

# **St. Tikhon's Orthodox Monastery**

Financial Statements and  
Supplementary Information

December 31, 2010

# St. Tikhon's Orthodox Monastery

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Table of Contents  
December 31, 2010

	<u>Page</u>
<b>Independent Accountants' Review Report</b>	1
<b>Financial Statements</b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6
<b>Supplementary Information</b>	
Schedule of Financial Position by Department	13
Schedule of Activities by Department	14
Schedule of Instructional, Administrative, and Operating Expenses by Department	15

## Independent Accountants' Review Report

Board of Directors  
St. Tikhon's Orthodox Monastery

We have reviewed the accompanying statement of financial position of St. Tikhon's Orthodox Monastery (the "Monastery") as of December 31, 2010, and the related statements of activities and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Monastery's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, except as noted in the following paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 1 to the financial statements, accounting principles generally accepted in the United States of America require that a portion of the revenue from the sale of cemetery property be deferred until the internment services are performed, and that a portion of these revenues be deferred to recognize a liability for the perpetual care. Management has informed us that revenue from the sale of cemetery property is recognized when received. The effect of this departure from accounting principles generally accepted in the United States of America on the financial position, changes in net assets, and cash flows have not been determined.

Our review was made for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The information in the accompanying schedules on pages 13 to 15 are presented only for purposes of additional analysis, and has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and, except for the matter described in the fifth paragraph of our report, we are not aware of any material modification that should be made thereto.

*ParenteBeard LLC*

Wilkes-Barre, Pennsylvania  
September 1, 2011

# St. Tikhon's Orthodox Theological Monastery

## Statement of Financial Position

December 31, 2010

(See Independent Accountants' Review Report)

### Assets

#### Current Assets

Cash and cash equivalents	\$	64,449
Accounts receivable		79,355
Inventory		526,345
Prepaid expenses		846

Total current assets 670,995

Property and Equipment, Net 1,486,082

Investments 306,516

Total assets \$ 2,463,593

### Liabilities and Net Assets

#### Current Liabilities

Current portion of long-term debt	\$	85,076
Accounts payable		80,386
Payroll taxes payable		4,349
Deferred revenue		2,200
Sales tax payable		644

Total current liabilities 172,655

Long-Term Debt 1,380,852

Total liabilities 1,553,507

#### Net Assets

Unrestricted 910,086

Total net assets 910,086

Total liabilities and net assets \$ 2,463,593

See notes to financial statements

# St. Tikhon's Orthodox Theological Monastery

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## Statement of Activities

Year Ended December 31, 2010

(See Independent Accountants' Review Report)

### Changes in Unrestricted Net Assets

#### Support and Revenue

Bookstore	\$ 619,286
Contributions	313,769
Iconography projects	101,300
Gain on sale of asset	48,500
Cemetary plots	46,400
Investment income	20,705
Bequests	20,692
Activities	18,583
Assessment and dues	9,680
Miscellaneous	7,032

Total support and revenue 1,205,947

#### Expenses

Operating	395,068
Cost of goods sold	296,160
Personnel	179,636
Interest	115,340
Administrative	82,008
Fundraising - special events	15,136

Total expenses 1,083,348

Increase in net assets 122,599

**Net Assets, Beginning** 787,487

**Net Assets, Ending** \$ 910,086

See notes to financial statements

# St. Tikhon's Orthodox Theological Monastery

## Statement of Cash Flows

Year Ended December 31, 2010

(See Independent Accountants' Review Report)

### Cash Flows from Operating Activities

Increase in net assets	\$	122,599
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation		56,344
Gain on sale of asset		(48,500)
Net realized and unrealized gains on investments		(10,998)
Changes in assets and liabilities:		
Accounts receivable		(79,355)
Inventory		(76,087)
Prepaid expenses		(846)
Accounts payable		73,728
Payroll taxes payable		3,337
Deferred revenue		2,200
Sales tax payable		(3,504)
Net cash provided by operating activities		<u>38,918</u>

### Cash Flows from Investing Activities

Purchase of investments		(295,518)
Purchase of property and equipment		(109,308)
Proceeds from sale of property and equipment		<u>48,500</u>
Net cash used in investing activities		<u>(356,326)</u>

### Cash Flows from Financing Activities

Proceeds from long-term debt		13,000
Repayment of long-term debt		<u>(77,778)</u>
Net cash used in financing activities		<u>(64,778)</u>
Decrease in cash and cash equivalents		(382,186)

Cash and Cash Equivalents, Beginning 446,635

Cash and Cash Equivalents, Ending \$ 64,449

### Supplemental Disclosure of Cash Flow Information

Interest paid \$ 115,340

See notes to financial statements

# **St. Tikhon's Orthodox Monastery**

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Notes to Financial Statements

December 31, 2010

(See Independent Accountants' Review Report)

## **1. Nature of Operations and Summary of Significant Accounting Policies**

### **Nature of Operations**

St. Tikhon's Orthodox Theological Monastery (the "Monastery") was founded in 1905 by St. Tikhon, Patriarch of Moscow.

The Monastery is a church of professional Orthodox Christian theological teachings. The primary mission of the Monastery lies in providing the necessary theological, liturgical, spiritual, and moral foundations for its members.

The Monastery also owns and operates a cemetery. The Monastery sells the right to be buried on its land and this service is restricted to the Monastery's members and their relatives.

In addition, the Monastery operates a bookstore selling religious books and icons to customers throughout the United States of America.

### **Subsequent Events**

The Monastery evaluated subsequent events for recognition or disclosure through September 1, 2011, the date the financial statements were available to be issued.

### **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.

### **Accounts Receivable**

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

### **Inventory**

Inventory consists primarily of religious books and icons available for sale. Inventory is valued at the lower of cost (first-in, first-out method) or market.



# **St. Tikhon's Orthodox Monastery**

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Notes to Financial Statements

December 31, 2010

(See Independent Accountants' Review Report)

## **Investments and Investment Risk**

Investments in marketable equity securities and mutual funds are carried at fair value based upon quoted market prices of the underlying securities. The carrying amount of cash and money market funds approximates fair value based on the short-term nature of these investments.

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 other-than-temporary declines 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 Monastery'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.

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.

## **Revenue Recognition**

Revenue from the sale of burial plots is recognized when funds are received. Accounting principles generally accepted in the United States of America require that a portion of the revenue received from the sale of cemetery property be deferred until interment services are performed, and that a portion of these revenues be deferred to recognize a liability for the perpetual care. The effect of these departures on the financial position, changes in net assets and cash flows of the Monastery have not been determined. Funds set aside for perpetual care are required to be held in a separate trust. Management has not established a separate trust account for these funds.

Bookstore revenue is recognized when the sale of merchandise occurs.

Revenue from Iconography projects is recognized when funds are received.

# **St. Tikhon's Orthodox Monastery**

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Notes to Financial Statements

December 31, 2010

(See Independent Accountants' Review Report)

## **Sales and Similar Taxes**

The Monastery collects sales and similar taxes imposed on nonexempt customers by various states. The Monastery's policy is to exclude the tax collected and remitted from sales and cost of sales.

## **Shipping and Handling Fees and Costs**

Inbound and outbound freight costs are included in cost of sales.

## **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Monastery has been limited by donors to a specific time period or purpose.

Permanently restricted net assets have been restricted by donors to be maintained by the Monastery in perpetuity.

## **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.

## **Collections of Religious Artifacts**

The Monastery has elected not to capitalize its collection of religious artifacts. These items include religious clothing, books, statues and related jewels. The Monastery protects and preserves these items. These items have lasting historical significance and, as such, appreciate with age. No appreciation has been provided for these items.

## **Income Taxes**

The Monastery 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 its exempt income under Section 501(a) of the Internal Revenue Code.

The Monastery accounts for uncertainty in income taxes by prescribing a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined that there were no tax uncertainties that met the recognition threshold in 2010.

## St. Tikhon's Orthodox Monastery

Notes to Financial Statements

December 31, 2010

(See Independent Accountants' Review Report)

### 2. Property and Equipment, Net

Property and equipment, net as of December 31, 2010 are as follows:

Land	\$	5,300
Buildings and improvements		2,620,021
Furniture		8,565
Equipment		12,620
Vehicles		61,112
		<u>          </u>
Total		2,707,618
		<u>          </u>
Less accumulated depreciation		1,221,536
		<u>          </u>
Property and equipment, net	\$	<u>1,486,082</u>

### 3. Investments and Fair Value Measurements

The composition of investments is as follows at December 31, 2010:

Money market	\$	71,811
Marketable equity securities:		
Energy		61,475
Telecommunications		55,115
Medical		46,784
Electronics		27,898
Manufacturing		21,381
Business		18,952
Mutual funds		3,100
		<u>          </u>
Total	\$	<u>306,516</u>

Investment income for cash and cash equivalents and investments is comprised of the following for the year ended December 31, 2010:

Realized gains on investments	\$	10,386
Unrealized gains on investments		612
Interest and dividend income		9,707
		<u>          </u>
Total	\$	<u>20,705</u>

## St. Tikhon's Orthodox Monastery

### Notes to Financial Statements

December 31, 2010

(See Independent Accountants' Review Report)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation hierarchy for disclosure of the inputs to valuation used to measure fair value prioritizes the inputs into three broad levels as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument;

Level 3 – Prices or valuation techniques that are unobservable in the market and require significant management judgment or estimation to measure fair value.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The Monastery's financial assets measured at fair value on a recurring basis by level within the fair value hierarchy as of December 31, 2010 are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market	\$ 71,811	\$ 71,811	\$ -	\$ -
Marketable equity securities:				
Energy	61,475	61,475		
Telecommunications	55,115	55,115		
Medical	46,784	46,784		
Electronics	27,898	27,898		
Manufacturing	21,381	21,381		
Business	18,952	18,952		
Mutual funds	3,100	3,100	-	-
Total	<u>\$ 306,516</u>	<u>\$ 306,516</u>	<u>\$ -</u>	<u>\$ -</u>

Investments are measured at fair value using unadjusted quoted prices in active markets.

## St. Tikhon's Orthodox Monastery

Notes to Financial Statements

December 31, 2010

(See Independent Accountants' Review Report)

### 4. Long-Term Debt

Long-term debt consists of the following at December 31, 2010:

#### Monastery

##### First Liberty Bank & Trust

Installment loan, monthly payment of \$246 including interest at 5.09%, maturing November 2015; secured by vehicle	\$ 12,621
Installment loan, monthly payment of \$215 including interest at 10.04%, maturing April 2012; secured by vehicle	2,975

#### Bookstore

##### Honesdale National Bank

Mortgage loan, monthly payment of \$8,000 including interest at 6.00%, until August 2014 with a balloon payment of approximately \$1,094,000 due September 2014; secured by real estate	1,193,868
Installment loan, monthly payment of \$622 including interest at 6.49%, maturing April 2015; secured by vehicle	28,005
Installment loan, monthly payment of \$2,945 including interest at 6.00%, maturing June 2013; secured by real estate	81,748

##### Community Bank & Trust

Installment loan, monthly payment of \$2,323 including interest at 7.00%, maturing July 2017; secured by real estate	146,711
Total	1,465,928
Less current portion	85,076
Long-term debt	<u>\$ 1,380,852</u>

## St. Tikhon's Orthodox Monastery

Notes to Financial Statements

December 31, 2010

(See Independent Accountants' Review Report)

Scheduled principal repayments for periods subsequent to December 31, 2010 are as follows:

Years ending December 31:	<u>Amount</u>
2011	\$ 85,076
2012	88,631
2013	75,598
2014	1,146,131
2015	28,785
Thereafter	<u>41,707</u>
Total	<u>\$ 1,465,928</u>

### 5. Functional Expenses

The Monastery provides theological teachings and services to individuals within its geographic area. Expenses related to providing these services for 2010 are as follows (in thousands):

Program services	\$ 986
General and administrative	82
Fundraising	<u>15</u>
Total	<u>\$ 1,083</u>

### 6. Related Party Transactions

The Monastery made payments to St. Tikhon's Orthodox Theological Seminary ("Seminary"), an entity related through church affiliation, of \$112,509 in 2010. These payments were expensed as follows: Contribution \$11,600, Health insurance reimbursement \$45,584, General insurance reimbursement \$49,300 and Tuition fees \$6,025. There was no balance due to the Seminary at December 31, 2010.

### 7. Contingencies

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

### 8. Concentrations

The Monastery primarily maintains its cash and cash equivalents with financial institutions. The Monastery periodically has cash equivalents on deposit in excess of insured amounts.

**St. Tikhon's Orthodox Theological Monastery**

Schedule of Financial Position by Department

December 31, 2010

(See Independent Accountants' Review Report)

<b>Assets</b>	<b>Monastery</b>	<b>Bookstore</b>	<b>Totals</b>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 40,365	\$ 24,084	\$ 64,449
Accounts receivable	-	79,355	79,355
Inventory	-	526,345	526,345
Prepaid expenses	-	846	846
Total current assets	40,365	630,630	670,995
<b>Property and Equipment, Net</b>	508,506	977,576	1,486,082
<b>Investments</b>	306,516	-	306,516
Total assets	<u>\$ 855,387</u>	<u>\$ 1,608,206</u>	<u>\$ 2,463,593</u>
<b>Liabilities and Net Assets</b>			
<b>Current Liabilities</b>			
Current portion of long-term debt	\$ 4,714	\$ 80,362	\$ 85,076
Accounts payable	15,012	65,374	80,386
Due (from) to department	(28,484)	28,484	-
Payroll taxes payable	-	4,349	4,349
Deferred revenue	-	2,200	2,200
Sales tax payable	-	644	644
Total current liabilities	(8,758)	181,413	172,655
<b>Long-Term Debt</b>	10,882	1,369,970	1,380,852
Total liabilities	2,124	1,551,383	1,553,507
<b>Net Assets</b>			
Unrestricted	853,263	56,823	910,086
Total net assets	853,263	56,823	910,086
Total liabilities and net assets	<u>\$ 855,387</u>	<u>\$ 1,608,206</u>	<u>\$ 2,463,593</u>

# St. Tikhon's Orthodox Theological Monastery

## Schedule of Activities by Department

Year Ended December 31, 2010

(See Independent Accountants' Review Report)

	<u>Monastery</u>	<u>Bookstore</u>	<u>Totals</u>
<b>Changes in Unrestricted Net Assets</b>			
<b>Support and Revenue</b>			
Bookstore	\$ -	\$ 619,286	\$ 619,286
Contributions	313,769		313,769
Iconography projects	-	101,300	101,300
Gain on sale of asset	48,500	-	48,500
Cemetery plots	46,400	-	46,400
Investment income	20,671	34	20,705
Bequests	20,692	-	20,692
Activities	18,583	-	18,583
Assessment and dues	9,680	-	9,680
Miscellaneous	7,032	-	7,032
	<u>485,327</u>	<u>720,620</u>	<u>1,205,947</u>
Total support and revenue			
<b>Expenses</b>			
Operating	227,052	168,016	395,068
Cost of goods sold	-	296,160	296,160
Personnel	123,160	56,476	179,636
Interest	13,845	101,495	115,340
Administrative	47,871	34,137	82,008
Fundraising - special events	14,430	706	15,136
	<u>426,358</u>	<u>656,990</u>	<u>1,083,348</u>
Total expenses			
Increase in net assets	<u>\$ 58,969</u>	<u>\$ 63,630</u>	<u>\$ 122,599</u>



# St. Tikhon's Orthodox Theological Monastery

## Schedule of Instructional, Administrative, and Operating Expenses by Department

Year Ended December 31, 2010

(See Independent Accountants' Review Report)

	<u>Monastery</u>	<u>Bookstore</u>	<u>Totals</u>
<b>Operating</b>			
Iconography projects	\$ -	\$ 66,715	\$ 66,715
Utilities	57,024	8,144	65,168
Depreciation	9,929	46,415	56,344
Insurance	21,000	28,300	49,300
Repairs and maintenance	40,783	2,004	42,787
Contributions and stipends	33,693	6,220	39,913
Liturgical	26,586	-	26,586
Equipment	14,623	-	14,623
Supplies	10,440	2,771	13,211
Telephone	2,949	7,447	10,396
Cemetery costs	10,025	-	10,025
	<u>\$ 227,052</u>	<u>\$ 168,016</u>	<u>\$ 395,068</u>
<b>Personnel</b>			
Maintenance and support	\$ 64,258	\$ -	\$ 64,258
Employee benefits	58,902	3,861	62,763
Salary and wages	-	49,095	49,095
Payroll taxes	-	3,520	3,520
	<u>\$ 123,160</u>	<u>\$ 56,476</u>	<u>\$ 179,636</u>
<b>Administrative</b>			
Office supplies	\$ 20,209	\$ 21,727	\$ 41,936
Automobile	14,002	9,245	23,247
Supplies	13,325	-	13,325
Professional fees	335	1,771	2,106
Advertising	-	1,394	1,394
	<u>\$ 47,871</u>	<u>\$ 34,137</u>	<u>\$ 82,008</u>