GORDON CONWELL
THEOLOGICAL SEMINARY

Review of FY2023 Audited Financial Statements

Audit Report

We recently completed our FY2023 audit and received a clean unmodified opinion with no financial statement audit findings or issues.

Statement of Financial Position

Total Net Assets increased by $1 million. This was primarily due to favorable market returns on endowment investments that resulted in almost $5 million in investment gains but was reduced by the regular $3 million distribution of endowment earnings to operations. In addition, Net Assets Without Donor Restrictions decreased by $1.5 million due to revenue shortfalls and operating losses as described below.

Investments

The balance of investments increased from $60 million to $64 million. We experienced somewhat favorable market returns in 2023 even though they were partially offset by a historically high annual endowment distribution of $3 million. In addition, a $1.5 million payment was made on an endowment pledge.

Debt & Line of Credit

The balance of our two long-term loans totaled $2.8 million at the end of FY2023. We are current on all payments and all debt covenants are being met. These loans have a five-year term that includes a fixed interest rate of 4.7% and a final balloon payment in 2027.

The balance of the line of credit ($8.5 million maximum) was $4,900,000 as of the end of FY2023, an increase of $800,000 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 $2.5 million available. In addition, the remaining yearly endowment distributions will total approximately $2.2 million. The combination of this liquidity and forecasted winter/spring cash flows, based on a modest budget deficit, should result in the line of credit increasing to approximately $6 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 decreased slightly from $4.2 million to $4.0 million. The endowment interfund borrowing is still a low overall percentage and only a portion of investment earnings.

Statement of Activities - Revenue

Total Revenue increased by over $12 million, however, almost $11 million of this increase was the result of investment gains compared to losses in the prior year.

Revenue Without Donor Restrictions increased by $700,000 primarily due to an unexpected beneficial interest life insurance policy payout.

Tuition

Net Tuition was down by $313,000 (-4%) as a result of enrollment declines, primarily due to a decrease in the average student course load. However, it still appears enrollment seems to be flattening and heading toward a potential reversal of the declines from recent years. Digital education programs saw a $360,000 increase in 2023, which partially offset declines in residential, urban, and Latino programs.

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 46.6% discount rate, coupled with the standard tuition rate, keeps net tuition in line with other schools similar to Gordon- Conwell.

Private Gifts

Annual private gifts and grants without donor restrictions decreased slightly by $56,000 (+1.5%). However, $500,000 from two significant prior year restricted gifts were released for unrestricted scholarship use in FY2023 that more than offset the decreased unrestricted giving.

Government Funds

In 2023, the Seminary finished utilizing $1.4 million in HEERF II & III funds by expending the final $175,000 in Institutional funds on IT and digital education infrastructure projects.

Endowment Distribution

Distributions from the endowment remained flat at approx. $3 million due to the continuation of a temporary increase in the distribution rate from 4.6% to 6.0%.

Statement of Activities - Expenses

Total Expenses increased by $1.1 million in 2023. This increase was the result of multiple areas as outlined below.

Salaries & Benefits

Salaries and benefits increased by $250,000 in 2023. The main reason for this increase was recruiting and outsourcing costs due to increased turnover in several key operational areas.

Other Expenses

Other expenses also increased primarily related to increased utility costs and deferred maintenance issues. The Seminary’s reserve for unpaid student accounts also needed to be increased. Interest rate hikes impacted the seminary’s interest expense, as its line of credit has a floating rate. Gordon-Conwell is also pursuing the potential sale of portions of the Hamilton campus, which increased consulting and legal expenses.

Cash Flow
Cash provided by operating activities was a net use of $1.9 million ($648,000 less than FY2022), which was primarily the result of the above-mentioned $1 million life insurance payout. Compared to our operating results, this net use of funds for operating activities seems large, however, the cash proceeds from our endowment distribution offsets this deficit, even though it is categorized as an investing activity.

Cash provided by investing activities was a net use of $570,000 ($2.9 million more than FY2022), which was a result of the significant increase in the purchase of investments primarily related to the above-mentioned $1.5 million payment on an endowment pledge and, other endowment giving and investment transaction. This was offset by a decrease in equipment purchases and building renovations in 2023.

Cash provided by financing activities was net positive by $2.8 million ($2.7 million more than FY2022), which was the result of the above mentioned $800,000 additional draw on the line of credit and the above-mentioned $1.5 million endowment pledge payment.

Overall
FY2023 financial results were not expected to be positive, but they were better than anticipated due to the unexpected beneficial interest life insurance policy payout. We are also encouraged that our unrestricted free cash flow results (after adjusting for depreciation and fixed asset additions) were a more modest $250,000 cash flow deficit.

We are very aware of the continued challenges we face and are actively addressing them, both from a strategic and operational level. As we await the successful completion of some key strategic adjustments, we continue to manage our costs very closely. While we anticipate an operating deficit this fiscal year, our overall student enrollment is up, year on year, and our balance sheet remains strong.