

St. Tikhon's Orthodox Theological Seminary

Financial Statements and
Supplementary Information

June 30, 2015 and 2014

St. Tikhon's Orthodox Theological Seminary

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Tikhon's Orthodox Theological Seminary as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information for 2015 and 2014 on page 21 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Baker Tilly Viechow Krause, LLP

Wilkes-Barre, Pennsylvania
February 24, 2016

St. Tikhon's Orthodox Theological Seminary

Statement of Financial Position

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 138,361	\$ 22,231
Accounts receivable	18,903	16,008
Due from affiliate	-	6,029
Total current assets	157,264	44,268
Cash and Cash Equivalents, Designated	249,772	202,437
Asset Held for Sale	-	183,152
Property and Equipment, Net	1,729,154	1,722,135
Certificates of Deposit	512,144	499,065
Investments	1,982,535	1,688,840
Interest in Net Assets of Affiliate	1,863	-
Total assets	<u>\$ 4,632,732</u>	<u>\$ 4,339,897</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	\$ 35,636	\$ 121,663
Revolving line of credit	470,657	472,151
Accounts payable	26,120	23,124
	32	367
Student deposits	1,690	4,733
Total current liabilities	534,135	622,038
Long-Term Debt	462,756	499,144
Total liabilities	<u>996,891</u>	<u>1,121,182</u>
Net Assets		
Unrestricted:		
Undesignated	994,260	664,115
Board designated	288,698	232,014
Total unrestricted	1,282,958	896,129
Temporarily restricted	536,405	514,019
Permanently restricted	1,816,477	1,808,567
Total net assets	<u>3,635,840</u>	<u>3,218,715</u>
Total liabilities and net assets	<u>\$ 4,632,731</u>	<u>\$ 4,339,897</u>

See notes to financial statements

St. Tikhon's Orthodox Theological Seminary

Statement of Activities

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Changes in Unrestricted Net Assets		
Support and Revenue		
Contributions	\$ 984,401	\$ 237,123
Bequests	433,579	5,000
Net assets released from restriction	125,000	326,494
Tuition and scholarships less scholarships applied of \$138,222 in 2015 and \$69,683 in 2014	89,608	147,672
Mission choir donations	72,179	31,865
Contributed services	36,000	36,000
Miscellaneous	19,494	34,976
Investment income	51	18
	<u>1,760,312</u>	<u>819,148</u>
Expenses		
Instructional	533,188	553,310
Administrative	395,937	346,574
Operations	286,557	306,039
Student services	88,244	80,822
Fundraising	56,573	14,147
Library	12,984	10,478
	<u>1,373,483</u>	<u>1,311,370</u>
Total support and revenue	<u>1,760,312</u>	<u>819,148</u>
Total expenses	<u>1,373,483</u>	<u>1,311,370</u>
Increase (decrease) in unrestricted net assets	<u>386,829</u>	<u>(492,222)</u>
Changes in Temporarily Restricted Net Assets		
Investment income	145,523	326,049
Net assets released from restriction	(125,000)	(125,141)
Change in interest in net assets of affiliate	1,863	-
	<u>22,386</u>	<u>200,908</u>
Increase in temporarily restricted net assets	<u>22,386</u>	<u>200,908</u>
Changes in Permanently Restricted Net Assets		
Net assets released from restriction	-	(201,353)
Change in valuation of asset held for sale	7,910	(115,678)
	<u>7,910</u>	<u>(317,031)</u>
Increase (decrease) in permanently restricted net assets	<u>7,910</u>	<u>(317,031)</u>
Increase (decrease) in net assets	<u>\$ 417,125</u>	<u>\$ (608,345)</u>

See notes to financial statements

St. Tikhon's Orthodox Theological Seminary

Statement of Changes in Net Assets

Years Ended June 30, 2015 and 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets, June 30, 2013	\$ 1,388,351	\$ 313,111	\$ 2,125,598	\$ 3,827,060
Increase (Decrease) in Net Assets	<u>(492,222)</u>	<u>200,908</u>	<u>(317,031)</u>	<u>(608,345)</u>
Net Assets, June 30, 2014	896,129	514,019	1,808,567	3,218,715
Increase in Net Assets	<u>386,829</u>	<u>22,386</u>	<u>7,910</u>	<u>417,125</u>
Net Assets, June 30, 2015	<u>\$ 1,282,958</u>	<u>\$ 536,405</u>	<u>\$ 1,816,477</u>	<u>\$ 3,635,840</u>

See notes to financial statements

St. Tikhon's Orthodox Theological Seminary

Statement of Cash Flows

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 417,125	\$ (608,345)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	58,675	62,544
Change in interest in net assets of affiliate	(1,863)	-
Change in valuation of asset held for sale	(7,910)	115,678
Net unrealized gains on investments	133,525	214,343
Changes in assets and liabilities:		
Accounts receivable	(2,895)	272,325
Due from affiliate	6,029	6,822
Accounts payable	2,996	(3,058)
Payroll taxes payable	(335)	33
Student deposits	(3,043)	(2,082)
Net cash provided by operating activities	<u>602,304</u>	<u>58,260</u>
Cash Flows from Investing Activities		
Purchase of investments	(3,457,071)	(1,526,099)
Proceeds from sale of investments	3,029,851	869,285
Purchase of property and equipment	(65,694)	(20,299)
Investment in asset held for sale	-	(82,830)
Proceeds from sale of asset held for sale	191,062	-
(Increase) decrease in certificates of deposit	(13,079)	201,812
(Increase) decrease in cash and cash equivalents, designated	(47,335)	16,143
Net cash used in investing activities	<u>(362,266)</u>	<u>(541,988)</u>
Cash Flows from Financing Activities		
Decrease in cash overdraft	-	(3,349)
Net change in revolving line of credit	(1,494)	472,151
Proceeds from long-term debt	-	80,000
Repayment of long-term debt	(122,415)	(42,843)
Net cash (used in) provided by financing activities	<u>(123,909)</u>	<u>505,959</u>
Net change in cash and cash equivalents	116,129	22,231
Cash and Cash Equivalents, Beginning	<u>22,231</u>	<u>-</u>
Cash and Cash Equivalents, Ending	<u>\$ 138,360</u>	<u>\$ 22,231</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 28,309</u>	<u>\$ 27,674</u>

See notes to financial statements

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements

June 30, 2015 and 2014

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

St. Tikhon's Orthodox Theological Seminary (the "Seminary") was founded in 1938 as a Pastoral School by resolution of the 6th All-American Sobor of the Russian Orthodox Greek Catholic Church in North America and was officially transformed from a Pastoral School into a Seminary by the Holy Synod of the Metropolis in 1942.

The Seminary is an institution of professional Orthodox Christian theological education, chartered by the Department of Education of the Commonwealth of Pennsylvania and affiliated with the Orthodox Church in America. The primary mission of the Seminary lies in providing the necessary theological, liturgical, spiritual, and moral foundations for Orthodox men to become, as God so wills, good shepherds of His Holy Orthodox Church.

The Seminary evaluated subsequent events for recognition or disclosure through February 24, 2016 the date the financial statements were available to be issued.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents (including amounts designated) include certain investments in highly liquid debt instruments with a maturity of three months or less when purchased.

Cash and cash equivalents, designated are restricted by the board for certain projects or purposes.

Accounts Receivable

Accounts receivable are reported at net realizable value. There is no provision for doubtful accounts as management believes all amounts are collectible based on management's periodic review of individual accounts.

Certificates of Deposit

Certificates of deposit are recorded at cost.

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements

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Investments and Investment Risk

Investments in marketable equity securities and mutual funds are carried at fair value based upon quoted market prices of the securities. The carrying amount of cash and money market funds approximates fair value based on the short-term nature of these investments.

Investment income or loss (including realized gains and losses on investments, unrealized gains or losses on other than trading securities, write-downs of the cost basis of investments due to an other-than-temporary decline in fair value, interest, and dividends) is included in the statement of activities as unrestricted income unless the income or loss is restricted by donor or law.

The Seminary's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statement of financial position are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near future.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method based on the estimated useful life of each classification of depreciable asset. Depreciation expense was \$58,675 in 2015 and \$62,544 in 2014.

Property and equipment held for future development is carried at cost. Depreciation will be provided over the period benefited once placed in service.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support 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 restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The Seminary reviews its long-lived assets whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected from its use and eventual disposition. If these future cash flows are less than the carrying value of the asset, an impairment loss is recognized for the difference between the estimated fair value and the carrying value of the asset. There was no such impairment in 2015 or 2014.

Interest in Net Assets of Affiliate

The Seminary recognizes its interest in the net assets of St. Tikhon's Theological Century Association (the "Association") because the Seminary and the Association are considered financially interrelated organizations.

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The Association was formed to render moral and financial assistance to the Seminary. The Seminary and Association each have an independent board of directors who manage their affairs. Changes in interest in net assets of affiliate are recorded as increases or decreases in net assets. Contributions to the Seminary from the Association were \$33,500 in 2015 and \$37,500 in 2014.

Tuition Revenue Recognition

Tuition revenue is recorded in the year earned and presented net of scholarships applied. Tuition received in advance of the ensuing school year is recorded as deferred revenue until earned. In 2014, \$300,840 of scholarships were approved and applied against tuition revenue. Of this amount, \$231,157 in scholarships related to tuition revenues recognized in prior years with outstanding balances and \$69,683 in scholarships related to current year tuition revenues. The Seminary periodically reviews outstanding tuition balances and may apply a portion of endowment funds available for scholarships to those balances.

Split-Interest Agreement

The Seminary is a party to a split-interest agreement, known as a charitable remainder trust. The Seminary reports separately the asset and liability of its split-interest agreement in the statement of financial position, and it reports separately contribution revenue from the split-interest agreement and the change in valuation of the split-interest agreement in its statement of activities.

A charitable remainder trust is an arrangement in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination of the trust the remaining asset is transferred to the Seminary in accordance with the donor's stated restriction.

The Seminary is a party to an agreement whereby title of real estate was deeded to the Seminary (asset held in charitable remainder trust). As part of the agreement, a beneficiary was given the right to utilize the real estate until death. The Seminary recorded an asset at fair value at the date of gift. The difference between the fair value of the asset and the present value of the future benefit discounted over the beneficiaries' actuarially determined life expectancy was recorded as a liability (obligation under charitable remainder trust). Amortization of the liability and changes in the charitable remainder trust are recognized as changes in the valuation of the charitable remainder trust. As the beneficiary passed away in April 2013, the liability was extinguished and the real estate is held for sale as of June 30, 2014. The asset was sold in November 2014 and a loan payable with a balance of \$80,000 at June 30, 2014 secured by this property was repaid with the proceeds in the month of sale.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Seminary has been limited by donors to a specific time period or purpose. Income earned is unrestricted in use, except for amounts designated to be expended for a particular purpose.

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Permanently restricted net assets have been restricted by donors to be maintained by the Seminary in perpetuity. Income earned is unrestricted in use, except for amounts designated to be expended for a particular purpose. The net depreciation of investments classified as permanently restricted reduces unrestricted net assets. Any future gains will be used to restore the cumulative deficiency within unrestricted net assets. Once unrestricted net assets have been fully restored, net appreciation will be recorded within either temporarily or permanently restricted net assets, as required by the donor's restriction.

Contributed Services

For the years ended June 30, 2015 and 2014, the Seminary recorded contributions in the amount of \$36,000 for the services performed by priests in the classroom as part-time uncompensated faculty. These amounts represent the estimated compensation that would have to be paid to a faculty member providing services for compensation at the Seminary's pay scale in effect for that period.

Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met.

The Seminary is a beneficiary of the Meshanko Memorial Fund for St. Tikhon's (the "Fund"), a component fund of The Pittsburgh Foundation (the "Foundation"). Once the estate is fully settled, the value of the Fund is estimated to be approximately \$1,000,000.

The Seminary expects approximately 4% of the 36 month value of the Fund to be distributed for scholarship aid for students each year. The Seminary's recommended eligible scholarship candidates are subject to approval by the Foundation on an annual basis. The Foundation can utilize its variance power to redirect the distributions to a not-for-profit organization with a similar mission.

Income Taxes

The Seminary is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its exempt income under Section 501(a) of the Internal Revenue Code.

The Seminary accounts for uncertainty in income taxes by prescribing a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined that there were no tax uncertainties that met the recognition threshold in 2015 and 2014.

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements
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New Accounting Standards

In October 2012, the FASB issued ASU 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale of Proceeds of Donated Financial Assets in the Statement of Cash Flows*. This amendment addresses the diversity in practice with regard to the presentation of cash receipts from the sale of donated assets in the statement of cash flows. Under this update, a not-for-profit entity will be required to classify cash receipts from the sale of donated financial assets as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes. This update was adopted for the Seminary's fiscal year beginning July 1, 2013 and did not have a significant impact on the Seminary's financial position or results of operations.

In April 2013, the FASB issued ASU 2013-06, *Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate*. This amendment will require a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient entity. Such services will be required to be measured at the cost recognized by the affiliate for the personnel providing those services. However, if this measurement will significantly overstate or understate the value of the service received, the recipient entity may elect to recognize that service received at either the cost recognized by the affiliate for the personnel providing that service or the fair value of that service. This update was effective for the Seminary's fiscal year beginning July 1, 2014 and did not have a significant impact on the Seminary's financial position or results of operations.

Reclassification

Certain amounts relating to 2014 have been reclassified to conform to the 2015 reporting format.

2. Property and Equipment and Accumulated Depreciation

Property and equipment and accumulated depreciation as of June 30 are as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 70,601	\$ 70,601
Buildings and improvements	1,978,968	1,950,082
Furniture	98,575	94,196
Equipment	90,641	76,191
Construction in progress	17,980	-
Vehicle	68,968	68,968
	<u>2,325,733</u>	<u>2,260,038</u>
Total		
	2,325,733	2,260,038
Less accumulated depreciation	<u>1,218,147</u>	<u>1,159,471</u>
Net	1,107,586	1,100,567
Building (held for future development)	<u>621,568</u>	<u>621,568</u>
Property and equipment, net	<u>\$ 1,729,154</u>	<u>\$ 1,722,135</u>

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements

June 30, 2015 and 2014

3. Investments and Fair Value Measurements

The composition of investments is as follows at June 30:

	<u>2015</u>	<u>2014</u>
Money market	\$ 118,334	\$ 140,492
Corporate bonds	29,856	30,027
Marketable equity securities:		
Energy	-	208,350
Information technology	331,477	225,539
Health care	343,407	134,960
Consumer goods	337,134	108,376
Financial	250,835	-
Industrial	311,825	310,263
Utilities	-	223,634
Materials	122,490	106,655
Other	137,177	200,544
Total	<u>\$ 1,982,535</u>	<u>\$ 1,688,840</u>

Investment return for cash and cash equivalents and investments is comprised of the following for the years ended June 30:

	<u>2015</u>			<u>2014</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 51	\$ 38,506	\$ 38,557	\$ 18	\$ 39,571	\$ 39,589
Realized and unrealized gains (losses) on investments	-	107,017	107,017	-	286,478	286,478
Total investment return (loss)	<u>\$ 51</u>	<u>\$ 145,523</u>	<u>\$ 145,574</u>	<u>\$ 18</u>	<u>\$ 326,049</u>	<u>\$ 326,067</u>

Investment fees totaled \$8,868 in 2015 and \$7,127 in 2014. These amounts are netted against unrestricted interest and dividend income.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation hierarchy for disclosure of the inputs to valuation used to measure fair value prioritizes the inputs into three broad levels as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument;

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Notes to Financial Statements

June 30, 2015 and 2014

Level 3 - Prices or valuation techniques that are unobservable in the market and require significant management judgment or estimation to measure fair value.

An asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The Seminary's assets measured at fair value on a recurring basis by level within the fair value hierarchy as of June 30 are as follows:

	2015			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market	\$ 118,334	\$ 118,334	\$ -	\$ -
Corporate bonds	29,856	29,856	-	-
Marketable equity securities:				
Energy	-	-	-	-
Information technology	331,477	331,477	-	-
Health care	343,407	343,407	-	-
Consumer goods	337,134	337,134	-	-
Financial	250,835	250,835	-	-
Industrial	311,825	311,825	-	-
Utilities	-	-	-	-
Materials	122,490	122,490	-	-
Other	137,177	137,177	-	-
Total	\$ 1,982,535	\$ 1,982,535	\$ -	\$ -
	2014			
Money market	\$ 140,492	\$ 140,492	\$ -	\$ -
Corporate bonds	30,027	30,027	-	-
Marketable equity securities:				
Energy	208,350	208,350	-	-
Information technology	225,539	225,539	-	-
Health care	134,960	134,960	-	-
Consumer goods	108,376	108,376	-	-
Industrial	310,263	310,263	-	-
Utilities	223,634	223,634	-	-
Materials	106,655	106,655	-	-
Other	200,544	200,544	-	-
Total	\$ 1,688,840	\$ 1,688,840	\$ -	\$ -

The following is a description of the valuation methodologies used to determine fair value:

Investments: The carrying value of money market accounts approximates fair value because of the short-term maturity of these instruments. Marketable equity securities and corporate bonds are measured at fair value based on quoted market prices in active markets for identical assets.

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Notes to Financial Statements

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4. Long-Term Debt

Long-term debt consists of the following at June 30:

	<u>2015</u>	<u>2014</u>
Loan payable, with interest at 1.9%. Monthly principal and interest payments of \$446 are due through February 2016, secured by a vehicle.	\$ 3,561	\$ 9,256
Loan payable, with interest at 5%. Monthly principal and interest payments of \$2,373 are due through December 2016, secured by the Philadelphia Trust investment account valued at 125% or more of the loan value for the duration of the loan.	245,459	261,224
Loan payable, with interest at 6%. Monthly principal and interest payments of \$2,532 are due through December 2026, secured by property owned by the Seminary	249,372	264,298
Loan payable, with interest at 6.49%. Monthly principal and interest payments of \$622 are due through April 2015, secured by a vehicle. This loan is paid by St. Tikhon's Orthodox Monastery (the "Affiliate") and it has been agreed that at the end of the loan term, the vehicle will be transferred from the Seminary to the Affiliate. A due from affiliate amount has been recorded on the Statement of Financial Position to offset the loan balance.	-	6,029
Loan payable, with no interest charged. The balance is to be paid-in-full upon the sale of a property classified as an asset held for sale on the Statement of Financial Position. The loan was secured by the real estate and was repaid in November 2014 when the property was sold.	-	80,000
	<u>498,392</u>	<u>620,807</u>
Less current portion	<u>(35,636)</u>	<u>(121,663)</u>
Total	<u>\$ 462,756</u>	<u>\$ 499,144</u>

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Scheduled principal repayments for periods subsequent to June 30, 2015 are as follows:

Years ending June 30:	
2016	\$ 35,636
2017	245,733
2018	17,686
2019	18,776
2020	19,934
Thereafter	<u>160,627</u>
Total	<u>\$ 498,392</u>

5. Commitments

The Seminary has available for working capital purposes a \$500,000 line of credit arrangement with a bank. Borrowings on the line of credit bear interest at the bank's prime rate plus .25% (3.50% at June 30, 2015). The line of credit is secured by the business assets of the Seminary and renews annually. Borrowings totaled \$470,657 at June 30, 2015 and \$472,151 at June 30, 2014.

The line of credit agreement requires the Seminary to maintain certain financial ratios. The Seminary was in compliance with these ratios as of June 30, 2015.

As of June 30, 2014, the Seminary had borrowed \$63,935 from its endowment fund (Note 8). In December 2014, a bequest was received totaling \$260,455 which was deposited into the Seminary's endowment fund. These funds were unrestricted in nature and used in part to repay the amount borrowed as of June 30, 2014.

The Seminary had real estate held for sale at June 30, 2014 which was donated in a prior year (Note 1). In order to prepare this property for sale, a loan totaling \$80,000 was advanced to the Seminary with the real estate being used as collateral (Note 4). In November 2014, this property was sold for \$183,152 and the loan payable was paid-in-full once the proceeds from the sale were received by the Seminary.

6. Pension Plan

The Seminary participates in the Orthodox Church in America Pension Plan ("the Plan"). The Plan is a non-electing church plan, and is not governed by the terms of the Employer Retirement Income Security Act of 1974 ("ERISA").

The Plan is a defined benefit pension plan covering substantially all employees of the Orthodox Church in America ("the Church"), including organizations under the Church's jurisdiction.

The Plan provides retirement and death benefits to participating members and their spouses which are based upon years of service, the participating member's compensation level and the amount of the participating member's deferrals.

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The plan administrator is the Pension Board comprised of not less than three (3) persons appointed by the Church. A valuation of the plan is required at least once every three years by an enrolled actuary as defined under the Employee Retirement Income Security Act of 1974 to determine the contributions needed to maintain the plan on a sound actuarial basis. The contributions needed to support the plan shall be changed from time to time based upon the results of these valuations.

Participating members are required at a minimum to contribute 6% of their qualifying salary (including amounts paid as housing allowances for clergy) to the Plan, with the employer contributing an additional 6% through January 1, 2014, at which time the employer contribution was increased to 8%. The vesting schedule of the Plan is as follows:

<u>Years of Service</u>	<u>Vested Percentage</u>
5	10%
6	20%
7	30%
8	40%
9	50%
10	60%
11	70%
12	80%
13	90%
14 or more	100%

The most recent valuation of the Plan (January 1, 2015) determined that the liabilities of the Plan exceeded the actuarial value of the Plan's assets. The unfunded liability must be funded through future contributions. No specific allocation of the unfunded liability is made to individual employees or employers. Accordingly, determination of any additional liability is not practicable to estimate.

7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30 consist of the following:

	<u>2015</u>	<u>2014</u>
Restricted for:		
Scholarship	\$ 502,556	\$ 415,932
General endowments	<u>31,986</u>	<u>98,087</u>
Total Endowments	534,542	514,019
Other	<u>1,863</u>	<u>-</u>
Total	<u>\$ 536,405</u>	<u>\$ 514,019</u>

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June 30, 2015 and 2014

Permanently restricted net assets at June 30 consist of the following:

Restricted for:		
Scholarships	\$ 1,069,946	\$ 1,069,946
General endowments	746,531	738,621
	<hr/>	<hr/>
Total	\$ 1,816,477	\$ 1,808,567
	<hr/>	<hr/>

8. Endowment Funds

The Seminary's endowment consists of numerous individual funds established for a variety of purposes and includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Seminary has interpreted Pennsylvania law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Seminary classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as either temporarily restricted or unrestricted net assets based on the existence of donor restrictions or by law.

The Seminary considers various factors in making a determination to appropriate or accumulate donor-restricted endowment funds, including the duration and preservation of the fund, the purposes of the Seminary and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected return from income and the appreciation of investments, the investment policies of the Seminary, and other resources of the Seminary.

The Seminary has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Seminary must hold in perpetuity as well as board-designated funds.

To satisfy its long-term rate-of-return objectives, the Seminary relies on a balanced investment strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Seminary targets a diversified asset allocation to achieve its long-term return objectives guided by its policy.

The Seminary has a policy of appropriating for distribution accumulated investment income (interest and dividends) as approved by the Board of Trustees. This policy is consistent with the Seminary's objective to maintain the purchasing power of the endowment assets held in

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June 30, 2015 and 2014

perpetuity or for a specific term as well as to provide additional real growth through new gifts and investment return.

During 2014, the Seminary borrowed \$63,935 from its endowment fund. At June 30, 2014, this deficiency was owed to the endowment fund and was restored in December 2014.

Endowment net asset composition by type of fund as of June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 534,542	\$ 1,816,477	\$ 2,351,019
Board-designated endowment funds	288,698	-	-	288,698
Total endowment funds	<u>\$ 288,698</u>	<u>\$ 534,542</u>	<u>\$ 1,816,477</u>	<u>\$ 2,639,717</u>

Changes in endowment net assets in 2015 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2014	\$ 232,014	\$ 514,019	\$ 1,808,567	\$ 2,554,600
Investment return:				
Investment income	51	38,506	-	38,557
Net realized and unrealized gains	-	107,017	-	107,017
Total investment return	51	145,523	-	145,574
Change in valuation of asset held for sale	-	-	7,910	7,910
Transfers in	56,633			56,633
Funds released from restriction	-	(125,000)	-	(125,000)
Endowment net assets, June 30, 2015	<u>\$ 288,698</u>	<u>\$ 534,542</u>	<u>\$ 1,816,477</u>	<u>\$ 2,639,717</u>

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Endowment net asset composition by type of fund as of June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 514,019	\$ 1,808,567	\$ 2,322,586
Board-designated endowment funds	232,014	-	-	232,014
Total endowment funds	<u>\$ 232,014</u>	<u>\$ 514,019</u>	<u>\$ 1,808,567</u>	<u>\$ 2,554,600</u>

Changes in endowment net assets in 2014 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2013	\$ 315,293	\$ 313,111	\$ 2,125,598	\$ 2,754,002
Investment return:				
Investment income	18	39,571	-	39,589
Net realized and unrealized gains	-	286,478	-	286,478
Total investment return	18	326,049	-	326,067
Change in valuation of asset held for sale	-	-	(115,678)	(115,678)
Funds released from restriction	201,353	-	(201,353)	-
Appropriation of endowment assets for expenditure (spending policy)	(284,650)	(125,141)	-	(409,791)
Endowment net assets, June 30, 2014	<u>\$ 232,014</u>	<u>\$ 514,019</u>	<u>\$ 1,808,567</u>	<u>\$ 2,554,600</u>

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9. Functional Expenses

The Seminary provides theological teachings to individuals within its geographic area. Expenses related to providing these services for 2015 and 2014 are as follows (in thousands):

	<u>2015</u>	<u>2014</u>
General services	\$ 921	\$ 951
General and administrative	439	346
Fundraising	<u>14</u>	<u>14</u>
Total	<u>\$ 1,374</u>	<u>\$ 1,311</u>

10. Concentrations

The Seminary primarily maintains its cash and investments with financial institutions. The Federal Deposit Insurance Corporation ("FDIC") insures accounts to \$250,000 at each institution. At times the Seminary may have cash on deposit in excess of insured amounts.

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Schedule of Instructional, Administrative, and Operations Expenses

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Instructional		
Faculty wages	\$ 272,748	\$ 267,518
Adjunct Faculty	71,671	96,029
Employee benefits	44,726	51,359
Pension	42,880	41,490
Donated services	36,000	36,000
Faculty housing	37,140	30,950
Payroll taxes	27,393	26,438
Faculty travel	630	3,526
	<u>533,188</u>	<u>553,310</u>
Total instructional	\$ 533,188	\$ 553,310
Administrative		
Staff wages	\$ 107,225	\$ 76,418
Employee benefits	70,525	50,234
Printing	12,778	41,408
Payroll taxes	39,853	40,847
Office supplies	41,606	40,196
Professional fees	42,068	29,712
Equipment lease	7,332	15,840
Travel	24,979	12,854
Interest	16,949	12,754
Automobile	8,981	8,951
Dues and subscriptions	6,625	5,863
Pension	6,552	5,544
Conferences	9,970	5,453
Bad debt expense	-	500
Staff expenses - other	494	-
	<u>395,937</u>	<u>346,574</u>
Total administrative	\$ 395,937	\$ 346,574
Operations		
Utilities	\$ 67,429	\$ 88,403
Insurance	83,442	79,887
Depreciation	58,675	62,544
Repairs and maintenance	38,871	34,350
Interest	28,309	27,674
Taxes	2,630	7,619
Telephone	6,112	3,892
Supplies	1,088	1,670
	<u>286,556</u>	<u>306,039</u>
Total operations	\$ 286,556	\$ 306,039