

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
St. Tikhon's Orthodox Theological Seminary

We have audited the accompanying statements of financial position of St. Tikhon's Orthodox Theological Seminary (a nonprofit organization) as of August 31, 2006, 2005 and 2004, and the related statements of activities and cash flows for the twelve months ended August 31, 2006, 2005 and 2004. These financial statements are the responsibility of the management of St. Tikhon's Orthodox Theological Seminary. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the overall accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information presented on the schedule of expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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 August 31, 2006, 2005 and 2004, and the changes in its net assets and its cash flows for the twelve months ended August 31, 2006, 2005 and 2004 in conformity with accounting principles generally accepted in the United States of America.

October 30, 2006

Prociak & Associates, LLC

Prociak & Associates, L.L.C.
Wilkes-Barre, Pennsylvania

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2006, 2005 AND 2004

NOTE 7:

INVESTMENTS

Investment return is summarized as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cost	\$722,245.	\$682,928.	\$553,142.
Fair market value	<u>570,171.</u>	<u>540,248.</u>	<u>404,388.</u>
(Shortage) of fair value (under) cost	<u>\$(152,074)</u>	<u>\$(142,680)</u>	<u>\$(148,754)</u>
Interest and dividend income	\$10,599.	\$10,190.	\$9,819.
Realized gains on investments	4,971.	1,756.	5,486.
Investment fees	<u>(836)</u>	<u>(551)</u>	<u>(360)</u>
Net income	<u>\$14,734.</u>	<u>\$11,395.</u>	<u>\$14,945.</u>

Investments recorded at fair market value are comprised of the following:

	<u>Cost</u>	<u>Fair market value</u>
Mutual funds	\$203,433	\$203,313
Corporate bonds	54,611	54,510
Common stock	<u>464,201</u>	<u>312,348</u>
	<u>\$722,245</u>	<u>\$570,171</u>

NOTE 8:

LONG TERM DEBT

A summary of long-term debt is as follows:

Mortgage payable to Community Bank & Trust, payable in monthly installments of \$4,804 principal and interest at 6% with final payment due April 2012, secured by a first lien mortgage on Leonty Dormitory on the campus of the Seminary.

Line of credit payable to Community Bank NA, secured by a \$200,000 certificate of deposit held by the bank, \$200,000 limit at prime. Minimum monthly payment of accrued interest and payable on demand.

Line of credit payable to The Honesdale National Bank, secured by a \$100,000 certificate of deposit held by the bank, \$50,000 limit at prime - .5%. Minimum monthly payment of accrued interest and payable on demand.

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2006, 2005 AND 2004

	Community Bank & Trust	Community Bank NA	Honesdale National Bank	Total
Balance at August 31, 2003	\$ 388,717	\$ 17,413	\$ -0-	\$ 406,130
Principal payments in 03/04	<u>35,241</u>	<u>2,000</u>	<u>-0-</u>	<u>37,241</u>
Balance at August 31, 2004	353,477	15,413	-0-	368,889
Principal payments in 04/05	37,461	78	-0-	37,539
New loan proceeds in 04/05	<u>-0-</u>	<u>-0-</u>	<u>50,000</u>	<u>50,000</u>
Balance at August 31, 2005	316,016	15,335	50,000	381,351
Principal payments in 05/06	<u>39,762</u>	<u>-0-</u>	<u>2,050</u>	<u>41,812</u>
Balance at August 31, 2006	<u>\$ 276,254</u>	<u>\$ 15,335</u>	<u>\$ 47,950</u>	<u>339,539</u>
Less: current portion				<u>105,474</u>
Long-term debt				<u>\$ 234,065</u>

Principal maturities of long-term debt and annual payments including interest to amortize all long term debt are as follows:

<u>Year ending August 31,</u>	<u>Principal</u>	<u>Principal and interest</u>	<u>Interest portion</u>
2007	\$105,474	\$120,929	\$15,455
2008	44,796	57,644	12,848
2009	47,564	57,644	10,080
2010	50,503	57,644	7,141
2011	53,623	57,644	4,020
2012	37,579	38,429	852
	<u>\$ 339,539</u>	<u>\$ 389,934</u>	<u>\$ 50,396</u>

NOTE 9: COMMITMENTS

The Seminary participates in non-cancelable operating leases for equipment and automobiles. Future minimum payments under the operating leases as of August 31, 2006 are as follows:

<u>Fiscal year ending:</u>	<u>Amount</u>
August 31, 2007	\$ 5,230
August 31, 2008	5,100
August 31, 2009	1,509
August 31, 2010	<u>197</u>
	<u>\$ 12,036</u>

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2006, 2005 AND 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS			
Cash and cash equivalents	\$ 1,291,611	\$ 1,306,462	\$ 1,013,403
Accrued interest receivable	3,897	3,242	3,149
Tuition receivable	30,096	41,554	15,355
Prepaid expenses	12,025	10,413	-0-
Investments at fair market value	570,171	540,248	404,388
Property and equipment, net	<u>868,944</u>	<u>902,318</u>	<u>941,396</u>
Total assets	<u>\$ 2,776,744</u>	<u>\$ 2,804,237</u>	<u>\$ 2,377,691</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$ 38,777	\$ 29,653	\$ 10,655
Accrued interest payable	754	557	411
General long term debt:			
Due within one year	105,475	105,097	52,874
Due after one year	<u>234,064</u>	<u>276,254</u>	<u>316,016</u>
Total liabilities	<u>379,070</u>	<u>411,561</u>	<u>379,956</u>
Net Assets			
Unrestricted	617,516	630,122	626,120
Temporarily Restricted	1,599,176	1,584,640	1,290,309
Permanently Restricted	<u>180,982</u>	<u>177,914</u>	<u>81,306</u>
Total net assets	<u>2,397,674</u>	<u>2,392,676</u>	<u>1,997,735</u>
Total liabilities and net assets	<u>\$ 2,776,744</u>	<u>\$ 2,804,237</u>	<u>\$ 2,377,691</u>

The accompanying notes are an integral part of these financial statements

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2006, 2005 AND 2004

	Year ended August 31, 2005			Year ended August 31, 2004		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted
REVENUES, GAINS AND OTHER SUPPORT:						
Tuition	\$ 227,747	\$ -	\$ -	\$ 242,928	\$ -	\$ -
Contributions	522,415	23,487	-	982,719	31,304	-
Contributed services	92,600	-	-	106,000	-	-
Bequests	22,325	-	-	7,500	-	-
Seminary Choir	29,032	-	-	20,610	-	-
Auxiliary fundraising	100	-	-	5,413	-	-
Miscellaneous income	1,239	-	-	972	-	-
Interest and dividends	52,141	-	-	11,059	-	-
Realized gains (losses)	-	588	-	266	-	-
Unrealized gains (losses)	-	(8,759)	4,383	(779)	11,663	-
Less income credited as	-	-	-	-	-	-
scholarships to tuition	(16,757)	-	-	(38,779)	-	-
Net assets released	480	(480)	-	(27,720)	-	-
from restrictions					(20,764)	-
Total revenues, gains and other support	931,322	14,836	3,604	949,762	849,165	11,193
EXPENSES:						
Instruction	330,226	-	-	361,858	-	-
Library	10,882	-	-	8,573	-	-
Student services	18,701	-	-	22,540	-	-
Administrative	370,809	-	-	389,346	-	-
Marketing/fundraising	24,490	-	-	8,190	-	-
Operations and maintenance	188,820	-	-	191,439	-	-
Investment account fees	-	300	536	-	360	-
Total expenses	943,928	300	536	982,497	855,415	-
Change in net assets	(12,606)	14,536	3,068	4,002	58,794	11,193
Net assets - beginning of year	630,122	1,594,640	177,914	2,392,676	1,231,515	70,113
Net assets - end of year	\$ 617,516	\$ 1,599,176	\$ 180,982	\$ 2,397,674	\$ 1,290,309	\$ 81,306
				\$ 626,120	\$ 1,290,309	\$ 1,997,735

The accompanying notes are an integral part of these financial statements

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2006, 2005 AND 2004

	Year ended August 31,		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Increase in net assets	\$ 4,998	\$ 394,941	\$ 63,737
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation	45,140	44,076	43,138
Net realized and unrealized gains/losses on investments	4,567	(7,974)	(29,214)
Changes in operating assets and liabilities:			
Accrued interest receivable	(655)	(93)	784
Tuition receivable	11,458	(28,199)	(6,898)
Prepaid expenses	(1,612)	(10,413)	1,897
Accounts payable	9,124	18,998	(5)
Accrued interest payable	197	146	(386)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>73,217</u>	<u>413,482</u>	<u>73,053</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	(11,766)	(4,998)	(18,657)
Purchase of investments, net	(34,490)	(127,886)	(27,157)
NET CASH (USED) BY INVESTING ACTIVITIES	<u>(46,256)</u>	<u>(132,884)</u>	<u>(45,814)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Funds borrowed	-0-	50,000	-0-
Principal payments	(41,812)	(37,539)	(37,241)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(41,812)</u>	<u>12,461</u>	<u>(37,241)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(14,851)</u>	<u>293,059</u>	<u>(10,002)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,306,462</u>	<u>1,013,403</u>	<u>1,023,405</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,291,611</u>	<u>\$ 1,306,462</u>	<u>\$ 1,013,403</u>

The accompanying notes are an integral part of these financial statements

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY
SCHEDULE OF EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2006, 2005 AND 2004

	Fiscal year ended August 31,		
	2006	2005	2004
Instruction:			
Faculty wages	\$ 135,379	\$ 142,856	\$ 133,727
Payroll taxes	10,357	10,928	10,230
Pension	12,726	12,584	12,020
Employee benefits	44,599	58,725	44,553
Part time faculty	34,565	30,765	19,365
Donated services	92,600	106,000	68,900
Total instruction	<u>330,226</u>	<u>361,858</u>	<u>288,795</u>
Library	<u>10,882</u>	<u>8,573</u>	<u>10,224</u>
Student services	<u>18,701</u>	<u>22,540</u>	<u>23,383</u>
Administrative			
Automobile and travel	29,590	23,341	28,376
Conferences and training	3,138	4,440	10,863
Interest expense	5,132	971	287
Dues and subscriptions	2,739	2,707	2,482
Equipment lease	2,752	2,072	4,060
Office supplies	12,414	13,002	14,816
Professional fees	2,159	2,889	3,773
Staff wages	217,962	229,897	199,147
Payroll taxes	16,674	17,587	15,235
Pension	24,716	26,510	23,430
Employee benefits	53,533	65,930	51,029
Total administrative	<u>370,809</u>	<u>389,346</u>	<u>353,508</u>
Marketing	<u>24,490</u>	<u>8,190</u>	<u>20,043</u>
Operations and maintenance:			
Gas, electric and fuel	60,518	61,179	52,436
Telephone	9,555	10,004	9,537
Trash removal	4,196	3,135	2,886
Depreciation	45,140	44,076	43,138
Insurance	35,677	12,866	13,858
Mortgage interest	19,237	21,083	22,729
Repairs and maintenance	13,819	38,936	14,496
Taxes	678	160	382
Total operations and maintenance	<u>188,820</u>	<u>191,439</u>	<u>159,462</u>
Investment account fees	<u>836</u>	<u>551</u>	<u>360</u>
Total expenses	<u>\$ 944,764</u>	<u>\$ 982,497</u>	<u>\$ 855,775</u>

The accompanying notes are an integral part of these financial statements

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2006, 2005 AND 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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 Metropolia 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.

Financial Statement Presentation

The Seminary reports information regarding its financial position and activities according to three classes of net assets as determined by donor-imposed restrictions: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Accounting 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 certain reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Cash Equivalents

The Seminary considers short-term, highly liquid bank deposits with original maturities of twelve months or less to be cash equivalents. For the purpose of presenting the statement of cash flows, the Seminary excludes "restricted cash".

Receivables

The Seminary records tuition receivable. There is no provision for doubtful accounts as scholarships from donors are used to offset any amount uncollectible.

Investments

The Seminary reports investments in equity securities, including mutual funds, at market value. Increases or decreases in the market value are reflected currently in the statement of activities.

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2006, 2005 AND 2004

Property and Equipment

Property and equipment are stated at cost. Contributed property is stated at fair market value on the date of the contribution. Repairs and maintenance are expensed as incurred, whereas major purchases are capitalized.

Depreciation has been calculated and provided over the estimated useful lives of the respective assets on a straight-line basis. Estimated useful lives are summarized as follows:

	<u>Estimated Useful Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and equipment	5 – 20 years

Contributions and Donor Restrictions

The Seminary reports contributions of cash or other assets as restricted support, thereby increasing temporarily restricted net assets, if they are received with donor stipulations that limit, specify or otherwise restrict the use of such contributions. When a donor restriction expires, either by use of the funds for the specified purpose or by the expiration of a time restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Endowment funds established by donor restrictions to permanently maintain the principal, while allowing the use of income generated therefrom, are classified as permanently restricted net assets. Income derived from the investment of endowment funds (interest and dividends) is reported as unrestricted revenue or as temporarily restricted revenue depending on the terms of the donor instrument.

Contributed Services

The Seminary recognizes contributions of services received as support in the statement of activities with an equal amount recognized as expense if the services provided require special skills and would need to be purchased by the Seminary if not contributed.

Income Tax

The Seminary was granted exemption from Federal Income Tax under section 501(c) (3) of the Internal Revenue Code effective February 1948. Accordingly, no provision for income taxes is included in these financial statements.

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2006, 2005 AND 2004

NOTE 2: PROPERTY AND EQUIPMENT

August 31:	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$70,601	\$70,601	\$70,601
Buildings and improvements	1,427,708	1,421,448	1,421,448
Furniture	87,230	87,230	87,230
Equipment	<u>62,865</u>	<u>57,359</u>	<u>52,361</u>
	1,648,404	1,636,638	1,631,640
Less accumulated provisions for depreciation	<u>779,460</u>	<u>734,320</u>	<u>690,244</u>
	<u>\$868,944</u>	<u>\$902,318</u>	<u>\$941,396</u>

NOTE 3: EMPLOYEE PENSION PLAN

The Seminary participates in The Orthodox Church in America Pension Plan. The plan covers all Bishops and Priests and all full time lay persons electing to be covered by the plan. The plan is a defined benefit plan, which requires a mandatory 12% contribution on behalf of all participating members. The vesting schedule 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%

Pension expense was \$37,442, \$39,094 and \$35,450 for the fiscal years ending August 31, 2006, 2005 and 2004, respectively.

The plan administrator is the Pension Board comprised of not less than three (3) persons appointed by the Church. A valuation of the plan is required at least once every three years by an enrolled actuary as defined under the Employee Retirement Income Security Act (ERISA) 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.

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2006, 2005 AND 2004

NOTE 4: CONTRIBUTED SERVICES

For the years ended August 31, 2006, 2005 and 2004, the Seminary recorded contributions in the amount of \$92,600, \$106,000 and \$68,900, 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 each respective year.

NOTE 5: RESTRICTED NET ASSETS

Temporarily restricted net assets at August 31 consist of the following:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Restricted for:			
Building and renovations	\$ 10,769	\$ 10,305	\$ 9,861
Development	70,329	67,590	65,082
Emergency	6,168	6,018	5,938
Scholarships	1,118,592	1,122,178	890,204
General endowments	<u>393,318</u>	<u>379,232</u>	<u>319,224</u>
	<u>\$1,599,176</u>	<u>\$1,584,640</u>	<u>\$1,290,309</u>

Permanently restricted net assets at August 31 are restricted to investment in perpetuity, the income from which is expendable to support:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Scholarships	\$ 71,589	\$ 75,963	\$81,306
General endowments	<u>109,393</u>	<u>101,951</u>	<u>-0-</u>
	<u>\$180,982</u>	<u>\$177,914</u>	<u>\$81,306</u>

During the years ended August 31, net assets were released from donor restrictions by incurring expenses as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Scholarships	\$ 480	\$27,720	\$20,764

NOTE 6: FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK

The Seminary's financial instruments that potentially subject it to concentrations of credit risk consist of cash and investments

The Seminary maintains its cash accounts in high quality financial institutions. At times, the amounts on deposit at any institution are in excess of insured limits. The excess is approximated as follows:

August 31, 2006	\$723,500
August 31, 2005	\$609,000
August 31, 2004	\$438,000