

THE ORTHODOX CHURCH IN AMERICA
FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

THE ORTHODOX CHURCH IN AMERICA

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DECEMBER 31, 2017 AND 2016

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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, 2017 and 2016, the related statements of activities 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, 2017 and 2016, 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.

Supplemental information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenses related to the 2017 and 2016 financial statements on pages 25 - 26 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

D'Arcangelo & Co., LLP

Rye Brook, New York
August 27, 2018

THE ORTHODOX CHURCH IN AMERICA

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 131,807	\$ 81,699
Assessments and other accounts receivable, net	274,447	213,523
Prepaid expenses	20,226	14,641
Investments:		
Archives fund	-	210,662
Endowment pool fund	1,303,867	1,072,038
St. Andrew endowment fund	115,534	112,569
FOS endowment fund	80,297	74,155
Missions endowment fund	990,214	851,711
Annuity and unitrust agreements	157,503	159,468
Restricted cash	211,105	99,538
Property and equipment, net	285,469	234,104
Total assets	\$ 3,570,469	\$ 3,124,108
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 216,208	\$ 131,630
Loans payable	-	1,764
Retirement obligation	38,000	40,637
Annuity and unitrust agreements	118,194	123,212
Total liabilities	372,402	297,243
Net assets:		
Unrestricted:		
Undesignated (deficit)	85,047	(107,626)
Invested in property and equipment	285,469	234,104
Total unrestricted	370,516	126,478
Temporarily restricted	1,793,435	1,669,036
Permanently restricted	1,034,116	1,031,351
Total net assets	3,198,067	2,826,865
Total liabilities and net assets	\$ 3,570,469	\$ 3,124,108

See notes to financial statements.

THE ORTHODOX CHURCH IN AMERICA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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>68,681</u>	<u>2,765</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>-</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>124,399</u>	<u>2,765</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>-</u>	<u>2,016,165</u>
Change in net assets	<u>244,038</u>	<u>124,399</u>	<u>2,765</u>	<u>371,202</u>
Net assets, beginning of year	<u>126,478</u>	<u>1,669,036</u>	<u>1,031,351</u>	<u>2,826,865</u>
Net assets, end of year	<u>\$ 370,516</u>	<u>\$ 1,793,435</u>	<u>\$ 1,034,116</u>	<u>\$ 3,198,067</u>

See notes to financial statements.

THE ORTHODOX CHURCH IN AMERICA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily restricted	Permanently restricted	Total
OPERATING SUPPORT, REVENUE AND RECLASSIFICATIONS				
Support:				
General contributions	\$ 84,646	\$ -	\$ 1,905	\$ 86,551
Fellowship of Orthodox Stewards	-	64,731	-	64,731
Missions	-	3,997	-	3,997
Seminary	-	3,465	-	3,465
Charity	-	2,499	-	2,499
Donated services	55,050	-	-	55,050
	<u>139,696</u>	<u>74,692</u>	<u>1,905</u>	<u>216,293</u>
Total support				
Revenue:				
Assessments	1,783,502	-	-	1,783,502
Net investment income	19	(8,769)	-	(8,750)
Change in actuarial value of annuities and unitrusts	-	285,479	-	285,479
Other revenue	31,687	-	-	31,687
	<u>1,815,208</u>	<u>276,710</u>	<u>-</u>	<u>2,091,918</u>
Total revenue				
Reclassifications:				
Satisfaction of restrictions	111,623	(111,623)	-	-
	<u>111,623</u>	<u>(111,623)</u>	<u>-</u>	<u>-</u>
Total operating support, revenue and reclassifications	<u>2,066,527</u>	<u>239,779</u>	<u>1,905</u>	<u>2,308,211</u>
Expenses:				
Program services	705,439	-	-	705,439
General and administrative	1,133,798	-	-	1,133,798
Development	189,365	-	-	189,365
	<u>2,028,602</u>	<u>-</u>	<u>-</u>	<u>2,028,602</u>
Total expenses				
Change in net assets	<u>37,925</u>	<u>239,779</u>	<u>1,905</u>	<u>279,609</u>
Net assets, beginning of year	<u>88,553</u>	<u>1,429,257</u>	<u>1,029,446</u>	<u>2,547,256</u>
Net assets, end of year	<u>\$ 126,478</u>	<u>\$1,669,036</u>	<u>\$1,031,351</u>	<u>\$2,826,865</u>

See notes to financial statements.

THE ORTHODOX CHURCH IN AMERICA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 371,202	\$ 279,609
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	20,593	31,392
Net realized and unrealized (gain) loss on investments	-	-
Net change in actuarial value of annuities and unitrusts	(229,939)	(258,885)
Changes in:		
Assessments and other accounts receivable, net	(60,924)	(88,868)
Bequests receivable	-	503,025
Prepaid expenses	(5,585)	(99,887)
Accounts payable and accrued expenses	84,577	90,710
Retirement obligation	(2,637)	(6,566)
Deferred revenue	-	(8,442)
Net cash provided by operating activities	177,287	442,088
Cash flows from investing activities:		
Additions to property and equipment	(71,957)	-
Proceeds from sales of investments	2,239,400	1,618,510
Purchase of investments	(2,181,291)	(2,049,612)
Change in cash restricted for endowment	(111,567)	(99,538)
Net cash (used in) investing activities	(125,415)	(530,640)
Cash flows from financing activities:		
Repayment of loan principal	(1,764)	(16,499)
Change in cash and cash equivalents	50,108	(105,051)
Cash and cash equivalents, beginning of year	81,699	186,750
Cash and cash equivalents, end of year	\$ 131,807	\$ 81,699

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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").

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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

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

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

Unrestricted net assets 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. Unrestricted net assets also include resources invested in property and equipment, “underwater” endowments and funds borrowed from endowments for use in operations.

Temporarily restricted net assets carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds. Temporarily restricted net assets 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.

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.

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.

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

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.

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.

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 6 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, 2017 AND 2016

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 permanently restricted, temporarily restricted or unrestricted net assets, 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, 2017 AND 2016

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, 2017 and 2016.

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 \$79,824 at December 31, 2017 (\$83,362 in 2016). The present value of the remaining future liability to be distributed by the Church amounted to \$69,087 in 2017 and \$72,868 in 2016.

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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 temporarily or permanently restricted contributions 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 \$77,679 at December 31, 2017 (\$76,106 at December 31, 2016). 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 \$49,107 at December 31, 2017 (\$50,344 at December 31, 2016).

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. Temporarily restricted net assets are reclassified to unrestricted net assets 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 costs of providing the various program services and supporting activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated, based on management's estimate, among the program services and support activities benefitted. The Church incurred no joint costs for the years ending December 31, 2017 and 2016.

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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 \$39,900 for the year ended December 31, 2017 (\$55,050 in 2016) that meet current accounting standards.

Reclassifications

Certain reclassifications were made to the 2016 financial statements in order to conform to the 2017 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>2017</u>	<u>2016</u>
Funds set aside for satisfaction of donor restrictions	\$ 23,532	\$ 28,610
Unrestricted operating funds	28,894	(2,635)
Reserve account	65,575	39,423
St. Sergius Chapel account	<u>13,806</u>	<u>16,301</u>
Total	<u>\$ 131,807</u>	<u>\$ 81,699</u>

4. ASSESSMENTS AND OTHER ACCOUNTS RECEIVABLE:

Assessments and other accounts receivable consist of the following:

	<u>2017</u>	<u>2016</u>
Assessments receivable	\$ 208,835	\$ 120,641
Other accounts receivable	<u>65,612</u>	<u>92,882</u>
Total	<u>\$ 274,447</u>	<u>\$ 213,523</u>

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

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5. RESTRICTED CASH:

For 2017, restricted cash amounting to \$211,105 represents a transfer from a previous investment fund held for improvements and updates to the archives room. For 2016, the Church was a beneficiary in an estate for which it was notified of prior to December 31, 2016. All of the prior year receivable was collected in 2016. \$99,538 was held as a cash deposit at December 31, 2016 and subsequently transferred to the main endowment brokerage account in January 2017.

6. FAIR VALUE MEASUREMENTS:

The framework for measuring fair value 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) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described below:

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;
- inputs other 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.

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

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6. FAIR VALUE MEASUREMENTS (continued):

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, 2017 and 2016.

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

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.

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

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6. 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, 2017 and 2016.

	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	\$ -

	Assets at fair value as of December 31, 2016			
	Fair value	Level 1	Level 2	Level 3
Corporate equity securities	\$ 1,541,199	\$ 1,541,199	\$ -	\$ -
Money market funds	618,628	618,628	-	-
Negotiable certificates of deposit	40,123	-	40,123	-
U.S. Government agency obligations	26,919	26,919	-	-
Mutual funds	140,284	140,284	-	-
Annuity investments	83,362	-	83,362	-
Corporate bonds	30,088	-	30,088	-
	\$ 2,480,603	\$ 2,327,030	\$ 153,573	\$ -

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

6. FAIR VALUE MEASUREMENTS (continued):

Investment income consists of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 85	\$ 19
Investment fees	<u>(12,189)</u>	<u>(8,769)</u>
	<u>\$ (12,104)</u>	<u>\$ (8,750)</u>

7. 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.

8. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 45,000	\$ 45,000
Buildings and improvements	552,109	531,783
Archive room improvements in progress	36,717	-
Furniture, fixtures, and equipment	181,838	204,173
Software	<u>33,000</u>	<u>33,000</u>
	848,664	813,956
Less: accumulated depreciation	<u>(563,195)</u>	<u>(579,852)</u>
Total	<u>\$ 285,469</u>	<u>\$ 234,104</u>

Depreciation expense amounted to \$20,593 in 2017 and \$31,392 in 2016.

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

9. LOANS PAYABLE:

Loans payable consist of the following:

	<u>2017</u>	<u>2016</u>
Vehicle note payable, without interest, that matured in February 2017. Monthly principal payments amounted to \$881.	\$ <u>-</u>	\$ <u>1,764</u>

10. LEASE COMMITMENTS:

The Church leases office equipment under non-cancellable operating leases. Expenses related to these leases amounted to \$20,773 in 2017 and \$19,951 in 2016. Estimated future minimum lease payments by year and in the aggregate under the leases consist of the following:

<u>Year ending December 31,</u>	
2018	\$ 18,996
2019	13,008
2020	6,435

11. 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 American Pension Plan, and will continue until the former employee's death. Payments related to this agreement amounted to \$11,400 for the each of the years ended December 31, 2017 and 2016. The actuarially calculated liability for future payments under this obligation amounted to \$38,000 in 2017 and \$40,637 in 2016.

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

12. 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.

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 \$51,995 in 2017 and \$47,550 in 2016. The contribution made by the Church represented approximately 2.11% and 2.02% of the total contributions made to the Plan in 2017 and 2016, 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.

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

12. MULTIPLE EMPLOYER PENSION PLAN (continued):

Contributions from all employers to the Plan for December 31, 2017 and 2016 are as follows:

Pension Fund:	FEIN	2017	2016
Orthodox Church in America Pension Plan	06-1455789	\$ 2,465,474	\$ 2,353,912

As of December 31, 2017, the Plan's total net assets available for benefits were \$25,879,380, and the actuarial present value of accumulated Plan benefits was \$50,971,156. As of December 31, 2016, the Plan's total net assets available for benefits were \$23,698,253 and the actuarial present value of accumulated Plan benefits was \$49,211,285. As of December 31, 2017, the Plan was less than 65% funded.

13. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are as follows:

	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
	\$ 1,669,036	\$ 228,694	\$ 104,295	\$1,793,435

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

13. TEMPORARILY RESTRICTED NET ASSETS (continued):

	December 31,			
	2015	Additions and other changes	Releases	2016
Mission appeal	\$ 841,910	\$ 138,270	\$ 65,344	\$ 914,836
Archives fund	209,584	753	-	210,337
Restricted endowments excess earnings	134,622	106,806	40,948	200,480
General purpose endowment excess earnings	74,870	42,211	1,541	115,540
Charity	70,804	2,499	1,500	71,803
Theological education – academic fellowship	59,300	-	-	59,300
Publication reserve fund	29,556	-	-	29,556
Chaplain reserve	1,896	-	1,896	-
Seminary appeal	6,715	3,464	7,587	2,592
Other restricted purposes	-	64,731	139	64,592
	<u>\$ 1,429,257</u>	<u>\$ 358,734</u>	<u>\$ 118,955</u>	<u>\$ 1,669,036</u>

14. PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets consist of the following:

	December 31,	
	2017	2016
Donor restricted endowments:		
General purposes	\$ 234,166	\$ 231,401
Restricted purposes	775,762	775,762
Permanently restricted charitable remainder unitrust	24,188	24,188
	<u>\$ 1,034,116</u>	<u>\$ 1,031,351</u>

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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 of absence of donor-imposed restrictions.

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 are reported in unrestricted net assets. Prior to 2016 the deficiency was \$447,807. Management utilized collected funds from an unrestricted bequest to repay the borrowing from the endowment fund assets in 2016. For 2017 and 2016, there were no deficiencies.

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

15. ENDOWMENTS (continued):

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor restricted endowments for:				
General purposes	\$ 188,256	\$ 187,374	\$ 234,166	\$ 609,796
Restricted purposes	(24,896)	227,003	775,762	977,869
Total endowment funds	<u>\$ 163,360</u>	<u>\$ 414,377</u>	<u>\$ 1,009,928</u>	<u>\$ 1,587,665</u>

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2017	<u>\$ 14,184</u>	<u>\$ 325,384</u>	<u>\$ 1,007,163</u>	<u>\$ 1,346,731</u>
Investment return:				
Interest and dividend income (net of fees)	(1,624)	9,701	-	8,077
Realized and unrealized gains	43,788	89,531	-	133,319
Total investment return	<u>42,164</u>	<u>99,232</u>	<u>-</u>	<u>141,396</u>
Contributions	<u>96,773</u>	<u>-</u>	<u>2,765</u>	<u>99,538</u>
Other changes:				
Changes in funds with deficiencies	10,239	(10,239)	-	-
Endowment net assets, December 31, 2017	<u>\$ 163,360</u>	<u>\$ 414,377</u>	<u>\$ 1,009,928</u>	<u>\$ 1,587,665</u>

THE ORTHODOX CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

15. ENDOWMENTS (continued):

Endowment net assets composition by type of fund as of December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor restricted endowments for:				
General purposes	\$ 84,715	\$ 115,541	\$ 231,401	\$ 431,657
Restricted purposes	(70,531)	209,843	775,762	915,074
Total endowment funds	<u>\$ 14,184</u>	<u>\$ 325,384</u>	<u>\$ 1,007,163</u>	<u>\$ 1,346,731</u>

Changes in endowment net assets for the year ended December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2016	<u>\$ (447,807)</u>	<u>\$ 209,492</u>	<u>\$ 1,005,258</u>	<u>\$ 766,943</u>
Investment return:				
Interest and dividend income (net of fees)	9,773	10,427	-	20,200
Realized and unrealized losses	12,360	134,198	-	146,558
Total investment return	<u>22,133</u>	<u>144,625</u>	<u>-</u>	<u>166,758</u>
Contributions	<u>411,125</u>	<u>-</u>	<u>1,905</u>	<u>413,030</u>
Other changes:				
Changes in funds with deficiencies	28,733	(28,733)	-	-
Endowment net assets, December 31, 2016	<u>\$ 14,184</u>	<u>\$ 325,384</u>	<u>\$ 1,007,163</u>	<u>\$ 1,346,731</u>

16. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through August 27, 2018, which is the date the financial statements are available for issuance.

THE ORTHODOX CHURCH IN AMERICA
SUPPLEMENTAL SCHEDULE OF EXPENSES
YEAR ENDED DECEMBER 31, 2017

EXPENSES	<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
Total expenses	<u>\$ 641,633</u>	<u>\$ 1,191,943</u>	<u>\$ 182,589</u>	<u>\$ 2,016,165</u>

THE ORTHODOX CHURCH IN AMERICA

SUPPLEMENTAL SCHEDULE OF EXPENSES

YEAR ENDED DECEMBER 31, 2016

EXPENSES	<u>Program</u>	<u>General and Administrative</u>	<u>Development</u>	<u>Total</u>
Administration	\$ 56,432	\$ 385,695	\$ 34,568	\$ 476,695
Executive	-	440,281	-	440,281
Archives	101,577	-	-	101,577
External Affairs	76,220	-	-	76,220
Chapel	14,167	-	-	14,167
Property Support	10,464	218,239	10,463	239,166
Publications	-	-	-	-
Communications	-	-	83,614	83,614
Holy Synod	23,205	23,205	23,204	69,614
Metropolitans Office	21,370	21,370	21,369	64,109
Metropolitans Council	-	29,901	-	29,901
St. Catherine's Representation Church	15,107	15,107	15,108	45,322
Stewards of the OCA	-	-	1,039	1,039
Charity	1,509	-	-	1,509
Board of Theological Education	806	-	-	806
Missions and Planting Grants	130,292	-	-	130,292
Ordination Candidate Testing	23,572	-	-	23,572
Office for Review of Sexual Misconduct Allegations	91,804	-	-	91,804
Continuing Education Expenses	13,750	-	-	13,750
Seminaries	19,587	-	-	19,587
All-American Council	6,261	-	-	6,261
Departmental Ministries	99,316	-	-	99,316
Total expenses	<u>\$ 705,439</u>	<u>\$ 1,133,798</u>	<u>\$ 189,365</u>	<u>\$2,028,602</u>