

**ST. VLADIMIR'S ORTHODOX
THEOLOGICAL SEMINARY
FINANCIAL STATEMENTS**

JUNE 30, 2009

ST. VLADIMIR'S ORTHODOX THEOLOGICAL SEMINARY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
St. Vladimir's Orthodox Theological Seminary
Crestwood, New York

We have audited the accompanying statement of financial position of St. Vladimir's Orthodox Theological Seminary (the Seminary), (a nonprofit organization) as of June 30, 2009, and the related statements of activities, 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. The prior year summarized comparative information has been derived from the organization's June 30, 2008 financial statements audited by other auditors whose report dated October 26, 2008, expressed an unqualified opinion on those financial statements.

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. Vladimir's Orthodox Theological Seminary as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

D'Arcangelo & Co., LLP

September 15, 2009

ST. VLADIMIR'S ORTHODOX THEOLOGICAL SEMINARY

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2009

With Summarized Comparative Financial Information as of June 30, 2008

	2009	2008
ASSETS		
Cash	\$ 70,516	\$ 110,230
Restricted cash	1,660,016	-
Accounts receivable, net of allowance for doubtful accounts of \$81,449 in 2009 and 2008	173,105	193,740
Bequests receivable	371,330	814,518
Pledges receivable, net	511,250	611,333
Prepaid expenses	28,445	8,548
Inventory	872,430	874,886
Investments	9,348,854	14,127,501
Investment in property	122,122	122,122
Cash surrender value of life insurance	132,020	126,501
Property and equipment, net of accumulated depreciation of \$7,303,339 in 2009 and \$6,657,640 in 2008	16,044,180	16,454,804
Total assets	<u>\$ 29,334,268</u>	<u>\$ 33,444,183</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 275,293	\$ 206,800
Deferred revenue	11,165	13,937
Mortgages and loans payable	4,172,081	4,249,978
Annuity and life trust payable	180,368	166,281
Total liabilities	<u>4,638,907</u>	<u>4,636,996</u>
Net assets:		
Unrestricted		
Net investment in land, building and equipment	12,267,098	12,504,826
Board designated long-term investments	3,636,138	4,966,849
Undesignated	(1,894,367)	225,935
Total unrestricted	14,008,869	17,697,610
Temporarily restricted	1,187,705	1,833,541
Permanently restricted	9,498,787	9,276,036
Total net assets	<u>24,695,361</u>	<u>28,807,187</u>
Total liabilities and net assets	<u><u>\$ 29,334,268</u></u>	<u><u>\$ 33,444,183</u></u>

See notes to financial statements.

2.

ST. VLADIMIR'S ORTHODOX THEOLOGICAL SEMINARY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009

With Summarized Comparative Financial Information for the Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total
Revenue and reclassifications					
Tuition and fees	\$ 739,854	\$ -	\$ -	\$ 739,854	\$ 575,416
Less scholarship and financial aid	(265,609)	-	-	(265,609)	(253,607)
Net tuition and fees	474,245	-	-	474,245	321,809
Gifts and grants	1,355,849	58,135	222,751	1,636,735	3,403,873
Endowment income (loss)	(2,561,359)	(391,511)	-	(2,952,870)	(704,211)
Investment income (loss)	148,577	-	-	148,577	(341,807)
Subscriptions income	10,087	-	-	10,087	23,655
Summer institute income	18,353	-	-	18,353	47,989
Auxiliary enterprises	1,451,583	-	-	1,451,583	1,583,285
Other income	33,257	-	-	33,257	14,755
Total revenue before net assets released from restriction	930,592	(333,376)	222,751	819,967	4,349,348
Reclassifications:					
Satisfaction of program restrictions	312,460	(312,460)	-	-	-
Total revenue and reclassifications	1,243,052	(645,836)	222,751	819,967	4,349,348
Expenses					
Instruction	940,177	-	-	940,177	932,773
Public service	46,546	-	-	46,546	53,082
Library	156,166	-	-	156,166	157,323
Student services	76,985	-	-	76,985	81,126
Theological research publications	10,814	-	-	10,814	5,201
Operation and maintenance of plan	682,817	-	-	682,817	600,176
General institutional expense	1,365,098	-	-	1,365,098	1,341,150
Interest expense	145,900	-	-	145,900	504,316
Auxiliary enterprises	861,591	-	-	861,591	798,327
Total expenses	4,286,094	-	-	4,286,094	4,473,474
Change in net assets before depreciation	(3,043,042)	(645,836)	222,751	(3,466,127)	(124,126)
Depreciation	(645,699)	-	-	(645,699)	(690,206)
Change in net assets	(3,688,741)	(645,836)	222,751	(4,111,826)	(814,332)
Net assets, beginning of year	17,697,610	1,833,541	9,276,036	28,807,187	29,621,519
Net assets, end of year	<u>\$ 14,008,869</u>	<u>\$ 1,187,705</u>	<u>\$ 9,498,787</u>	<u>\$ 24,695,361</u>	<u>\$ 28,807,187</u>

See notes to financial statements.

ST. VLADIMIR'S ORTHODOX THEOLOGICAL SEMINARY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2009

With Summarized Comparative Financial Information for the Year Ended June 30, 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ (4,111,826)	\$ (814,332)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	645,699	690,206
Contributions restricted for long-term investments	(62,231)	(1,993,323)
Realized (gains) loss on investments	1,355,566	(741,046)
Unrealized loss on investments	1,597,304	1,787,064
(Increase) decrease in operating assets:		
Accounts receivable	20,635	4,287
Bequests receivable	443,188	(814,518)
Pledges receivable	100,083	(258,516)
Prepaid expenses and security deposits	(19,897)	12,962
Inventory	2,456	(122,056)
Cash surrender value of life insurance	(5,519)	(3,233)
Increase (decrease) in operating liabilities:		
Accounts payable	68,493	87,775
Deferred revenue	(2,772)	9,433
Annuity and life trust payable	<u>14,087</u>	<u>(17,666)</u>
Net cash provided by (used in) operating activities	<u>45,266</u>	<u>(2,172,963)</u>
Cash flows from investing activities:		
Purchase of investments	(17,566,006)	(23,028,789)
Proceeds from sales of investments	19,391,783	23,200,626
Increase in restricted cash	(1,660,016)	-
Purchase of property and equipment	<u>(235,075)</u>	<u>(420,021)</u>
Net cash used in investing activities	<u>(69,314)</u>	<u>(248,184)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment	-	1,642,834
Land, building and equipment	62,231	350,489
Proceeds from debt	456,055	3,913,753
Repayment of principal debt	<u>(533,952)</u>	<u>(3,482,723)</u>
Net cash provided by (used in) financing activities	<u>(15,666)</u>	<u>2,424,353</u>
Net increase (decrease) in cash	(39,714)	3,206
Cash, beginning of year	<u>110,230</u>	<u>107,024</u>
Cash, end of year	<u>\$ 70,516</u>	<u>\$ 110,230</u>
Supplementary information:		
Total interest paid	\$ 146,987	\$ 504,316

See notes to financial statements.

ST. VLADIMIR'S ORTHODOX THEOLOGICAL SEMINARY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization, nature of activities and tax-exempt status

St. Vladimir's Orthodox Theological Seminary, (the "Seminary") is a graduate professional school chartered and approved by the Board of Regents of the University of the State of New York and accredited nationally by the Association of Theological Schools. The Seminary's twofold mission is to adequately prepare educated clergy and leaders to service the Orthodox faithful in this country and abroad, and to promote study and research in Orthodox theology, history and culture.

The Seminary is a not-for-profit corporation organized under the not-for-profit laws of New York State, and chartered as an education corporation by the Education Department of the State of New York. The Seminary has been determined to be an organization exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and similar state provisions. The Seminary has also been classified as an entity that is not a private foundation within the meaning of IRC Section 509(a) thereby qualifying for the receipt of deductible contributions as provided in IRC Section 170.

Basis of financial statement presentation and classification of net assets

The financial statements of The Seminary have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations. The net assets of the Seminary and changes therein are classified and reported as follows:

Net assets

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions of a more specific nature than those which only obligate the organization to utilize funds in furtherance of its mission.

ST. VLADIMIR'S ORTHODOX THEOLOGICAL SEMINARY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets (continued)

Temporarily restricted net assets - Net assets that carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds. Temporary restrictions may expire either because certain actions are taken by the organization which fulfill the restrictions or because of the passage of time. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Permanently restricted net assets - Net assets that are subject to donor-imposed restrictions which will never lapse, thus requiring that the funds be permanently retained. Generally, the donors of these funds permit the organization to use all or part of the income earned on related investments, and the net capital appreciation thereon, for general or specific purposes.

Accounts receivable

The Seminary has established an allowance for doubtful accounts to provide for potential losses in the various receivable accounts. The allowances for doubtful accounts is established through a provision for losses charged to expense. Receivables are charged against the allowance when management believes that collectibility is unlikely. The allowance is an amount that management believes will be adequate to absorb losses on existing receivables that may become uncollectible, based on evaluations that take into consideration such factors as changes in the nature and volume of receivables, review of specific problem receivables, and current economic conditions that may affect collection.

Contributions

Contributions are recorded as revenue upon receipt of cash or unconditional promises to give (pledges). Contributions are considered available for unrestricted use unless specifically restricted by the donor.

Cash and cash equivalents

The Seminary includes cash on deposit, cash on hand and certificates of deposits with original maturities less than three months (if any) to be cash equivalents.

ST. VLADIMIR'S ORTHODOX THEOLOGICAL SEMINARY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments comprise money market funds, marketable debt and equity securities, and accrued interest and dividends thereon and are recorded at market value. The market values of investments are generally determined based on quoted market prices or estimated fair values provided by external investment managers or other sources. Investment transactions are recorded on the trade date. Realized gains and losses on the sale of investments are calculated on the basis of specific identification of the securities sold. Investment management fees and service charges are netted against investment income. Donated investments are reflected as contributions at their market values at date of receipt.

The Seminary's investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the values of investments, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statement of financial position and the statement of activities.

Inventory

The Seminary's bookstore inventory is stated at the lower of cost or market, determined by the first-in, first-out method.

Pledges and bequests receivable

Pledges receivable are recognized as income in the year for which the pledge is made. Pledges and distributions of bequests that are expected to be received within one year are recorded at net realizable value. Pledges and distributions from bequests that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the pledges are received. Amortization of the discounts is included in contribution revenue.

ST. VLADIMIR'S ORTHODOX THEOLOGICAL SEMINARY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Additions to property and equipment in excess of \$5,000 are recorded at cost or, if donated, at the fair market value on the date of the gift.

Property and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Building and improvements	30 - 40 years
Library books and media	5 - 10 years
Furniture and equipment	5 - 10 years
Vehicles	5 years

Charitable gift annuities and charitable remainder unitrust

The Seminary has entered into several Charitable Gift Annuity Agreements and Charitable Remainder Unitrusts whereby the donor contributes assets in exchange for distributions for a specified period of time to the donor or other beneficiaries. At the end of the specified time, the remaining assets are available for the Seminary's use. Assets received are recorded at fair value on the date the agreement or unitrust is recognized, and a liability equal to the present value of the future distributions is recorded. The difference between the fair value of the assets received and the liability to the donor or other beneficiaries is recognized as contribution revenue. On an annual basis, the Seminary revalues the liability based on applicable mortality tables and discount rates, which vary from 6.7% to 9.7%. One annuitant has stipulated a payout of 50% of the contributed asset account balance to an unrelated third party, after death, in the event there remain enough funds in the investment asset account to make such a payout. At June 30, 2009, there were no such excess funds.

Prior year summarized comparative information

The financial statements include certain prior year summarized comparative information in total but not by asset class or functional expense. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Seminary's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

ST. VLADIMIR'S ORTHODOX THEOLOGICAL SEMINARY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expense allocation

Directly identifiable expenses are charged to programs and supporting services. Development and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the organization.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain 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.

2. CONCENTRATIONS

The Seminary's cash management policy is to mitigate the Organization's credit risks by investing in or through major financial institutions.

3. RESTRICTED CASH

The Seminary, in accordance with its loan agreement, maintains a designated bank account at Smith Barney to fund its annual required loan repayments. At June 30, 2009, \$1,660,016 was held in a Smith Barney money market account as collateral for the \$3,453,939 Smith Barney loan (Note 8).

ST. VLADIMIR'S ORTHODOX THEOLOGICAL SEMINARY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

4. PLEDGES RECEIVABLE

Pledges receivable

Pledged commitments consist of one time pledges for annual operating support and pledges in connection with capital campaigns.

Pledges receivable are summarized as follow:

In less than one year	\$ 254,362
In one to five years	<u>334,511</u>
	588,873
Less: Allowance for uncollectable pledges	(58,887)
Less: Unamortized discount	<u>(18,736)</u>
Net Pledges receivable	<u>\$ 511,250</u>

A discount rate of 3% was used to determine the net present value of pledges receivable in more than one year.

5. INVESTMENTS

The cost and market values of investments as of June 30, 2009 are as follows:

	<u>Cost</u>	<u>Market Value</u>
Cash and cash equivalents	\$1,175,791	\$1,175,791
Mutual funds	1,002,141	727,291
Stocks	8,699,904	7,392,651
Bonds	<u>48,641</u>	<u>53,121</u>
Total	<u>\$10,926,477</u>	<u>\$9,348,854</u>

Endowment and investment income are allocated based on pooling of investments and consists of the following:

Interest and dividend income	\$ 230,785
Investment fees	(82,208)
Realized loss on investments	(1,355,566)
Unrealized loss on investments	<u>(1,597,304)</u>
	<u>\$ (2,804,293)</u>

ST. VLADIMIR'S ORTHODOX THEOLOGICAL SEMINARY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

6. FAIR VALUE MEASUREMENTS

In accordance with generally accepted accounting principles, *Fair Value Measurements*, the following are the Seminary's financial assets and liabilities presented at fair value:

Fair Value Measurements at Reporting Date Using

<u>Description</u>	<u>6/30/09</u>	<u>Quoted Prices In Active Markets for Identical assets/liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Restricted cash	\$ 1,660,016	\$ 1,660,016	\$ -	\$ -
Investment securities	9,348,854	9,348,854	-	-
Investment in property	122,122		122,122	-
Cash surrender value of life insurance	132,020		132,020	-
Total	\$ 11,263,012	\$ 11,008,870	\$ 254,142	-
Liability:				
Annuity and life trust payable	\$ 180,368		\$ 180,368	

7. PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30, 2009 is as follows:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>
Land	\$ 740,744	\$ -	\$ 740,744
Land improvements	649,602	167,275	482,327
Building and improvements	19,376,984	5,173,006	14,203,978
Library books and media	1,124,408	857,680	266,728
Furniture and equipment	1,355,817	1,034,844	320,973
Vehicles	99,964	70,534	29,430
	<u>\$ 23,347,519</u>	<u>\$ 7,303,339</u>	<u>\$ 16,044,180</u>

Depreciation expense for the year ended June 30, 2009 totaled \$645,699.

ST. VLADIMIR'S ORTHODOX THEOLOGICAL SEMINARY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

8. MORTGAGES AND LOANS PAYABLE

Loan payable to Smith Barney secured by all cash and investment accounts held with Smith Barney. The loan was used to refinance a prior mortgage on the Lakeside Student Housing property. The loan is payable in five annual principal repayment tiers, together with interest paid on a monthly basis. The interest rate on the five tiers is fixed at rates that start at 4.66% in the first year and end at 5.74% for year 5. This mortgage loan matures in June 2013.

\$ 3,453,939

Mortgage loan payable with variable interest at prime (3.25% at June 30, 2009) secured by a specified land and building. Monthly payments of \$1,708 (interest and principal) are due through March 2017.

140,271

Mortgage loan payable with variable interest at prime (3.25% at June 30, 2009) secured by a specified land and building. Monthly payments of \$1,860 (interest and principal) are due through March 2017.

152,739

Note payable secured by purchase of equipment with interest at 9.25%. Monthly payments of \$874 (interest and principal) are due through August 2009.

1,748

Note payable secured by the purchase of a truck with interest at 4%. Monthly payments of \$967 (interest and principal) are due through January 2012.

28,384

Open line of credit for \$500,000 with Wachovia Bank. Interest at prime plus 1% (4.25% at June 30, 2009) collateralized by an investment account maintained at Wachovia with a minimum fair market value not below \$633,956.

395,000

\$ 4,172,081

ST. VLADIMIR'S ORTHODOX THEOLOGICAL SEMINARY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

10. RETIREMENT PLAN

The Seminary participates in the Orthodox Church in America pension plan, which is a multi-employer plan. The plan provides defined benefits with participation available to all full-time employees. The Seminary contributes 6% of each employee's salary, and the employee contributes 6%. The retirement benefit costs charged to expense amounted to \$88,928 in 2009.