

Saint Photios Orthodox Theological Seminary

Etna, California

**FINANCIAL STATEMENTS WITH INDEPENDENT
AUDITORS' REPORTS**

May 31, 2020

Saint Photios Orthodox Theological Seminary

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Saint Photios Orthodox Theological Seminary
Etna, California

Report on the Financial Statements

We have audited the accompanying financial statements of Saint Photios Orthodox Theological Seminary, a nonprofit organization (the Seminary), which comprise the statement of financial position as of May 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 auditors' 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 Seminary'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 Seminary'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.

INDEPENDENT AUDITORS' REPORT

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Seminary as of May 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

AGT CPAs & Advisors

AGT CPAs & Advisors
Mt. Shasta, California
August 21, 2020

FINANCIAL SECTION

Saint Photios Orthodox Theological Seminary

STATEMENT OF FINANCIAL POSITION

May 31, 2020

ASSETS

Cash and cash equivalents	\$	129,393
Investments		424,052
Other assets		1,150
Property and equipment - net		1,519,239

TOTAL ASSETS	\$	2,073,834
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LIABILITIES AND NET ASSETS**Liabilities**

Accounts payable and accrued liabilities	\$	12,093
Note payable		182,505

Total Liabilities		194,598
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Net Assets

Without donor restrictions		1,698,955
With donor restrictions		180,281

Total Net Assets		1,879,236
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TOTAL LIABILITIES AND NET ASSETS	\$	2,073,834
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The accompanying notes are an integral part of these financial statements.

Saint Photios Orthodox Theological Seminary

STATEMENT OF ACTIVITIES

Year Ended May 31, 2020	Without Donor Restrictions	With Donor Restrictions	Total
CHANGES IN NET ASSETS			
Revenue and Support			
Contributions	\$ 119,423	\$ 16,300	\$ 135,723
Monastic community support	210,000	-	210,000
Program income			
Tuition and fees	18,748	-	18,748
Room and board	8,927	-	8,927
Net investment income	26,501	-	26,501
Other	1,174	-	1,174
Total Revenue and Support	384,773	16,300	401,073
Net assets released from restrictions	43,125	(43,125)	-
Total Revenue, Support, and Net Assets Released From Restrictions	427,898	(26,825)	401,073
Expenses			
Program services:			
Seminary	373,759	-	373,759
Total Program Services	373,759	-	373,759
Supporting services:			
Management and general	4,928	-	4,928
Fundraising and marketing	17,032	-	17,032
Total Supporting Services	21,960	-	21,960
Total Expenses	395,719	-	395,719
Change in Net Assets	32,179	(26,825)	5,354
Net Assets			
Beginning of year - as previously stated	1,642,025	238,780	1,880,805
Prior period adjustment	24,751	(31,674)	(6,923)
Net Assets - Beginning of Year - as Restated	1,666,776	207,106	1,873,882
Net Assets - End of Year	\$ 1,698,955	\$ 180,281	\$ 1,879,236

The accompanying notes are an integral part of these financial statements.

Saint Photios Orthodox Theological Seminary

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended May 31, 2020	<u>Program Services</u>		<u>Supporting Services</u>		Total
	Seminary	Management and General	Fundraising and Marketing		
Professional services	\$ 219,957	\$ 4,140	\$ 13,420	\$ 237,517	
Housing costs	11,946	-	-	11,946	
Facilities	17,388	-	-	17,388	
Supplies & small equipment	22,404	-	-	22,404	
Travel and conferences	14,618	188	-	14,806	
Depreciation	64,129	-	-	64,129	
Meals	10,134	-	-	10,134	
Utilities and related	7,955	-	-	7,955	
Interest expense	495	-	-	495	
Other expenses	4,733	600	3,612	8,945	
Total Expenses	\$ 373,759	\$ 4,928	\$ 17,032	\$ 395,719	

The accompanying notes are an integral part of these financial statements.

Saint Photios Orthodox Theological Seminary

STATEMENT OF CASH FLOWS

Year Ended May 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	5,354
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		64,129
Unrealized and realized (gain) loss on investments		(9,915)
(Increase) decrease in:		
Other assets		(650)
Increase (decrease) in:		
Accounts payable and accrued liabilities		(5,912)
Net Cash Provided by Operating Activities		53,006

CASH FLOWS FROM INVESTING ACTIVITIES

Payments for the purchase of property and equipment		(95,794)
Proceeds from sales of investments		350,000
Payments for purchase of investments		(256,313)
Net Cash Used by Investing Activities		(2,107)

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on debt		(980)
Net Cash Used by Financing Activities		(980)

Net Increase in Cash 49,919

Cash and Cash Equivalents - Beginning of Year 79,474

Cash and Cash Equivalents - End of Year \$ 129,393

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION

Cash Paid for Interest \$ 495

Cash Paid for Income Taxes \$ -

NON-CASH TRANSACTIONS

During the year, the Organization financed the purchase of real property in the amount of \$183,485.

The accompanying notes are an integral part of these financial statements.

Saint Photios Orthodox Theological Seminary

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities Saint Photios Orthodox Theological Seminary (the Seminary) is a California nonprofit religious corporation incorporated in 2015. The mission of the Seminary is to serve the Church of the Genuine Orthodox Christians of Greece and the wider witness by preparing candidates for the Priesthood and Diaconate to minister to the parishes of its Eparchy in the U.S.A. and Canada, as well as future missions in North America.

Basis of Presentation The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents For purposes of the statement of cash flows, the Seminary considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalent.

Financial Instruments and Credit Risk The Seminary's financial instruments that are potentially exposed to concentration of credit risk consists primarily of cash, cash equivalents, and short-term investments. In accordance with its investment policy, the Seminary places its temporary cash investments with high quality credit institutions. At May 31, 2020, the Seminary had no cash and cash equivalents in excess of the FDIC insured limit.

Investments Investments in marketable securities with readily determinable fair values are stated at fair market value on the Statement of Financial Position. Unrealized gains and losses are included in the changes in net assets on the Statement of Activities. Investment income and gains restricted by donors are reported as increases in net assets without donor restriction if the restrictions are met in the reporting period in which the income and gains are recognized.

Property and Equipment Property and equipment of \$1,000 or more are capitalized at cost when purchased, or at fair market value when contributed. Expenditures for maintenance and repairs are charged to expense as incurred whereas major betterments are capitalized. Property and equipment is depreciated using the straight-line method over the estimated useful life of the asset. The estimated useful lives of current property and equipment range as follows:

Buildings	40 Years
Land improvements	20 Years
Furniture and equipment	4-10 Years
Library materials	10 Years

Saint Photios Orthodox Theological Seminary

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Net Assets Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions: Net assets available for use in general operations and not subject to donor-imposed restrictions.

Net Assets With Donor Restrictions: Net assets subject to donor-imposed restrictions that will be met either by actions of the Seminary or the passage of time. Also included in this category are net assets subject to donor-imposed restrictions that are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenue Recognition The Seminary recognizes contributions as revenue when they are unconditionally pledged or when they are received. Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

The Seminary reports gifts of land, buildings and equipment as increases in net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long term 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 these long-lived assets must be maintained, the Seminary reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Functional Allocation of Expenses The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program and supporting service. For the year ended May 31, 2020, the costs are categorized according to actual usage of those funds.

Income Taxes The Seminary is a nonprofit religious corporation operating under Section 501(c)(3) of the *Internal Revenue Code* and 23701(d) of the *California Revenue and Taxation Code* and is exempt from federal and state income taxes. Additionally, The Seminary is classified as an integrated auxiliary of a church and is thus exempt from filing tax returns with the federal and California taxing authorities. Accordingly, no provision for income taxes is included in these financial statements. Management believes that it has appropriate support for any tax positions taken; accordingly, management believes there are no uncertain tax positions that are material to the financial statements.

Saint Photios Orthodox Theological Seminary

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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.

Subsequent Events The Seminary has evaluated subsequent events through August 21, 2020, which is the date the financial statements were available to be issued and determined there are no significant subsequent events to be disclosed.

Change in Accounting Principle On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Seminary has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU had no effect on net income or the total net assets.

On June 21, 2018, FASB issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 605) – *Clarifying the Scope and the Accounting guidance for Contributions received and Contributions Made*. The update addresses whether a grant, contract, or agreement is a contribution or an exchange transaction based on whether the Seminary is receiving commensurate value in return. If commensurate value is received by the contributor, it is accounted for as an exchange transaction. If commensurate value is not received by the contributor, it is accounted for as a contribution. The Seminary has implemented ASU 2018-08 and has adjusted the presentation in these consolidated financial statements accordingly. The ASU had no effect on previously reported net assets.

Recently Issued Accounting Pronouncements In May 2014 the FASB issued a new standard on revenue recognition, ASU 2014-09, *Revenue from Contracts with Customers*, with the intent of creating a new, principle-based revenue recognition framework. The ASU creates a new topic in the FASB Accounting Standards Codification, Topic 606, in addition to superseding and replacing nearly all existing U.S. GAAP revenue recognition guidance. The main provisions of the ASU relate to timing of revenue recognition and expanded and improved disclosures about revenue. In May 2020, the FASB issued ASU 2020-05, which delayed the effective date of the standard to fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of this ASU on its financial statements.

2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Saint Photios Orthodox Theological Seminary

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

May 31, 2020

Cash and cash equivalents	\$	129,393
Investments		424,052
Less unavailable for general expenditures in one year due to:		
Amounts restricted by donor for purpose		(180,281)
Total	\$	373,164

The Seminary maintains sufficient cash in banks to meet ongoing daily or monthly operational expenses not provided in-kind. Excess cash is invested and can be converted back to cash within 30 days.

3. INVESTMENTS

Investments consisted of the following:

May 31, 2020

Exchange traded funds	\$	168,013
Bond funds		163,845
Equity funds		43,255
Other investments		48,939
Total Investments	\$	424,052

Net investment income in the statement of activities consisted of the following:

May 31, 2020

Interest and dividends earned	\$	16,586
Net realized and unrealized gain (loss)		9,915
Total Investment Income	\$	26,501

4. FAIR VALUE MEASUREMENTS

FASB ASC 820-10, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Saint Photios Orthodox Theological Seminary

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Seminary has the ability to access.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means; if the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the Seminary's assets and liabilities at fair value for the years ended May 31, 2020. Level 2 investment values are based on the Net Asset Value (NAV) per share as listed in the prospectus.

May 31, 2020	Level 1	Level 2	Level 3
Exchange traded funds:			
Large-cap blended funds	\$ 77,602	\$ -	-
Large and mid-cap growth funds	51,610	-	-
Large and mid-cap value funds	38,801	-	-
Fixed Income:			
High yield bond funds	118,465	-	-
Corporate lending funds	45,380	-	-
Equity:			
Foreign large growth funds	34,113	-	-
Diversified emerging market funds	9,142	-	-
Real estate investment trust security	-	48,939	-
Total	\$ 375,113	\$ 48,939	\$ -

Saint Photios Orthodox Theological Seminary

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

May 31, 2020

Nondepreciable Assets	
Land	\$ 119,972
Total Nondepreciable Assets	119,972
Depreciable Assets	
Buildings	1,162,621
Land improvements	137,558
Furniture and equipment	116,858
Library materials	166,907
Total Depreciable Assets	1,583,944
Less: Accumulated depreciation	184,677
Depreciable Assets - Net	1,399,267
Property and Equipment - Net	\$ 1,519,239

Total depreciation expense for the year was \$64,129.

6. LONG-TERM DEBT

The Seminary entered into a note payable with Banner Bank in April 2020 in the original amount of \$183,485. The note matures in April 2035. The note calls for 120 monthly payments of \$1,475 at an interest rate of 4.49%. Afterwards, there shall be 59 monthly payments of \$1,222 at the U.S. Prime Rate plus 1%. The note is collateralized by real property.

The following reflects the minimum principal payments on outstanding debt at May 31, 2020:

Years Ending May 31	
2021	\$ 9,705
2022	10,150
2023	10,615
2024	11,102
2025	11,610
Thereafter	129,323
Total	\$ 182,505

The note payable contains certain covenants with which the Seminary must comply. The Seminary was in compliance with these covenants at May 31, 2020.

Saint Photios Orthodox Theological Seminary

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

7. NET ASSETS

May 31, 2020

NET ASSETS WITHOUT DONOR RESTRICTION

Undesignated \$ 1,698,955

Total Net Assets Without Donor Restriction \$ 1,698,955

NET ASSETS WITH DONOR RESTRICTION**Subject to Expenditures for Specified Purpose**

Scholarship \$ 180,281

Total Net Assets With Donor Restriction \$ 180,281

8. NON-CASH CONTRIBUTIONS

Non-cash contributions are recorded at their estimated fair market value. Donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. The Seminary received the following non-cash contributions, which are included in revenue in the Statement of Activities.

May 31, 2020

Seminary services \$ 162,090

Library services 34,260

Capital assets 31,300

Other 11,460

Total \$ 239,110

9. CONTINGENCIES, RISKS, AND UNCERTAINTIES

During the year ended May 31, 2020, the COVID-19 pandemic had world-wide effect. The Seminary has not experienced, and does not expect to experience, any material negative financial or operational impacts from the pandemic.

10. PRIOR PERIOD ADJUSTMENT

During the year ended May 31, 2020, the Seminary identified two errors in the previously issued financial statements. The fair value of investments was improperly stated in previously issued financial statements, resulting in a decrease to beginning net assets without donor restriction of \$6,923. The net assets with donor restrictions was overstated, resulting in a decrease to net assets with donor restriction and an increase to net assets without donor restriction of \$31,674.