

# **St. Tikhon's Orthodox Theological Seminary**

Financial Statements and  
Supplementary Information

June 30, 2013 and 2012

# **St. Tikhon's Orthodox Theological Seminary**

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June 30, 2013 and 2012

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## Independent Auditors' Report

Board of Directors  
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, 2013 and 2012, 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. 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, 2013 and 2012, 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 2013 and 2012 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.

*ParenteBeard LLC*

Wilkes-Barre, Pennsylvania  
April 21, 2014

# St. Tikhon's Orthodox Theological Seminary

Statement of Financial Position

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ -	\$ 495,696
Tuition receivable	288,333	108,176
Total current assets	288,333	603,872
<b>Cash and Cash Equivalents, Designated</b>	218,580	146,582
<b>Asset Held in Charitable Remainder Trust</b>	-	216,000
<b>Asset Held for Sale</b>	216,000	-
<b>Property and Equipment, Net</b>	1,764,380	1,817,869
<b>Certificates of Deposit</b>	700,877	684,647
<b>Investments</b>	1,246,369	1,127,510
Total assets	<u>\$ 4,434,539</u>	<u>\$ 4,596,480</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Cash overdraft	\$ 3,349	\$ -
Current portion of long-term debt	33,917	32,288
Accounts payable	26,182	43,952
Payroll taxes payable	334	-
Student deposits	6,815	7,693
Total current liabilities	70,597	83,933
<b>Obligation under Charitable Remainder Trust</b>	-	42,500
<b>Long-Term Debt</b>	536,882	573,642
Total liabilities	607,479	700,075
<b>Net Assets</b>		
Unrestricted:		
Undesignated	1,073,058	1,354,441
Board designated	315,293	233,839
Total unrestricted	1,388,351	1,588,280
Temporarily restricted	313,111	225,027
Permanently restricted	2,125,598	2,083,098
Total net assets	3,827,060	3,896,405
Total liabilities and net assets	<u>\$ 4,434,539</u>	<u>\$ 4,596,480</u>

See notes to financial statements

# St. Tikhon's Orthodox Theological Seminary

## Statement of Activities

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Changes in Unrestricted Net Assets</b>		
<b>Support and Revenue</b>		
Contributions	\$ 496,172	\$ 839,840
Tuition and scholarships	457,211	350,320
Net assets released from restriction	71,877	-
Bequests	38,000	299,652
Contributed services	36,000	36,000
Mission choir donations	30,879	19,334
Miscellaneous	28,626	30,709
Investment income	8,780	18,159
	<u>1,167,545</u>	<u>1,594,014</u>
<b>Expenses</b>		
Instructional	518,970	543,052
Administrative	412,652	523,305
Operations	321,312	275,921
Student services	86,704	73,306
Fundraising	16,277	13,070
Library	11,559	11,213
	<u>1,367,474</u>	<u>1,439,867</u>
Total expenses	<u>1,367,474</u>	<u>1,439,867</u>
(Decrease) increase in unrestricted net assets	<u>(199,929)</u>	<u>154,147</u>
<b>Changes in Temporarily Restricted Net Assets</b>		
Investment income	159,961	(51,758)
Net assets released from restriction	(71,877)	-
	<u>88,084</u>	<u>(51,758)</u>
Increase (decrease) in temporarily restricted net assets	<u>88,084</u>	<u>(51,758)</u>
<b>Changes in Permanently Restricted Net Assets</b>		
Contributions	-	8,315
Change in valuation of charitable remainder trust	42,500	4,250
	<u>42,500</u>	<u>12,565</u>
Increase in permanently restricted net assets	<u>42,500</u>	<u>12,565</u>
(Decrease) increase in net assets	<u>\$ (69,345)</u>	<u>\$ 114,954</u>

See notes to financial statements

## St. Tikhon's Orthodox Theological Seminary

### Statement of Changes in Net Assets

Years Ended June 30, 2013 and 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Net Assets, June 30, 2011</b>	\$ 1,434,133	\$ 276,785	\$ 2,070,533	\$ 3,781,451
<b>Increase (Decrease) in Net Assets</b>	<u>154,147</u>	<u>(51,758)</u>	<u>12,565</u>	<u>114,954</u>
<b>Net Assets, June 30, 2012</b>	1,588,280	225,027	2,083,098	3,896,405
<b>Increase (Decrease) in Net Assets</b>	<u>(199,929)</u>	<u>88,084</u>	<u>42,500</u>	<u>(69,345)</u>
<b>Net Assets, June 30, 2013</b>	<u>\$ 1,388,351</u>	<u>\$ 313,111</u>	<u>\$ 2,125,598</u>	<u>\$ 3,827,060</u>

See notes to financial statements

## St. Tikhon's Orthodox Theological Seminary

### Statement of Cash Flows

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Cash Flows from Operating Activities</b>		
(Decrease) increase in net assets	\$ (69,345)	\$ 114,954
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	60,455	56,728
Accretion	(42,500)	(4,250)
Net realized and unrealized gains on investments	37,467	3,644
Changes in assets and liabilities:		
Tuition receivable	(180,157)	(74,324)
Contributions receivable	-	75,000
Accounts payable	(17,770)	23,729
Payroll taxes payable	334	
Student deposits	(878)	(9,887)
	<u>(212,394)</u>	<u>185,594</u>
Net cash (used in) provided by operating activities		
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(1,172,880)	(292,556)
Proceeds from sale of investments	1,016,554	935,039
Purchase of property and equipment	(6,966)	(912,144)
Increase in certificates of deposit	(16,230)	(20,295)
Increase in cash and cash equivalents, designated	(71,998)	(63,012)
	<u>(251,520)</u>	<u>(352,968)</u>
Net cash used in investing activities		
<b>Cash Flows from Financing Activities</b>		
Cash overdraft	3,349	-
Proceeds from long-term debt	-	600,000
Repayment of long-term debt	(35,131)	(64,843)
	<u>(31,782)</u>	<u>535,157</u>
Net cash (used in) provided by financing activities		
(Decrease) increase in cash and cash equivalents	(495,696)	367,783
<b>Cash and Cash Equivalents, Beginning</b>	<u>495,696</u>	<u>127,913</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ -</u>	<u>\$ 495,696</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid	<u>\$ 28,758</u>	<u>\$ 18,022</u>

See notes to financial statements



# **St. Tikhon's Orthodox Theological Seminary**

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Notes to Financial Statements  
June 30, 2013 and 2012

## **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 April 21, 2014, 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 Receivable**

Tuition receivable is reported at net realizable value. There is no provision for doubtful accounts as management believes all amounts are collectible.

### **Certificates of Deposit**

Certificates of deposit are recorded at cost.

# **St. Tikhon's Orthodox Theological Seminary**

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Notes to Financial Statements

June 30, 2013 and 2012

## **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 was \$60,455 in 2013 and \$56,728 in 2012.

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.

## **Tuition Revenue Recognition**

Tuition revenue is recorded in the year earned. Tuition received in advance of the ensuing school year is recorded as deferred revenue until earned.

## **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.

# **St. Tikhon's Orthodox Theological Seminary**

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## Notes to Financial Statements

June 30, 2013 and 2012

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, 2013.

### **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. 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, 2013 and 2012, 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.

### **Donor-Restricted Gifts**

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 operations as net assets released from restrictions.

# St. Tikhon's Orthodox Theological Seminary

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Notes to Financial Statements  
June 30, 2013 and 2012

## 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 2013 and 2012.

## 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 is effective for the Seminary's fiscal year beginning July 1, 2013. The guidance is prospective and management does not believe the adoption of this ASU will 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 not-for-profit 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 not-for-profit 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 is effective for the Seminary's fiscal year beginning July 1, 2014. The guidance is prospective and management does not believe the adoption of this ASU will have a significant impact on the Seminary's financial position or results of operations.

## Reclassification

Certain amounts relating to 2012 have been reclassified to conform to the 2013 reporting format.

## St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements  
June 30, 2013 and 2012

### 2. Property and Equipment and Accumulated Depreciation

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

	<u>2013</u>	<u>2012</u>
Land	\$ 70,601	\$ 70,601
Buildings and improvements	1,936,683	1,936,683
Furniture	94,196	87,230
Equipment	76,191	76,191
Vehicle	68,968	68,968
Building (held for future development)	614,668	614,668
	<u>2,861,307</u>	<u>2,854,341</u>
Total	2,861,307	2,854,341
Less accumulated depreciation	<u>1,096,927</u>	<u>1,036,472</u>
Property and equipment, net	<u>\$ 1,764,380</u>	<u>\$ 1,817,869</u>

### 3. Investments and Fair Value Measurements

The composition of investments is as follows at June 30:

	<u>2013</u>	<u>2012</u>
Money market	\$ 214,957	\$ 166,797
Marketable equity securities:		
Energy	105,251	282,305
Information technology	149,801	38,570
Health care	123,240	140,423
Consumer goods	-	275,528
Telecommunications	-	104,872
Financial	90,620	20,317
Industrial	245,718	98,698
Utilities	122,890	-
Materials	84,747	-
Other	109,145	-
	<u>1,246,369</u>	<u>1,127,510</u>
Total	<u>\$ 1,246,369</u>	<u>\$ 1,127,510</u>

## St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements  
June 30, 2013 and 2012

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

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Interest and dividend income	\$ 8,780	\$ 30,615	\$ 39,395	\$ 18,159	\$ 27,337	\$ 45,496
Realized and unrealized gains (losses) on investments	-	129,346	129,346	-	(79,095)	(79,095)
Total investment return (loss)	<u>\$ 8,780</u>	<u>\$ 159,961</u>	<u>\$ 168,741</u>	<u>\$ 18,159</u>	<u>\$ (51,758)</u>	<u>\$ (33,599)</u>

Investment fees totaled \$5,857 in 2013 and \$6,770 in 2012. These amounts are netted against the total investment return (loss).

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.

## St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements  
June 30, 2013 and 2012

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:

	<b>2013</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Money market	\$ 214,957	\$ 214,957	\$ -	\$ -
Marketable equity securities:				
Energy	105,251	105,251	-	-
Information technology	149,801	149,801	-	-
Health care	123,240	123,240	-	-
Financial	90,620	90,620	-	-
Industrial	245,718	245,718	-	-
Utilities	122,890	122,890	-	-
Materials	84,747	84,747	-	-
Other	109,145	109,145	-	-
<b>Total</b>	<b>\$ 1,246,369</b>	<b>\$ 1,246,369</b>	<b>\$ -</b>	<b>\$ -</b>
	<b>2012</b>			
Money market	\$ 166,797	\$ 166,797	\$ -	\$ -
Marketable equity securities:				
Energy	282,305	282,305	-	-
Information technology	38,570	38,570	-	-
Health care	140,423	140,423	-	-
Consumer goods	275,528	275,528	-	-
Telecommunications	104,872	104,872	-	-
Financial	20,317	20,317	-	-
Industrial	98,698	98,698	-	-
<b>Total investments</b>	<b>1,127,510</b>	<b>1,127,510</b>	<b>-</b>	<b>-</b>
Assets held in charitable remainder trust	216,000	-	-	216,000
<b>Total</b>	<b>\$ 1,343,510</b>	<b>\$ 1,127,510</b>	<b>\$ -</b>	<b>\$ 216,000</b>

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 are measured at fair value using quoted market prices for identical assets.

Asset held in charitable remainder trust: The fair value of the asset held in the charitable remainder trust is based on the present value of the underlying real estate.

# St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements  
June 30, 2013 and 2012

The Level 3 reconciliation at June 30, 2013 is as follows:

<u>Description</u>	<u>Asset Held in Charitable Remainder Trust</u>
Balance at June 30, 2012	\$ 216,000
Addition / Withdrawal	<u>(216,000)</u>
Balance at June 30, 2013	<u>\$ -</u>

The change in value of the asset held in the charitable remainder trust is reduced by the change in value of the obligation under charitable remainder trust. This net value is recognized in the change in valuation of the charitable remainder trust under changes in permanently restricted net assets in the statement of activities.

## 4. Long-Term Debt

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

	<u>2013</u>	<u>2012</u>
Loan payable, with interest at 1.9%. Monthly principal and interest payments of \$446 are due through February 2016, secured by a vehicle	\$ 13,951	\$ 18,985
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	276,227	293,212
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	<u>280,621</u>	<u>293,733</u>
	570,799	605,930
Less current portion	<u>(33,917)</u>	<u>(32,288)</u>
Total	<u>\$ 536,882</u>	<u>\$ 573,642</u>



## St. Tikhon's Orthodox Theological Seminary

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Notes to Financial Statements  
June 30, 2013 and 2012

Scheduled principal repayments for periods subsequent to June 30, 2013 are as follows:

Years ending June 30:	
2014	\$ 33,917
2015	35,634
2016	35,651
2017	246,023
2018	17,685
Thereafter	<u>201,889</u>
Total	<u>\$ 570,799</u>

### 5. Commitments and Subsequent Events

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, 2013). The line of credit is secured by the business assets of the Seminary and renews annually. There were no borrowings on this facility at June 30, 2013 and 2012.

The line of credit agreement requires the Seminary to maintain certain financial ratios. The Seminary was not in compliance with one of these ratios as of June 30, 2013. The bank waived this covenant violation on April 3, 2014. The next measurement date is June 30, 2014.

In November 2013, the Seminary borrowed \$372,176 on this facility to reimburse amounts owed to its endowment fund.

### 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.

# St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements  
June 30, 2013 and 2012

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%. 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, 2013) 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.

## 7. Temporarily and Permanently Restricted Net Assets

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

	<u>2013</u>	<u>2012</u>
Restricted for, Scholarships	<u>\$ 313,111</u>	<u>\$ 225,027</u>

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

Restricted for:		
Scholarships	\$ 1,274,129	\$ 1,274,129
General endowments	<u>851,469</u>	<u>808,969</u>
Total	<u>\$ 2,125,598</u>	<u>\$ 2,083,098</u>

## St. Tikhon's Orthodox Theological Seminary

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Notes to Financial Statements  
June 30, 2013 and 2012

### 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.

During 2012, the Seminary borrowed \$409,720 from its endowment fund. Of this amount, \$37,544 was restored prior to June 30, 2013 and the balance of \$372,176 was restored in November 2013.

## St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements  
June 30, 2013 and 2012

Endowment net asset composition by type of fund as of June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	313,111	2,125,598	\$ 2,438,709
Board-designated endowment funds	<u>315,293</u>	<u>-</u>	<u>-</u>	<u>315,293</u>
Total endowment funds	<u>\$ 315,293</u>	<u>\$ 313,111</u>	<u>\$ 2,125,598</u>	<u>\$ 2,754,002</u>

Changes in endowment net assets in 2013 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2012	<u>\$ 233,839</u>	<u>225,027</u>	<u>2,083,098</u>	<u>\$ 2,541,964</u>
Investment return:				
Investment income	8,780	30,615	-	39,395
Net realized and unrealized gains	<u>-</u>	<u>129,346</u>	<u>-</u>	<u>129,346</u>
Total investment return	<u>8,780</u>	<u>159,961</u>	<u>-</u>	<u>168,741</u>
Contributions and transfers	<u>72,674</u>	<u>-</u>	<u>-</u>	<u>72,674</u>
Change in charitable remainder trust	<u>-</u>	<u>-</u>	<u>42,500</u>	<u>42,500</u>
Funds released from restriction	<u>71,877</u>	<u>(71,877)</u>	<u>-</u>	<u>-</u>
Appropriation of endowment assets for expenditure (spending policy)	<u>(71,877)</u>	<u>-</u>	<u>-</u>	<u>(71,877)</u>
Endowment net assets, June 30, 2013	<u>\$ 315,293</u>	<u>\$ 313,111</u>	<u>\$ 2,125,598</u>	<u>\$ 2,754,002</u>

## St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements

June 30, 2013 and 2012

Endowment net asset composition by type of fund as of June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 225,027	\$ 2,083,098	\$ 2,308,125
Board-designated endowment funds	233,839	-	-	233,839
Total endowment funds	<u>\$ 233,839</u>	<u>\$ 225,027</u>	<u>\$ 2,083,098</u>	<u>\$ 2,541,964</u>

Changes in endowment net assets in 2012 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2011	\$ 343,491	\$ 276,785	\$ 2,070,533	\$ 2,690,809
Investment return:				
Investment income	18,159	27,337	-	45,496
Net realized and unrealized gains	-	(79,095)	-	(79,095)
Total investment return	18,159	(51,758)	-	(33,599)
Contributions and transfers	56,453	-	8,315	64,768
Change in charitable remainder trust	-	-	4,250	4,250
Appropriation of endowment assets for expenditure (spending policy)	(184,264)	-	-	(184,264)
Endowment net assets, June 30, 2012	<u>\$ 233,839</u>	<u>\$ 225,027</u>	<u>\$ 2,083,098</u>	<u>\$ 2,541,964</u>

## St. Tikhon's Orthodox Theological Seminary

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Notes to Financial Statements

June 30, 2013 and 2012

### 9. Functional Expenses

The Seminary provides theological teachings to individuals within its geographic area. Expenses related to providing these services for 2013 and 2012 are as follows (in thousands):

	<u>2013</u>	<u>2012</u>
General services	\$ 938	\$ 904
General and administrative	413	523
Fundraising	<u>16</u>	<u>13</u>
Total	<u>\$ 1,367</u>	<u>\$ 1,440</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. The Seminary generally has 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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Instructional</b>		
Faculty wages	\$ 282,506	\$ 278,125
Adjunct Faculty	85,034	75,577
Employee benefits	41,139	52,656
Pension	29,332	37,615
Payroll taxes	29,311	36,254
Donated services	36,000	36,000
Faculty housing	15,648	26,825
	<u>518,970</u>	<u>543,052</u>
Total instructional	<u>\$ 518,970</u>	<u>\$ 543,052</u>
<b>Administrative</b>		
Staff wages	\$ 148,758	\$ 231,380
Employee Benefits	56,050	38,107
Printing	42,727	42,486
Payroll taxes	36,372	50,473
Professional fees	36,170	43,782
Office supplies	36,032	39,321
Automobile	16,146	22,264
Conferences	13,956	5,480
Travel	9,823	16,187
Equipment lease	7,693	5,920
Pension	6,077	6,644
Dues and subscriptions	1,647	6,206
Interest	1,201	893
Bad Debt Expense	-	14,162
	<u>412,652</u>	<u>523,305</u>
Total administrative	<u>\$ 412,652</u>	<u>\$ 523,305</u>
<b>Operations</b>		
Utilities	\$ 84,723	\$ 71,690
Insurance	73,921	74,412
Depreciation	60,455	56,728
Repairs and maintenance	58,539	43,424
Interest	28,758	18,022
Taxes	7,359	7,100
Telephone	4,320	3,478
Supplies	3,237	1,067
	<u>321,312</u>	<u>275,921</u>
Total operations	<u>\$ 321,312</u>	<u>\$ 275,921</u>