



St. Tikhon's Orthodox Theological Seminary

Financial Statements and
Supplementary Information

June 30, 2018 and 2017

St. Tikhon's Orthodox Theological Seminary

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Independent Auditors' Report

Board of Trustees
St. Tikhon's Orthodox Theological Seminary

Report on the Financial Statements

We have audited the accompanying financial statements of St. Tikhon's Orthodox Theological Seminary, which comprise the statement of financial position as of June 30, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule of instructional, administrative, and operations expenses on page 20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
March 27, 2019

St. Tikhon's Orthodox Theological Seminary

Statement of Financial Position

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 143,076	\$ 50,930
Tuition and other receivables	51,806	28,458
Contributions receivable	424,429	-
Total current assets	619,311	79,388
Cash and Cash Equivalents, Designated	178,657	215,654
Property and Equipment, Net	1,654,101	1,706,268
Certificates of Deposit	497,068	540,357
Investments	1,784,825	2,521,936
Interest in Net Assets of Affiliates	1,535	2,441
Total assets	<u>\$ 4,735,497</u>	<u>\$ 5,066,044</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	\$ 38,460	\$ 36,599
Revolving line of credit	300,000	470,581
Accounts payable	44,762	10,952
Payroll taxes payable	738	-
Student deposits	15,786	16,406
Total current liabilities	399,746	534,538
Long-Term Debt	355,518	396,824
Total liabilities	<u>755,264</u>	<u>931,362</u>
Net Assets		
Unrestricted:		
Undesignated	1,093,718	854,294
Board designated	212,909	557,769
Total unrestricted	1,306,627	1,412,063
Temporarily restricted	966,913	1,015,926
Permanently restricted	1,706,693	1,706,693
Total net assets	<u>3,980,233</u>	<u>4,134,682</u>
Total liabilities and net assets	<u>\$ 4,735,497</u>	<u>\$ 5,066,044</u>

See notes to financial statements

St. Tikhon's Orthodox Theological Seminary

Statement of Activities

Years Ended June 30, 2018 and 2017

	2018	2017
Changes in Unrestricted Net Assets		
Support and Revenue		
Contributions	\$ 990,974	\$ 649,278
Bequests	247,540	293,839
Tuition and scholarships less scholarships applied of \$179,824 in 2018 and \$154,383 in 2017	61,064	78,620
Net assets released from restriction	588,232	224,533
Mission choir donations	54,720	52,774
Contributed services	98,250	107,250
Miscellaneous	92,309	59,945
Investment income	61,394	67,263
Reclassification of net assets	-	111,062
Total support and revenue	2,194,483	1,644,564
Expenses		
Instructional	669,447	709,198
Operations	745,186	243,489
Administrative	564,144	499,711
Student services	284,432	169,045
Fundraising	15,327	8,333
Library	21,383	40,966
Total expenses	2,299,919	1,670,742
Decrease in unrestricted net assets	(105,436)	(26,178)
Changes in Temporarily Restricted Net Assets		
Investment income	61,392	435,282
Contributions	478,733	335,384
Net assets released from restriction	(588,232)	(224,533)
Change in interest in net assets of affiliate	(906)	(2,637)
(Decrease) increase in temporarily restricted net assets	(49,013)	543,496
Changes in Permanently Restricted Net Assets		
Contributions	-	1,278
Reclassification of net assets	-	(111,062)
Decrease in permanently restricted net assets	-	(109,784)
Change in net assets	\$ (154,449)	\$ 407,534

See notes to financial statements

St. Tikhon's Orthodox Theological Seminary

Statement of Changes in Net Assets
Years Ended June 30, 2018 and 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets, June 30, 2016	\$ 1,438,241	\$ 472,430	\$ 1,816,477	\$ 3,727,148
Increase (decrease) in net assets	<u>(26,178)</u>	<u>543,496</u>	<u>(109,784)</u>	<u>407,534</u>
Net Assets, June 30, 2017	1,412,063	1,015,926	1,706,693	4,134,682
Decrease in net assets	<u>(105,436)</u>	<u>(49,013)</u>	<u>-</u>	<u>(154,449)</u>
Net Assets, June 30, 2018	<u>\$ 1,306,627</u>	<u>\$ 966,913</u>	<u>\$ 1,706,693</u>	<u>\$ 3,980,233</u>

See notes to financial statements

St. Tikhon's Orthodox Theological Seminary

Statement of Cash Flows

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (154,449)	\$ 407,534
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:		
Depreciation	52,187	48,254
Impairment of property and equipment	421,568	-
Change in interest in net assets of affiliate	906	2,637
Net unrealized (gains) losses on investments	56,774	(256,273)
Restricted contributions	(478,733)	(336,662)
Changes in assets and liabilities:		
Tuition and other receivables	(23,348)	32,501
Accounts payable	33,810	(20,174)
Payroll taxes payable	738	(327)
Student deposits	(620)	9,801
Net cash used in operating activities	<u>(91,167)</u>	<u>(112,709)</u>
Cash Flows from Investing Activities		
Purchase of investments	(1,723,477)	(2,875,927)
Proceeds from sale of investments	2,458,118	2,849,113
Purchase of property and equipment	(421,588)	(22,855)
Decrease (increase) in certificates of deposit	43,289	(14,181)
Decrease in cash and cash equivalents, designated	36,997	49,105
Net cash provided by (used in) investing activities	<u>393,339</u>	<u>(14,745)</u>
Cash Flows from Financing Activities		
Net change in revolving line of credit	(170,581)	(76)
Repayment of long-term debt	(39,445)	(31,884)
Net cash used in financing activities	<u>(210,026)</u>	<u>(31,960)</u>
Net change in cash and cash equivalents	92,146	(159,414)
Cash and Cash Equivalents, Beginning	<u>50,930</u>	<u>210,344</u>
Cash and Cash Equivalents, Ending	<u>\$ 143,076</u>	<u>\$ 50,930</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 22,519</u>	<u>\$ 21,708</u>

See notes to financial statements

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements

June 30, 2018 and 2017

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 March 27, 2019, the date the financial statements were available to be issued.

Use of Estimates

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

Cash and Cash Equivalents

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

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

Tuition and Other Receivables

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

Certificates of Deposit

Certificates of deposit are recorded at cost which approximates fair value.

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Notes to Financial Statements

June 30, 2018 and 2017

Investments and Investment Risk

Investments are carried at fair value.

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

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

Property and Equipment, Net

Property and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method based on the estimated useful life of each classification of depreciable asset.

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The Seminary reviews its long-lived assets whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected from its use and eventual disposition. If these future cash flows are less than the carrying value of the asset, an impairment loss is recognized for the difference between the estimated fair value and the carrying value of the asset. In 2018 a building was evaluated for impairment and it was determined to be impaired by \$421,568. The accompanying 2018 financial statements include a \$421,568 non-cash charge to operations as a result of this impairment. There was no impairment in 2017.

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.

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The Association was formed to render moral and financial assistance to the Seminary. The Seminary and Association each have an independent board of trustees who manage their affairs. Changes in interest in net assets of affiliates are recorded as increases or decreases in net assets. Contributions to the Seminary from the Association were \$28,000 in 2018 and \$34,050 in 2017.

Tuition Revenue Recognition

Tuition revenue is recorded in the year earned and presented net of scholarships applied. Tuition received in advance of the ensuing school year is recorded as deferred revenue until earned. Scholarships of \$179,824 in 2018 and \$154,383 in 2017 were approved and applied against tuition revenue.

Temporarily and Permanently Restricted Net Assets

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

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

Contributed Services

For the years ended June 30, 2018 and 2017, the Seminary recorded contributions in the amount of \$98,250 and \$107,250, respectfully, for the services performed by priests in the classroom as part-time uncompensated faculty. These amounts represent the estimated compensation that would have to be paid to a faculty member providing services for compensation at the Seminary's pay scale in effect for that period.

Contributions

Unconditional promises to give are recorded at the present value of estimated future cash flows. In 2018, the Seminary used a discount rate of 2.63%. Contributions of assets other than cash are recorded at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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

The Seminary has been named a beneficiary of the Meshanko Memorial Fund for St. Tikhon's (the "Fund"), a component fund of The Pittsburgh Foundation (the "Foundation"). Once the Meshanko estate is fully settled, the value of the Fund is estimated to be approximately \$1,000,000. The Seminary has not yet recognized this amount as the estate has not been probated. The Seminary expects approximately 4% of the 36 month value of the Fund to be distributed for scholarship aid for students each year. The Seminary's recommended eligible scholarship candidates are subject to approval by the Foundation on an annual basis. The Foundation can utilize its variance power to redirect the distributions to a not-for-profit organization with a similar mission.

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Notes to Financial Statements
June 30, 2018 and 2017

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 2018 and 2017.

New Accounting Standards

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

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

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The new guidance requires that a statement of cash flows explain the change in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents when reconciling the beginning and ending total amounts shown on the statement of cash flows. ASU 2016-18 is effective for the Seminary for fiscal 2019. The Seminary is assessing the impact this standard will have on its statement of cash flows.

2. Contributions Receivable

As of June 30, 2018, the Seminary has unconditional contributions receivable as follows:

Due within 1 year	\$	376,335
Due within 1 to 5 years		<u>50,000</u>
		426,335
Present value discount		<u>(1,906)</u>
Contributions receivable	\$	<u>424,429</u>

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Notes to Financial Statements

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Based on assessment of the donors involved, management expects all of the unconditional contributions receivable to be collected as promised. Therefore, no allowance for uncollectible receivables has been established.

3. Property and Equipment, Net

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

	2018	2017
Land	\$ 70,601	\$ 70,601
Buildings and improvements	2,456,727	2,045,630
Furniture	109,065	98,575
Equipment	49,913	49,913
Construction in progress	26,780	26,780
Vehicle	68,968	68,968
Total	2,782,054	2,360,467
Less accumulated depreciation	1,327,953	1,275,767
Net	1,454,101	1,084,700
Building (not yet placed in service) ^(a)	200,000	621,568
Property and equipment, net	\$ 1,654,101	\$ 1,706,268

- a) In 2018, the Seminary determined that it was not financially feasible to pursue the renovation of this structure for student housing purposes. The Seminary obtained an independent appraisal which valued the property in its present condition at \$200,000. The Seminary intends to market this property and abandon any plans to further develop it. As a result, an impairment charge of \$421,568 was recorded in 2018 to reduce the carrying value of this asset to its estimated fair value.

4. Investments and Fair Value Measurements

The composition of investments is as follows at June 30:

	2018	2017
Money market	\$ 79,172	\$ 229,360
Corporate bonds	29,958	30,081
Marketable equity securities	1,675,695	2,262,495
Total	\$ 1,784,825	\$ 2,521,936

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Notes to Financial Statements

June 30, 2018 and 2017

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

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Interest and dividend income	\$ 49,270	\$ (1,616)	\$ 47,654	\$ 9,033	\$ 45,589	\$ 54,622
Realized and unrealized gains (losses) on investments	12,124	63,008	75,132	58,230	389,693	447,923
Total investment return (loss)	<u>\$ 61,394</u>	<u>\$ 61,392</u>	<u>\$ 122,786</u>	<u>\$ 67,263</u>	<u>\$ 435,282</u>	<u>\$ 502,545</u>

Investment fees totaled \$11,824 and \$10,863 in 2018 and 2017, respectively. 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.

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Notes to Financial Statements

June 30, 2018 and 2017

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:

	2018		
	Total	Level 1	Level 2
Money market	\$ 79,172	\$ 79,172	\$ -
Corporate bonds	29,958	-	29,958
Marketable equity securities	1,675,695	1,675,695	-
Total investments	<u>\$ 1,784,825</u>	<u>\$ 1,754,867</u>	<u>\$ 29,958</u>
Certificates of deposit	<u>\$ 497,068</u>	<u>\$ -</u>	<u>\$ 497,068</u>

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

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

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

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Notes to Financial Statements

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5. Long-Term Debt

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

	<u>2018</u>	<u>2017</u>
Loan payable, with interest at 4%. Monthly principal and interest payments of \$2,261 are due through December 2021, secured by the Philadelphia Trust investment account valued at 125% or more of the loan value for the duration of the loan.	\$ 192,090	\$ 211,003
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>201,888</u>	<u>222,420</u>
Total	393,978	433,423
Less current portion	<u>38,460</u>	<u>36,599</u>
Long-term debt	<u>\$ 355,518</u>	<u>\$ 396,824</u>

Scheduled principal repayments of long-term debt as of June 30, 2018 are as follows:

Years ending June 30:	
2019	\$ 38,460
2020	40,402
2021	42,484
2022	153,087
2023	23,855
Thereafter	<u>95,690</u>
Total	<u>\$ 393,978</u>

6. 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 Wall Street Prime Floating Rate with a floor rate of 3.50% (5.25% at June 30, 2018). The line of credit is secured by the business assets of the Seminary and renews annually. Borrowings totaled \$300,000 and \$470,581 at June 30, 2018 and 2017, respectively.

The line of credit agreement requires the Seminary to maintain certain financial ratios. The Seminary was in compliance with these ratios as of June 30, 2018.

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Notes to Financial Statements

June 30, 2018 and 2017

7. Pension Plan

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

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

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

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

Participating members are required at a minimum to contribute 6% of their qualifying salary (including amounts paid as housing allowances for clergy) to the Plan, with the employer contributing 8%. The vesting schedule of the Plan is as follows:

<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, 2018) 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, 2018 and 2017

8. Temporarily and Permanently Restricted Net Assets

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

	2018	2017
Restricted for:		
Scholarship	\$ 302,281	\$ 622,067
Pledge receivable	424,429	-
General endowments	238,667	391,418
Total endowments	965,377	1,013,485
Interest in net assets of Affiliate	1,536	2,441
Total	<u>\$ 966,913</u>	<u>\$ 1,015,926</u>

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

	2018	2017
Restricted for:		
Scholarships	\$ 1,071,224	\$ 1,071,224
General endowments	635,469	635,469
Total	<u>\$ 1,706,693</u>	<u>\$ 1,706,693</u>

9. 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.

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Notes to Financial Statements

June 30, 2018 and 2017

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, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 965,378	\$ 1,706,693	\$ 2,672,071
Board-designated endowment funds	<u>212,909</u>	<u>-</u>	<u>-</u>	<u>212,909</u>
Total endowment funds	<u>\$ 212,909</u>	<u>\$ 965,378</u>	<u>\$ 1,706,693</u>	<u>\$ 2,884,980</u>

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements

June 30, 2018 and 2017

Changes in endowment net assets in 2018 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2017	\$ 557,769	\$ 1,013,485	\$ 1,706,693	\$ 3,277,947
Investment return:				
Investment income (loss)	49,270	(1,616)	-	47,654
Net realized and unrealized gains	12,124	63,008	-	75,132
Total investment return	61,394	61,392	-	122,786
Transfers/contributions	(406,254)	478,733	-	72,479
Funds released from restriction	-	(588,232)	-	(588,232)
Endowment net assets, June 30, 2018	<u>\$ 212,909</u>	<u>\$ 965,378</u>	<u>\$ 1,706,693</u>	<u>\$ 2,884,980</u>

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

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

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements

June 30, 2018 and 2017

Changes in endowment net assets in 2017 were as follows:

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

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

10. Functional Expenses

The Seminary provides theological teachings to individuals within its geographic area. Expenses related to providing these services for 2018 and 2017 are as follows (in thousands):

	<u>2018</u>	<u>2017</u>
General services	\$ 1,803	\$ 1,233
General and administrative	482	430
Fundraising	15	8
Total	<u>\$ 2,300</u>	<u>\$ 1,671</u>

11. 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, 2018 and 2017

	2018	2017
Instructional		
Faculty wages	\$ 292,449	\$ 264,150
Employee benefits	126,067	142,568
Donated services	98,250	107,250
Adjunct faculty	22,563	69,150
Pension	43,082	48,720
Faculty housing	38,640	37,140
Payroll taxes	29,532	28,776
Faculty travel	18,864	11,444
Total instructional	<u>\$ 669,447</u>	<u>\$ 709,198</u>
Administrative		
Staff wages	\$ 255,227	\$ 199,160
Employee benefits	111,796	107,551
Professional fees	44,895	43,160
Office supplies	27,343	29,069
Printing	21,126	27,033
Payroll taxes	26,188	21,708
Interest	20,201	20,725
Pension	24,579	17,159
Automobile	13,038	9,853
Travel	6,563	9,173
Equipment lease	4,903	7,211
Conferences	8,211	6,334
Investment expense	-	1,500
Dues and subscriptions	74	75
Total administrative	<u>\$ 564,144</u>	<u>\$ 499,711</u>
Operations		
Impairment of property	\$ 421,568	\$ -
Repairs and maintenance	110,454	52,747
Insurance	50,032	51,803
Utilities	60,966	48,502
Depreciation	52,187	48,254
Interest	23,129	21,125
Trash removal	12,385	9,704
Telephone	8,305	8,058
Bad Debt	3,675	-
Supplies	2,485	3,296
Total operations	<u>\$ 745,186</u>	<u>\$ 243,489</u>