

# GORDON CONWELL

## THEOLOGICAL SEMINARY

### Review of FY2022 Audited Financial Statements

#### **Audit Report**

We recently completed our FY2022 audit and received a clean unmodified opinion, with no financial statement audit findings or issues.

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

Total Net Assets decreased by \$10 million. This was primarily due to unfavorable market returns on endowment investments that resulted in over \$6 million in investment losses, combined with a \$3 million distribution of endowment earnings to operations. Net Assets Without Donor Restrictions decreased by \$1 million, which was primarily due to investment losses on unrestricted investments.

#### **Investments**

The balance of investments decreased from \$70 million to \$60 million. This was due to unfavorable market returns in 2022 and an increased annual endowment distribution.

#### **Debt & Line of Credit**

The balance of our two long-term loans totaled \$3 million at the end of FY2022. We are current on all payments and all debt covenants are being met. We refinanced these loans in April/May 2022, with a five-year term that includes a fixed interest rate of 4.7% and a final balloon payment.

The balance of the Line of Credit (\$8.5 million maximum) was \$4,100,000 as of the end of FY2022, an increase of \$250,000 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 has over \$1.5 million available plus an upcoming twice yearly endowment distribution of approx. \$1.5 million. The combination of this liquidity and forecasted winter/spring cash flows, which are based on a modest budget deficit, should result in the line of credit only increasing to approximately \$5 million at fiscal year-end. 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 increased from \$2.9 million to \$4.2 million, which was primarily the result of unrestricted investment losses from investments that had been available to be transferred to the endowment. The endowment interfund borrowing is still a low overall percentage and only a portion of investment earnings.

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

Total Revenue decreased by over \$23 million, however, almost \$22 million of this decrease was the result of investment losses compared to gains in the prior year.

Revenue Without Donor Restrictions decreased by \$1.3 million, which was primarily due to investment losses on unrestricted investments.

**Tuition**

Net Tuition was down by \$260,000 (-3%) as a result of enrollment declines. However, compared to the \$669,000 decrease in 2021, enrollment seems to be flattening and heading toward a potential reversal of the declines from recent years. Digital education programs saw an almost \$400,000 increase in 2022, which nearly offsets declines in the residential and urban programs. FY2022 was a year of building cross campus coordination and efficiencies in the admissions process, which is expected to both increase overall effectiveness and reduce overall costs.

**Discount Rate**

The total discount rate for GCTS has remained very consistent, only varying by a fraction of a percentage point over the last few years. A 46% discount rate, coupled with the standard tuition rate, keeps net tuition in line with other schools that are similar to Gordon-Conwell. In addition, the funded portion of the discount increased by \$1 million from the prior year, both from restricted and endowment funding, and unrestricted funding specific to scholarships.

**Private Gifts**

Annual private gifts and grants without donor restrictions increased by \$362,000 (+11%). Advancement and senior management met biweekly during the winter/spring to review progress and discuss appeal tactics. Efforts are currently being made to continue the positive momentum created by these strategies.

**Government Funds**

In 2021, the Seminary was awarded approx. \$1.4 million in HEERF II & III funds, most of which was awarded and utilized in 2022. Student funds of \$588,000 and Institutional funds of \$607,000 were utilized in 2022, with an additional \$175,000 in Institutional funds remaining to be used in 2023.

In addition, on October 15, 2021, the full amount of our PPP Loan (\$2.7 million) was forgiven by the SBA. The unrecognized portion of \$394,000 was recognized in 2022.

**Endowment Distribution**

Distributions from the endowment increased by \$721,000 in 2022 due to positive market returns in 2021 (part of the 3-year market average) and a temporary increase in the distribution rate from 4.6% to 6.0%.

**Statement of Activities - Expenses**

Total Expenses increased by \$202,000 in 2022, which was primarily due to the HEERF Student and Institutional expenditures. Excluding these two fully funded expenditures, our other operating expenses went down by \$193,000.

**Salaries & Benefits**

Salaries and benefits decreased by almost \$340,000 in 2022, which was on top of a \$1.3 million decrease in 2021. The main reason for this decrease was multiple open positions that went unfilled for most of the year. The open positions seemed to be the result of a positive local job market, which caused higher than average turnover and a lack of applicants to fill open positions.

**Other Expenses**

Cost containment held other expenses in check. Some areas increased due to the HEERF institutional funding, while others decreased due to careful spending by many departments.

**Cash Flow**

Cash provided by operating activities was a net decrease of \$2.6 million, which was primarily the result of a reduction in cash received from donors for restricted gifts and a reduction in cash received from student tuition and fees related to enrollment declines and timing of collections. In addition, the cash proceeds from our endowment distribution are only partially (Interest & Dividends) included here, while the remainder of the \$3.0 million is in investing activities.

Cash provided by investing activities was net positive by \$2.3 million, which came primarily from the increased endowment distribution rate. In addition, purchase of investments and equipment purchases & building renovations were lower in 2022.

Cash provided by financing activities was net positive by \$73,000, which was primarily a result of the above mentioned \$250,000 additional draw on the line of credit.

**DOE Ratio**

Due to favorable financial results in FY2022, the seminary's Department of Education Composite Score is expected to be 1.9, above the 1.5 threshold, which is described as the "minimal level of resources to indicate financial health".

**Overall**

FY2022 financial results were slightly better than expected. Our free cash flow, adjusting for depreciation and fixed asset additions, was positive for the third consecutive year.

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.