

THE ORTHODOX CHURCH IN AMERICA

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

THE ORTHODOX CHURCH IN AMERICA

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INDEPENDENT AUDITOR'S REPORT

Metropolitan Council
The Orthodox Church in America
Syosset, New York

Report on financial statements

We have audited the accompanying financial statements of The Orthodox Church in America (“The Church”) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Orthodox Church in America as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Adoption of new accounting guidance:

As discussed in Note 2 to the financial statements, in 2018, The Orthodox Church in America adopted new accounting guidance related to the presentation of financial statements of not-for-profit entities. Our report is not modified with respect to this matter.

D'Arcangelo & Co., LLP

Rye Brook, New York
October 9, 2019

THE ORTHODOX CHURCH IN AMERICA

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 271,319	\$ 131,807
Restricted cash	124,998	211,105
Assessments and other accounts receivable, net	193,513	274,447
Grant receivable	345,700	-
Prepaid expenses	21,777	20,226
Investments:		
Endowment pool fund	1,202,297	1,303,867
St. Andrew endowment fund	100,479	115,534
FOS endowment fund	68,887	80,297
Missions endowment fund	731,069	990,214
Annuity and unitrust agreements	147,854	157,503
Note receivable	150,000	-
Property and equipment, net	364,832	285,469
Total assets	\$ 3,722,725	\$ 3,570,469
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 93,233	\$ 216,208
Retirement obligation	37,552	38,000
Annuity and unitrust agreements	109,479	118,194
Total liabilities	240,264	372,402
Net assets:		
Without donor restrictions:		
Undesignated	101,408	85,047
Invested in property and equipment	364,832	285,469
Total without donor restrictions	466,240	370,516
With donor restrictions	3,016,221	2,827,551
Total net assets	3,482,461	3,198,067
Total liabilities and net assets	\$ 3,722,725	\$ 3,570,469

THE ORTHODOX CHURCH IN AMERICA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

	Without donor restrictions	With donor restrictions	Total
OPERATING SUPPORT, REVENUE AND RECLASSIFICATIONS			
Support:			
General contributions	\$ 88,634	\$ 3,376	\$ 92,010
Fellowship of Orthodox Stewards	-	74,703	74,703
Grants	-	519,700	519,700
Missions	-	1,625	1,625
Seminary	-	5,284	5,284
Charity	-	1,120	1,120
Donated services	5,260	-	5,260
	<u>93,894</u>	<u>605,808</u>	<u>699,702</u>
Total support			
Revenue:			
Assessments	1,722,724	-	1,722,724
All-American Council income	-	422,436	422,436
Net investment income	90	(12,383)	(12,293)
Change in actuarial value of annuities and unitrusts	-	(226,042)	(226,042)
Other revenue	29,428	-	29,428
	<u>1,752,242</u>	<u>184,011</u>	<u>1,936,253</u>
Total revenue			
Reclassifications:			
Satisfaction of restrictions	601,149	(601,149)	-
	<u>601,149</u>	<u>(601,149)</u>	<u>-</u>
Total operating support, revenue and reclassifications			
	<u>2,447,285</u>	<u>188,670</u>	<u>2,635,955</u>
Expenses:			
Program services	919,400	-	919,400
General and administrative	1,214,759	-	1,214,759
Development	217,402	-	217,402
	<u>2,351,561</u>	<u>-</u>	<u>2,351,561</u>
Total expenses			
Change in net assets	95,724	188,670	284,394
Net assets, beginning of year	370,516	2,827,551	3,198,067
	<u>370,516</u>	<u>2,827,551</u>	<u>3,198,067</u>
Net assets, end of year	<u>\$ 466,240</u>	<u>\$ 3,016,221</u>	<u>\$ 3,482,461</u>
	<u>\$ 466,240</u>	<u>\$ 3,016,221</u>	<u>\$ 3,482,461</u>

See notes to financial statements.

THE ORTHODOX CHURCH IN AMERICA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
OPERATING SUPPORT, REVENUE AND RECLASSIFICATIONS			
Support:			
General contributions	\$ 186,272	\$ 2,765	\$ 189,037
Fellowship of Orthodox Stewards	-	61,092	61,092
Missions	-	2,820	2,820
Seminary	-	2,410	2,410
Charity	-	2,359	2,359
Donated services	39,900	-	39,900
Total support	<u>226,172</u>	<u>71,446</u>	<u>297,618</u>
Revenue:			
Assessments	1,797,836	-	1,797,836
All-American Council income	-	12,050	12,050
Net investment income	85	(12,189)	(12,104)
Change in actuarial value of annuities and unitrusts	-	260,135	260,135
Other revenue	31,832	-	31,832
Total revenue	<u>1,829,753</u>	<u>259,996</u>	<u>2,089,749</u>
Reclassifications:			
Satisfaction of restrictions	204,278	(204,278)	-
Total operating support, revenue and reclassifications	<u>2,260,203</u>	<u>127,164</u>	<u>2,387,367</u>
Expenses:			
Program services	641,633	-	641,633
General and administrative	1,191,943	-	1,191,943
Development	182,589	-	182,589
Total expenses	<u>2,016,165</u>	<u>-</u>	<u>2,016,165</u>
Change in net assets	244,038	127,164	371,202
Net assets, beginning of year	<u>126,478</u>	<u>2,700,387</u>	<u>2,826,865</u>
Net assets, end of year	<u>\$ 370,516</u>	<u>\$2,827,551</u>	<u>\$3,198,067</u>

See notes to financial statements.

THE ORTHODOX CHURCH IN AMERICA

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018
with comparative totals for 2017

	Program	General and Administrative	Development	2018 Total	2017 Total
Administration	\$ 20	\$ 450,600	\$ 20,794	\$ 471,414	\$ 528,285
Executive	-	420,767	-	420,767	427,389
Archives	105,326	-	-	105,326	108,223
External Affairs	70,460	-	-	70,460	70,181
Chapel	12,137	-	-	12,137	15,930
Property Support	9,966	222,679	9,966	242,611	222,095
Communications	-	-	101,092	101,092	70,734
Holy Synod	20,646	20,646	20,645	61,937	61,634
Metropolitans Office	22,793	22,793	22,793	68,379	60,130
Metropolitans Council	-	36,321	-	36,321	33,985
St. Catherine's Representation					
Church	40,954	40,953	40,954	122,861	55,854
Stewards of the OCA	-	-	1,158	1,158	853
Charity	3,006	-	-	3,006	5,063
Board of Theological Education	5,351	-	-	5,351	736
Missions and Planting Grants	95,333	-	-	95,333	124,621
Ordination Candidate Testing	4,910	-	-	4,910	15,071
Office for Review of Sexual					
Misconduct Allegations	53,156	-	-	53,156	84,821
Continuing Education Expenses	13,250	-	-	13,250	10,725
Seminaries	21,202	-	-	21,202	9,324
All-American Council	352,455	-	-	352,455	21,988
Departmental Ministries	88,435	-	-	88,435	88,523
	<u>\$ 919,400</u>	<u>\$ 1,214,759</u>	<u>\$ 217,402</u>	<u>\$ 2,351,561</u>	<u>\$2,016,165</u>

THE ORTHODOX CHURCH IN AMERICA

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	<u>Program</u>	<u>General and Administrative</u>	<u>Development</u>	<u>Total</u>
Administration	\$ 16,925	\$ 469,860	\$ 41,500	\$ 528,285
Executive	-	427,389	-	427,389
Archives	108,223	-	-	108,223
External Affairs	70,181	-	-	70,181
Chapel	15,930	-	-	15,930
Property Support	10,296	201,503	10,296	222,095
Communications	-	-	70,734	70,734
Holy Synod	20,545	20,545	20,544	61,634
Metropolitans Office	20,043	20,043	20,044	60,130
Metropolitans Council	-	33,985	-	33,985
St. Catherine's Representation Church	18,618	18,618	18,618	55,854
Stewards of the OCA	-	-	853	853
Charity	5,063	-	-	5,063
Board of Theological Education	736	-	-	736
Missions and Planting Grants	124,621	-	-	124,621
Ordination Candidate Testing	15,071	-	-	15,071
Office for Review of Sexual Misconduct Allegations	84,821	-	-	84,821
Continuing Education Expenses	10,725	-	-	10,725
Seminaries	9,324	-	-	9,324
All-American Council	21,988	-	-	21,988
Departmental Ministries	88,523	-	-	88,523
	<u>\$ 641,633</u>	<u>\$ 1,191,943</u>	<u>\$ 182,589</u>	<u>\$2,016,165</u>

THE ORTHODOX CHURCH IN AMERICA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 284,394	\$ 371,202
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	19,931	20,593
Net change in actuarial value of annuities and unitrusts	279,897	(229,939)
Changes in:		
Assessments and other accounts receivable, net	80,934	(60,924)
Grants receivable	(345,700)	-
Prepaid expenses	(1,551)	(5,585)
Accounts payable and accrued expenses	(122,975)	84,577
Retirement obligation	(448)	(2,637)
Net cash provided by operating activities	194,482	177,287
Cash flows from investing activities:		
Additions to property and equipment	(99,294)	(71,957)
Note receivable	(150,000)	-
Proceeds from sales of investments	758,524	2,239,400
Purchase of investments	(650,307)	(2,081,753)
Net cash provided by (used in) investing activities	(141,077)	85,690
Cash flows from financing activities:		
Repayment of loan principal	-	(1,764)
Change in cash and cash equivalents	53,405	261,213
Cash and cash equivalents, beginning of year	342,912	81,699
Cash and cash equivalents, end of year	\$ 396,317	\$ 342,912
Cash and cash equivalents consists of:		
Cash and cash equivalents	\$ 271,319	\$ 131,807
Restricted cash	124,998	211,105
	\$ 396,317	\$ 342,912

See notes to financial statements.

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

1. NATURE OF ORGANIZATION:

The Orthodox Church in America, ("the Church") was originally founded as a mission and later became a diocese in the Orthodox Church of Russia, uniting in its fold Orthodox Christians of various national backgrounds and traditions. It subsequently developed into a self-governing Metropolitanate, the Russian Orthodox Greek Catholic Church of America. Confirmation as an Autocephalous Church was accomplished by the action of the Patriarch and Holy Synod of Russia on April 10, 1970. The Church was proclaimed an Autocephalous Church on October 19, 1970, at the sessions of the All-American Council held at St. Tikhon's Monastery in South Canaan, Pennsylvania.

The Church is an Autocephalous Church with territorial jurisdiction in the United States of America and the Commonwealth of Canada. Its doctrine, discipline, and worship are those of the One, Holy, Catholic, and Apostolic Church as taught by the Holy Scriptures, Holy Tradition, the Ecumenical and Provincial Councils, and the Holy Fathers.

The Church is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and comparable state law, and contributions to it are tax deductible within the limitations prescribed by the Code. The Church has been classified as a publicly supported organization which is not a private foundation under Section 509(a) of the Code. The Church's revenues are derived primarily from contributions and assessments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of accounting

The financial statements of the Church are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Adoption of new accounting standard

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires significant changes to the financial reporting model of organizations who follow the not-for-profit reporting model. The changes include reducing the classes of net assets from three classes to two – net assets with donor restrictions and net assets without donor restrictions. The ASU required changes in the way certain information is aggregated and reported by the Church, including required disclosures about liquidity and availability of resources and increased disclosures on functional expenses. The new standard is effective for the Organization's year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The Church adopted the ASU effective January 1, 2018. Adoption of the ASU did not result in any reclassifications or restatements to net assets or changes in net assets.

Basis of financial statement presentation and classification of net assets

Under GAAP, the Church is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

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

Net assets without donor restrictions are those which include all resources which are not subject to donor-imposed restrictions of a more specific nature than those which only obligate the Church to utilize the funds in furtherance of its mission. Net assets without donor restrictions also include resources invested in property and equipment, “underwater” endowments and funds borrowed from endowments for use in operations.

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Basis of financial statement presentation and classification of net assets (continued)

Net assets with donor restrictions are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity. 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. These net asset classes carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds. Net assets with donor restrictions also include accumulated endowment earnings that are restricted by the donor for a particular purpose or whose use is unrestricted but have not yet been appropriated for expenditure. Temporary restrictions may expire either because certain actions are taken by the Church which fulfill the restrictions or because of the passage of time. Expirations 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.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures 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.

Cash and cash equivalents

For purposes of the statements of cash flows, cash equivalents are defined as cash on deposit, cash on hand and money market funds not held for investment with maturities less than three months when acquired to be cash and cash equivalents.

Concentrations of credit risk

From time to time the Church may have bank deposits in excess of the Federal Deposit Insurance Corporation limits. The Church's cash management policy is to mitigate credit risks by investing in or through major financial institutions.

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Assessments and other accounts receivable

Assessments and other accounts receivable are stated at the amount management expects to collect from outstanding balances. Receivables are expected to be collected within one year, and are therefore recorded at net realizable value. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written-off through a charge to the valuation allowance and a credit to accounts receivable. No allowance for uncollectible accounts was deemed necessary by management at December 31, 2018 and 2017.

Investment valuation and income recognition

Investments comprise money market funds, certificates of deposit, marketable debt and equity securities, and accrued interest and dividends thereon and are reported at fair value. Donated investments are reflected as contributions at their fair market values at date of receipt. 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 Church's investment committee determines the valuation policies utilizing information provided by the investment adviser and custodian. See note 8 for a discussion on fair value measurements. Adjustments to the carrying value of investments are reported in the statement of activities as a component of net investment income.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the gains and losses on investments bought and sold as well as held during the year.

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Endowment investment and spending policies

The Church maintains master investment accounts for its donor-restricted endowments. Realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly to the individual endowments based on the relationship of the market value of each endowment to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts. In classifying such funds for financial statement purposes as either net assets with donor restrictions or net assets without donor restrictions, the Board of Trustees looks to the explicit directions of the donor where applicable and the provisions of the laws of the State of New York. The Trustees have determined that, absent donor stipulations to the contrary, the provisions of New York State law do not impose either a permanent or temporary restriction on the income or capital appreciation derived from the original gift.

The Board of Trustees, acting through its Investment Committee, has established an endowment spending policy to support the current level of income needed from the endowment, while sustaining the long-term purchasing power of the endowment assets over the long-term.

The Church follows investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Church must hold in perpetuity, or for donor-specified periods. Under this policy, the endowment assets are invested in a manner that is intended to maximize returns while assuming a conservative level of investment risk. Actual returns in any given year may vary.

To satisfy its long-term rate-of-return objectives, the Church relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Church targets a well-diversified and balanced asset allocation portfolio to achieve its long-term return and growth objectives within prudent risk constraints.

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Property, equipment, and depreciation

Property and equipment is stated at cost, or if donated, at fair value on the date of donation. The Church capitalizes assets with a cost basis (or fair value for donated assets) of \$3,000 or greater, and expenditures for repairs and maintenance are expenses when incurred. When items of property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is reported as income. Depreciation is recorded on the straight-line basis over the following estimated useful lives:

Building and improvements	40 years
Furniture, fixtures and equipment	3 to 10 years
Software	3 years

Impairment losses

Management reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Impairment is measured at the amount by which the carrying value exceeds the asset's fair value. If the asset is determined to be impaired, an impairment loss is recognized as a non-operating expense (non-cash) in the year the impairment was determined. There were no impairment losses recognized during the years ended December 31, 2018 and 2017.

Annuity agreements

The Church established gift annuities whereby donors may contribute assets in exchange for the right to receive an annual return during their lifetime. This transaction provides for a portion of the transfer to be considered a charitable contribution for income tax purposes. The difference between the amount of the annuity and the liability for future payments, determined on an actuarial basis, is recognized as income at the date of gift. The actuarial liability for annuities payable is evaluated annually (giving effect to investment income and payments to annuitants) and any surplus or deficiency is recognized as change in actuarial value of annuities and unitrusts in the statements of activities. Assets held for annuities payable totaled \$76,120 at December 31, 2018 (\$79,824 in 2017). The present value of the remaining future liability to be distributed by the Church amounted to \$65,279 in 2018 and \$69,087 in 2017.

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Unitrust agreements

The Church is named as beneficiary of various charitable remainder unitrusts and acts as the trustee. These agreements provide for the payment of lifetime distributions to the grantor or other designated beneficiaries. Upon receipt of these agreements, the actuarially determined present value of future payments is recorded as a liability. The remaining portion of the trust attributable to the Church's future interest is recorded in the statements of activities as contributions with donor restrictions in the period received. On an annual basis, the present value of the remaining future liability is revalued based upon actuarial assumptions. Assets held in the charitable remainder unitrusts totaled \$71,734 at December 31, 2018 (\$77,679 at December 31, 2017). The present value of the remaining future liability to be distributed by the Church is calculated using various rates and applicable mortality tables and totaled \$44,200 at December 31, 2018 (\$49,107 at December 31, 2017).

Support, revenue, reclassifications and expenses

The Church recognizes gifts of cash and other assets as unrestricted support unless they are received with donor stipulations that limit the use of the donated amounts. Net assets with donor restrictions are reclassified to net assets without donor restrictions and recognized in the statements of activities as satisfaction of restrictions when a stipulated time restriction ends or purpose restriction is satisfied.

The Church recognizes gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Church recognizes expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Bequests are recorded as support at the time the Church has an established right to the bequest and the proceeds are measurable.

Assessment income is recorded when earned, which is the period for which the assessments related. Other income is recorded when earned.

Expenses are recognized when incurred in accordance with the accrual basis of accounting. The Church incurred no joint costs for the years ending December 31, 2018 and 2017.

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Donated property and services

Donated non-cash assets are recorded at their fair values at the date of donation. Donated services that create or enhance non-financial assets or that require specialized skills, provided by individuals possessing those skills, and that would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

The Church reported donated professional services of \$5,260 for the year ended December 31, 2018 (\$39,900 in 2017) that meet current accounting standards.

Functional expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated, based on management's estimate, among the programs and supporting services benefited.

Reclassifications

Certain reclassifications were made to the 2017 financial statements in order to conform to the 2018 presentation. These reclassifications had no effect on the change in net assets.

3. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents consist of the following:

	<u>2018</u>	<u>2017</u>
Funds set aside for satisfaction of donor restrictions	\$ 15,718	\$ 23,532
Funds set aside for thriving in ministry program	124,998	-
Unrestricted operating funds	67,741	28,894
Reserve account	178,042	276,680
St. Sergius Chapel account	9,818	13,806
Total	<u>\$ 396,317</u>	<u>\$ 342,912</u>

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

4. ASSESSMENTS AND OTHER ACCOUNTS RECEIVABLE:

Assessments and other accounts receivable consist of the following:

	<u>2018</u>	<u>2017</u>
Assessments receivable	\$ 145,493	\$ 208,835
Other accounts receivable	<u>48,020</u>	<u>65,612</u>
Total	<u>\$ 193,513</u>	<u>\$ 274,447</u>

5. GRANT RECEIVABLE:

Grant receivable of \$345,700 is the remaining balance of a \$470,700 grant awarded on September 20, 2018 to help support the thriving in ministry initiative program. \$125,000 of the grant was received in December 2018 and \$345,700 was received in January 2019. The funding is to be expended over a five year period covering 2019 to 2023.

6. RESTRICTED CASH:

For 2018, restricted cash amounting to \$124,998 consists of cash received in December 2018 of the restricted grant amounting to \$125,000 less bank fees of \$2 from the thriving in ministry initiative grant described in Note 5. For 2017, restricted cash amounting to \$211,105 consisted of a transfer from a previous investment fund used for improvements and updates to the archives room.

7. RELATED PARTY NOTE RECEIVABLE:

Note receivable consists of a \$150,000 promissory note from the Orthodox Church Capital Improvement Fund. The Promissory Note is dated May 21, 2018, with interest at 2.75%. The note calls for monthly interest only payments of \$343.75 for 59 months commencing December 20, 2018 with a balloon payment of the principal balance of \$150,000 due December 20, 2023.

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NOTES TO FINANCIAL STATEMENTS

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8. FAIR VALUE MEASUREMENTS:

FASB ASC 820, "*Fair Value Measurements*", establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that The Church has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- other inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017.

Corporate equity securities: Valued at the closing price reported on the active market on which the individual securities are traded.

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8. FAIR VALUE MEASUREMENTS (continued):

Money market funds, negotiable certificates of deposit: Value determined by reference to quoted market prices and other relevant information generated by market transactions, when available.

U.S. government agency obligations, corporate bonds and municipal bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by The Church are deemed to be actively traded.

Annuity investments: Valued at the contracts actuarial present value by discounting the related cash flows based on current market discount rates and applicable mortality tables.

The preceding methods described may produce a fair value calculation that may not be reflective of future fair values. Furthermore management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments.

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8. FAIR VALUE MEASUREMENTS (continued):

The following table sets forth by level, within the fair value hierarchy, the Church's assets at fair value on a recurring basis as of December 31, 2018 and 2017.

Assets at fair value as of December 31, 2018				
	Fair value	Level 1	Level 2	Level 3
Corporate equity securities	\$ 1,577,850	\$ 1,577,850	\$ -	\$ -
Money market funds	493,983	493,983	-	-
U.S. Government agency obligations	19,741	19,741	-	-
Mutual funds	82,892	82,892	-	-
Annuity investments	76,120	-	76,120	-
	\$ 2,250,586	\$ 2,174,466	\$ 76,120	\$ -

Assets at fair value as of December 31, 2017				
	Fair value	Level 1	Level 2	Level 3
Corporate equity securities	\$ 1,623,036	\$ 1,623,036	\$ -	\$ -
Money market funds	849,297	849,297	-	-
U.S. Government agency obligations	19,741	19,741	-	-
Mutual funds	75,517	75,517	-	-
Annuity investments	79,824	-	79,824	-
	\$ 2,647,415	\$ 2,567,591	\$ 79,824	\$ -

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8. FAIR VALUE MEASUREMENTS (continued):

Investment income consists of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 90	\$ 85
Investment fees	<u>(12,383)</u>	<u>(12,189)</u>
	<u>\$ (12,293)</u>	<u>\$ (12,104)</u>

9. RISKS AND UNCERTAINTIES:

Investment risks

The Church invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

10. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 45,000	\$ 45,000
Buildings and improvements	570,508	552,109
Archive room improvements in progress	104,067	36,717
Furniture, fixtures, and equipment	195,384	181,838
Software	<u>33,000</u>	<u>33,000</u>
	947,959	848,664
Less: accumulated depreciation	<u>(583,127)</u>	<u>(563,195)</u>
Total	<u>\$ 364,832</u>	<u>\$ 285,469</u>

Depreciation expense amounted to \$19,931 in 2018 and \$20,593 in 2017.

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11. LEASE COMMITMENTS:

The Church leases office equipment under non-cancellable operating leases. Expenses related to these leases amounted to \$19,840 in 2018 and \$20,773 in 2017. Estimated future minimum lease payments by year and in the aggregate under the leases consist of the following:

<u>Year ending December 31,</u>	
2019	\$ 13,008
2020	6,435

12. RETIREMENT OBLIGATION:

In 2007, the Church entered into an agreement with a former employee whereby the Church agreed to make monthly payments of \$950 to the former employee in lieu of retirement benefits from the separate Orthodox Church in American Pension Plan. The agreement exists to rectify a situation whereby the former employee had been improperly excluded from participation in the Orthodox Church in America Pension Plan, and will continue until the former employee's death. Payments related to this agreement amounted to \$11,400 for each of the years ended December 31, 2018 and 2017. The actuarially calculated liability for future payments under this obligation amounted to \$37,552 in 2018 and \$38,000 in 2017.

13. MULTIPLE EMPLOYER PENSION PLAN:

Substantially all full-time employees participate in The Orthodox Church in America Pension Plan (Plan). This multi-employer plan, administered by the pension board of the Church, is a contributory plan, and provides defined benefits based on years of service and remuneration near retirement. The risks of participating in this multi-employer plan differ from single-employer plans in the following aspects:

- a) Assets contributed to the Plan by one employer may be used to provide benefits to employees of other participating employers;
- b) If a participating employer stops contributing to the Plan, the unfunded obligations of the Plan may be borne by the remaining participating employers;
- c) If the Church chooses to stop participating in the Plan, it may be required to pay to the Plan an amount based on the underfunded status of the Plan, referred to as a withdrawal liability.

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

13. MULTIPLE EMPLOYER PENSION PLAN (continued):

Eligible employees are all employees of the Church and its related entities, except for employees that are older than age 60 and have not elected to be part of the Plan. Bishops and priests become members of the Plan on the first day of the month after they begin service with the Church. Full-time employees are eligible to participate in the Plan on the first day of the month after their date of hire. Participants with five years of services are entitled to pension benefits upon retirement. Pension benefits are provided to participants under several types of retirement options based upon years of service and age. Retirement benefits are paid to pensioners or beneficiaries in various forms of joint and survivor annuities, including a lump-sum payment option. Pension expense, representing the Church's required contribution to the Plan, was \$57,762 in 2018 and \$51,995 in 2017. The contribution made by the Church represented approximately 2.25% and 2.11% of the total contributions made to the Plan in 2018 and 2017, respectively. To the extent the Plan is underfunded, future contributions to the Plan may increase.

The Plan is a non-electing church plan which means the Plan sponsor has not elected to be covered by the terms of the Employee Retirement Income Security Act of 1974 (ERISA), and is not required to file Form 5500. The Plan's fiscal year is from January 1 to December 31.

Contributions from all employers and participating employees to the Plan for December 31, 2018 and 2017 are as follows:

Pension Fund:	FEIN	2018	2017
Orthodox Church in America Pension Plan	06-1455789	<u>\$ 2,567,215</u>	<u>\$ 2,465,474</u>

As of December 31, 2018, the Plan's total net assets available for benefits were \$22,589,895 (\$25,879,380 in 2017), and the actuarial present value of accumulated Plan benefits was \$52,989,527 (\$50,971,156 in 2017). As of December 31, 2018 and 2017, the Plan was less than 65% funded.

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

14. NET ASSETS WITH DONOR RESTRICTIONS:

Restricted net assets consist of the following:

	December 31,			
	2017	Additions and other changes	Releases	2018
Mission appeal	\$ 952,143	\$ (73,823)	\$ -	\$ 878,320
Archives fund	174,304	-	67,350	106,954
Restricted endowments excess earnings	296,822	(68,174)	-	228,648
General purpose endowment excess earnings	164,668	(33,097)	-	131,571
Charity	70,803	1,120	3,000	68,923
Theological education – academic fellowship	59,300	-	-	59,300
Publication reserve fund	29,556	-	-	29,556
Seminary appeal	2,677	5,285	3,202	4,760
Thriving in ministries	-	470,698	-	470,698
Other restricted purposes	43,162	(43,162)	-	-
	<u>\$ 1,793,435</u>	<u>\$ 258,847</u>	<u>\$ 73,552</u>	<u>\$ 1,978,730</u>

Donor restricted endowments:

General purposes	237,541
Restricted purposes	775,762
Charitable remainder unitrust	24,188
	<u>1,037,491</u>

Total net assets with donor restrictions \$ 3,016,221

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

14. NET ASSETS WITH DONOR RESTRICTIONS (continued):

Restricted net assets consist of the following:

	December 31,			
	2016	Additions and other changes	Releases	2017
Mission appeal	\$ 914,836	\$ 76,637	\$ 39,330	\$ 952,143
Archives fund	210,337	1,818	37,851	174,304
Restricted endowments excess earnings	200,480	96,342	-	296,822
General purpose endowment excess earnings	115,540	49,128	-	164,668
Charity	71,803	2,359	3,359	70,803
Theological education – academic fellowship	59,300	-	-	59,300
Publication reserve fund	29,556	-	-	29,556
Seminary appeal	2,592	2,410	2,325	2,677
Other restricted purposes	64,592	-	21,430	43,162
	<u>\$ 1,669,036</u>	<u>\$ 228,694</u>	<u>\$ 104,295</u>	<u>\$ 1,793,435</u>

Donor restricted endowments:

General purposes	234,166
Restricted purposes	775,762
Charitable remainder unitrust	24,188
	<u>1,034,116</u>

Total net assets with donor restrictions \$ 2,827,551

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

15. ENDOWMENTS:

The Church's endowments consist of approximately 40 individual funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Church classifies as donor-restricted net assets (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as donor-restricted net assets until those amounts are appropriated for expenditure by the Church. The Church considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the Church and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the Church.
- (7) The investment policies of the Church.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or endowment agreement requires the Church to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature would be reported in net assets without donor restrictions and that future gains be allocated to net assets without donor restrictions until such losses have been restored.

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

15. ENDOWMENTS (continued):

Endowment net assets composition by type of fund as of December 31, 2018:

	Without donor restrictions	With donor restrictions	Total
Donor restricted endowments for:			
General purposes	\$ 188,256	\$ 368,813	\$ 557,069
Restricted purposes	(59,443)	963,895	904,452
Total endowment funds	<u>\$ 128,813</u>	<u>\$ 1,332,708</u>	<u>\$ 1,461,521</u>

Changes in endowment net assets for the year ended December 31, 2018:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, January 1, 2018	<u>\$ 163,360</u>	<u>\$ 1,424,305</u>	<u>\$ 1,587,665</u>
Investment return:			
Interest and dividend income (net of fees)	8,493	16,036	24,529
Realized and unrealized gains	<u>(43,040)</u>	<u>(111,009)</u>	<u>(154,049)</u>
Total investment return	<u>(34,547)</u>	<u>(94,973)</u>	<u>(129,520)</u>
Contributions	<u>-</u>	<u>3,376</u>	<u>3,376</u>
Endowment net assets, December 31, 2018	<u>\$ 128,813</u>	<u>\$ 1,332,708</u>	<u>\$ 1,461,521</u>

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DECEMBER 31, 2018 AND 2017

15. ENDOWMENTS (continued):

Endowment net assets composition by type of fund as of December 31, 2017:

	Without donor restrictions	With donor restrictions	Total
Donor restricted endowments for:			
General purposes	\$ 188,256	\$ 421,540	\$ 609,796
Restricted purposes	(24,896)	1,002,765	977,869
Total endowment funds	\$ 163,360	\$ 1,424,305	\$ 1,587,665

Changes in endowment net assets for the year ended December 31, 2017:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, January 1, 2017	\$ 14,184	\$ 1,332,547	\$ 1,346,731
Investment return:			
Interest and dividend income (net of fees)	(1,624)	9,701	8,077
Realized and unrealized losses	43,788	89,531	133,319
Total investment return	42,164	99,232	141,396
Contributions	96,773	2,765	99,538
Other changes:			
Changes in funds with deficiencies	10,239	(10,239)	-
Endowment net assets, December 31, 2017	\$ 163,360	\$ 1,424,305	\$ 1,587,665

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16. LIQUIDITY AND AVAILABILITY OF RESOURCES:

The Church has \$464,832 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures, consisting of cash of \$271,319, and assessments and accounts receivable of \$193,513. None of the financial assets are subject to other donor or contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position date. The assessments and accounts receivable are subject to implied time restrictions but are expected to be collected within one year. The Church has a goal to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

17. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through October 9, 2019, which is the date the financial statements are available for issuance, and have determined that there are no subsequent events that require disclosure under US generally accepted accounting principles other than as disclosed in note 5.