

St. Tikhon's Orthodox Theological Seminary

Financial Statements and
Supplementary Information

June 30, 2020 and 2019

St. Tikhon's Orthodox Theological Seminary

Table of Contents
June 30, 2020 and 2019

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6
Supplementary Information	
Schedules of Instructional, Administrative and Operations Expenses	17

Independent Auditors' Report

To the Board of Trustees of
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 statements of financial position as of June 30, 2020 and 2019 and the related statements of activities 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, 2020 and 2019 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 17 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 US, LLP

Wilkes-Barre, Pennsylvania
February 23, 2021

St. Tikhon's Orthodox Theological Seminary

Statements of Financial Position

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 115,767	\$ 110,722
Tuition receivables	167,729	1,466
Other receivables	21,167	26,906
Contributions receivable	125,000	225,000
Total current assets	429,663	364,094
Cash and Cash Equivalents, Designated	198,055	206,664
Contributions Receivable	24,359	48,094
Property and Equipment, Net	2,575,845	2,620,628
Certificates of Deposit	507,996	520,865
Investments	2,039,321	1,740,838
Interest in Net Assets of Affiliates	1,535	1,535
Total assets	<u>\$ 5,776,774</u>	<u>\$ 5,502,718</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	\$ 221,320	\$ 20,468
Line of credit	459,000	459,000
Refundable advance	144,400	-
Accounts payable	33,162	56,124
Payroll taxes payable	362	4,313
Student deposits	-	14,791
Total current liabilities	858,244	554,696
Long-Term Debt	131,980	378,376
Total liabilities	<u>990,224</u>	<u>933,072</u>
Net Assets		
Without donor restrictions:		
Undesignated	1,824,453	1,776,650
Board designated	319,244	304,539
	2,143,697	2,081,189
With donor restrictions	2,642,853	2,488,457
Total net assets	<u>4,786,550</u>	<u>4,569,646</u>
Total liabilities and net assets	<u>\$ 5,776,774</u>	<u>\$ 5,502,718</u>

See notes to financial statements

St. Tikhon's Orthodox Theological Seminary

Statements of Activities

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Changes in Net Assets Without Donor Restrictions		
Support and Revenue		
Contributions	\$ 1,157,128	\$ 1,402,884
Bequests	64,461	940,999
Tuition, less scholarships applied of \$47,229 in 2020 and \$301,581 in 2019	275,512	54,239
Net assets released from restriction	169,968	543,869
Mission choir donations	13,674	71,847
Contributed services	133,200	136,200
Miscellaneous	122,380	69,034
Investment income	41,180	26,232
	<u>1,977,503</u>	<u>3,245,304</u>
Expenses		
Instructional	581,081	702,414
Operations	268,628	474,056
Administrative	726,231	739,429
Student services	317,153	520,276
Fundraising	4,690	15,319
Library	17,212	19,248
	<u>1,914,995</u>	<u>2,470,742</u>
Total expenses	<u>1,914,995</u>	<u>2,470,742</u>
Increase in net assets without donor restrictions	<u>62,508</u>	<u>774,562</u>
Changes in Net Assets With Donor Restrictions		
Investment income	72,577	67,703
Contributions	251,787	291,017
Net assets released from restriction	<u>(169,968)</u>	<u>(543,869)</u>
Increase (decrease) in net assets with donor restrictions	<u>154,396</u>	<u>(185,149)</u>
Change in net assets	<u>\$ 216,904</u>	<u>\$ 589,413</u>

See notes to financial statements

St. Tikhon's Orthodox Theological Seminary

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Changes in net assets	\$ 216,904	\$ 589,413
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	81,880	75,455
Impairment of property and equipment	-	135,000
Gain on sale of property and equipment	(4,179)	-
Net realized and unrealized gains on investments	(54,474)	(14,814)
Restricted contributions	(251,787)	(291,017)
Changes in assets and liabilities:		
Tuition receivables	(166,263)	23,434
Other receivables	5,739	-
Contributions receivable	123,735	151,335
Refundable advance	144,400	-
Accounts payable	(22,962)	11,362
Payroll taxes payable	(3,951)	3,575
Student deposits	(14,791)	(995)
	<u>54,251</u>	<u>682,748</u>
Net cash provided by operating activities		
Cash Flows From Investing Activities		
Purchase of investments	(920,209)	(807,477)
Proceeds from sale of investments	927,987	1,157,295
Proceeds from sale of property and equipment	69,179	-
Purchase of property and equipment	(102,097)	(1,176,982)
Change in certificates of deposit	12,869	(23,797)
	<u>(12,271)</u>	<u>(850,961)</u>
Net cash used in investing activities		
Cash Flows From Financing Activities		
Borrowings on revolving line of credit	-	159,000
Borrowings of long-term debt	200,000	225,000
Repayment of long-term debt	(245,544)	(220,134)
	<u>(45,544)</u>	<u>163,866</u>
Net cash (used in) provided by financing activities		
Net change in cash and cash equivalents	(3,564)	(4,347)
Cash and Cash Equivalents, Beginning	<u>317,386</u>	<u>321,733</u>
Cash and Cash Equivalents, Ending	<u>\$ 313,822</u>	<u>\$ 317,386</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 24,778</u>	<u>\$ 52,268</u>
Reconciliation of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 115,767	\$ 110,722
Cash and cash equivalents, designated	198,055	206,664
	<u>\$ 313,822</u>	<u>\$ 317,386</u>
Total cash and cash equivalents		

See notes to financial statements

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements

June 30, 2020 and 2019

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

St. Tikhon's Orthodox Theological Seminary (the Seminary) located in South Canaan, Pennsylvania 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 February 23, 2021 the date the financial statements were available to be issued.

Basis of Presentation

The financial statements of the Seminary have been prepared on the accrual basis of accounting.

For financial reporting purposes, the Seminary follows the reporting requirements of accounting principles generally accepted in the United States of America (GAAP), which require that resources are classified based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into two classes of net assets: without donor restrictions and with donor restrictions.

Descriptions of the two net asset categories are as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations. These are currently available at the direction of the Board of Trustees for use in operations, invested in property and equipment or as endowments.

Net Assets With Donor Restrictions - Net assets whose use by the Seminary is subject to donor imposed stipulations that can be fulfilled by actions of the Seminary pursuant to those stipulations or that expire by the passage of time are reported as net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, these net assets with donor restrictions are reclassified to net assets without restrictions and reported in the statements of activities as net assets released from restriction. Additionally, funds receive as gifts and bequests which have been accepted with the donor stipulation that the principal be maintained intact in perpetuity are reported as net assets with donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements

June 30, 2020 and 2019

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 of Trustees for certain projects or purposes.

Tuition and Other Receivables

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

Certificates of Deposit

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

Investments and Investment Risk

Investments are carried at fair value.

Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the statement of activities as income without donor restrictions 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 less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings and improvements (20-40 years), furniture (7-20 years), equipment (5-10 years), and vehicles (5 years). Maintenance and repairs are charged to expense as incurred; replacements and betterments are capitalized. All assets with a purchased cost, or fair value if acquired by gift, in excess of \$1,000 are capitalized.

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 without donor restriction 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.

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements

June 30, 2020 and 2019

Interest in Net Assets of Affiliates

The Seminary recognizes its interest in the net assets of St. Tikhon's Theological Century Association (the Association) because the Seminary and the Association are considered financially interrelated organizations.

The Association was formed to render moral and financial assistance to the Seminary. The Seminary and Association each have an independent board of trustees who manage their affairs. Changes in interest in net assets of affiliates are recorded as increases or decreases in net assets. Contributions to the Seminary from the Association were \$30,000 in 2020 and \$19,000 in 2019.

Revenue Recognition

Tuition (includes fees, room and board) revenue is recognized in the fiscal year in which the academic programs are delivered. Tuition contracts are considered to have a duration of less than one year. Transaction prices for tuition are determined based on applicable Seminary pricing schedules. Scholarships are reflected as a reduction of tuition revenue.

Amounts for tuition are due at the beginning of each semester. In accordance with the Seminary's refund policies students may receive a full refund up to three weeks or partial refund up to six weeks after the start of the semester. Tuition accounts receivable includes amounts to which the Seminary is unconditionally entitled. The Seminary considers such amounts as unconditional based on the payment due date.

Miscellaneous income consists of various sources of income which are generally transactional in nature and are recorded as they meet their performance obligation.

The Seminary recognizes contributions and bequests when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right to return - are not recognized until the conditions on which they depend have been met.

Unconditional promises to give are recorded at the present value of estimated future cash flows. In 2020 and 2019, the Seminary used a discount rate of 2.63 percent. Contributions of assets other than cash are recorded at fair value at the date the promise is received. The gifts are reported as with donor restriction 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, net assets with donor restriction are reclassified as net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

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 percent 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.

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements
June 30, 2020 and 2019

Contributed Services

For the years ended June 30, 2020 and 2019, the Seminary recorded contributions in the amount of \$133,200 and \$136,200, 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.

Income Taxes

The Seminary is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on its exempt income under Section 501(a) of the IRC.

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 2020 and 2019.

Reclassification

Certain amounts relating to 2019 have been reclassified to conform to the 2020 reporting format.

2. Coronavirus Disease (COVID-19)

In January 2020, an outbreak of a new strain of the coronavirus disease, COVID-19, was identified. The World Health Organization declared COVID-19 a public health emergency on March 11, 2020. In response, various governmental agencies have mandated stricter procedures to address the health and safety of both employees and patrons including, in certain cases, requiring the closure of operations. For the fiscal year ended June 30, 2020, the COVID-19 outbreak has had an adverse impact on the Seminary's operations including required modification of instruction, events and communal life. While this disruption is anticipated to be temporary, with full operations and services resuming in the near future, the exact timing of a return to normal is uncertain. Furthermore, the extent of the impact of COVID-19 on the Seminary's operational and financial performance will depend on the developments of COVID-19, including the duration and spread of the outbreak, distribution of a vaccine, impact on students, employees and vendors, all of which are uncertain and cannot be reasonably predicted at the current time. The Board of Trustees and management are monitoring the outbreak and potential financial impact, which are currently uncertain.

As a response to COVID-19, the Coronavirus Aid, Relief and Economics Security (CARES) Act was enacted to provide budgetary relief.

In April 2020, the Seminary applied for and was approved for funding pursuant to the Paycheck Protection Program (PPP), administered by the U.S. Small Business Administration. The PPP was authorized in the CARES Act. The Seminary received proceeds of \$144,400 on April 17, 2020 and there are no collateral or guarantee requirements. Management believes that the Seminary has met certain eligibility and spending requirements under the PPP, which would allow the full amount to be forgiven. The Seminary has recorded the PPP funding as a refundable advance as of June 30, 2020, and expects forgiveness to occur in 2021.

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements
June 30, 2020 and 2019

3. Contributions Receivable

Contributions receivable are summarized as follows at June 30:

	<u>2020</u>	<u>2019</u>
Contributions receivable in:		
Less than one year	\$ 125,000	\$ 225,000
One year to five years	25,000	50,000
Subtotal	150,000	275,000
Less unamortized discount	641	1,906
Total	<u>\$ 149,359</u>	<u>\$ 273,094</u>

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.

4. Property and Equipment, Net

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

	<u>2020</u>	<u>2019</u>
Land	\$ 70,601	\$ 70,601
Buildings and improvements	2,994,063	2,910,891
Furniture	109,065	109,065
Equipment	123,438	119,949
Construction in progress	694,682	679,563
Vehicles	68,967	68,967
Total	4,060,816	3,959,036
Less accumulated depreciation	1,484,971	1,403,408
Net	2,575,845	2,555,628
Building (A)	-	65,000
Property and equipment, net	<u>\$ 2,575,845</u>	<u>\$ 2,620,628</u>

(A) In 2018, the Seminary determined that it was not financially feasible to pursue the renovation of this structure for student housing purposes. The property was considered held for sale and carried at the lower of cost or fair value. In 2019, the Seminary recognized an impairment charge of \$135,000 to reduce the carrying value to its estimated fair value. In 2020, the property was sold by the Seminary.

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements
June 30, 2020 and 2019

5. Investments and Fair Value Measurements

The composition of investments is as follows at June 30:

	<u>2020</u>	<u>2019</u>
Money market	\$ 578,099	\$ 175,968
Marketable equity securities	<u>1,461,222</u>	<u>1,564,870</u>
Total	<u>\$ 2,039,321</u>	<u>\$ 1,740,838</u>

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

	<u>2020</u>			<u>2019</u>		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Interest and dividend income	\$ 39,346	\$ 19,937	\$ 59,283	\$ 25,303	\$ 53,818	\$ 79,121
Realized and unrealized gains on investments	<u>1,834</u>	<u>52,640</u>	<u>54,474</u>	<u>929</u>	<u>13,885</u>	<u>14,814</u>
Total investment return	<u>\$ 41,180</u>	<u>\$ 72,577</u>	<u>\$ 113,757</u>	<u>\$ 26,232</u>	<u>\$ 67,703</u>	<u>\$ 93,935</u>

Investment fees totaled \$9,391 and \$8,968 in 2020 and 2019, respectively. These amounts are netted against interest and dividend income without donor restriction.

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, 2020 and 2019

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:

	2020		
	Total	Level 1	Level 2
Money market	\$ 578,099	\$ 578,099	\$ -
Marketable equity securities	1,461,222	1,461,222	-
Total investments	<u>\$ 2,039,321</u>	<u>\$ 2,039,321</u>	<u>\$ -</u>
Certificates of deposit	<u>\$ 507,996</u>	<u>\$ -</u>	<u>\$ 507,996</u>

	2019		
	Total	Level 1	Level 2
Money market	\$ 175,968	\$ 175,968	\$ -
Marketable equity securities	1,564,870	1,564,870	-
Total investments	<u>\$ 1,740,838</u>	<u>\$ 1,740,838</u>	<u>\$ -</u>
Certificates of deposit	<u>\$ 520,865</u>	<u>\$ -</u>	<u>\$ 520,865</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. Certificates of deposit are measured at cost which approximates fair value.

6. Liquidity and Funds Available

The following table reflects the Seminary's financial assets which are available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year due to contractual or Board of Trustees action. Assets considered illiquid are assets restricted by donors for capital purposes, perpetual and Board-designated endowments and accumulated earnings thereon. The Board-designated endowments could be drawn upon if the Board of Trustees approves that action.

	2020	2019
Cash and cash equivalents	\$ 115,767	\$ 110,722
Tuition receivables	167,729	1,466
Other receivables	21,167	26,906
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 304,663</u>	<u>\$ 139,094</u>

The Seminary has liquid assets on hand to cover approximately 54 and 21 days of operating expenses at June 30, 2020 and 2019, respectively. The Seminary structures its financial assets to be available as general expenditures, liabilities and other obligations come due. The Seminary also maintains a \$500,000 operating line of credit of which \$41,000 is available, which can be drawn upon in the event of a liquidity need.

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements
June 30, 2020 and 2019

7. 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 percent (3.50 percent at June 30, 2020). The line of credit is secured by the business assets of the Seminary and renews annually on December 31. Borrowings totaled \$459,000 at June 30, 2020 and 2019.

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, 2020.

8. Long-Term Debt

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

	<u>2020</u>	<u>2019</u>
Term note with bank, payable in monthly payments of \$2,261 including interest at 4% through December 2021 at which time a balloon payment will be due; secured by investments valued at 125% or more of the loan value.	\$ 153,300	\$ 173,844
Term note with individual, paid in October 2020, including interest at 10%; secured by real estate.	100,000	225,000
Loan from trustee, unsecured; paid in full in December 2020.	<u>100,000</u>	<u>-</u>
Total	353,300	398,844
Less current portion	<u>221,320</u>	<u>20,468</u>
Long-term debt	<u>\$ 131,980</u>	<u>\$ 378,376</u>

Scheduled principal repayments of long-term debt as of June 30, 2020 are as follows:

Years ending June 30:	
2021	\$ 221,320
2022	<u>131,980</u>
Total	<u>\$ 353,300</u>

9. Pension Plan

The Seminary participates in the Orthodox Church in America Pension Plan (the Plan). The Plan is a nonselecting 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, 2020 and 2019

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 percent of their qualifying salary (including amounts paid as housing allowances for clergy) to the Plan, with the employer contributing 8 percent. Pension expense was \$66,991 and \$70,850 in 2020 and 2019, respectively. The vesting schedule of the Plan is as follows:

<u>Years of Service</u>	<u>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, 2019) 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.

10. Functional Expenses

The table below presents the Seminary's expenses by nature and function at June 30:

	<u>Instructional</u>	<u>Operations</u>	<u>Administrative</u>	<u>Student Services</u>	<u>Fundraising</u>	<u>Library</u>	<u>Total 2020</u>
Salaries and wages	\$ 325,653	\$ -	\$ 410,127	\$ -	\$ -	\$ -	\$ 735,780
Employee benefits	117,012	-	74,192	-	-	-	191,204
Supplies and other, general	-	42,527	183,490	317,153	4,690	17,212	565,072
Donated services	133,200	-	-	-	-	-	133,200
Insurance	-	49,773	-	-	-	-	49,773
Utilities	-	87,466	-	-	-	-	87,466
Depreciation	-	81,880	-	-	-	-	81,880
Interest	-	-	26,024	-	-	-	26,024
Taxes	5,216	6,982	32,398	-	-	-	44,596
Total	<u>\$ 581,081</u>	<u>\$ 268,628</u>	<u>\$ 726,231</u>	<u>\$ 317,153</u>	<u>\$ 4,690</u>	<u>\$ 17,212</u>	<u>\$ 1,914,995</u>

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements
June 30, 2020 and 2019

	<u>Instructional</u>	<u>Operations</u>	<u>Administrative</u>	<u>Student Services</u>	<u>Fundraising</u>	<u>Library</u>	<u>Total 2019</u>
Salaries and wages	\$ 311,680	\$ -	\$ 360,358	\$ -	\$ -	\$ -	\$ 672,038
Employee benefits	207,615	-	205,638	-	-	-	413,253
Supplies and other, general	26,851	70,008	124,124	520,276	15,319	19,248	775,826
Donated services	136,200	-	-	-	-	-	136,200
Impairment	-	135,000	-	-	-	-	135,000
Insurance	-	86,207	-	-	-	-	86,207
Utilities	-	75,661	-	-	-	-	75,661
Depreciation	-	75,455	-	-	-	-	75,455
Interest	-	29,561	22,707	-	-	-	52,268
Taxes	20,068	2,164	26,602	-	-	-	48,834
Total	<u>\$ 702,414</u>	<u>\$ 474,056</u>	<u>\$ 739,429</u>	<u>\$ 520,276</u>	<u>\$ 15,319</u>	<u>\$ 19,248</u>	<u>\$ 2,470,742</u>

11. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Net assets with donor restrictions:		
Subject to expenditure for a specified purpose:		
Scholarships and awards	\$ 274,958	\$ 239,074
Interest in net assets of affiliate	1,535	1,535
Contributions receivable	149,359	273,094
Total	<u>425,852</u>	<u>513,703</u>
Subject to the passage of time:		
General endowments	<u>191,009</u>	<u>218,061</u>
Subject to restriction in perpetuity:		
General endowments	1,323,774	1,071,224
Scholarships	702,218	685,469
Total	<u>2,025,992</u>	<u>1,756,693</u>
Total net assets with donor restrictions	<u>\$ 2,642,853</u>	<u>\$ 2,488,457</u>

12. Endowment Funds

The Seminary's endowment consists of numerous individual funds established for a variety of purposes and includes both donor-restricted and Board of Trustees designated funds. 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 net assets with donor restrictions (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.

St. Tikhon's Orthodox Theological Seminary

Notes to Financial Statements

June 30, 2020 and 2019

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.

Changes in endowment net assets in 2020 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2019	\$ 304,539	\$ 2,486,922	\$ 2,791,461
Investment return:			
Investment income	39,346	19,937	59,283
Net realized and unrealized gains	1,834	52,640	54,474
Total investment return	41,180	72,577	113,757
Transfers/contributions	(147,664)	251,787	104,123
Funds released from restriction	-	(169,968)	(169,968)
Endowment net assets, June 30, 2020	\$ 198,055	\$ 2,641,318	\$ 2,839,373

Changes in endowment net assets in 2019 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2018	\$ 215,909	\$ 2,672,071	\$ 2,887,980
Investment return:			
Investment income	25,303	53,818	79,121
Net realized and unrealized gains	929	13,885	14,814
Total investment return	26,232	67,703	93,935
Transfers/contributions	62,398	291,017	353,415
Funds released from restriction	-	(543,869)	(543,869)
Endowment net assets, June 30, 2019	\$ 304,539	\$ 2,486,922	\$ 2,791,461

St. Tikhon's Orthodox Theological Seminary

Schedules of Instructional, Administrative and Operations Expenses
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Instructional		
Faculty wages	\$ 284,353	\$ 270,580
Employee benefits	67,032	124,664
Donated services	133,200	136,200
Adjunct faculty	41,300	41,100
Pension	27,466	30,466
Payroll taxes	22,514	20,068
Faculty travel	5,216	26,851
Faculty housing	-	52,485
	<u> </u>	<u> </u>
Total instructional	<u>\$ 581,081</u>	<u>\$ 702,414</u>
Administrative		
Staff wages	\$ 410,127	\$ 360,358
Professional fees	63,464	41,763
Employee benefits	96,460	165,253
Pension	39,525	40,385
Dues and subscriptions	30,131	3,601
Payroll taxes	32,398	26,602
Interest	26,024	22,707
Printing	10,728	20,919
Conferences	5,979	18,841
Equipment lease	5,670	4,911
Automobile	3,258	13,814
Office supplies	2,467	20,275
	<u> </u>	<u> </u>
Total administrative	<u>\$ 726,231</u>	<u>\$ 739,429</u>
Operations		
Depreciation	\$ 81,880	\$ 75,455
Utilities	74,893	87,121
Insurance	49,773	86,207
Repairs and maintenance	35,192	47,844
Telephone	12,573	9,663
Supplies	7,335	923
Taxes	6,982	2,164
Bad debt	-	118
Impairment of property	-	135,000
Interest	-	29,561
	<u> </u>	<u> </u>
Total operations	<u>\$ 268,628</u>	<u>\$ 474,056</u>