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St. Tikhon's Orthodox Monastery

Financial Statements and
Supplementary Information

December 31, 2014 and 2013

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Independent Accountants' Review Report

Board of Directors
St. Tikhon's Orthodox Monastery

We have reviewed the accompanying statement of financial position of St. Tikhon's Orthodox Monastery (the "Monastery") as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Monastery's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our reviews, with the exception of the matter described in the following paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 1 to the financial statements, accounting principles generally accepted in the United States of America require that a portion of the revenue from the sale of cemetery property be deferred until the interment services are performed, and that a portion of these revenues be deferred to recognize a liability for the perpetual care. Management has informed us that revenue from the sale of cemetery property is recognized when received. The effects of this departure from accounting principles generally accepted in the United States of America on the financial position, changes in net assets, and cash flows have not been determined.

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Our reviews were made for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The information in the accompanying schedules on pages 11 to 16 is presented only for purposes of additional analysis, and has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and, except for the matter described in the fifth paragraph of our report, we are not aware of any material modifications that should be made thereto.

Wilkes-Barre, Pennsylvania

Date of Report

St. Tikhon's Orthodox Monastery

Statement of Financial Position

December 31, 2014 and 2013

(See Independent Accountants' Review Report)

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	<u>2014</u>	<u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 317,738	\$ 316,055
Accounts receivable	41,277	49,453
Inventories	397,767	342,742
Prepaid expenses and current assets	-	3,181
	<hr/>	<hr/>
Total current assets	756,782	711,431
Property and Equipment, Net	1,626,401	1,682,109
Deferred Financing Costs, Net	14,232	15,069
	<hr/>	<hr/>
Total assets	<u>\$ 2,397,415</u>	<u>\$ 2,408,609</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	\$ 56,005	\$ 59,543
Accounts payable	25,334	34,942
Payroll taxes payable	1,686	1,793
Deferred revenue	1,098	843
Accrued interest	7,163	3,767
Sales tax payable	690	960
	<hr/>	<hr/>
Total current liabilities	91,976	101,848
Long-Term Debt	1,233,811	1,291,336
	<hr/>	<hr/>
Total liabilities	1,325,787	1,393,184
	<hr/>	<hr/>
Net Assets		
Unrestricted	1,071,628	1,015,425
	<hr/>	<hr/>
Total net assets	1,071,628	1,015,425
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 2,397,415</u>	<u>\$ 2,408,609</u>

See notes to financial statements

St. Tikhon's Orthodox Monastery

Statement of Activities

Years Ended December 31, 2014 and 2013

(See Independent Accountants' Review Report)

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	<u>2014</u>	<u>2013</u>
Changes in Unrestricted Net Assets		
Support and Revenue		
Bookstore	\$ 584,488	\$ 567,441
Contributions	389,944	325,392
Iconography projects	87,175	2,750
Bequests	55,929	16,328
Cemetery plots	43,065	57,421
Activities	33,939	50,245
Assessment and dues	11,010	11,198
Investment income	823	1,265
	<u>1,206,373</u>	<u>1,032,040</u>
Expenses		
Operating	465,801	386,547
Cost of goods sold	257,034	236,858
Personnel	230,032	219,727
Administrative	97,855	93,171
Interest	92,223	93,513
Fundraising - special events	7,225	13,455
	<u>1,150,170</u>	<u>1,043,271</u>
Total support and revenue	1,206,373	1,032,040
Total expenses	1,150,170	1,043,271
Increase (decrease) in net assets	56,203	(11,231)
Net Assets, Beginning	<u>1,015,425</u>	<u>1,026,656</u>
Net Assets, Ending	<u>\$ 1,071,628</u>	<u>\$ 1,015,425</u>

See notes to financial statements

St. Tikhon's Orthodox Monastery

Statement of Cash Flows
Years Ended December 31, 2014 and 2013
(See Independent Accountants' Review Report)

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	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 56,203	\$ (11,231)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	98,433	98,210
Changes in assets and liabilities:		
Accounts receivable	8,176	(3,647)
Inventories	(55,025)	(2,201)
Prepaid expenses and current assets	3,181	54,447
Accounts payable	(9,608)	(8,364)
Payroll taxes payable	(107)	580
Deferred revenue	255	(17,420)
Customer deposit	-	(11,500)
Accrued interest	3,396	(1,266)
Sales tax payable	(270)	456
	<u>104,634</u>	<u>98,064</u>
Net cash provided by operating activities		
Cash Flows used in Investing Activities		
Purchase of property and equipment	<u>(41,888)</u>	<u>(78,844)</u>
Cash Flows from Financing Activities		
Repayment of long-term debt	(76,113)	(55,772)
Proceeds from long-term debt	<u>15,050</u>	<u>-</u>
	<u>(61,063)</u>	<u>(55,772)</u>
Net cash used in financing activities		
Increase (decrease) in cash and cash equivalents	1,683	(36,552)
Cash and Cash Equivalents, Beginning	<u>316,055</u>	<u>352,607</u>
Cash and Cash Equivalents, Ending	<u>\$ 317,738</u>	<u>\$ 316,055</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 88,827</u>	<u>\$ 94,779</u>

See notes to financial statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

St. Tikhon's Orthodox Theological Monastery (the "Monastery") was founded in 1905 by St. Tikhon, Patriarch of Moscow.

The Monastery is a brotherhood of Orthodox Christian monks leading a life of prayer and repentance. The primary mission of the Monastery lies in providing the necessary theological, liturgical, spiritual, and moral foundations for its members.

The Monastery also owns and operates a cemetery. The Monastery sells the right to be buried on its land and this service is restricted to the Monastery's members and their relatives.

In addition, the Monastery operates a bookstore selling religious books and icons to customers throughout the world.

Subsequent Events

The Monastery evaluated subsequent events for recognition or disclosure through Date of Report, 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 include certain investments in highly liquid debt instruments with a maturity of three months or less when purchased.

Accounts Receivable

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

Inventories

Inventories consist primarily of religious books and icons available for sale. Inventories are valued at the lower of cost (first-in, first-out method) or market.

Property and Equipment

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

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.

Revenue Recognition

Revenue from the sale of burial plots is recognized when funds are received. Accounting principles generally accepted in the United States of America require that a portion of the revenue received from the sale of cemetery property be deferred until interment services are performed, and that a portion of these revenues be deferred to recognize a liability for the perpetual care. The effect of these departures on the financial position, changes in net assets and cash flows of the Monastery have not been determined. Funds set aside for perpetual care are required to be held in a separate trust. Management has not established a separate trust account for these funds.

Bookstore revenue is recognized when the sale of merchandise occurs.

Revenue from Iconography projects is recognized when funds are received.

Sales and Similar Taxes

The Monastery collects sales and similar taxes imposed on nonexempt customers by various states. The Monastery's policy is to exclude the tax collected and remitted from sales and cost of sales.

Shipping and Handling Fees and Costs

Inbound and outbound freight costs are included in cost of sales.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Monastery has been limited by donors to a specific time period or purpose.

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

Donor-Restricted Gifts

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

St. Tikhon's Orthodox Monastery

Notes to Financial Statements
December 31, 2014 and 2013
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Collections of Religious Artifacts

The Monastery has elected not to capitalize its collection of religious artifacts. These items include religious clothing, books, statues and related jewels. The Monastery protects and preserves these items. These items have lasting historical significance and, as such, appreciate with age. No appreciation has been provided for these items.

Deferred Financing Costs, Net

Deferred financing costs are amortized using the straight-line method over the term of the related debt. Amortization expense was \$837 in 2014 and 2013. This amount is reported net of accumulated amortization of \$2,511 in 2014 and \$1,674 in 2013.

Income Taxes

The Monastery 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 Monastery accounts for uncertainty in income taxes by prescribing a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined that there were no tax uncertainties that met the recognition threshold in 2014 and 2013.

2. Property and Equipment, Net

Property and equipment, net as of December 31 are as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 5,300	\$ 5,300
Buildings and improvements	3,063,454	3,032,911
Furniture	13,377	11,178
Equipment	23,108	23,108
Vehicles	83,738	83,765
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Total	3,188,977	3,156,262
	<hr/>	<hr/>
Less accumulated depreciation	1,562,576	1,474,153
	<hr/>	<hr/>
Property and equipment, net	<u>\$ 1,626,401</u>	<u>\$ 1,682,109</u>

Depreciation expense was \$97,596 in 2014 and \$97,373 in 2013.

St. Tikhon's Orthodox Monastery

Notes to Financial Statements
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3. Long-Term Debt

Long-term debt consists of the following at December 31:

	<u>2014</u>	<u>2013</u>
Monastery		
<u>Fidelity Deposit and Discount Bank</u>		
Installment loan, monthly payment of \$277 including interest at 3.99%, maturing June 2019; secured by vehicle	\$ 13,445	\$ -
Loan paid off in 2014	-	16,083
Bookstore		
<u>Honesdale National Bank</u>		
Mortgage loan, monthly payment of \$9,126 including interest at 4.70% for 84 months then adjusting to the prime rate plus 1.45%, maturing January 2032; secured by real estate	1,273,924	1,325,300
<u>St. Tikhon's Orthodox Theological Seminary</u>		
Installment loan, monthly payment of \$622 including interest at 6.49%, maturing April 2015; secured by vehicle (Note 5)	<u>2,447</u>	<u>9,496</u>
Total	1,289,816	1,350,879
Less current portion	<u>56,005</u>	<u>59,543</u>
Long-term debt	<u>\$ 1,233,811</u>	<u>\$ 1,291,336</u>

Scheduled principal repayments for periods subsequent to December 31, 2014 are as follows:

Years ending December 31:	
2015	\$ 56,005
2016	56,108
2017	58,781
2018	61,581
2019	62,557
Thereafter	<u>994,784</u>
Total	<u>\$ 1,289,816</u>

St. Tikhon's Orthodox Monastery

Notes to Financial Statements
December 31, 2014 and 2013
(See Independent Accountants' Review Report)

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4. Functional Expenses

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

	<u>2014</u>	<u>2013</u>
Program services	\$ 1,045	\$ 936
General and administrative	98	94
Fundraising	7	13
Total	<u>\$ 1,150</u>	<u>\$ 1,043</u>

5. Related Party Transactions

The Monastery made payments to St. Tikhon's Orthodox Theological Seminary ("Seminary"), an entity related through church affiliation. Payments were expensed as follows:

	<u>2014</u>	<u>2013</u>
Contributions	\$ 57,850	\$ 10,500
Health insurance reimbursement	38,748	39,456
General insurance reimbursement	31,500	29,625
Total	<u>\$ 128,098</u>	<u>\$ 79,581</u>

There was no balance due to the Seminary at December 31, 2014 and 2013.

The Monastery has note payable to the Seminary for a vehicle loan that the Seminary is the borrower (Note 3).

6. Contingencies

As a not-for-profit corporation in the Commonwealth of Pennsylvania, the Monastery qualifies for an exemption from real property taxes; however, a number of cities, municipalities, and school districts in the Commonwealth of Pennsylvania have started and continue to challenge the real estate tax exemption of not-for-profit corporations. The possible future effects of this matter, if any, are not presently determinable.

7. Concentrations

Amounts on deposit with any one financial institution are insured up to the Federal Deposit Insurance Corporation limits. The Monastery periodically has cash and cash equivalents on deposit in excess of insured amounts.

St. Tikhon's Orthodox Monastery

Schedule of Financial Position by Department

December 31, 2014

(See Independent Accountants' Review Report)

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	<u>Monastery</u>	<u>Bookstore</u>	<u>Totals</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 302,707	\$ 15,031	\$ 317,738
Accounts receivable	-	41,277	41,277
Inventories	-	397,767	397,767
	<hr/>	<hr/>	<hr/>
Total current assets	302,707	454,075	756,782
Property and Equipment, Net	836,111	790,290	1,626,401
Deferred Financing Costs, Net	-	14,232	14,232
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 1,138,818</u>	<u>\$ 1,258,597</u>	<u>\$ 2,397,415</u>
Liabilities and Net Assets			
Current Liabilities			
Current portion of long-term debt	\$ 2,840	\$ 53,165	\$ 56,005
Accounts payable	7,504	17,830	25,334
Due (from) to department	(131,728)	131,728	-
Payroll taxes payable	-	1,686	1,686
Deferred revenue	-	1,098	1,098
Accrued interest	-	7,163	7,163
Sales tax payable	-	690	690
	<hr/>	<hr/>	<hr/>
Total current liabilities	(121,384)	213,360	91,976
Long-Term Debt	10,605	1,223,206	1,233,811
	<hr/>	<hr/>	<hr/>
Total liabilities	(110,779)	1,436,566	1,325,787
	<hr/>	<hr/>	<hr/>
Net Assets			
Unrestricted	1,249,597	(177,969)	1,071,628
	<hr/>	<hr/>	<hr/>
Total net assets	1,249,597	(177,969)	1,071,628
	<hr/>	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 1,138,818</u>	<u>\$ 1,258,597</u>	<u>\$ 2,397,415</u>

St. Tikhon's Orthodox Monastery

Schedule of Financial Position by Department

December 31, 2013

(See Independent Accountants' Review Report)

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	<u>Monastery</u>	<u>Bookstore</u>	<u>Totals</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 302,882	\$ 13,173	\$ 316,055
Accounts receivable	-	49,453	49,453
Inventories	-	342,742	342,742
Prepaid expenses and current assets	-	3,181	3,181
	<hr/>	<hr/>	<hr/>
Total current assets	302,882	408,549	711,431
Property and Equipment, Net	845,850	836,259	1,682,109
Deferred Financing Costs, Net	-	15,069	15,069
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 1,148,732</u>	<u>\$ 1,259,877</u>	<u>\$ 2,408,609</u>
Liabilities and Net Assets			
Current Liabilities			
Current portion of long-term debt	\$ 4,233	\$ 55,310	\$ 59,543
Accounts payable	9,385	25,557	34,942
Due (from) to department	(96,837)	96,837	-
Payroll taxes payable	-	1,793	1,793
Deferred revenue	-	843	843
Accrued interest	-	3,767	3,767
Sales tax payable	-	960	960
	<hr/>	<hr/>	<hr/>
Total current liabilities	(83,219)	185,067	101,848
Long-Term Debt	11,850	1,279,486	1,291,336
	<hr/>	<hr/>	<hr/>
Total liabilities	(71,369)	1,464,553	1,393,184
	<hr/>	<hr/>	<hr/>
Net Assets			
Unrestricted	1,220,101	(204,676)	1,015,425
	<hr/>	<hr/>	<hr/>
Total net assets	1,220,101	(204,676)	1,015,425
	<hr/>	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 1,148,732</u>	<u>\$ 1,259,877</u>	<u>\$ 2,408,609</u>

St. Tikhon's Orthodox Monastery

Schedule of Activities by Department
Year Ended December 31, 2014
(See Independent Accountants' Review Report)

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	<u>Monastery</u>	<u>Bookstore</u>	<u>Totals</u>
Changes in Unrestricted Net Assets			
Support and Revenue			
Bookstore	\$ -	\$ 584,488	\$ 584,488
Contributions	389,944	-	389,944
Iconography projects	-	87,175	87,175
Bequests	55,929	-	55,929
Cemetery plots	43,065	-	43,065
Activities	33,939	-	33,939
Assessment and dues	11,010	-	11,010
Investment income	813	10	823
	<u>534,700</u>	<u>671,673</u>	<u>1,206,373</u>
Expenses			
Cost of goods sold	-	257,034	257,034
Operating	277,752	188,049	465,801
Personnel	143,509	86,523	230,032
Interest	13,528	78,695	92,223
Administrative	63,789	34,066	97,855
Fundraising - special events	6,625	600	7,225
	<u>505,203</u>	<u>644,967</u>	<u>1,150,170</u>
	<u>\$ 29,497</u>	<u>\$ 26,706</u>	<u>\$ 56,203</u>

St. Tikhon's Orthodox Monastery

Schedule of Activities by Department
 Year Ended December 31, 2013
 (See Independent Accountants' Review Report)

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	<u>Monastery</u>	<u>Bookstore</u>	<u>Totals</u>
Changes in Unrestricted Net Assets			
Support and Revenue			
Bookstore	\$ -	\$ 567,441	\$ 567,441
Contributions	325,392	-	325,392
Cemetery plots	57,421	-	57,421
Activities	50,245	-	50,245
Bequests	16,328	-	16,328
Assessment and dues	11,198	-	11,198
Iconography projects	-	2,750	2,750
Investment income	1,257	8	1,265
	<u>461,841</u>	<u>570,199</u>	<u>1,032,040</u>
Expenses			
Operating	242,191	144,356	386,547
Cost of goods sold	-	236,858	236,858
Personnel	141,643	78,084	219,727
Interest	16,239	77,274	93,513
Administrative	64,947	28,224	93,171
Fundraising - special events	13,005	450	13,455
	<u>478,025</u>	<u>565,246</u>	<u>1,043,271</u>
	<u>\$ (16,184)</u>	<u>\$ 4,953</u>	<u>\$ (11,231)</u>

St. Tikhon's Orthodox Monastery

Schedule of Operating, Personnel, and Administrative Expenses by Department

Year Ended December 31, 2014

(See Independent Accountants' Review Report)

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	<u>Monastery</u>	<u>Bookstore</u>	<u>Totals</u>
Operating			
Depreciation and amortization	\$ 51,627	\$ 46,806	\$ 98,433
Contributions and stipends	88,855	3,412	92,267
Iconography projects	-	81,837	81,837
Utilities	59,427	16,115	75,542
Insurance	-	30,000	30,000
Repairs and maintenance	24,022	336	24,358
Liturgical	17,313	-	17,313
Supplies	12,671	2,065	14,736
Telephone	7,358	5,065	12,423
Cemetery costs	8,450	-	8,450
Equipment	8,029	-	8,029
Bad debt	-	2,413	2,413
	<u>\$ 277,752</u>	<u>\$ 188,049</u>	<u>\$ 465,801</u>
Personnel			
Salary and wages	\$ -	\$ 79,370	\$ 79,370
Health insurance	78,312	384	78,696
Maintenance and support	65,197	-	65,197
Payroll taxes	-	6,769	6,769
	<u>\$ 143,509</u>	<u>\$ 86,523</u>	<u>\$ 230,032</u>
Administrative			
Automobile	\$ 27,635	\$ 239	\$ 27,874
Professional fees	12,857	9,778	22,635
Office supplies	12,067	5,739	17,806
Salary and wages	-	15,204	15,204
Travel	11,230	-	11,230
Advertising	-	1,943	1,943
Payroll taxes	-	1,163	1,163
	<u>\$ 63,789</u>	<u>\$ 34,066</u>	<u>\$ 97,855</u>

St. Tikhon's Orthodox Monastery

Schedule of Operating, Personnel, and Administrative Expenses by Department

Year Ended December 31, 2013

(See Independent Accountants' Review Report)

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	<u>Monastery</u>	<u>Bookstore</u>	<u>Totals</u>
Operating			
Depreciation and amortization	\$ 48,183	\$ 50,027	\$ 98,210
Utilities	55,311	9,661	64,972
Iconography projects	-	44,451	44,451
Contributions and stipends	42,763	835	43,598
Repairs and maintenance	36,027	275	36,302
Insurance	-	29,625	29,625
Supplies	15,574	4,660	20,234
Liturgical	19,498	-	19,498
Equipment	14,304	-	14,304
Telephone	5,806	4,822	10,628
Cemetery costs	4,725	-	4,725
	<u>\$ 242,191</u>	<u>\$ 144,356</u>	<u>\$ 386,547</u>
Personnel			
Health insurance	\$ 75,271	\$ -	\$ 75,271
Salary and wages	-	72,099	72,099
Maintenance and support	66,372	-	66,372
Payroll taxes	-	5,985	5,985
	<u>\$ 141,643</u>	<u>\$ 78,084</u>	<u>\$ 219,727</u>
Administrative			
Automobile	\$ 30,255	\$ 229	\$ 30,484
Office supplies	12,363	8,649	21,012
Professional fees	12,480	5,835	18,315
Salary and wages	-	11,350	11,350
Travel	9,849	-	9,849
Advertising	-	1,293	1,293
Payroll taxes	-	868	868
	<u>\$ 64,947</u>	<u>\$ 28,224</u>	<u>\$ 93,171</u>