

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

Financial Statements and
Supplementary Information

June 30, 2014 and 2013



BAKER TILLY

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St. Tikhon's Orthodox Theological Seminary

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June 30, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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 2014 and 2013 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 Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
May 14, 2015

St. Tikhon's Orthodox Theological Seminary

Statement of Financial Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 22,231	\$ -
Tuition receivable	16,008	288,333
Due from affiliate	6,029	6,822
Total current assets	44,268	295,155
Cash and Cash Equivalents, Designated	202,437	218,580
Asset Held for Sale	183,152	216,000
Due from Affiliate	-	6,029
Property and Equipment, Net	1,722,135	1,764,380
Certificates of Deposit	499,065	700,877
Investments	1,688,840	1,246,369
Total assets	<u>\$ 4,339,897</u>	<u>\$ 4,447,390</u>
Liabilities and Net Assets		
Current Liabilities		
Cash overdraft	\$ -	\$ 3,349
Current portion of long-term debt	121,663	40,739
Revolving line of credit	472,151	-
Accounts payable	23,124	26,182
Payroll taxes payable	367	334
Student deposits	4,733	6,815
Total current liabilities	622,038	77,419
Long-Term Debt	499,144	542,911
Total liabilities	<u>1,121,182</u>	<u>620,330</u>
Net Assets		
Unrestricted:		
Undesignated	664,115	1,073,058
Board designated	232,014	315,293
Total unrestricted	896,129	1,388,351
Temporarily restricted	514,019	313,111
Permanently restricted	1,808,567	2,125,598
Total net assets	<u>3,218,715</u>	<u>3,827,060</u>
Total liabilities and net assets	<u>\$ 4,339,897</u>	<u>\$ 4,447,390</u>

See notes to financial statements

St. Tikhon's Orthodox Theological Seminary

Statement of Activities

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Changes in Unrestricted Net Assets		
Support and Revenue		
Contributions	\$ 255,547	\$ 313,718
Tuition and scholarships less scholarships applied of \$450,840 in 2014	129,249	652,459
Net assets released from restriction	326,494	71,877
Bequests	5,000	38,000
Contributed services	36,000	36,000
Mission choir donations	31,865	30,879
Miscellaneous	34,975	15,832
Investment income	18	8,780
	<u>819,148</u>	<u>1,167,545</u>
Expenses		
Instructional	553,310	518,970
Administrative	346,574	412,652
Operations	306,039	321,312
Student services	80,822	86,704
Fundraising	14,147	16,277
Library	10,478	11,559
	<u>1,311,370</u>	<u>1,367,474</u>
Total expenses	<u>1,311,370</u>	<u>1,367,474</u>
Decrease in unrestricted net assets	<u>(492,222)</u>	<u>(199,929)</u>
Changes in Temporarily Restricted Net Assets		
Investment income	326,049	159,961
Net assets released from restriction	<u>(125,141)</u>	<u>(71,877)</u>
Increase in temporarily restricted net assets	<u>200,908</u>	<u>88,084</u>
Changes in Permanently Restricted Net Assets		
Net assets released from restriction	(201,353)	-
Change in valuation of asset held for sale	(115,678)	-
Change in valuation of charitable remainder trust	<u>-</u>	<u>42,500</u>
(Decrease) increase in permanently restricted net assets	<u>(317,031)</u>	<u>42,500</u>
Decrease in net assets	<u>\$ (608,345)</u>	<u>\$ (69,345)</u>

See notes to financial statements

St. Tikhon's Orthodox Theological Seminary

Statement of Changes in Net Assets

Years Ended June 30, 2014 and 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets, June 30, 2012	\$ 1,588,280	\$ 225,027	\$ 2,083,098	\$ 3,896,405
Increase (Decrease) in Net Assets	<u>(199,929)</u>	<u>88,084</u>	<u>42,500</u>	<u>(69,345)</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	<u>\$ 896,129</u>	<u>\$ 514,019</u>	<u>\$ 1,808,567</u>	<u>\$ 3,218,715</u>

See notes to financial statements

St. Tikhon's Orthodox Theological Seminary

Statement of Cash Flows

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Decrease in net assets	\$ (608,345)	\$ (69,345)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation	62,544	60,455
Accretion	-	(42,500)
Change in valuation of asset held for sale	115,678	-
Net unrealized gains on investments	214,343	37,467
Changes in assets and liabilities:		
Tuition receivable	272,325	(180,157)
Due from affiliate	6,822	6,389
Accounts payable	(3,058)	(17,770)
Payroll taxes payable	33	334
Student deposits	(2,082)	(878)
Net cash provided by (used in) operating activities	<u>58,260</u>	<u>(206,005)</u>
Cash Flows from Investing Activities		
Purchase of investments	(1,526,099)	(1,172,880)
Proceeds from sale of investments	869,285	1,016,554
Purchase of property and equipment	(20,299)	(6,966)
Investment in asset held for sale	(82,830)	
Decrease (increase) in certificates of deposit	201,812	(16,230)
Decrease (increase) in cash and cash equivalents, designated	16,143	(71,998)
Net cash used in investing activities	<u>(541,988)</u>	<u>(251,520)</u>
Cash Flows from Financing Activities		
Cash overdraft (decrease) increase	(3,349)	3,349
Proceeds from revolving line of credit	472,151	-
Proceeds from long-term debt	80,000	-
Repayment of long-term debt	(42,843)	(41,520)
Net cash provided by (used in) financing activities	<u>505,959</u>	<u>(38,171)</u>
Net change in cash and cash equivalents	22,231	(495,696)
Cash and Cash Equivalents, Beginning	-	495,696
Cash and Cash Equivalents, Ending	<u>\$ 22,231</u>	<u>\$ -</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 27,674</u>	<u>\$ 28,758</u>

See notes to financial statements

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements

June 30, 2014 and 2013

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 May 14, 2015 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

Notes to Financial Statements

June 30, 2014 and 2013

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 \$62,544 in 2014 and \$60,455 in 2013.

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 2014 or 2013.

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, \$450,840 of scholarships were approved and applied against tuition revenue. Of this amount, \$230,171 in scholarships related to tuition revenues recognized in prior years with outstanding balances and \$220,669 in scholarships related to current year tuition revenues.

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements
June 30, 2014 and 2013

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.

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, 2014 and 2013, 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.

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements
June 30, 2014 and 2013

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 activities as net assets released from restrictions.

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 2014 and 2013.

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 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 2013 have been reclassified to conform to the 2014 reporting format.

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements
June 30, 2014 and 2013

2. Property and Equipment and Accumulated Depreciation

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

	<u>2014</u>	<u>2013</u>
Land	\$ 70,601	\$ 70,601
Buildings and improvements	1,950,082	1,936,683
Furniture	94,196	94,196
Equipment	76,191	76,191
Vehicle	68,968	68,968
Building (held for future development)	621,568	614,668
	<u>2,881,606</u>	<u>2,861,307</u>
Total	2,881,606	2,861,307
Less accumulated depreciation	<u>1,159,471</u>	<u>1,096,927</u>
Property and equipment, net	<u>\$ 1,722,135</u>	<u>\$ 1,764,380</u>

3. Investments and Fair Value Measurements

The composition of investments is as follows at June 30:

	<u>2014</u>	<u>2013</u>
Money market	\$ 140,492	\$ 214,957
Corporate bonds	30,027	-
Marketable equity securities:		
Energy	208,350	105,251
Information technology	225,539	149,801
Health care	134,960	123,240
Consumer goods	108,376	-
Financial	-	90,620
Industrial	310,263	245,718
Utilities	223,634	122,890
Materials	106,655	84,747
Other	200,544	109,145
	<u>200,544</u>	<u>109,145</u>
Total	<u>\$ 1,688,840</u>	<u>\$ 1,246,369</u>

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements

June 30, 2014 and 2013

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

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Interest and dividend income	\$ 18	\$ 39,571	\$ 39,589	\$ 8,780	\$ 30,615	\$ 39,395
Realized and unrealized gains (losses) on investments	-	286,478	286,478	-	129,346	129,346
Total investment return (loss)	<u>\$ 18</u>	<u>\$ 326,049</u>	<u>\$ 326,067</u>	<u>\$ 8,780</u>	<u>\$ 159,961</u>	<u>\$ 168,741</u>

Investment fees totaled \$7,127 in 2014 and \$5,857 in 2013. 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.

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements

June 30, 2014 and 2013

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:

	2014			
	Total	Level 1	Level 2	Level 3
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	\$ -	\$ -
	2013			
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	-	-
Total	\$ 1,246,369	\$ 1,246,369	\$ -	\$ -

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.

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements
June 30, 2014 and 2013

4. Long-Term Debt

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

	<u>2014</u>	<u>2013</u>
Loan payable, with interest at 1.9%. Monthly principal and interest payments of \$446 are due through February 2016, secured by a vehicle.	\$ 9,256	\$ 13,951
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.	261,224	276,227
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	264,298	280,621
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	12,851
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 2014 when the property was sold.	80,000	-
	620,807	583,650
Less current portion	<u>(121,663)</u>	<u>(40,739)</u>
Total	<u>\$ 499,144</u>	<u>\$ 542,911</u>

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements
June 30, 2014 and 2013

Scheduled principal repayments for periods subsequent to June 30, 2014 are as follows:

Years ending June 30:	
2015	\$ 121,663
2016	36,094
2017	245,879
2018	17,685
2019	18,776
Thereafter	<u>180,710</u>
Total	<u>\$ 620,807</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, 2014). The line of credit is secured by the business assets of the Seminary and renews annually. Borrowings totaled \$472,151 at June 30, 2014.

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, 2014. The bank waived this covenant violation on March 20, 2015. The next measurement date is 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.

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements

June 30, 2014 and 2013

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, 2014) 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>2014</u>	<u>2013</u>
Restricted for:		
Scholarships	\$ 415,932	\$ 313,111
General endowments	98,087	-
Total	<u>\$ 514,019</u>	<u>\$ 313,111</u>

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

Restricted for:		
Scholarships	\$ 1,069,946	\$ 1,274,129
General endowments	738,621	851,469
Total	<u>\$ 1,808,567</u>	<u>\$ 2,125,598</u>

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements

June 30, 2014 and 2013

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.

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.

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements
June 30, 2014 and 2013

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

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements
June 30, 2014 and 2013

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, 2014 and 2013

9. Functional Expenses

The Seminary provides theological teachings to individuals within its geographic area. Expenses related to providing these services for 2014 and 2013 are as follows (in thousands):

	<u>2014</u>	<u>2013</u>
General services	\$ 951	\$ 938
General and administrative	346	413
Fundraising	<u>14</u>	<u>16</u>
Total	<u>\$ 1,311</u>	<u>\$ 1,367</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.

St. Tikhon's Orthodox Theological Seminary

Schedule of Instructional, Administrative, and Operations Expenses

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Instructional		
Faculty wages	\$ 267,518	\$ 282,506
Adjunct Faculty	96,029	85,034
Employee benefits	51,359	41,139
Pension	41,490	29,332
Donated services	36,000	36,000
Faculty housing	30,950	15,648
Payroll taxes	26,438	29,311
Faculty travel	3,526	-
	<u>553,310</u>	<u>518,970</u>
Total instructional	<u>\$ 553,310</u>	<u>\$ 518,970</u>
Administrative		
Staff wages	\$ 76,418	\$ 148,758
Employee Benefits	50,234	56,050
Printing	41,408	42,727
Payroll taxes	40,847	36,372
Office supplies	40,196	36,032
Professional fees	29,712	36,170
Equipment lease	15,840	7,693
Travel	12,854	9,823
Interest	12,754	1,201
Automobile	8,951	16,146
Dues and subscriptions	5,863	1,647
Pension	5,544	6,077
Conferences	5,453	13,956
Bad Debt Expense	500	-
	<u>346,574</u>	<u>412,652</u>
Total administrative	<u>\$ 346,574</u>	<u>\$ 412,652</u>
Operations		
Utilities	\$ 88,403	\$ 84,723
Insurance	79,887	73,921
Depreciation	62,544	60,455
Repairs and maintenance	34,350	58,539
Interest	27,674	28,758
Taxes	7,619	7,359
Telephone	3,892	4,320
Supplies	1,670	3,237
	<u>306,039</u>	<u>321,312</u>
Total operations	<u>\$ 306,039</u>	<u>\$ 321,312</u>