

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY

**FINANCIAL STATEMENTS
FOR THE TEN MONTHS ENDED
JUNE 30, 2008
&
INDEPENDENT AUDITORS' REPORT
&
ADDITIONAL INFORMATION**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees

St. Tikhon's Orthodox Theological Seminary:

We have audited the accompanying statement of financial position of St. Tikhon's Orthodox Theological Seminary (the "Seminary") as of June 30, 2008, and the related statements of activities, changes in net assets, and cash flows for the ten month period then ended. These financial statements are the responsibility of the Seminary's management. 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 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 accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, and the changes in its net assets and its cash flows for the ten month period then ended.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional information on page 15 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 auditing 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.

Parente Randolph, LLC

Scranton, Pennsylvania
October 27, 2008

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2008**

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$1,257,447
Tuition receivable	<u>26,016</u>

Total current assets	1,283,463
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PROPERTY AND EQUIPMENT, Net	854,828
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INVESTMENTS	<u>894,869</u>
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TOTAL	<u>\$3,033,160</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Current portion of long-term debt	\$ 47,090
Accounts payable	48,182
Deferred revenue	<u>57,603</u>

Total current liabilities	152,875
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LONG-TERM DEBT	<u>149,835</u>
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Total liabilities	<u>302,710</u>
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NET ASSETS:

Unrestricted:

Undesignated	724,862
Board designated	<u>437,866</u>

Total unrestricted	1,162,728
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Temporarily restricted	176,684
Permanently restricted	<u>1,391,038</u>

Total net assets	<u>2,730,450</u>
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TOTAL	<u>\$3,033,160</u>
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See Notes to Financial Statements

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY

**STATEMENT OF ACTIVITIES
FOR THE TEN MONTHS ENDED JUNE 30, 2008**

CHANGES IN UNRESTRICTED NET ASSETS

SUPPORT AND REVENUE:

Contributions	\$ 433,215
Tuition	258,911
Bequests	155,974
Seminary choir	57,388
Contributed services	33,000
Miscellaneous	<u>1,569</u>

Total support and revenue 940,057

EXPENSES:

Instructional	424,475
Administrative	239,944
Operations	187,967
Marketing	25,736
Student services	19,376
Library	14,265
Investment loss	12,251
Other	<u>680</u>

Total expenses 924,694

INCREASE IN UNRESTRICTED NET ASSETS 15,363

CHANGE IN TEMPORARILY RESTRICTED NET ASSETS,

Investment income 22,694

CHANGE IN PERMANENTLY RESTRICTED NET ASSETS,

Investment loss (11,115)

INCREASE IN NET ASSETS \$ 26,942

See Notes to Financial Statements

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE TEN MONTHS ENDED JUNE 30, 2008**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
NET ASSETS, AUGUST 31, 2007	\$ 1,147,365	\$ 153,990	\$ 1,402,153	\$ 2,703,508
INCREASE IN UNRESTRICTED NET ASSETS	15,363			15,363
INVESTMENT INCOME (LOSS)		22,694	(11,115)	11,579
NET CHANGES IN NET ASSETS	15,363	22,694	(11,115)	26,942
NET ASSETS, JUNE 30, 2008	\$ 1,162,728	\$ 176,684	\$ 1,391,038	\$ 2,730,450

See Notes to Financial Statements

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY

**STATEMENT OF CASH FLOWS
FOR THE TEN MONTHS ENDED JUNE 30, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase in net assets	\$ 26,942
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	33,072
Net realized and unrealized losses on investments	60,863
Changes in assets and liabilities:	
Tuition receivable	3,715
Prepaid expenses	20,208
Accounts payable	40,435
Deferred revenue	<u>(6,125)</u>

Net cash provided by operating activities 179,110

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(451,857)
Proceeds from sale of investments	155,486
Purchase of property and equipment	<u>(57,001)</u>

Net cash used in investing activities (353,372)

CASH FLOWS FROM FINANCING ACTIVITIES:

Repayment of long-term debt	(37,109)
Repayment of demand notes payable	<u>(18,457)</u>

Net cash used in financing activities (55,566)

NET DECREASE IN CASH AND CASH EQUIVALENTS (229,828)

CASH AND CASH EQUIVALENTS, BEGINNING 1,487,275

CASH AND CASH EQUIVALENTS, ENDING \$1,257,447

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION,

Interest paid	<u>\$ 11,274</u>
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See Notes to Financial Statements

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

St. Tikhon's Orthodox Theological Seminary (the "Seminary") was founded in 1938 as a Pastoral School by resolution of the 6th All-American Sobor of the Russian Orthodox Greek Catholic Church in North America and was officially transformed from a Pastoral School into a Seminary by the Holy Synod of the Metropolis in 1942.

The Seminary is an institution of professional Orthodox Christian theological education, chartered by the Department of Education of the Commonwealth of Pennsylvania and affiliated with the Orthodox Church in America. The primary mission of the Seminary lies in providing the necessary theological, liturgical, spiritual, and moral foundations for Orthodox men to become, as God so wills, good shepherds of His Holy Orthodox Church.

CHANGE IN FISCAL YEAR

Effective September 1, 2007, the Seminary elected to change its fiscal year end to June 30.

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. Accordingly, 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.

TUITION RECEIVABLE

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

INVESTMENTS AND INVESTMENT RISK

Investments in marketable equity securities are valued at fair value based upon quoted market prices of the underlying securities. The carrying amount of cash and short-term investments approximates fair value.

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

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. Depreciation was \$33,072 in 2008.

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.

DEFERRED REVENUE

Tuition received in advance of the ensuing school year is recorded as deferred revenue until earned.

TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

Permanently restricted net assets have been restricted by donors to be maintained by the Seminary in perpetuity. Income earned is unrestricted in use, except for amounts designated to be expended for a particular purpose.

CONTRIBUTED SERVICES

For the ten months ended June 30, 2008, the Seminary recorded contributions in the amount of \$33,000, 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.

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 operations as net assets released from restrictions.

INCOME TAXES

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

2. PROPERTY AND EQUIPMENT AND ACCUMULATED DEPRECIATION

Property and equipment and accumulated depreciation as of June 30, 2008 are as follows:

Land	\$ 70,601
Buildings and improvements	1,477,068
Furniture	87,230
Equipment	<u>76,191</u>
Total	1,711,090
Less accumulated depreciation	<u>856,262</u>
Property and equipment, net	<u>\$ 854,828</u>

3. INVESTMENTS

The composition of investments as of June 30, 2008 is as follows:

Money market	\$621,178
Marketable equity securities	<u>273,691</u>
Total	<u>\$894,869</u>

Investment income for cash and cash equivalents and investments is comprised of the following for the ten month period ended June 30, 2008:

Interest and dividend income	\$ 60,191
Realized and unrealized losses on investments	<u>(60,863)</u>
Total	<u>\$ (672)</u>

4. LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2008:

Mortgage payable, with interest at 6%. Monthly principal and interest payments of \$4,804 are due through April 2012, collateralized by a first lien on real estate	\$196,925
Less current portion	<u>47,090</u>
Long-term debt	<u>\$149,835</u>

Scheduled principal repayments for periods subsequent to June 30, 2008 are as follows:

<u>YEARS ENDING JUNE 30:</u>	<u>AMOUNT</u>
2009	\$ 47,090
2010	50,000
2011	53,090
2012	<u>46,745</u>
Total	<u>\$196,925</u>

5. 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 \$36,470 for the ten months ended June 30, 2008.

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.

6. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2008 consist of the following:

Restricted for:	
Scholarships	\$ 60,241
General endowments	<u>116,443</u>
Total	<u>\$ 176,684</u>

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY
NOTES TO FINANCIAL STATEMENTS

Permanently restricted net assets at June 30, 2008 consist of the following:

Scholarships	\$ 725,087
General endowments	<u>665,951</u>
Total	<u>\$1,391,038</u>

7. FUNCTIONAL EXPENSES

The Seminary provides theological teachings to individuals within its geographic location. Expenses related to providing these services for 2008 are as follows (in thousands):

Program services	\$ 672
General and administrative	240
Other	<u>13</u>
Total	<u>\$ 925</u>

8. CONTINGENCIES

As a not-for-profit corporation in the Commonwealth of Pennsylvania, the Seminary 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.

The Seminary primarily maintains its cash and investments with financial institutions. The Federal Deposit Insurance Corporation ("FDIC") insures accounts to \$100,000 at each institution. The Seminary generally has cash on deposit in excess of insured amounts. As of June 30, 2008, the Seminary has approximately \$690,000 of uninsured cash and investments.

9. SUBSEQUENT EVENT

On October 3, 2008, the FDIC increased its insurance coverage on cash and investments to \$250,000. This is a temporary increase and will return to \$100,000 on January 1, 2010.

Subsequent to June 30, 2008, events in financial markets have led to declines in the fair value of investment securities. As a result, the fair value of the Seminary's investment securities has been subject to price volatility and short-term liquidity risks which may effect future investment valuations.

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY

**SCHEDULE OF EXPENSES
FOR THE TEN MONTHS ENDED JUNE 30, 2008**

INSTRUCTIONAL:

Faculty wages	\$ 228,037
Employee benefits	92,972
Donated services	33,000
Travel	31,700
Pension	20,523
Payroll taxes	<u>18,243</u>

Total instruction \$ 424,475

ADMINISTRATIVE:

Staff wages	\$ 110,784
Employee benefits	32,626
Automobile	27,662
Professional fees	18,908
Pension	15,947
Office supplies	10,570
Conferences	8,768
Payroll taxes	7,957
Dues and subscriptions	3,407
Equipment lease	2,969
Interest	<u>346</u>

Total administrative \$ 239,944

OPERATIONS:

Utilities	\$ 72,221
Insurance	40,151
Depreciation	33,072
Repairs and maintenance	17,979
Interest	10,928
Telephone	7,882
Trash removal	5,518
Real estate taxes	<u>216</u>

Total operations \$ 187,967

See Notes to Financial Statements

Board of Trustees

St. Tikhon's Orthodox Theological Seminary:

We have audited the financial statements of St. Tikhon's Orthodox Theological Seminary (the "Seminary") for the ten months ended June 30, 2008, and have issued our report thereon dated October 27, 2008. Professional standards require that we provide you with the following information related to our audit.

**OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED
IN THE UNITED STATES OF AMERICA**

As stated in our engagement letter dated September 4, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Seminary. Such considerations were solely for the purpose of determining our audit procedures and not to provide assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 4, 2008.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Seminary are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the ten months ended June 30, 2008. We noted no transactions entered into by the Seminary during the period for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We noted no particularly sensitive estimates related to the preparation of the Seminary's financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected And Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated October 27, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Seminary's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to our retention as the Seminary's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the information and use of the Board of Trustees and management of St Tikhon's Orthodox Theological Seminary and is not intended to be and should not be used by anyone other than these specified parties.

Parente Randolph, LLC

Scranton, Pennsylvania
October 27, 2008