

**THE ORTHODOX CHURCH IN AMERICA**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**THE ORTHODOX CHURCH IN AMERICA**

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**DECEMBER 31, 2016 AND 2015**

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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, 2016 and 2015, 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 audit. 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.

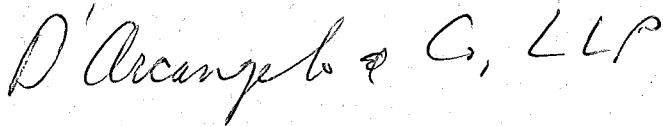
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **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, 2016 and 2015, 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 2016 and 2015 financial statements on pages 26 - 27 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.



Rye Brook, New York  
September 26, 2017

**THE ORTHODOX CHURCH IN AMERICA**

**STATEMENTS OF FINANCIAL POSITION**

**DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 81,699	\$ 186,750
Assessments and other accounts receivable, net	213,523	124,655
Bequests receivable	-	503,025
Prepaid expenses	14,641	14,292
Investments:		
Archives fund	210,662	209,909
Endowment pool fund	1,072,038	544,701
St. Andrew endowment fund	112,569	95,376
FOS endowment fund	74,155	63,588
Missions endowment fund	851,711	721,160
Annuity and unitrust agreements	159,468	159,175
Cash restricted for endowment	99,538	-
Property and equipment, net	234,104	265,495
Total assets	\$ 3,124,108	\$ 2,888,126
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 131,630	\$ 140,458
Deferred revenue	-	8,442
Loans payable	1,764	18,263
Retirement obligation	40,637	47,203
Annuity and unitrust agreements	123,212	126,504
Total liabilities	297,243	340,870
Net assets:		
Unrestricted:		
Undesignated (deficit)	(107,626)	(176,942)
Invested in property and equipment	234,104	265,495
Total unrestricted	126,478	88,553
Temporarily restricted	1,669,036	1,429,257
Permanently restricted	1,031,351	1,029,446
Total net assets	2,826,865	2,547,256
Total liabilities and net assets	\$ 3,124,108	\$ 2,888,126

See notes to financial statements.

**THE ORTHODOX CHURCH IN AMERICA**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED DECEMBER 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
<b>OPERATING SUPPORT, REVENUE</b>				
<b>AND RECLASSIFICATIONS</b>				
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
Total support	<u>139,696</u>	<u>74,692</u>	<u>1,905</u>	<u>216,293</u>
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
Total revenue	<u>1,815,208</u>	<u>276,710</u>	<u>-</u>	<u>2,091,918</u>
Reclassifications:				
Satisfaction of restrictions	111,623	(111,623)	-	-
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
Total expenses	<u>2,028,602</u>	<u>-</u>	<u>-</u>	<u>2,028,602</u>
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**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED DECEMBER 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
<b>OPERATING SUPPORT, REVENUE AND RECLASSIFICATIONS</b>				
Support:				
General contributions	\$ 26,563	\$ -	\$ 2,748	\$ 29,311
Fellowship of Orthodox Stewards	-	51,784	-	51,784
Missions	-	1,608	-	1,608
Seminary	-	17,740	-	17,740
Charity	-	1,082	-	1,082
Donated services	137,400	-	-	137,400
Total support	<u>163,963</u>	<u>72,214</u>	<u>2,748</u>	<u>238,925</u>
Revenue:				
Assessments	1,911,410	-	-	1,911,410
All-American Council income	-	340,334	-	340,334
Net investment income	748	(9,591)	-	(8,843)
Change in actuarial value of annuities and unitrusts	-	(59,246)	-	(59,246)
Other revenue	30,007	-	-	30,007
Total revenue	<u>1,942,165</u>	<u>271,497</u>	<u>-</u>	<u>2,213,662</u>
Reclassifications:				
Satisfaction of restrictions	443,560	(443,560)	-	-
Total operating support, revenue and reclassifications	<u>2,549,688</u>	<u>(99,849)</u>	<u>2,748</u>	<u>2,452,587</u>
Expenses:				
Program services	1,218,596	-	-	1,218,596
General and administrative	1,137,170	-	-	1,137,170
Development	190,253	-	-	190,253
Total expenses	<u>2,546,019</u>	<u>-</u>	<u>-</u>	<u>2,546,019</u>
Change in net assets	<u>3,669</u>	<u>(99,849)</u>	<u>2,748</u>	<u>(93,432)</u>
Net assets, beginning of year	<u>84,884</u>	<u>1,529,106</u>	<u>1,026,698</u>	<u>2,640,688</u>
Net assets, end of year	<u>\$ 88,553</u>	<u>\$1,429,257</u>	<u>\$1,029,446</u>	<u>\$2,547,256</u>

See notes to financial statements.

**THE ORTHODOX CHURCH IN AMERICA**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 279,609	\$ (93,432)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	31,392	31,392
Net realized and unrealized (gain) loss on investments	-	(114)
Net change in actuarial value of annuities and unitrusts	(258,885)	74,974
Changes in:		
Assessments and other accounts receivable, net	(88,868)	(32,150)
Bequests receivable	503,025	51,722
Prepaid expenses	(99,887)	10,564
Accounts payable and accrued expenses	90,710	53,317
Retirement obligation	(6,566)	(507)
Deferred revenue	(8,442)	(44,524)
Net cash provided by operating activities	<u>442,088</u>	<u>51,242</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments	1,618,510	2,839,207
Purchase of investments	(2,049,612)	(3,567,915)
Change in cash restricted for endowment	(99,538)	-
Net cash (used in) investing activities	<u>(530,640)</u>	<u>(728,708)</u>
<b>Cash flows from financing activities:</b>		
Repayment of loan principal	(16,499)	(24,983)
Change in cash and cash equivalents	(105,051)	(702,449)
Cash and cash equivalents, beginning of year	<u>186,750</u>	<u>889,199</u>
Cash and cash equivalents, end of year	<u>\$ 81,699</u>	<u>\$ 186,750</u>

See notes to financial statements.



# THE ORTHODOX CHURCH IN AMERICA

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

### 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, 2016 AND 2015

### 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, 2016 AND 2015

### 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, 2016 AND 2015

### 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, 2016 AND 2015**

**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, 2016 and 2015.

**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 \$83,362 at December 31, 2016 (\$86,730 in 2015). The present value of the remaining future liability to be distributed by the Church amounted to \$72,868 in 2016 and \$76,728 in 2015.

# THE ORTHODOX CHURCH IN AMERICA

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

### 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 \$76,106 at December 31, 2016 (\$72,445 at December 31, 2015). 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 \$50,344 at December 31, 2016 (\$49,775 at December 31, 2015).

#### **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, 2016 and 2015.

**THE ORTHODOX CHURCH IN AMERICA**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**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 \$55,050 for the year ended December 31, 2016 (\$137,400 in 2015) that meet current accounting standards.

**Reclassifications**

Certain reclassifications were made to the 2015 financial statements in order to conform to the 2016 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>2016</u>	<u>2015</u>
Funds set aside for satisfaction of donor restrictions	\$ 28,610	\$ 42,922
Unrestricted operating funds	(2,635)	85,765
Reserve account	39,423	39,404
St. Sergius Chapel account	<u>16,301</u>	<u>18,659</u>
Total	<u>\$ 81,699</u>	<u>\$ 186,750</u>

**4. ASSESSMENTS AND OTHER ACCOUNTS RECEIVABLE:**

Assessments and other accounts receivable consist of the following:

	<u>2016</u>	<u>2015</u>
Assessments receivable	\$ 120,641	\$ 67,289
Other accounts receivable	<u>92,882</u>	<u>57,366</u>
Total	<u>\$ 213,523</u>	<u>\$ 124,655</u>

# THE ORTHODOX CHURCH IN AMERICA

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

### 5. BEQUESTS RECEIVABLE:

The Church was a beneficiary in an estate for which it was notified of prior to December 31, 2015. 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

DECEMBER 31, 2016 AND 2015

### 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, 2016 and 2015.

*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**

**DECEMBER 31, 2016 AND 2015**

**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, 2016 and 2015.

	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	\$ -

	Assets at fair value as of December 31, 2015			
	Fair value	Level 1	Level 2	Level 3
Corporate equity securities	\$ 1,102,127	\$ 1,102,127	\$ -	\$ -
Money market funds	360,824	360,824	-	-
Negotiable certificates of deposit	90,118	-	90,118	-
U.S. Government agency obligations	51,923	51,923	-	-
Mutual funds	69,429	69,429	-	-
Annuity investments	86,730	-	86,730	-
Municipal bond	5,069	-	5,069	-
Corporate bonds	27,689	-	27,689	-
	\$ 1,793,909	\$ 1,584,303	\$ 209,606	\$ -

**THE ORTHODOX CHURCH IN AMERICA**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**6. FAIR VALUE MEASUREMENTS (continued):**

Investment income consists of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 19	\$ 634
Unrealized gain	-	114
Investment fees	<u>(8,769)</u>	<u>(9,591)</u>
	<u>\$ (8,750)</u>	<u>\$ (8,843)</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>2016</u>	<u>2015</u>
Land	\$ 45,000	\$ 45,000
Buildings and improvements	531,783	531,783
Furniture, fixtures, and equipment	204,173	204,173
Software	<u>33,000</u>	<u>33,000</u>
	813,956	813,956
Less: accumulated depreciation	<u>(579,852)</u>	<u>(548,461)</u>
Total	<u>\$ 234,104</u>	<u>\$ 265,495</u>

Depreciation expense amounted to \$31,392 in 2016 and in 2015.

**THE ORTHODOX CHURCH IN AMERICA**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**9. LOANS PAYABLE:**

Loans payable consist of the following:

	<u>2016</u>	<u>2015</u>
Vehicle note payable, without interest, maturing in February 2017. Monthly principal payments amount to \$881.	\$ 1,764	\$ 11,465
As part of the retirement agreement between the Church and the former Metropolitan, the Church agreed to assume a loan owed by the former Metropolitan to the Diocese of the South with a principal balance of \$42,798. The Church and the Diocese of the South agreed to a three year repayment period without interest commencing in July 2013 and maturing in May 2016. Monthly principal payments amounted to \$1,200.	<u>-</u>	<u>6,798</u>
	<u>\$ 1,764</u>	<u>\$ 18,263</u>

A schedule of future minimum principal payments is as follows:

<u>Year ending December 31,</u>	
2017	\$ 1,764

**10. LEASE COMMITMENTS:**

The Church leases office equipment under non-cancellable operating leases. Expenses related to these leases amounted to \$19,951 in 2016 and \$21,274 in 2015. Estimated future minimum lease payments by year and in the aggregate under the leases consist of the following:

<u>Year ending December 31,</u>	
2017	\$ 18,996
2018	18,996
2019	16,002
2020	6,435

# THE ORTHODOX CHURCH IN AMERICA

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

### 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, 2016 and 2015. The actuarially calculated liability for future payments under this obligation amounted to \$40,637 in 2016 and \$47,203 in 2015.

### 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 \$47,550 in 2016 and \$46,302 in 2015. The contribution made by the Church represented approximately 2.02% and 2.04% of the total contributions made to the Plan in 2016 and 2015, respectively. To the extent the Plan is underfunded, future contributions to the Plan may increase.

**THE ORTHODOX CHURCH IN AMERICA**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**12. MULTIPLE EMPLOYER PENSION PLAN (continued):**

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

Contributions from all employers to the Plan for December 31, 2016 and 2015 are as follows:

Pension Fund:	<u>FEIN</u>	<u>2016</u>	<u>2015</u>
Orthodox Church in America Pension Plan	06-1455789	<u>\$ 2,353,912</u>	<u>\$ 2,274,809</u>

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, 2015, the Plan's total net assets available for benefits were \$24,681,834 and the actuarial present value of accumulated Plan benefits was \$47,240,855. As of December 31, 2016, the Plan was less than 65% funded.

**THE ORTHODOX CHURCH IN AMERICA**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**13. TEMPORARILY RESTRICTED NET ASSETS:**

Temporarily restricted net assets are as follows:

	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>

**THE ORTHODOX CHURCH IN AMERICA**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**13. TEMPORARILY RESTRICTED NET ASSETS (continued):**

	December 31,			
	2014	Additions and other changes	Releases	2015
Mission appeal	\$ 931,852	\$ (61,038)	\$ 28,904	\$ 841,910
Archives fund	209,562	22	-	209,584
Restricted endowments excess earnings	144,274	(4,051)	5,601	134,622
General purpose endowment excess earnings	80,113	(5,243)	-	74,870
Charity	70,804	1,082	1,082	70,804
Theological education – academic fellowship	59,300	-	-	59,300
Publication reserve fund	29,556	-	-	29,556
Chaplain reserve	1,896	-	-	1,896
Seminary appeal	1,481	17,740	12,506	6,715
Other restricted purposes	268	-	268	-
	<u>\$ 1,529,106</u>	<u>\$ (51,488)</u>	<u>\$ 48,361</u>	<u>\$ 1,429,257</u>

**14. PERMANENTLY RESTRICTED NET ASSETS:**

Permanently restricted net assets consist of the following:

	December 31,	
	2016	2015
Donor restricted endowments:		
General purposes	\$ 231,401	\$ 229,496
Restricted purposes	775,762	775,762
Permanently restricted charitable remainder unitrust	24,188	24,188
	<u>\$ 1,031,351</u>	<u>\$ 1,029,446</u>



# THE ORTHODOX CHURCH IN AMERICA

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

### 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 that are reported in unrestricted net assets were \$447,807 at December 31 2015. \$319,642 of these deficiencies at December 31 2015, were the result of borrowing from the endowment fund assets for operations, and the remaining \$128,165 for 2015 resulted from realized losses that occurred shortly after the market downturn in 2008 and continuing through 2015. Management utilized collected funds from an unrestricted bequest to repay the borrowing from the endowment fund assets in 2016.

**THE ORTHODOX CHURCH IN AMERICA**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**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 gains	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>

**THE ORTHODOX CHURCH IN AMERICA**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**15. ENDOWMENTS (continued):**

Endowment net assets composition by type of fund as of December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor restricted endowments for:				
General purposes	\$ (111,365)	\$ 74,870	\$ 226,748	\$ 190,253
Restricted purposes	<u>(336,442)</u>	<u>134,622</u>	<u>778,510</u>	<u>576,690</u>
Total endowment funds	<u>\$ (447,807)</u>	<u>\$ 209,492</u>	<u>\$ 1,005,258</u>	<u>\$ 766,943</u>

Changes in endowment net assets for the year ended December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2015	<u>\$ (486,611)</u>	<u>\$ 224,386</u>	<u>\$ 1,002,510</u>	<u>\$ 740,285</u>
Investment return:				
Interest and dividend income (net of fees)	-	1,727	-	1,727
Realized and unrealized losses	<u>-</u>	<u>(29,538)</u>	<u>-</u>	<u>(29,538)</u>
Total investment return	<u>-</u>	<u>(27,811)</u>	<u>-</u>	<u>(27,811)</u>
Contributions	<u>51,721</u>	<u>-</u>	<u>2,748</u>	<u>54,469</u>
Other changes:				
Changes in funds with deficiencies	<u>(12,917)</u>	<u>12,917</u>	<u>-</u>	<u>-</u>
Endowment net assets, December 31, 2015	<u>\$ (447,807)</u>	<u>\$ 209,492</u>	<u>\$ 1,005,258</u>	<u>\$ 766,943</u>

**16. SUBSEQUENT EVENTS:**

Management has evaluated subsequent events through September 26, 2017, which is the date the financial statements are available for issuance.

**THE ORTHODOX CHURCH IN AMERICA**

**SUPPLEMENTAL SCHEDULE OF EXPENSES**

**YEAR ENDED DECEMBER 31, 2016**

<b>EXPENSES</b>	<u>Program</u>	<u>General and Administrative</u>	<u>Development</u>	<u>Total</u>
Administration	\$ 1,382	\$ 385,695	\$ 34,568	\$ 421,645
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
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
Donated Services	55,050	-	-	55,050
<b>Total expenses</b>	<b>\$ 705,439</b>	<b>\$ 1,133,798</b>	<b>\$ 189,365</b>	<b>\$ 2,028,602</b>

**THE ORTHODOX CHURCH IN AMERICA**

**SUPPLEMENTAL SCHEDULE OF EXPENSES**

**YEAR ENDED DECEMBER 31, 2015**

<b>EXPENSES</b>	<u>Program</u>	<u>General and Administrative</u>	<u>Development</u>	<u>Total</u>
Administration	\$ 975	\$ 344,677	\$ 33,848	\$ 379,500
Executive	-	482,665	-	482,665
Archives	117,275	-	-	117,275
External Affairs	64,979	-	-	64,979
Chapel	15,455	-	-	15,455
Property Support	10,463	222,084	10,464	243,011
Publications	-	-	4,904	4,904
Communications	-	-	82,779	82,779
Holy Synod	23,981	23,981	23,982	71,944
Metropolitans Office	16,673	16,672	16,673	50,018
Metropolitans Council	-	29,488	-	29,488
St. Catherine's Representation Church	17,603	17,603	17,603	52,809
Charity	2,823	-	-	2,823
Missions and Planting Grants	136,238	-	-	136,238
Ordination Candidate Testing	29,185	-	-	29,185
Office for Review of Sexual Misconduct Allegations	84,900	-	-	84,900
Continuing Education Expenses	12,900	-	-	12,900
Seminaries	51,506	-	-	51,506
All-American Council	364,080	-	-	364,080
Departmental Ministries	131,360	-	-	131,360
Endowment Distribution	800	-	-	800
Donated Services	137,400	-	-	137,400
Total expenses	<u>\$1,218,596</u>	<u>\$ 1,137,170</u>	<u>\$ 190,253</u>	<u>\$2,546,019</u>