

Draft Subject to Change

The Orthodox Church in America

Financial Statements

and

Auditor's Report

Year Ended December 31, 2006

DRAFT

To the Metropolitan Council
The Orthodox Church in America

Independent Auditor's Report

We have audited the accompanying balance sheet of Orthodox Church in America (the "Church") as of December 31, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Orthodox Church in America's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, 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.

Because of the inadequacy of accounting records regarding the utilization of temporarily restricted net assets for the years prior to 2006, we were unable to form an opinion regarding the beginning and ending balances of unrestricted and temporarily restricted net assets at December 31, 2006. We were unable to satisfy ourselves regarding the balances of net assets in each classification at that date by means of other auditing procedures.

As discussed in Note 15 to the financial statements, net assets have not been classified in accordance with SFAS 117 as unrestricted, temporarily restricted, or permanently restricted net assets based on the absence or existence and type of donor-imposed restrictions. In our opinion, net assets should be classified by donor restriction to conform with accounting principles generally accepted in the United States of America. The effects on the financial statements of that departure are not reasonably determinable.

We were unable to obtain documentation verifying ownership of certain properties which may be held by the Church, and we were, therefore, unable to form an opinion regarding the amounts at which fixed assets and accumulated depreciation are recorded at December 31, 2006.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to apply adequate procedures to beginning and ending net assets as discussed in the third paragraph, and except for the effects of the matter discussed in the fourth paragraph, and except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to apply adequate procedures to fixed assets as discussed in the fifth paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Orthodox Church in America as of December 31, 2006, 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.

**The Orthodox Church in America
Statement of Financial Position
December 31, 2006**

ASSETS

Cash and cash equivalents (Note 3)	\$ 680,637
Assessments and other accounts receivable (Note 4)	55,506
Note receivable (Note 5)	39,550
Prepaid expenses	2,001
Inventory	24,600
Mortgage closing costs	86,586
Investments: (Note 6)	
General unrestricted	927
Deferred compensation funds	183,690
Endowment fund pool	1,151,032
St. Andrew endowment fund	158,780
FOS endowment fund	118,384
Annuity and unitrust agreements	1,328,399
Land, buildings and equipment (net of accumulated depreciation)(Note 7)	<u>761,615</u>
 Total assets	 <u>\$ 4,591,707</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	\$ 207,452
Loans payable (Note 8)	1,727,026
Deferred compensation (Note 10)	151,862
Annuity and unitrust agreements (Note 11)	<u>521,213</u>

Total liabilities 2,607,553

Net assets:

Total net assets (Note 15) 1,984,154

Total liabilities and net assets \$ 4,591,707

See notes to financial statements.

The Orthodox Church in America
Statement of Activities
Year Ended December 31, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Contributions:				
Fellowship of Orthodox Stewards	\$ 141,972		\$ 700	\$ 142,672
Charity		\$ 133,562		133,562
Missions		76,505		76,505
Seminary		48,437		48,437
General contributions	50,116			50,116
Publications		12,780		12,780
Theological education		36,365		36,365
Chaplain's Fund		2,614		2,614
Other restricted		10,720		10,720
	<u>192,088</u>	<u>320,983</u>	<u>700</u>	<u>513,771</u>
Revenue:				
Assessments	2,673,712			2,673,712
Publications	72,807			72,807
Yearbook and calendar	1,573			1,573
Newspaper	10,559			10,559
Miscellaneous	22,895			22,895
	<u>2,781,546</u>			<u>2,781,546</u>
Total support and revenue before net assets released from restrictions	2,973,634	320,983	700	3,295,317
Net assets released from restrictions	479,896	(479,896)		
Total support, revenue and releases	<u>3,453,530</u>	<u>(158,913)</u>	<u>700</u>	<u>3,295,317</u>
Expenses:				
Program services	1,271,494			1,271,494
Supporting services:				
General administrative	1,439,115			1,439,115
Development	218,434			218,434
Total supporting services	<u>1,657,549</u>			<u>1,657,549</u>
Total expenses	<u>2,929,043</u>			<u>2,929,043</u>
Change in net assets from operations	524,487	(158,913)	700	366,274
Other changes:				
Depreciation	(118,843)			(118,843)
Amortization of closing costs	(1,096)			(1,096)
Net investment income	94,225	87,539		181,764
Change in actuarial value of unitrusts		10,351	33,473	43,824
Professional fees - legal	(311,665)			(311,665)
Professional fees - audit	(36,877)			(36,877)
Professional fees - accounting and advisory	(31,935)			(31,935)
Professional fees - accounting investigative	(30,503)			(30,503)
Change in net assets	<u>\$ 87,793</u>	<u>\$ (61,023)</u>	<u>\$ 34,173</u>	<u>\$ 60,943</u>

See notes to financial statements.

**The Orthodox Church in America
Statement of Cash Flows
Year Ended December 31, 2006**

Cash flows from operating activities:	
Change in net assets	\$ 60,943
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	118,843
Amortization of mortgage closing costs	1,096
Contributions restricted for endowments	(700)
Realized gains on investments	(129,685)
Unrealized gains on investments	(8,126)
(Increase) decrease in:	
Assessments and other accounts receivable	(38,301)
Notes receivable	2,550
Prepaid expenses	14,067
Capitalized closing costs	(87,682)
Decrease in:	
Accounts payable and accrued expenses	(204,893)
Deferred compensation	(36,438)
Deferred assessments	(5,000)
Annuity agreements	(32,926)
Net change in value of interest in charitable remainder unitrusts	<u>(43,824)</u>
Net cash used by operating activities	<u>(390,076)</u>
Cash flows from investing activities:	
Purchase of investments	(3,232,927)
Proceeds from sale of investments	<u>3,171,006</u>
Net cash used by investing activities	<u>(61,921)</u>
Cash flows from financing activities:	
Proceeds from contributions restricted for endowments	700
Proceeds from new debt	1,700,000
Repayment of principal	<u>(663,091)</u>
Net cash provided by financing activities	<u>1,037,609</u>
Net increase in cash	585,612
Cash at beginning of year	<u>95,025</u>
Cash at end of year	<u>\$ 680,637</u>
Supplemental disclosure of cash flow information:	
Cash paid for interest expense	<u>\$ 73,980</u>

See notes to financial statements.

The Orthodox Church in America
Notes to the Financial Statements
December 31, 2006

1. Organization and Purpose:

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 Orthodox Church in America 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 Orthodox Church in America 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 Orthodox Church in America 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.

2. Summary of Significant Accounting Policies:

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

a. Accrual Basis Financial Statements

The accompanying financial statements have been prepared on the accrual basis and conform to accounting principles generally accepted in the United States of America and in accordance with the principles of not-for-profit accounting.

b. Net Assets (Also see Note 15)

The changes in net assets of the Church are classified and reported as follows:

- Unrestricted net assets 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 funds in furtherance of its mission.
- Temporarily restricted net assets 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 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.
- Permanently restricted net assets are those 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 Church to use all or part of the income earned on related investments, and the net capital appreciation thereon, for general or specific purposes.

The Orthodox Church in America
Notes to the Financial Statements
December 31, 2006

2. Summary of Significant Accounting Policies: (Continued):

c. Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. 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. Changes in the valuation allowance have not been material to the financial statements.

d. 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.

Contributions of property, buildings and equipment without donor stipulation concerning the use of such long-lived assets are reported as revenues of the unrestricted net assets.

Contributions of cash or other assets to be used to acquire property, plant and equipment are reported as revenue of the temporarily restricted net assets; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

e. Inventory

Inventory consists of church related books and literature held for future distribution. They are valued at cost.

f. Mortgage Closing Costs

Costs pertaining to a \$1,700,000 refinance have been capitalized and are being amortized over the life of the loan (twenty years). As of December 31, 2006, closing cost amortization was \$1,096, leaving a net balance of \$86,586.

g. Investments

Investments in equity securities with readily determinable fair market values and all investments in debt securities are reported at fair market value, with gains and losses included in the statement of activities. Donated investments are reflected as contributions at their fair market values at date of receipt.

In addition, the Church considers certain cash, money market, and highly liquid investments to be either temporarily or permanently restricted as long-term investments.

**The Orthodox Church in America
Notes to the Financial Statements
December 31, 2006**

2. Summary of Significant Accounting Policies: (Continued):

h. Land, Buildings and Equipment

Land, buildings and equipment are stated at cost, or, if donated, at the estimated fair market value at the date of donation. Depreciation is recorded using the straight-line method at various rates calculated to allocate the cost of the respective items over their estimated useful lives.

Estimated useful lives are:

Buildings & improvements	40 years
Furniture & equipment	3-10 years

i. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from their estimates.

j. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

3. Cash and Cash Equivalents:

Cash and cash equivalents at December 31, 2006 consist of the following:

Unrestricted operating funds	\$ 66,517
St. Sergius Chapel account	2,056
Reserve account	170,635
Honesdale – checking	15,701
Honesdale – restricted money market	<u>425,728</u>
	<u>\$680,637</u>

**The Orthodox Church in America
Notes to the Financial Statements
December 31, 2006**

4. Assessments and Accounts Receivable:

Assessments and accounts receivable at December 31, 2006 are comprised of the following:

Assessments receivable	\$ 53,467
Miscellaneous	<u>7,039</u>
	\$ 60,506
Less: Allowance for doubtful accounts	(<u>5,000</u>)
	 <u>\$ 55,506</u>

Assessments receivable of \$53,467 were received in the subsequent year. The balance of outstanding miscellaneous receivables is expected to be received.

5. Note Receivable:

A note receivable that originally totaled \$55,000 is repayable in monthly installments of \$300 and matures in August 2017. The loan was made to a priest who had significant medical expenses.

6. Investments:

The market value of securities as of December 31, 2006 is as follows:

Stocks	\$2,109,656
Bonds and fixed income securities	499,788
Money market	220,774
Other	<u>110,994</u>
	 <u>\$2,941,212</u>

Investment income consists of the following:

Realized gain on investments	\$129,685
Unrealized gain on investments	8,126
Interest and dividend income	<u>43,953</u>
	 <u>\$181,764</u>

7. Land, Buildings and Equipment: (Also See Note 15)

A summary of land, buildings and equipment at December 31, 2006 follows:

Land, buildings and improvements	\$1,030,260
Furniture, fixtures and equipment	<u>403,231</u>
	1,433,491
Less: Accumulated depreciation	<u>(671,876)</u>
	 <u>\$ 761,615</u>

**The Orthodox Church in America
Notes to the Financial Statements
December 31, 2006**

8. Long-term Debt:

Long-term debt at December 31, 2006 consisted of the following:

\$1,700,000 mortgage loan payable bearing interest at an initial rate of 7.97% for the first 48 months. This mortgage is payable in monthly installments of principal and interest of \$14,300 until September 2010, when the interest rate will adjust to the New York prime rate plus .25%, at which time the corresponding monthly payment amount will be reamortized over the remaining term of the loan. The interest rate and corresponding monthly payment will readjust every 12th month thereafter until the maturity date in September 2026, when the loan is due and payable in full. This mortgage is collateralized by property in Oyster Bay, New York. \$1,691,291

Two car loans, both interest-free. The notes are payable in monthly installments of principal of \$732 and \$466, and are due and payable in full in July 2009 and April 2009, respectively. The balance of the notes as of December 31, 2006 is 35,735

\$1,727,026

Estimated principal payments for the next five years and thereafter are as follows:

Year Ending December 31,

2007	\$ 50,638
2008	53,292
2009	49,559
2010	46,139
2011	50,009
After 2011	<u>1,477,389</u>
	<u>\$1,727,026</u>

9. Commitments:

The Church leases office equipment under an operating lease. Estimated future minimum lease payments by year and in the aggregate under the lease consists of the following as of December 31, 2006:

2007	\$27,718
2008	<u>22,449</u>
	<u>\$50,167</u>

**The Orthodox Church in America
Notes to the Financial Statements
December 31, 2006**

10. Deferred Compensation:

The Church has deferred compensation agreements which are fully funded by specific investment accounts.

11. Annuity and Unitrust Agreements:

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 investment income. Assets held for annuities payable totaled \$110,994 at December 31, 2006. The present value of the remaining future liability to be distributed by the Church at December 31, 2006 is

\$ 104,535

Unitrust agreements

The Church is named as beneficiary of several charitable remainder unitrusts. A unitrust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Church's use. The portion of the trust attributable to the present value of the future benefits to be received by the Church is recorded in the Statement of Activities as a temporarily restricted contribution in the period the trust is established. On an annual basis, the Church revalues the present value of the remaining future liability based upon actuarial assumptions. Assets held in the charitable remainder unitrusts totaled \$1,217,405 at December 31, 2006. The present value of the remaining future liability to be distributed by the Church is calculated using various rates and applicable mortality tables and at December 31, 2006 totals

\$ 416,678

\$ 521,213

12. Retirement Plan:

The Church 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 retirement benefit costs charged to expense in 2006 amounted to \$116,483.

**The Orthodox Church in America
Notes to the Financial Statements
December 31, 2006**

13. Concentrations of Risk:

The amount on deposit in financial institutions at December 31, 2006 exceeded the combined \$100,000 federally insured limits by an aggregate amount of \$593,496.

14. Subsequent Event:

Land and parsonage in Syosset, New York was sold in June of 2007. The proceeds from the sale were used to pay down a portion of the principal on the \$1,700,000 mortgage payable.

15. Generally Accepted Accounting Principles (GAAP) Departure:

Because of the inadequacy of accounting records regarding the utilization of restricted net assets for the years prior to 2006, net assets have not been classified in accordance with SFAS 117 as unrestricted, temporarily restricted, or permanently restricted net assets based on the absence or existence and type of donor-imposed restrictions. We were further unable to satisfy ourselves regarding the balances of net assets in each classification by means of other auditing procedures.

16. Contingent Liability and Assets:

The Church believes a former employee owes the Church for personal credit card charges paid by the Church totaling approximately \$137,000. Conversely, the employee alleges that they are due reimbursement for certain improvements to Church-owned fixed assets paid for by them during their employment. These improvements totaled \$109,523, plus estimated accrued interest, for a total estimated claim of \$240,000. No amounts have been accrued in the financial statements for the estimated receivable on the claim due to uncertainties as to the collectibility of the receivable and the validity of the claim.

We were unable to obtain documentation verifying ownership of certain properties which may be held by the Church. It is reasonably possible that the amount of fixed assets, accumulated depreciation and depreciation expense will change materially in the near term, but the amounts are indeterminable at this time.

**The Orthodox Church in America
Supplemental Statement of Expenses
Year Ended December 31, 2006**

	Program	General & Administrative	Development	Total
Program services, including related salaries:				
Public relations	\$ 124,442			\$ 124,442
Newspaper, Sourcebook/Calendar	193,470			193,470
History and archives	62,224			62,224
Publication and press	76,892			76,892
External affairs	126,297			126,297
Charity	106,334		\$ 12,729	119,063
Missions and stewardship	157,270		10,638	167,908
Humanitarian aid	12,597			12,597
Seminaries	187,397		7,234	194,631
Education and community life	48,005			48,005
Youth ministry	14,398			14,398
Pastoral life	32,469			32,469
Miscellaneous	18,299			18,299
Supporting services:				
Salaries and stipends	4,500	\$ 743,228	138,000	885,728
Payroll taxes and employee benefits	106,900	260,555	30,421	397,876
Supplies		50,163		50,163
Telephone		38,442		38,442
Printing		35,128	9,920	45,048
Travel		58,255	7,604	65,859
Meetings and conferences		25,234	995	26,229
Interest expense		73,980		73,980
Property taxes and town fees		25,699		25,699
Repairs and maintenance/building & grounds		24,271		24,271
Building utilities		34,294		34,294
Bad debt expense		6,063		6,063
Publications		793	195	988
Insurance		33,470		33,470
Bank and credit card fees		10,574		10,574
Miscellaneous		18,966	698	19,664
Operating expenses before depreciation, amortization and professional fees	1,271,494	1,439,115	218,434	2,929,043
Depreciation	11,885	89,132	17,826	118,843
Amortization of mortgage closing costs		1,096		1,096
Professional fees - legal		311,665		311,665
Professional fees - audit		36,877		36,877
Professional fees - accounting and advisory		31,935		31,935
Professional fees - accounting investigative		30,503		30,503
Total expenses	<u>\$ 1,283,379</u>	<u>\$ 1,940,323</u>	<u>\$ 236,260</u>	<u>\$ 3,459,962</u>

See auditor's report on supplementary information.

Schedule 1