

The Orthodox Church in America

Financial Statements

and

Auditor's Report

Year Ended December 31, 2012

The Orthodox Church in America

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Independent Auditor's Report

To the Metropolitan Council
The Orthodox Church in America

We have audited the accompanying financial statements of The Orthodox Church in America (the Church), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and of cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Church as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on page 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Correction of an Error

As discussed in Note 16 to the financial statements, certain errors resulting in an overstatement of previously reported temporarily restricted net assets and a corresponding understatement of unrestricted net assets were discovered during the current year. Accordingly, an adjustment of \$223,240 was made during 2012 to reduce temporarily restricted net assets and increase unrestricted net assets as of the beginning of the year to correct the error. Our opinion is not modified with respect to that matter.

Lambrides, Lamos, Taylor LLP

East Northport, New York
September 20, 2013

**The Orthodox Church in America
Statement of Financial Position
December 31, 2012**

ASSETS

Cash and cash equivalents	\$ 939,806
Assessments and other accounts receivable	201,474
Bequests receivable	564,321
Prepaid expenses	14,742
Capitalized mortgage closing costs (net)	3,075
Investments:	
Unrestricted	27,262
Endowment fund pool	471,592
St. Andrew endowment fund	102,568
FOS endowment fund	68,662
Annuity and unitrust agreements	459,686
Land, buildings and equipment (net of accumulated depreciation)	<u>243,196</u>
 Total assets	 <u><u>\$3,096,384</u></u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	\$ 121,201
Loan payable	59,616
Annuity and unitrust agreements	<u>286,014</u>
 Total liabilities	 <u>466,831</u>

Net assets:

Unrestricted	101,172
Temporarily restricted	1,506,421
Permanently restricted	<u>1,021,960</u>
 Total net assets	 <u><u>2,629,553</u></u>
 Total liabilities and net assets	 <u><u>\$3,096,384</u></u>

See notes to financial statements.

The Orthodox Church in America
Statement of Activities
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Support, revenue and releases:				
Contributions:				
Fellowship of Orthodox Stewards		\$ 10,080		\$ 10,080
Charity		12,556		12,556
Missions		5,251		5,251
Seminary		1,199		1,199
General contributions	\$ 463,682	1,000		464,682
Total contributions	<u>463,682</u>	<u>30,086</u>		<u>493,768</u>
Revenue:				
Assessments	2,281,079			2,281,079
Publications	1,095			1,095
Miscellaneous	4,353			4,353
Total revenue	<u>2,286,527</u>			<u>2,286,527</u>
Total support and revenue before net assets released from restrictions	2,750,209	30,086		2,780,295
Net assets released from restrictions	192,804	(192,804)		
Total support, revenue and releases	<u>2,943,013</u>	<u>(162,718)</u>		<u>2,780,295</u>
Expenses:				
Program services	877,774			877,774
Supporting services:				
General administrative	1,087,151			1,087,151
Development	159,299			159,299
Total supporting services	<u>1,246,450</u>			<u>1,246,450</u>
Total expenses	<u>2,124,224</u>			<u>2,124,224</u>
Change in net assets from operations	818,789	(162,718)		656,071
Other changes:				
Depreciation	(29,286)			(29,286)
Amortization of closing costs	(61,591)			(61,591)
All-American Council income		68,761		68,761
Net investment income	3,251	6,261		9,512
Change in actuarial value of unitrusts	10,715	(1,006)	\$ 1,531	11,240
Professional fees - legal	(158,829)			(158,829)
Change in net assets after other changes	<u>583,049</u>	<u>(88,702)</u>	<u>1,531</u>	<u>495,878</u>
Net assets at beginning of year, as previously stated	(705,117)	1,818,363	1,020,429	2,133,675
Prior-period correction of an error	223,240	(223,240)		
Net assets at beginning of year, adjusted	<u>(481,877)</u>	<u>1,595,123</u>	<u>1,020,429</u>	<u>2,133,675</u>
Net assets at end of year	<u>\$ 101,172</u>	<u>\$ 1,506,421</u>	<u>\$ 1,021,960</u>	<u>\$ 2,629,553</u>

See notes to financial statements.

**The Orthodox Church in America
Statement of Cash Flows
Year Ended December 31, 2012**

Cash flows from operating activities:

Change in net assets	\$ 495,878
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	29,286
Amortization of mortgage closing costs	61,591
Net realized and unrealized gain on investments	(2,951)
Change in actuarial valuation of annuities and unitrusts	(11,240)
(Increase) decrease in:	
Assessments and other accounts receivable	(72,096)
Note receivable	16,508
Prepaid expenses	1,493
Bequests receivable	382,274
Increase (decrease) in:	
Accounts payable and accrued expenses	(33,734)
Deferred revenue	<u>(25,568)</u>
 Net cash provided by operating activities	 <u>841,441</u>

Cash flows from investing activities:

Purchase of equipment	(13,226)
Purchase of investments	(618,474)
Proceeds from sale of investments	<u>610,363</u>
 Net cash used by investing activities	 <u>(21,337)</u>

Cash flows from financing activities:

Repayment of principal	<u>(624,596)</u>
 Net cash used by financing activities	 <u>(624,596)</u>

Net increase in cash 195,508

Cash at beginning of year 744,298

Cash at end of year \$ 939,806

Supplemental disclosure of cash flow information:

Cash paid for interest expense	<u><u>\$ 15,258</u></u>
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See notes to financial statements.

The Orthodox Church in America
Notes to the Financial Statements
December 31, 2012

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

The Orthodox Church in America reports in accordance with *FASB ASC 958*. *FASB ASC 958* establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor-imposed) restrictions. The net assets of the Church and changes therein 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 organization to utilize funds in furtherance of its mission. Unrestricted net assets also include “underwater” endowments and funds borrowed from endowments for use in operations.
- Temporarily restricted net assets are those contributed with donor stipulations for specific operating purposes and programs, those with time restrictions or those not currently available for use until commitments regarding their use have been fulfilled. Temporarily restricted net assets also include contributions and pledges receivable and 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.

The Orthodox Church in America
Notes to the Financial Statements
December 31, 2012

2. Summary of Significant Accounting Policies: (Continued)

- Permanently restricted net assets 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.

c. Support and Revenue

Contributions are recorded when made, which may be when cash is received, or when unconditional promises are made. Contributions restricted by the donor for a specific purpose are recorded as support in the temporarily restricted or permanently restricted class of net assets (depending on the nature of the restrictions) until funds have been expended by the Church for the purposes specified. Upon satisfaction of the restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Bequests are recorded as income at the time the organization has an established right to the bequest and the proceeds are measurable. Donated assets are recorded at their fair market value on the date of donation.

Assessment income is recorded when earned, which is the period for which the assessments are for. Investment income is recorded in the month it is earned. Other income is recorded when earned.

d. Cash and Cash Equivalents

The Church considers all highly liquid instruments with maturities less than three months to be cash and cash equivalents. Certain items meet the definition of cash equivalents but are part of a larger pool of investments and are classified as investments in the statement of financial position. From time to time, these balances may exceed federal deposit insurance limits; however, the Church has not experienced any losses on these accounts and management does not believe it is exposed to any significant risk.

e. 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. At December 31, 2012, there is no allowance.

f. Investments

Investments consist of equity and debt securities with readily determinable fair market values 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, 2012

2. Summary of Significant Accounting Policies: (Continued)

g. Investment Pools

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.

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. The Church's policy is to capitalize fixed asset expenditures of \$3,000 or more. 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 and improvements	40 years
Furniture and equipment	3-10 years
Software	3 years

Donations of land, buildings, and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted support.

If there are no donor stipulations regarding how long those donated assets must be maintained, the Church reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Church reclassifies temporarily restricted net assets to unrestricted net assets at that time.

i. 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 \$95,970 at December 31, 2012. The present value of the remaining future liability to be distributed by the Church at December 31, 2012 is \$86,816.

**The Orthodox Church in America
Notes to the Financial Statements
December 31, 2012**

2. Summary of Significant Accounting Policies: (Continued)

i. Annuity and Unitrust Agreements (Continued)

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 \$363,716 at December 31, 2012. 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, 2012 totals \$199,198.

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.

k. Uncertain Tax Positions

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statement of activities. As of December 31, 2012, the Church had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

l. Use of Estimates

The Church uses estimates and assumptions in preparing the financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of any contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

3. Cash and Cash Equivalents:

Cash and cash equivalents at December 31, 2012 consist of the following:

Unrestricted operating funds	\$ 81,228
St. Sergius Chapel account	23,010
Reserve account	39,346
Funds set aside for satisfaction donor restrictions	<u>796,222</u>
	<u>\$939,806</u>

The Orthodox Church in America
Notes to the Financial Statements
December 31, 2012

4. Assessments and Accounts Receivable:

Assessments and accounts receivable at December 31, 2012 are comprised of the following:

Accounts receivable	\$ 26,792
Assessments receivable	<u>174,682</u>
	<u>\$201,474</u>

Accounts and assessments receivables are expected to be collected in the subsequent year.

5. Bequests Receivable:

The Church is a beneficiary in three estates for which it was notified of prior to December 31, 2012. The total remaining funds that the Church expects to receive at December 31, 2012 is \$564,321. The remaining bequests receivable are expected to be collected during 2013.

6. Capitalized Mortgage Closing Costs:

Closing costs of \$87,682 pertaining to a \$1,700,000 refinance have been capitalized and are being amortized over the life of the loan. A significant portion of the remaining loan principal was repaid during 2012, therefore an accelerated amount of closing cost amortization was recognized in 2012. As of December 31, 2012, accumulated closing cost amortization was \$84,607, leaving a net balance of \$3,075. Total amortization expense during the year ended December 31, 2012 was \$61,591.

7. Investments:

Investments are recorded at fair market value, and at December 31, 2012 consist of:

Money market funds	\$ 267,965
Certificates of deposit	401,090
U.S. government agency obligations	148,264
U.S. government securities	23,189
Municipal bonds	5,457
Corporate bonds	83,439
Mutual funds	102,723
Corporate stocks	1,673
Annuity investments	<u>95,970</u>
	<u>\$1,129,770</u>

Investment income is reported net of related expenses as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 1,156	\$ 9,481	\$ 10,637
Realized gains (losses)	437	(108)	329
Unrealized gains(losses)	1,658	964	2,622
Investment fees	<u> </u>	<u>(4,076)</u>	<u>(4,076)</u>
Total	<u>\$ 3,251</u>	<u>\$ 6,261</u>	<u>\$ 9,512</u>

The Orthodox Church in America
Notes to the Financial Statements
December 31, 2012

7. Investments: (Continued)

Risks and Uncertainties Related to Investments

Investment securities are exposed to various risks, such as changes in interest rates or credit ratings and market fluctuations. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that the value of the Church investments and total net assets balance could fluctuate materially.

The Church maintains custody accounts with various custodians. Although the Church monitors the custodians and believes that they are appropriate custodians, there is no guarantee that the custodians, or any other custodians that the Church may use from time to time, will not become insolvent. The Church believes that, in the event of the insolvency of its custodian, some of the Church's assets may be unavailable for a period of time, but that it would ultimately have full recovery of its assets.

8. Land, Buildings and Equipment:

A summary of land, buildings and equipment at December 31, 2012 follows:

Land, buildings and improvements	\$ 531,783
Furniture, fixtures and equipment	468,476
Software	<u>33,000</u>
	1,033,259
Less: Accumulated depreciation	<u>(790,063)</u>
Total	<u>\$ 243,196</u>

Depreciation expense for the year ending December 31, 2012 amounted to \$29,286.

9. Loan Payable:

Loan payable at December 31, 2012 consisted of the following:

\$1,700,000 mortgage loan payable, collateralized by property in Oyster Bay, New York, and maturing in September 2026. The interest rate as of December 31, 2012 is 7%. \$59,616

During 2012, the Church made large principal payments on the loan totaling \$624,596. The remaining principal balance at December 31, 2012 of \$59,616 was subsequently paid in full in May of 2013.

The Orthodox Church in America
Notes to the Financial Statements
December 31, 2012

10. Lease Commitments:

The Church leases office equipment under non-cancellable operating leases. Expenses related to these leases amounted to \$22,212 for the year ending December 31, 2012. Estimated future minimum lease payments by year and in the aggregate under the lease consists of the following as of December 31, 2012:

Year Ending December 31,

2013	\$21,324
2014	21,324
2015	14,628
2016	<u>7,932</u>
	<u>\$65,208</u>

11. 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 Church contributes an amount equal to 6% of eligible employee's gross wages. The retirement benefit costs charged to expense in 2012 amounted to \$41,600.

12. Fair Value Measurements:

The Church uses appropriate valuation techniques to determine fair value based on inputs available. When available, the Church measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs were not available.

Fair values of assets measured on a recurring basis at December 31, 2012 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments				
Money market funds	\$ 267,965	\$ 267,965		
Mutual funds:				
Fixed income funds	102,723	102,723		
Corporate stocks	1,673	1,673		
Corporate bonds	83,439	83,439		
Negotiable certificates of deposit	140,402	140,402		
Certificates of deposit	260,688			\$ 260,688
U.S. Government agency obligations	148,264	148,264		
U.S. Government securities	23,189	23,189		
Municipal bonds	5,457	5,457		
Annuity investments	<u>95,970</u>		<u>\$ 95,970</u>	
Total investments	<u>1,129,770</u>	<u>773,112</u>	<u>95,970</u>	<u>260,688</u>
Total	<u>\$ 1,129,770</u>	<u>\$ 773,112</u>	<u>\$ 95,970</u>	<u>\$ 260,688</u>

The Orthodox Church in America
Notes to the Financial Statements
December 31, 2012

12. Fair Value Measurements: (Continued)

Valuation techniques:

Fair values for money market funds, mutual funds, corporate stocks, corporate bonds, negotiable certificates of deposit, U.S. Government agency obligations, U.S. Government securities, municipal bonds and annuity investments are determined by reference to quoted market prices and other relevant information generated by market transactions. The fair value of the certificates of deposit are based on yields for securities of comparable maturity, quality, and type as obtained from market makers.

The following table provides further details of the Level 3 fair value measurements:

	Certificates of Deposit
Balance, December 31, 2011	\$ 190,000
Purchases and sales:	
Purchases	70,688
Sales	<u>-</u>
Balance, December 31, 2012	<u><u>\$ 260,688</u></u>

13. Temporarily Restricted Net Assets:

Temporarily restricted net assets are for the following purposes:

	12/31/2011 Balance	Additions and Other Changes	Releases	12/31/2012 Balance
Mission appeal	\$ 969,056	\$ 5,251	\$ 44,751	\$ 929,556
Seminary appeal	4,015	1,199	5,214	
Publication reserve fund	29,556			29,556
Charity	71,350	12,566	10,000	73,916
Theological education - academic fellowship	59,300			59,300
Chaplain reserve	1,896			1,896
Uni-trust (life income) funds	156,145	1,447		157,592
General purpose endowment excess earnings	77,515	1,610		79,125
Restricted endowments excess earnings	139,376	3,894	858	142,412
Other restricted purposes	<u>86,914</u>	<u>78,135</u>	<u>131,981</u>	<u>33,068</u>
Total	<u><u>\$ 1,595,123</u></u>	<u><u>\$ 104,102</u></u>	<u><u>\$ 192,804</u></u>	<u><u>\$ 1,506,421</u></u>

14. Permanently Restricted Net Assets:

Permanently restricted net assets consist of the following at December 31, 2012:

Donor restricted endowments:	
General purposes	\$ 224,268
Restricted purposes	775,762
Permanently restricted charitable remainder unitrust	<u>21,930</u>
	<u><u>\$1,021,960</u></u>

The Orthodox Church in America
Notes to the Financial Statements
December 31, 2012

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 as specified in the *Summary of Significant Accounting Policies* outlined in these notes.

The Church classifies as permanently restricted net assets (a) the original value of gifts donated to the donor-restricted permanent endowment, (b) the original value of subsequent gifts to the donor-restricted permanent endowment, and (c) accumulations to the permanent 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 that is not classified in permanently restricted net assets is classified as temporarily 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

Funds with Deficiencies

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 that are reported in unrestricted net assets were \$487,418 as of December 31, 2012. \$401,500 of these deficiencies are the result of borrowing from the endowment assets to fund operations, and the remaining \$85,918 resulted from realized losses that occurred shortly after the market downturn in 2008.

Return Objectives and Risk Parameters

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.

Strategies Employed for Achieving Objectives

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 that places a greater emphasis on cash and fixed income investments (over 90%) to achieve its long-term return and growth objectives within prudent risk constraints.

The Orthodox Church in America
Notes to the Financial Statements
December 31, 2012

15. Endowments: (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Church has a policy of appropriating funds for distribution only to fund specific projects and programs, when needed. This spending policy allows the endowment funds to grow annually. This is consistent with the Church objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

Changes in endowment funds for the fiscal year ended December 31, 2012, consisted of the following:

Endowment net asset composition by type of fund as of December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowments for:				
General purposes	\$ (139,143)	\$ 79,125	\$ 224,268	\$ 164,250
Restricted purposes	<u>(348,275)</u>	<u>142,412</u>	<u>775,762</u>	<u>569,899</u>
Total endowment funds	<u>\$ (487,418)</u>	<u>\$ 221,537</u>	<u>\$ 1,000,030</u>	<u>\$ 734,149</u>

Changes in endowment net assets for the year ended December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets,				
January 1, 2012	\$ (709,649)	\$ 437,508	\$ 1,000,030	\$ 727,889
Prior-period restatement, (see Note 16)	<u>220,678</u>	<u>(220,678)</u>	<u> </u>	<u> </u>
Endowment net assets,				
January 1, 2012 as restated	<u>\$ (488,971)</u>	<u>\$ 216,830</u>	<u>\$ 1,000,030</u>	<u>\$ 727,889</u>
Investment return:				
Interest and dividend income (net of fees)		5,405		5,405
Realized and unrealized gains and losses	<u> </u>	<u>856</u>	<u> </u>	<u>856</u>
Total investment return	<u> </u>	<u>6,261</u>	<u> </u>	<u>6,261</u>
Other changes:				
Change in underwater endowmen	<u>1,553</u>	<u>(1,553)</u>	<u> </u>	<u> </u>
Endowment net assets, December 31, 2012	<u>\$ (487,418)</u>	<u>\$ 221,538</u>	<u>\$ 1,000,030</u>	<u>\$ 734,150</u>

The Orthodox Church in America
Notes to the Financial Statements
December 31, 2012

16. Prior Period Correction of an Error:

Certain errors resulting in an overstatement of previously reported temporarily restricted net assets and a corresponding understatement of unrestricted net assets were discovered during the current year. Accordingly, an adjustment of \$223,240 was made during 2012 to reduce temporarily restricted net assets and increase unrestricted net assets as of the beginning of the year to correct the error.

17. Financial Condition:

The Church has not consistently maintained the necessary amounts of cash or investments to fund all donor-restricted projects. As of December 31, 2012, the Church has outstanding borrowing from the endowment pool investments totaling \$401,500 to fund operations, and has an additional shortfall of liquid cash and investments to fund remaining temporarily restricted net assets amounting to \$104,630.

18. Subsequent Events:

Management of the Church evaluated subsequent events through September 20, 2013, which is the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated. Management discovered no subsequent events requiring disclosure.

**The Orthodox Church in America
Supplemental Schedule of Expenses
Year Ended December 31, 2012**

		General and		
	Program	Administrative	Development	Totals
Program services, including related salaries:				
Website and public relations	\$ 78,169			\$ 78,169
Newspaper, Sourcebook/Calendar	77,224			77,224
History and archives	97,877			97,877
External affairs	101,834			101,834
Charity	1,252			1,252
Missions and stewardship	101,044			101,044
Seminaries	6,000			6,000
Education and community life	20,440			20,440
Youth ministry	24,611			24,611
Pastoral life	23,013			23,013
All-American Council	145,770			145,770
Supporting services:				
Salaries and stipends	29,952	\$ 479,232	\$ 89,856	599,040
Payroll taxes and employee benefits	9,998	159,975	29,995	199,968
Supplies and other office expenses	15,973	16,855	3,293	36,121
Telephone and interest	7,495	9,369	1,874	18,738
Professional fees and contracted services		175,014		175,014
Travel	69,730	87,162	17,432	174,324
Meetings and conferences	2,263	2,828	566	5,657
Interest expense	6,103	7,629	1,526	15,258
Property taxes and town fees	11,974	14,968	2,994	29,936
Repairs and maintenance/building and ground:	18,094	22,618	4,524	45,236
Building utilities	10,578	13,222	2,644	26,444
Postage and shipping	1,752	2,191	438	4,381
Bad debt expense - assessments and notes receivable		26,126		26,126
Bad debt expense - bequests receivable		39,500		39,500
Insurance	13,762	17,202	3,440	34,404
Bank and credit card fees	2,303	3,839	576	6,718
Miscellaneous	563	9,421	141	10,125
Operating expenses before depreciation, amortization and professional fees	877,774	1,087,151	159,299	2,124,224
Depreciation	11,714	14,643	2,929	29,286
Amortization of closing costs	24,637	30,795	6,159	61,591
Professional fees - legal		158,829		158,829
Total expenses	<u>\$ 914,125</u>	<u>\$ 1,291,418</u>	<u>\$ 168,387</u>	<u>\$ 2,373,930</u>

See auditor's report on supplementary information.

Schedule 1