St. Tikhon's Orthodox Theological Seminary

Financial Statements
For the Year Ended
August 31, 2007
&
Independent Auditors' Report
&
Additional Information

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 August 31, 2007, and the related statements of activities, changes in net assets, and cash flows for the year 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 August 31, 2007, and the changes in its net assets and its cash flows for the year then ended.

As disclosed in Note 11 to the financial statements, the Seminary restated its 2006 financial statements to account for the classification of donor contributions in conformity with accounting principles generally accepted in the United States of America.

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 31, 2007

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY

STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2007

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$1,487,275
Tuition receivable	29,731
Prepaid expenses	20,208
Total current assets	1,537,214
PROPERTY AND EQUIPMENT, Net	830,899
INVESTMENTS	659,361
TOTAL	$3,027,474

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Demand note payable, bank	$ 18,457
Current portion of long-term debt	44,795
Accounts payable	7,747
Deferred revenue	63,728
Total current liabilities	134,727
LONG-TERM DEBT	189,239
Total liabilities	323,966
NET ASSETS:	
Unrestricted:	
Undesignated	686,204
Board designated	461,161
Total unrestricted	1,147,365
Temporarily restricted	153,990
Permanently restricted	1,402,153
Total net assets	2,703,508
TOTAL	$3,027,474

See Notes to Financial Statements

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2007

CHANGES IN UNRESTRICTED NET ASSETS	
SUPPORT AND REVENUE:	
Revenue:	
Contributions	$ 820,301
Tuition	224,572
Contributed services	88,800
Bequests	49,561
Investment income	77,056
Seminary choir	24,963
Miscellaneous	11,539
Total support and revenue	1,296,792
EXPENSES:	
Instructional	514,692
Administrative	277,247
Operations	173,926
Marketing	30,616
Student services	19,450
Library	14,080
Other	3,640
Total expenses	1,033,651
INCREASE IN UNRESTRICTED NET ASSETS	263,141
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS, Investment income	34,709
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS, Investment income	7,984
INCREASE IN NET ASSETS	$ 305,834

See Notes to Financial Statements

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2007

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
NET ASSETS, AUGUST 31, 2006 AS PREVIOUSLY REPORTED	$ 617,516	$ 1,599,176	$ 180,982	$ 2,397,674
RESTATEMENT	266,708	(1,479,895)	1,213,187	-
NET ASSETS, AUGUST 31, 2006, AS RESTATED	884,224	119,281	1,394,169	2,397,674
INCREASE IN UNRESTRICTED NET ASSETS	263,141			263,141
INVESTMENT INCOME	-	34,709	7,984	42,693
CHANGES IN NET ASSETS	263,141	34,709	7,984	305,834
NET ASSETS, AUGUST 31, 2007	$ 1,147,365	$ 153,990	$ 1,402,153	$ 2,703,508

See Notes to Financial Statements

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase in net assets	$ 305,834
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	43,730
Net realized and unrealized gains on investments	(19,384)
Changes in assets and liabilities:	
Interest receivable	3,897
Tuition receivable	365
Prepaid expenses	(8,183)
Accounts payable	(31,030)
Interest payable	(754)
Deferred revenue	63,728
Net cash provided by operating activities	358,203
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(289,822)
Proceeds from sale of investments	220,016
Purchase of property and equipment	(5,685)
Cash used in investing activities	(75,491)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayment of demand notes payable	(44,829)
Repayment of long-term debt	(42,219)
Net cash used in financing activities	(87,048)
NET INCREASE IN CASH AND CASH EQUIVALENTS	195,664
CASH AND CASH EQUIVALENTS, BEGINNING	1,291,611
CASH AND CASH EQUIVALENTS, ENDING	$1,487,275
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION,	
Interest paid	$ 18,439

See 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.

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 $43,730 in 2007.

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 ensuring 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 year ended August 31, 2007, the Seminary recorded contributions in the amount of $88,800, 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 year.

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 August 31 are as follows:

Land	$ 70,601
Buildings and improvements	1,427,708
Furniture	87,230
Equipment	68,550
Total	1,654,089
Less accumulated provisions for depreciation	823,190
Property and equipment, net	$ 830,899

3. INVESTMENTS

The composition of investments is as follows at August 31:

Money market	$118,381
Marketable equity securities	540,980
Total	$659,361

Investment income for cash and cash equivalents and investments is comprised of the following for the year ended August 31:

Interest and dividend income	$ 100,365
Change in unrealized gains	20,809
Net realized loss on sales of investments	(1,425)
Total	$119,749

4. DEMAND NOTES PAYABLE, BANK

The Seminary has available for working capital purposes a $50,000 line of credit from a bank. Borrowings are secured by a $100,000 certificate of deposit held by the bank. Interest is payable at the bank's prime rate, minus .5% (7.75% at August 31, 2007). This credit facility matures February 2008. The outstanding balance was $18,457 at August 31, 2007.

5. LONG-TERM DEBT

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

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 the building	$234,034
Less current portion	44,795
Long-term debt	$189,239

Scheduled principal repayments for periods subsequent to August 31, 2007 are as follows:

YEARS ENDING AUGUST 31	AMOUNT
2008	$ 44,795
2009	47,563
2010	50,502
2011	53,623
2012	37,551
Total	$234,034

6. 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:

YEARS OF SERVICE	VESTED PERCENTAGE
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 $38,593 for the fiscal year ending August 31, 2007.

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.

7. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

Restricted for:	
Scholarships	$58,713
General endowments	95,277
Total	$153,990

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

Scholarships	$774,934
General endowments	627,219
Total	$1,402,153

8. FUNCTIONAL EXPENSES

The Seminary provides theological teachings to individuals within its geographic location. Expenses related to providing these services for 2007 are as follows (in thousands):

Programs services	$ 982
General and administrative	42
Fundraising	10
Total	$1,034

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, 2007 are as follows:

FISCAL YEAR ENDING AUGUST 31	
2008	$5,100
2009	1,509
2010	197
Total	$6,806

10. CONTINGENCIES

The Seminary is periodically involved in certain litigation arising from its ordinary operations. In the opinion of management, the ultimate outcome of these matters is not likely to have a material adverse effect on the Seminary's financial position.

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 maintains its cash and investment primarily with financial institutions. The Federal Deposit Insurance Corporation insures accounts to $100,000 at each institution. The Seminary generally has cash on deposit in excess of insured amounts.

11. RESTATEMENT

The Seminary restated its 2006 financial statements to present its net assets at August 31, 2006 in accordance with the terms of contributions received from various donors in previous years. The effect of the restatement was to increase unrestricted net assets by $266,708, decrease temporarily restricted net assets by $1,479,895, and increase permanently restricted net assets by $1,213,187 at August 31, 2006. The restatement had no other effect on the change in net assets for 2006.

ST. TIKHON'S ORTHODOX THEOLOGICAL SEMINARY

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2007

INSTRUCTION:		
Faculty wages	$	271,580
Donated services		88,800
Employee benefits		87,394
Pension		24,442
Payroll taxes		21,726
Travel		20,750
Total instruction	$	514,692
ADMINISTRATIVE:		
Staff wages	$	127,801
Employee benefits		33,266
Professional fees		25,462
Office supplies		21,685
Automobile		19,704
Interest		16,704
Pension		14,151
Payroll taxes		9,014
Conferences		5,859
Equipment lease		1,809
Dues and subscriptions		1,792
Total administrative	$	277,247
OPERATIONS:		
Utilities	$	68,781
Depreciation		43,730
Insurance		27,938
Repairs and maintenance		15,811
Telephone		9,139
Trash removal		7,222
Interest		981
Real estate taxes		324
Total operations	$	173,926

See Notes to Financial Statements

PARENTERANDOLPH

The Power of Ideas

Board of Directors
St. Tikhon's Orthodox Theological Seminary

We have audited the financial statements of St. Tikhon's Orthodox Theological Seminary (the "Seminary") for the year ended August 31, 2007, and have issued our report thereon dated October 31, 2007. 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 21, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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 any assurance concerning such internal control.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Seminary are described in Note 1 to the financial statements. As described in Note 11 to the financial statements, the Seminary restated its 2006 financial statements to properly account for the classification of donor contributions, in conformity with accounting principles generally accepted in the United States of America. We noted no transactions entered into by the Seminary during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

ACCOUNTING ESTIMATES

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. The most sensitive estimates affecting the financial statements are management's estimates of the allowance for uncollectible accounts receivable, which is based on analysis of the collectibility of individual accounts. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

AUDIT ADJUSTMENTS

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Seminary's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Seminary, either individually or in the aggregate, indicate matters that could have a significant effect on the Seminary's financial reporting process.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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.

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.

ISSUES DISCUSSED PRIOR TO RETENTION OF INDEPENDENT AUDITORS

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to 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.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

This information is intended solely for the use of the Board of Directors, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Parente Randolph, LLC

Scranton, Pennsylvania
October 31, 2007