St. Tikhon's Orthodox Theological Seminary

Financial Statements and
Supplementary Information

June 30, 2017 and 2016

BAKER TILLY

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Independent Auditors' Report

Board of Trustees
St. Tikhon's Orthodox Theological Seminary

Report on the Financial Statements

We have audited the accompanying financial statements of St. Tikhon's Orthodox Theological Seminary, which comprise the statement of financial position as of June 30, 2017 and 2016, and the related statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017 and 2016, 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 schedule of instructional, administrative, and operations expenses on page 20 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2017, on our consideration of St. Tikhon's Orthodox Theological Seminary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of St. Tikhon's Orthodox Theological Seminary's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the St. Tikhon's Orthodox Theological Seminary's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
December 11, 2017

St. Tikhon's Orthodox Theological Seminary

Statement of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	$ 50,930	$ 210,344
Tuition and other receivables	28,458	60,959
Total current assets	79,388	271,303
Cash and Cash Equivalents, Designated	215,654	264,759
Property and Equipment, Net	1,706,268	1,731,667
Certificates of Deposit	540,357	526,176
Investments	2,521,936	1,902,187
Interest in Net Assets of Affiliates	2,441	5,078
Total assets	$ 5,066,044	$ 4,701,170
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	$ 36,599	$ 245,733
Revolving line of credit	470,581	470,657
Accounts payable	10,952	31,126
Payroll taxes payable	-	327
Student deposits	16,406	6,605
Total current liabilities	534,538	754,448
Long-Term Debt	396,824	219,574
Total liabilities	931,362	974,022
Net Assets		
Unrestricted:		
Undesignated	854,294	917,884
Board designated	557,769	520,357
Total unrestricted	1,412,063	1,438,241
Temporarily restricted	1,015,926	472,430
Permanently restricted	1,706,693	1,816,477
Total net assets	4,134,682	3,727,148
Total liabilities and net assets	$ 5,066,044	$ 4,701,170

See notes to financial statements

St. Tikhon's Orthodox Theological Seminary

Statement of Activities

Years Ended June 30, 2017 and 2016

	2017	2016
Changes in Unrestricted Net Assets		
Support and Revenue		
Contributions	$ 649,278	$ 785,649
Bequests	293,839	597,262
Tuition and scholarships less scholarships applied of $154,383 in 2017 and $150,634 in 2016	78,620	64,275
Net assets released from restriction	224,533	37,948
Mission choir donations	52,774	41,968
Contributed services	107,250	107,250
Miscellaneous	59,945	52,486
Investment income	67,263	6,705
Reclassification of net assets	111,062	-
Total support and revenue	1,644,564	1,693,543
Expenses		
Instructional	709,198	689,173
Administrative	499,711	470,850
Operations	243,489	230,427
Student services	169,045	107,947
Fundraising	8,333	20,021
Library	40,966	19,842
Total expenses	1,670,742	1,538,260
(Decrease) increase in unrestricted net assets	(26,178)	155,283
Changes in Temporarily Restricted Net Assets		
Investment income (loss)	435,282	(82,704)
Contributions	335,384	53,462
Net assets released from restriction	(224,533)	(37,948)
Change in interest in net assets of affiliate	(2,637)	3,215
Increase (decrease) in temporarily restricted net assets	543,496	(63,975)
Changes in Permanently Restricted Net Assets		
Contributions	1,278	-
Reclassification of net assets	(111,062)	-
Decrease in permanently restricted net assets	(109,784)	-
Increase in net assets	$ 407,534	$ 91,308

See notes to financial statements

St. Tikhon's Orthodox Theological Seminary

Statement of Changes in Net Assets
Years Ended June 30, 2017 and 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, June 30, 2015	$ 1,282,958	$ 536,405	$ 1,816,477	$ 3,635,840
Increase (decrease) in net assets	155,283	(63,975)	-	91,308
Net Assets, June 30, 2016	1,438,241	472,430	1,816,477	3,727,148
(Decrease) increase in net assets	(26,178)	543,496	(109,784)	407,534
Net Assets, June 30, 2017	$ 1,412,063	$ 1,015,926	$ 1,706,693	$ 4,134,682

See notes to financial statements

St. Tikhon's Orthodox Theological Seminary

Statement of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Increase in net assets	$ 407,534	$ 91,308
Adjustments to reconcile increase in net assets		
to net cash (used in) provided by operating activities:		
Depreciation	48,254	59,946
Change in interest in net assets of affiliate	2,637	(3,215)
Net unrealized (gains) losses on investments	(256,273)	202,164
Restricted contributions	(336,662)	(53,462)
Changes in assets and liabilities:		
Tuition and other receivables	32,501	(42,056)
Accounts payable	(20,174)	5,005
Payroll taxes payable	(327)	295
Student deposits	9,801	4,915
Net cash (used in) provided by operating activities	(112,709)	264,900
Cash Flows from Investing Activities		
Purchase of investments	(2,875,927)	(3,094,979)
Proceeds from sale of investments	2,849,113	3,026,625
Purchase of property and equipment	(22,855)	(62,459)
Increase in certificates of deposit	(14,181)	(14,032)
Decrease (increase) in cash and cash equivalents, designated	49,105	(14,987)
Net cash used in investing activities	(14,745)	(159,832)
Cash Flows from Financing Activities		
Net change in revolving line of credit	(76)	-
Repayment of long-term debt	(31,884)	(33,085)
Net cash used in financing activities	(31,960)	(33,085)
Net change in cash and cash equivalents	(159,414)	71,983
Cash and Cash Equivalents, Beginning	210,344	138,361
Cash and Cash Equivalents, Ending	$ 50,930	$ 210,344
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 21,708	$ 57,376

See notes to financial statements

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 December 11, 2017, 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.

Tuition and Other Receivables

Tuition and other receivables 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 which approximates fair value.

Investments and Investment Risk

Investments are carried at fair value.

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, Net

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.

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 2017 or 2016.

Interest in Net Assets of Affiliates

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.

The Association was formed to render moral and financial assistance to the Seminary. The Seminary and Association each have an independent board of trustees who manage their affairs. Changes in interest in net assets of affiliates are recorded as increases or decreases in net assets. Contributions to the Seminary from the Association were $34,050 in 2017 and $21,000 in 2016.

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. Scholarships of $154,383 in 2017 and $150,634 in 2016 were approved and applied against tuition revenue.

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.

Permanently restricted net assets have been restricted by donors to be maintained by the Seminary in perpetuity

Contributed Services

For the years ended June 30, 2017 and 2016, the Seminary recorded contributions in the amount of $107,250, 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 has been named a beneficiary of the Meshanko Memorial Fund for St. Tikhon’s (the "Fund"), a component fund of The Pittsburgh Foundation (the "Foundation"). Once the Meshanko estate is fully settled, the value of the Fund is estimated to be approximately $1,000,000. The Seminary has not yet recognized this amount as the estate has not been probated. 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 2017 and 2016.

New Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. This accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU 2014-09 is effective for the Seminary for fiscal 2019. Early application is permitted. The Seminary is assessing the impact this standard will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit’s liquidity, financial performance and cash flows. ASU 2016-14 is effective for the Seminary in fiscal 2019, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Seminary is assessing the impact this standard will have on its financial statements.

2. Property and Equipment, Net

Property and equipment, net is as follows at June 30:

	2017	2016
Land	$ 70,601	$ 70,601
Buildings and improvements	2,045,630	2,022,776
Furniture	98,575	98,575
Equipment	49,913	49,913
Construction in progress	26,780	26,780
Vehicle	68,968	68,968
Total	2,360,467	2,337,613
Less accumulated depreciation	1,275,767	1,227,514
Net	1,084,700	1,110,099
Building (held for future development)	621,568	621,568
Property and equipment, net	$ 1,706,268	$ 1,731,667

The Seminary owns a building that is being developed to serve as a residency for students. The building's development is not yet completed and the structure is not occupied as of June 30, 2017. The Seminary expects to complete this building in fiscal 2018. The building is not yet being depreciated.

3. Investments and Fair Value Measurements

The composition of investments is as follows at June 30:

	2017	2016
Money market	$ 229,360	$ 20,489
Corporate bonds	30,081	54,423
Marketable equity securities	2,262,495	1,827,275
Total	$ 2,521,936	$ 1,902,187

Investment return is comprised of the following for the years ended June 30:

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Interest and dividend income	$ 9,033	$ 45,589	$ 54,622	$ 6,705	$ 32,122	$ 38,827
Realized and unrealized gains (losses) on investments	58,230	389,693	447,923	-	(114,826)	(114,826)
Total investment return (loss)	$ 67,263	$ 435,282	$ 502,545	$ 6,705	$ (82,704)	$ (75,999)

Investment fees totaled $10,863 in 2017 and $9,472 in 2016. 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;

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:

	2017		
	Total	Level 1	Level 2
Money market	$ 229,360	$ 229,360	$ -
Corporate bonds	30,081	-	30,081
Marketable equity securities	2,262,495	2,262,495	-
Total investments	$ 2,521,936	$ 2,491,855	$ 30,081
Certificates of deposit	$ 540,357	$ -	$ 540,357

	2016		
	Total	Level 1	Level 2
Money market	$ 20,489	$ 20,489	$ -
Corporate bonds	54,423	-	54,423
Marketable equity securities	1,827,275	1,827,275	-
Total investments	$ 1,902,187	$ 1,847,764	$ 54,423
Certificates of deposit	$ 526,176	$ -	$ 526,176

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

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

4. Long-Term Debt

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

	2017	2016
Loan payable, with interest at 4%. Monthly principal and interest payments of $2,261 are due through December 2021, secured by the Philadelphia Trust investment account valued at 125% or more of the loan value for the duration of the loan.	$ 211,003	$ 229,075
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	222,420	236,232
Total	433,423	465,307
Less current portion	36,599	245,733
Long-term debt	$ 396,824	$ 219,574

Scheduled principal repayments of long-term debt as of June 30, 2017 are as follows:

Years ending June 30:	
2018	$ 36,599
2019	38,460
2020	40,402
2021	42,484
2022	153,086
Thereafter	122,392
Total	$ 433,423

5. Revolving Line of Credit

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% (4.25% at June 30, 2017). The line of credit is secured by the business assets of the Seminary and renews annually. Borrowings totaled $470,581 and $470,657 at June 30, 2017 and 2016, respectively.

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, 2017.

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.

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 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 8%. The vesting schedule of the Plan is as follows:

Years of Service	Vested Percentage
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, 2016) 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:

	2017	2016
Restricted for:		
Scholarship	$ 622,067	$ 450,495
General endowments	391,418	16,857
Total endowments	1,013,485	467,352
Interest in net assets of Affiliate	2,441	5,078
Total	$ 1,015,926	$ 472,430

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

	2017	2016
Restricted for:		
Scholarships	$ 1,071,224	$ 1,069,946
General endowments	635,469	746,531
Total	$ 1,706,693	$ 1,816,477

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

Endowment net asset composition by type of fund as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,013,485	$ 1,706,693	$ 2,720,178
Board-designated endowment funds	557,769	-	-	557,769
Total endowment funds	$ 557,769	$ 1,013,485	$ 1,706,693	$ 3,277,947

Changes in endowment net assets in 2017 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2016	$ 520,357	$ 467,352	$ 1,816,477	$ 2,804,186
Investment return:				
Investment income	6,253	45,589	-	51,842
Net realized and unrealized gains	58,230	389,693	-	447,923
Total investment return	64,483	435,282	-	499,765
Reclassification of net assets	-	-	(111,062)	(111,062)
Transfers/contributions	(27,071)	335,384	1,278	309,591
Funds released from restriction	-	(224,533)	-	(224,533)
Endowment net assets, June 30, 2017	$ 557,769	$ 1,013,485	$ 1,706,693	$ 3,277,947

In 2017, $111,062 was reclassified based upon a donor’s intention that was met.

Endowment net asset composition by type of fund as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 467,352	$ 1,816,477	$ 2,283,829
Board-designated endowment funds	520,357	-	-	520,357
Total endowment funds	$ 520,357	$ 467,352	$ 1,816,477	$ 2,804,186

Changes in endowment net assets in 2016 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2015	$ 497,831	$ 534,542	$ 1,816,477	$ 2,848,850
Investment return:				
Investment income	6,705	32,122	-	38,827
Net realized and unrealized gains	-	(114,826)	-	(114,826)
Total investment return	6,705	(82,704)	-	(75,999)
Transfers in/Contributions	15,821	53,462	-	69,283
Funds released from restriction	-	(37,948)	-	(37,948)
Endowment net assets, June 30, 2016	$ 520,357	$ 467,352	$ 1,816,477	$ 2,804,186

9. Functional Expenses

The Seminary provides theological teachings to individuals within its geographic area. Expenses related to providing these services for 2017 and 2016 are as follows (in thousands):

	2017	2016
General services	$ 1,233	$ 1,055
General and administrative	430	463
Fundraising	8	20
Total	$ 1,671	$ 1,538

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.

St. Tikhon's Orthodox Theological Seminary

Schedule of Instructional, Administrative, and Operations Expenses
Years Ended June 30, 2017 and 2016

	2017	2016
Instructional		
Faculty wages	$ 264,150	$ 284,748
Employee benefits	142,568	91,343
Donated services	107,250	107,250
Adjunct faculty	69,150	79,500
Pension	48,720	42,744
Faculty housing	37,140	37,140
Payroll taxes	28,776	39,550
Faculty travel	11,444	6,898
Total instructional	$ 709,198	$ 689,173
Administrative		
Staff wages	$ 199,160	$ 139,034
Employee benefits	107,551	83,565
Professional fees	43,160	57,938
Office supplies	29,069	32,205
Printing	27,033	18,479
Payroll taxes	21,708	57,376
Interest	20,725	17,036
Pension	17,159	13,747
Automobile	9,853	10,263
Travel	9,173	14,369
Equipment lease	7,211	6,721
Conferences	6,334	6,147
Investment expense	1,500	-
Dues and subscriptions	75	948
Bad debt expense	-	13,022
Total administrative	$ 499,711	$ 470,850
Operations		
Repairs and maintenance	$ 52,747	$ 44,453
Insurance	51,803	44,636
Utilities	48,502	42,693
Depreciation	48,254	59,946
Interest	21,125	26,780
Trash removal	9,704	3,299
Telephone	8,058	6,044
Supplies	3,296	2,576
Total operations	$ 243,489	$ 230,427

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Trustees
St. Tikhon's Orthodox Theological Seminary

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of St. Tikhon's Orthodox Theological Seminary (the "Seminary"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Seminary's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Seminary's internal control. Accordingly, we do not express an opinion on the effectiveness of the Seminary's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Seminary's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
December 11, 2017