable financial results in FY2021, the seminary's Department of Education Composite Score is expected to be 2.6, well above 1.5, which is described as the "minimal level of resources to indicate financial health". This reflects a progressive recovery from FY2019, when the Composite Score was 0.7.

Overall
FY2021 financial results were generally positive, with a modest budget surplus, reduction in both external debt and internal endowment borrowing, and significant investment returns, which supports an increased future endowment distribution to support the operating budget. Continued challenges remain and are being actively addressed, including improving enrollment, weaning the Seminary from one-time government funding, and not balancing the budget with one-time non-sustainable solutions, such as temporary pay reductions.