

**ORTHODOX
CHURCH IN
AMERICA**

**Financial Statements
December 31, 2007**

Orthodox Church in America

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December 31, 2007

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Independent Auditors' Report

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To the Holy Synod of Bishops and the Metropolitan Council Orthodox Church in America

We have audited the accompanying statement of financial position of the Orthodox Church in America (the "Church") as of December 31, 2007, and the related statements of activities, functional expenses, program services, and cash flows for the year then ended. These financial statements are the responsibility of the Church's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audits provide a reasonable basis for our opinion.

Because of the inadequacy of accounting records regarding the classification of net assets, we were unable to form an opinion regarding the ending balances of unrestricted, temporarily restricted and permanently restricted net assets at December 31, 2007. 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 2 to the financial statements, net assets at December 31, 2007 have not been classified in accordance with Statement of Financial Accounting Standards No. 117 "Financial Statements of Not-for-Profit Organizations," as unrestricted, temporarily restricted or permanently restricted net assets based on the existence or absence of donor-imposed restrictions. In our opinion, net assets should be classified based on donor restriction to conform to accounting principles generally accepted in the United States of America ("GAAP"). The effects on the financial statements of this departure from GAAP are not reasonably determinable.

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 ending net assets as discussed in the third paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Orthodox Church in America as of December 31, 2007, 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.

As discussed in Note 2 to the financial statements, certain errors resulted in the overstatement of previously reported net assets as of December 31, 2006. Accordingly, an adjustment has been made to net assets as of January 1, 2007, to correct the error.

Weiser LLP

Orthodox Church in America
Statement of Financial Position
December 31, 2007

Assets

Cash and cash equivalents	\$ 679,697
Accounts receivable	22,847
Assessments receivable	248,427
Notes receivable	37,370
Prepaid expenses	5,169
Inventory	23,708
Investments	2,784,831
Property and equipment, net	334,436
Mortgage closing costs, net	82,202

Total assets	\$ 4,218,687
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Liabilities and Net Assets

Accounts payable and accrued expenses	\$ 218,019
Loans payable	1,096,892
Deferred compensation	66,158
Annuity and unitrust agreements	830,579
Total liabilities	2,211,648

Net Assets

Total net assets	2,007,039
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Total liabilities and net assets	\$ 4,218,687
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The accompanying notes are an integral part of these financial statements.

Orthodox Church in America
Statement of Activities
Year Ended December 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue				
Assessment revenue - Diocesan	\$ 2,630,054	\$ -	\$ -	\$ 2,630,054
Assessment revenue - AAC	476	-	-	476
Charity contributions	-	29,724	-	29,724
Charity - Christmas Stocking program contributions	-	47,198	-	47,198
Charity - Orphanage contributions	-	525	-	525
Mission contributions	-	108,086	-	108,086
Seminary contributions	-	53,525	-	53,525
General contributions	59,065	-	-	59,065
Other contributions	2,209	130	-	2,339
Fellowship of Orthodox Stewards contributions	127,625	-	-	127,625
OCPC revenue	41,401	-	-	41,401
Publication revenue	2,750	-	-	2,750
Newspaper revenue	7,144	-	-	7,144
Program revenue	28,372	-	-	28,372
Gain on sale of property	158,699	-	-	158,699
Net investment income	14,773	24,924	-	39,697
Net realized and unrealized gains	6,628	65,658	-	72,286
Change in actuarial value of unitrusts	-	30,638	-	30,638
Distributions pursuant to annuity contracts	-	(16,344)	-	(16,344)
Net assets released from restrictions	278,362	(278,362)	-	-
Total support and revenue	3,357,558	65,702	-	3,423,260
Expenses				
Program services	1,253,718	-	-	1,253,718
Supporting services				
General and administrative	1,683,086	-	-	1,683,086
Fundraising	107,040	-	-	107,040
Total supporting services	1,790,126	-	-	1,790,126
Total expenses	3,043,844	-	-	3,043,844
Change in net assets	\$ 313,714	\$ 65,702	\$ -	379,416
Net assets				
Beginning as previously reported				1,984,154
Correction of an error				(356,531)
Beginning as adjusted				1,627,623
Ending				<u>\$ 2,007,039</u>

The accompanying notes are an integral part of these financial statements.

Orthodox Church in America
Statement of Functional Expenses
Year Ended December 31, 2007

	Program Services	General and Administrative	Fundraising	Total
Accounting	\$ -	\$ 80,078	\$ -	\$ 80,078
Administrative	24,686	6,460	-	31,146
Automobile	216	20,361	-	20,577
Benefits	81,787	220,289	21,433	323,509
Books	5,132	84	-	5,216
Business taxes and fees	3,612	7,942	-	11,554
Charitable distributions	239,804	-	-	239,804
Computer supplies	-	30,425	-	30,425
Contract other	3,808	-	-	3,808
Depreciation	-	82,043	-	82,043
Amortization	-	4,384	-	4,384
Equipment rental	-	20,798	-	20,798
Exterminating	-	2,645	-	2,645
Garbage removal	-	2,494	-	2,494
Insurance	-	30,904	-	30,904
Internal services	1,300	250	-	1,550
Lawn	-	23,780	-	23,780
Legal	-	100,225	-	100,225
Mortgage interest	-	110,789	-	110,789
Moving and relocation	-	19,018	-	19,018
Office	6,127	14,480	-	20,607
Outside contractors	28,993	107,156	-	136,149
Payroll taxes	12,138	20,299	2,539	34,976
Printing and copying	96,750	33,837	2,488	133,075
Programs	7,305	276	-	7,581
Project	388	5,885	-	6,273
Property taxes	-	14,188	-	14,188
Repairs	-	3,272	-	3,272
Salaries	297,955	590,815	72,066	960,836
Stipends	288,916	-	-	288,916
Supplies	819	11,903	-	12,722
Telephone	13,137	40,789	-	53,926
Travel and meetings	129,188	44,552	8,514	182,254
Utilities	11,657	32,665	-	44,322
	\$ 1,253,718	\$ 1,683,086	\$ 107,040	\$ 3,043,844

The accompanying notes are an integral part of these financial statements.

Orthodox Church in America

Statement of Program Services

Year Ended December 31, 2007

9/11 fund	\$ 90,000
All American Council	6,407
Beslan	30,118
Canons and statutes	9,200
Chapel	5,715
Chaplains	1,710
Charity	6,916
Christian education	54,231
Christian witness	1,522
Christmas stocking	31,786
Communications	230,696
External affairs	56,064
History and archives	88,784
Holy Synod stipends	203,259
Humanitarian aid	18,941
Liturgical music and translations	4,532
Medical ethics	7,494
Metropolitan Council	56,012
Mission stipends	59,065
Missions and Evangelism	10,931
Orthodox Christian Publication Center	37,455
Orphanages	25,000
Pastoral life	14,294
Seminary	20,265
Seminary internship	32,737
St. Catherine Church representation	41,763
The Orthodox Church magazine	93,151
Theological education	5,315
Youth ministry	10,355
Total program services	<u>\$ 1,253,718</u>

The accompanying notes are an integral part of these financial statements.

Orthodox Church in America

Statements of Cash Flows

Year Ended December 31, 2007

Cash flows from operating activities

Change in net assets	\$ 379,416
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	82,043
Amortization of mortgage closing costs	4,384
Gain on sale of real estate	(158,699)
Realized and unrealized gain on endowment investments	(72,286)
Net investment income from endowment investment accounts	(24,357)
Increase (decrease) in cash resulting from changes in operating assets and liabilities	
Accounts receivable	(15,808)
Assessments receivable	(199,960)
Notes receivable	2,180
Prepaid expenses	(3,168)
Inventory	892
Accounts payable and accrued expenses	10,567
Deferred compensation	(85,704)
Annuity and unitrust agreements	(30,638)
Net cash used in operating activities	<u>(111,138)</u>

Cash flows from investing activities

Purchase of equipment	(51,113)
Transfer from investment to operating cash	236,498
Proceeds from sale of real estate	554,947
Net cash provided by investing activities	<u>740,332</u>

Cash flows from financing activities

Repayment of mortgage loan payable	(630,134)
Net cash used in financing activities	<u>(630,134)</u>

Net decrease in cash (940)

Cash and cash equivalents

Beginning	680,637
Ending	<u>\$ 679,697</u>

Supplemental disclosures of cash flow information

Cash paid for interest	<u>\$ 110,789</u>
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Non-cash investing activities consist of

Distributions from annuity investment accounts	<u>\$ 100,526</u>
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The accompanying notes are an integral part of these financial statements.

Orthodox Church in America
Notes To Financial Statements
Year Ended December 31, 2007

1. Organization and Nature of Activities

Orthodox Church in America (the "Church") was originally founded as a mission and later became dioceses 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. 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.

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 Church's support comes primarily from Diocesan assessments and various other donor contributions. The Church is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code ("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

Reporting Entity

The Church is the hierarchal entity governing the dioceses, parishes and missions on the North American continent. The accompanying statement of financial position reports the net assets which are under the direct control of the hierarchal entity and do not include the assets, liabilities or operating activities of the individual dioceses, parishes or missions.

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Orthodox Church in America
Notes To Financial Statements
Year Ended December 31, 2007

Net Asset Restrictions

Because of the inadequacy of accounting records regarding the classification of net assets, 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.

Financial Statement Presentation

Under SFAS No. 117, "Financial Statements of Not-for-Profit Organizations," the Church is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted

Unrestricted net assets are undesignated by donors or are those for which restrictions have expired and are available for general purposes, which are used for the general activity of the Church.

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 from temporarily restricted to unrestricted 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.

Cash and Cash Equivalents

Investments with original maturities of three months or less when purchased are considered to be cash equivalents. Funds on deposit at brokers and invested in money market accounts or liquid asset funds are considered to be marketable securities.

Inventory

Inventory consists of church related books and literature held for future distribution. Inventories are valued at cost. Cost is determined by the first-in first-out method.

Orthodox Church in America
Notes To Financial Statements
Year Ended December 31, 2007

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. At December 31, 2007, there is no valuation allowance.

Investments

Investments in debt and equity securities are reported at fair value in accordance with SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Realized gain or loss on the sale of marketable securities is based on average cost; unrealized gain or loss on marketable securities held at the balance sheet date reflects the difference between fair value compared to the previously adjusted historical cost. In addition, the Church considers certain cash, money market, and highly liquid investments which are either temporarily or permanently restricted as long-term investments.

Property and Equipment

Expenditures for property and equipment are capitalized at cost if purchased or fair value if contributed. The building and improvements, and furniture and equipment are depreciated on the straight-line method over their estimated useful lives. Repairs and maintenance are expensed as incurred.

Estimated useful lives are:

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

Contributions

Unconditional promises to give are recognized as contribution revenue and receivables in the period in which the promise is received. Assets other than cash, received as gifts, are recorded at fair value at the date of the gift or when proceeds from the sale of the assets are received. In accordance with SFAS No. 116, "Accounting for Contributions Received and Contributions Made," the Church records contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Functional Allocation of Expenses

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

Orthodox Church in America
Notes To Financial Statements
Year Ended December 31, 2007

Prior Period Adjustment

Net assets at the beginning of 2007 have been adjusted for a correction of an error in the estimation of a unitrust annuity liability in prior years. The correction has no effect on the results of the current year's activities. However, the cumulative effect decreases beginning net assets and increases the beginning annuity and unitrust agreement liability by \$356,531. Previously issued financial statements have not been restated to correct this error.

3. Note Receivable

A note receivable that originally totaled \$55,000 is due in monthly installments of \$300 and matures in August 2017. The loan was made to a priest who had significant medical expenses. The balance of the note as of December 31, 2007 is \$37,370.

4. Investments

The market value of securities as of December 31, 2007 is as follows:

Stocks and options	\$ 1,789,747
Bonds and fixed income securities	363,425
Mutual funds	344,808
Money market	179,748
Other	<u>107,103</u>
	<u>\$ 2,784,831</u>

Investment income is reported net of related expenses as follows:

Interest income	\$ 16,178
Dividend income	45,877
Investment advisory fees	<u>(22,358)</u>
	<u>\$ 39,697</u>

5. Property and Equipment

Property and equipment, at cost, consist of the following at December 31, 2007:

Land, buildings and improvements	\$ 531,783
Furniture, fixtures and equipment	<u>454,344</u>
	986,127
Less: Accumulated depreciation	<u>651,691</u>
	<u>\$ 334,436</u>

Orthodox Church in America
Notes To Financial Statements
Year Ended December 31, 2007

6. Mortgage Closing Costs

Costs pertaining to a \$1,700,000 loan (see Note 8) have been capitalized and are being amortized over the life of the loan. Total amortization expense during the year ended December 31, 2007 was \$4,384.

7. 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 the change is recorded in the statement of activities. Assets held for annuities payable totaled \$107,103 at December 31, 2007. The present value of the remaining future liability to be distributed by the Church at December 31, 2007 is: \$ 98,990

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 \$1,204,769 at December 31, 2007. 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, 2007 is: 731,589

\$ 830,579

Orthodox Church in America
Notes To Financial Statements
Year Ended December 31, 2007

8. Long-term Debt

Long-term debt as of December 31, 2007 consists of the following:

\$1,700,000 mortgage loan payable bearing annual interest at an initial rate of 7.97% for the first 48 months (through September, 2010). 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 October 2016, when the loan is due and payable in full. This mortgage is collateralized by property in Syosset, New York.

\$ 1,075,532

The Church has two car loans, which are 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.

21,360

\$ 1,096,892

Principal payments due on long-term debt are as follows:

Year ending:

December 31, 2008	\$ 102,039
December 31, 2009	102,246
December 31, 2010	103,247
December 31, 2011	111,907
December 31, 2012	121,137
Thereafter	<u>556,316</u>

\$ 1,096,892

9. Risks and Uncertainties

The Church's investments include marketable equity securities. Such securities are subject to various risks. Due to the level of risk associated with certain equity securities and the level of uncertainty related to changes in the value of these securities, it is at least reasonably possible that changes in market conditions in the near term could materially affect the value of investments reported in the financial statements. The market value of investments at November 7, 2008 was approximately \$1,900,000, which includes all investment activities and declines in market value.

Orthodox Church in America
Notes To Financial Statements
Year Ended December 31, 2007

10. Concentration of Credit Risk

The Church maintains cash balances in four banks, each of which are insured by the Federal Deposit Insurance Corporation up to \$100,000, and cash in a Canadian bank, which is not insured. At December 31, 2007, the Church's uninsured cash balances on deposit at banking institutions totaled \$505,439.

11. Commitments and Contingencies

The Church's management authorized an internal investigation of the Church's finances by a Special Investigation Committee ("SIC"). Based on the findings of the SIC, the Church's management believes that, in prior years, funds donated to the Church for both restricted and unrestricted purposes were misappropriated and not used for their intended purposes. The SIC could not quantify the full amount of the misappropriation.

The Church is involved in several litigation proceedings. A former employee is suing the church to recover \$ 250,000 plus interest allegedly due on a promissory note. The parties are now commencing pre-trial discovery proceedings. Management is contesting the action. Church counsel evaluates that the likelihood of an unfavorable outcome can not be determined at this time.

The Church has commenced an action against two former employees for breach of fiduciary duties. The money damages are to be determined at trial. The case is in the pleading phase and discovery has not yet commenced. Church counsel evaluates that the likelihood of an unfavorable outcome can not be determined at this time.

The Church has been named in a wrongful termination action by the former employee discussed in the preceding paragraph. Church counsel can not evaluate the claim at this time.

The Church has been named in a complaint with the U.S. Equal Employment Opportunity Commission against it by a former employee. Church counsel evaluates that the likelihood of an unfavorable outcome is no more than reasonably possible.

The Church leases office equipment under non-cancellable operating leases. Annual future minimum lease payments under capital leases are as follows:

Year ending:

December 31, 2008	\$ 25,392
December 31, 2009	15,852
December 31, 2010	15,852
December 31, 2011	<u>11,889</u>
	<u>\$ 68,985</u>

Orthodox Church in America
Notes To Financial Statements
Year Ended December 31, 2007

12. Retirement Plan

The Church participates in the Orthodox Church in America Pension Plan (the "Plan"), which is a multi-employer plan, the assets and liabilities of which are not included in the financial statements of the Church. The Plan is a defined benefit pension plan covering substantially all employees of the Church and the individual organizations under the Church's jurisdiction. The Plan is a non-electing church plan which means that the Plan's sponsors have not elected to be covered by the terms of the Employee Retirement Income Security Act of 1974. Because the Plan is a non-electing church plan, the benefits promised by the Plan are not insured by the Pension Benefit Guaranty Corporation. Although it has not expressed any intention to do so, the Church may terminate the Plan for any reason at any time. Total retirement benefit costs charged to expense during 2007 were \$94,855.