

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

Financial Statements and  
Supplementary Information

June 30, 2016 and 2015



**BAKER TILLY**

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

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June 30, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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 2016 and 2015 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.

*Baker Tilly Viechow Krause, LLP*

Wilkes-Barre, Pennsylvania  
October 31, 2016

# St. Tikhon's Orthodox Theological Seminary

Statement of Financial Position  
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 210,344	\$ 138,361
Tuition and other receivables	60,959	18,903
Total current assets	271,303	157,264
<b>Cash and Cash Equivalents, Designated</b>	264,759	249,772
<b>Property and Equipment, Net</b>	1,731,667	1,729,154
<b>Certificates of Deposit</b>	526,176	512,144
<b>Investments</b>	1,902,187	1,982,535
<b>Interest in Net Assets of Affiliates</b>	5,078	1,863
Total assets	<u>\$ 4,701,170</u>	<u>\$ 4,632,732</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt	\$ 245,733	\$ 35,636
Revolving line of credit	470,657	470,657
Accounts payable	31,126	26,121
Payroll taxes payable	327	32
Student deposits	6,605	1,690
Total current liabilities	754,448	534,136
<b>Long-Term Debt</b>	219,574	462,756
Total liabilities	<u>974,022</u>	<u>996,892</u>
<b>Net Assets</b>		
Unrestricted:		
Undesignated	917,884	785,127
Board designated	520,357	497,831
Total unrestricted	1,438,241	1,282,958
Temporarily restricted	472,430	536,405
Permanently restricted	1,816,477	1,816,477
Total net assets	<u>3,727,148</u>	<u>3,635,840</u>
Total liabilities and net assets	<u>\$ 4,701,170</u>	<u>\$ 4,632,732</u>

See notes to financial statements

# St. Tikhon's Orthodox Theological Seminary

## Statement of Activities

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Changes in Unrestricted Net Assets</b>		
<b>Support and Revenue</b>		
Contributions	\$ 785,649	\$ 984,401
Bequests	597,262	433,579
Tuition and scholarships less scholarships applied of \$150,634 in 2016 and \$138,222 in 2015	64,275	89,608
Net assets released from restriction	37,948	125,000
Mission choir donations	41,968	72,179
Contributed services	107,250	36,000
Miscellaneous	52,486	19,494
Investment income	6,705	51
	<u>1,693,543</u>	<u>1,760,312</u>
<b>Expenses</b>		
Instructional	681,331	573,188
Administrative	463,007	395,937
Operations	246,112	246,557
Student services	107,947	88,244
Fundraising	20,021	56,573
Library	19,842	12,984
	<u>1,538,260</u>	<u>1,373,483</u>
Total expenses	<u>1,538,260</u>	<u>1,373,483</u>
Increase in unrestricted net assets	<u>155,283</u>	<u>386,829</u>
<b>Changes in Temporarily Restricted Net Assets</b>		
Investment (loss) income	(82,704)	145,523
Contributions	53,462	-
Net assets released from restriction	(37,948)	(125,000)
Change in interest in net assets of affiliate	3,215	1,863
	<u>(63,975)</u>	<u>22,386</u>
(Decrease) increase in temporarily restricted net assets	<u>(63,975)</u>	<u>22,386</u>
<b>Changes in Permanently Restricted Net Assets</b>		
Change in valuation of asset held for sale	-	7,910
	<u>-</u>	<u>7,910</u>
Increase in permanently restricted net assets	<u>-</u>	<u>7,910</u>
Increase in net assets	<u>\$ 91,308</u>	<u>\$ 417,125</u>

See notes to financial statements

## St. Tikhon's Orthodox Theological Seminary

Statement of Changes in Net Assets  
Years Ended June 30, 2016 and 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Net Assets, June 30, 2014</b>	\$ 896,129	\$ 514,019	\$ 1,808,567	\$ 3,218,715
Increase in net assets	<u>386,829</u>	<u>22,386</u>	<u>7,910</u>	<u>417,125</u>
<b>Net Assets, June 30, 2015</b>	1,282,958	536,405	1,816,477	3,635,840
Increase (decrease) in net assets	<u>155,283</u>	<u>(63,975)</u>	<u>-</u>	<u>91,308</u>
<b>Net Assets, June 30, 2016</b>	<u>\$ 1,438,241</u>	<u>\$ 472,430</u>	<u>\$ 1,816,477</u>	<u>\$ 3,727,148</u>

See notes to financial statements

# St. Tikhon's Orthodox Theological Seminary

## Statement of Cash Flows

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 91,308	\$ 417,125
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	59,946	58,675
Change in interest in net assets of affiliate	(3,215)	(1,863)
Change in valuation of asset held for sale	-	(7,910)
Net unrealized losses (gains) on investments	202,164	(133,525)
Changes in assets and liabilities:		
Tuition and other receivables	(42,056)	(2,895)
Due from affiliate	-	6,029
Accounts payable	5,005	2,996
Payroll taxes payable	295	(335)
Student deposits	4,915	(3,043)
	<u>318,362</u>	<u>335,254</u>
Net cash provided by operating activities		
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(3,178,508)	(3,457,071)
Proceeds from sale of investments	3,056,692	3,296,902
Purchase of property and equipment	(62,459)	(65,694)
Proceeds from sale of asset held for sale	-	191,062
Increase in certificates of deposit	(14,032)	(13,079)
Increase in cash and cash equivalents, designated	(14,987)	(47,335)
	<u>(213,294)</u>	<u>(95,215)</u>
Net cash used in investing activities		
<b>Cash Flows from Financing Activities</b>		
Net change in revolving line of credit	-	(1,494)
Repayment of long-term debt	(33,085)	(122,415)
	<u>(33,085)</u>	<u>(123,909)</u>
Net cash used in financing activities		
Net change in cash and cash equivalents	71,983	116,130
<b>Cash and Cash Equivalents, Beginning</b>	<u>138,361</u>	<u>22,231</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 210,344</u>	<u>\$ 138,361</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid	<u>\$ 26,780</u>	<u>\$ 28,309</u>

See notes to financial statements



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

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Notes to Financial Statements

June 30, 2016 and 2015

## **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 October 31, 2016 the date the financial statements were available to be issued.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

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

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

### **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.

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

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Notes to Financial Statements

June 30, 2016 and 2015

## **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, 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. Depreciation expense was \$59,946 in 2016 and \$58,675 in 2015.

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 2016 or 2015.

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

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Notes to Financial Statements

June 30, 2016 and 2015

## **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 directors 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 \$21,000 in 2016 and \$33,500 in 2015.

## **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 2016, \$70,283 of scholarships were approved and applied against tuition revenue. Of this amount, \$49,188 in scholarships related to tuition revenues recognized in prior years with outstanding balances and \$21,095 in scholarships related to current year tuition revenues. In 2015, \$94,172 of scholarships were approved and applied against tuition revenue. Of this amount, \$50,097 in scholarships related to tuition revenues recognized in prior years with outstanding balances and \$44,075 in scholarships related to current year tuition revenues.

## **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, 2016 and 2015, the Seminary recorded contributions in the amount of \$107,250 and \$36,000, respectively, 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

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Notes to Financial Statements

June 30, 2016 and 2015

## Contributions

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

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

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

The Seminary expects approximately 4% of the 36 month value of the Fund to be distributed for scholarship aid for students each year. The Seminary's recommended eligible scholarship candidates are subject to approval by the Foundation on an annual basis. The Foundation can utilize its variance power to redirect the distributions to a not-for-profit organization with a similar mission. In 2016, the Foundation approved \$30,018 of scholarship for Seminary students, this amount is recorded in tuition and other receivables at June 30, 2016.

## 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 2016 and 2015.

## New Accounting Standards

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. For public business entities, including not-for-profit organizations that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market, ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2019. Early application is permitted for all entities. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The Seminary is assessing the impact this standard will have on its financial statements.

## St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements  
June 30, 2016 and 2015

In August 2016, 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 fiscal years beginning after December 15, 2017, 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.

### Reclassification

Certain amounts relating to 2015 have been reclassified to conform to the 2016 reporting format.

## 2. Property and Equipment, Net

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

	<u>2016</u>	<u>2015</u>
Land	\$ 70,601	\$ 70,601
Buildings and improvements	2,022,776	1,978,968
Furniture	98,575	98,575
Equipment	49,913	90,641
Construction in progress	26,780	17,980
Vehicle	68,968	68,968
Total	2,337,613	2,325,733
Less accumulated depreciation	1,227,514	1,218,147
Net	1,110,099	1,107,586
Building (held for future development)	621,568	621,568
Property and equipment, net	<u>\$ 1,731,667</u>	<u>\$ 1,729,154</u>

# St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements  
June 30, 2016 and 2015

### 3. Investments and Fair Value Measurements

The composition of investments is as follows at June 30:

	<u>2016</u>	<u>2015</u>
Money market	\$ 20,489	\$ 118,334
Corporate bonds	54,423	29,856
Marketable equity securities:		
Consumer goods	627,932	337,134
Information technology	363,456	331,477
Financial	338,541	250,835
Health care	243,040	343,407
Telecommunications	98,618	-
Other	95,013	137,177
Materials	60,675	122,490
Industrial	-	311,825
Total	<u>\$ 1,902,187</u>	<u>\$ 1,982,535</u>

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

	<u>2016</u>			<u>2015</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 6,705	\$ 32,122	\$ 38,827	\$ 51	\$ 38,506	\$ 38,557
Realized and unrealized gains (losses) on investments		(114,826)	(114,826)	-	107,017	107,017
Total investment return (loss)	<u>\$ 6,705</u>	<u>\$ (82,704)</u>	<u>\$ (75,999)</u>	<u>\$ 51</u>	<u>\$ 145,523</u>	<u>\$ 145,574</u>

Investment fees totaled \$9,472 in 2016 and \$8,868 in 2015. 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;

## St. Tikhon's Orthodox Theological Seminary

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Notes to Financial Statements

June 30, 2016 and 2015

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:

	<b>2016</b>	
	<b>Total</b>	<b>Level 1</b>
Money market	\$ 20,489	\$ 20,489
Corporate bonds	54,423	54,423
Marketable equity securities:		
Consumer goods	627,932	627,932
Information technology	363,456	363,456
Financial	338,541	338,541
Health care	243,040	243,040
Telecommunications	98,618	98,618
Other	95,013	95,013
Materials	60,675	60,675
	<u>\$ 1,902,187</u>	<u>\$ 1,902,187</u>
Total		
	<b>2015</b>	
	<b>Total</b>	<b>Level 1</b>
Money market	\$ 118,334	\$ 118,334
Corporate bonds	29,856	29,856
Marketable equity securities:		
Health care	343,407	343,407
Consumer goods	337,134	337,134
Information technology	331,477	331,477
Industrial	311,825	311,825
Financial	250,835	250,835
Other	137,177	137,177
Materials	122,490	122,490
	<u>\$ 1,982,535</u>	<u>\$ 1,982,535</u>
Total		

The School did not have any financial instruments whose fair values were measured using Level 2 or 3 inputs at June 30, 2016 and 2015.

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

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

## St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements  
June 30, 2016 and 2015

### 4. Long-Term Debt

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

	<u>2016</u>	<u>2015</u>
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.	\$ 229,075	\$ 245,459
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	236,232	249,372
Loan repaid in 2016.	-	3,561
Total	465,307	498,392
Less current portion	<u>245,733</u>	<u>35,636</u>
Long-term debt	<u>\$ 219,574</u>	<u>\$ 462,756</u>

Scheduled principal repayments of long-term debt as of June 30, 2016 are as follows:

Years ending June 30:	
2017	\$ 245,733
2018	17,686
2019	18,776
2020	19,934
2021	21,164
Thereafter	<u>142,014</u>
Total	<u>\$ 465,307</u>

### 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% (3.5% at June 30, 2016). The line of credit is secured by the business assets of the Seminary and renews annually. Borrowings totaled \$470,657 at June 30, 2016 and 2015.

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, 2016.



## St. Tikhon's Orthodox Theological Seminary

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Notes to Financial Statements

June 30, 2016 and 2015

### 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 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, 2015, 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, 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.

## St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements  
June 30, 2016 and 2015

### 7. Temporarily and Permanently Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Restricted for:		
Scholarship	\$ 450,495	\$ 502,556
General endowments	<u>16,857</u>	<u>31,986</u>
Total Endowments	467,352	534,542
Interest in Net Assets of Affiliate	<u>5,078</u>	<u>1,863</u>
Total	<u>\$ 472,430</u>	<u>\$ 536,405</u>

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

	<u>2016</u>	<u>2015</u>
Restricted for:		
Scholarships	\$ 1,069,946	\$ 1,069,946
General endowments	<u>746,531</u>	<u>746,531</u>
Total	<u>\$ 1,816,477</u>	<u>\$ 1,816,477</u>

### 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.

## St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements

June 30, 2016 and 2015

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, 2016:

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

## St. Tikhon's Orthodox Theological Seminary

### Notes to Financial Statements

June 30, 2016 and 2015

Changes in endowment net assets in 2016 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>\$ 520,357</u>	<u>\$ 467,352</u>	<u>\$ 1,816,477</u>	<u>\$ 2,804,186</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 534,542	\$ 1,816,477	\$ 2,351,019
Board-designated endowment funds	497,831	-	-	497,831
Total endowment funds	<u>\$ 497,831</u>	<u>\$ 534,542</u>	<u>\$ 1,816,477</u>	<u>\$ 2,848,850</u>

## St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements  
June 30, 2016 and 2015

Changes in endowment net assets in 2015 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2014	\$ 232,014	\$ 514,019	\$ 1,808,567	\$ 2,554,600
Investment return:				
Investment income	51	38,506	-	38,557
Net realized and unrealized gains	-	107,017	-	107,017
Total investment return	51	145,523	-	145,574
Change in valuation of asset held for sale	-	-	7,910	7,910
Transfers in	265,766			265,766
Funds released from restriction	-	(125,000)	-	(125,000)
Endowment net assets, June 30, 2015	<u>\$ 497,831</u>	<u>\$ 534,542</u>	<u>\$ 1,816,477</u>	<u>\$ 2,848,850</u>

### 9. Functional Expenses

The Seminary provides theological teachings to individuals within its geographic area. Expenses related to providing these services for 2016 and 2015 are as follows (in thousands):

	<u>2016</u>	<u>2015</u>
General services	\$ 1,055	\$ 920
General and administrative	463	396
Fundraising	20	57
Total	<u>\$ 1,538</u>	<u>\$ 1,373</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Instructional</b>		
Faculty wages	\$ 284,748	\$ 272,748
Donated services	107,250	36,000
Employee benefits	91,343	84,726
Adjunct Faculty	79,500	71,671
Pension	42,744	42,880
Faculty housing	37,140	37,140
Payroll taxes	31,708	27,393
Faculty travel	6,898	630
	<u>681,331</u>	<u>573,188</u>
Total instructional	<u>\$ 681,331</u>	<u>\$ 573,188</u>
<b>Administrative</b>		
Staff wages	\$ 139,034	\$ 107,225
Employee benefits	83,565	70,525
Professional fees	57,938	42,068
Payroll taxes	49,533	39,853
Office supplies	32,205	41,606
Interest	17,036	16,949
Printing	18,479	12,778
Travel	14,369	24,979
Pension	13,747	6,552
Automobile	10,263	8,981
Equipment lease	6,721	7,332
Conferences	6,147	9,970
Dues and subscriptions	948	6,625
Staff expenses - other	-	494
Bad debt expense	13,022	-
	<u>463,007</u>	<u>395,937</u>
Total administrative	<u>\$ 463,007</u>	<u>\$ 395,937</u>
<b>Operations</b>		
Depreciation	\$ 59,946	\$ 58,675
Repairs and maintenance	44,453	38,871
Utilities	42,693	67,429
Insurance	44,636	43,442
Interest	26,780	28,309
Taxes	15,685	2,630
Telephone	6,044	6,112
Trash Removal	3,299	-
Supplies	2,576	1,089
	<u>246,112</u>	<u>246,557</u>
Total operations	<u>\$ 246,112</u>	<u>\$ 246,557</u>