

Diocese of the South
Orthodox Church in America
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TREASURER'S MESSAGE

Net Income went from \$65,984 in 2007 to a deficit of \$72,488 in 2008. Total expenses increased by \$59,498 and income categories decreased by \$78,934. Except for a few minor variations, expenses were within budget, thus it is the income decline that needs to be addressed.

Over half the decline, \$40,991, came from the small investment portfolio (\$46K cost) that produced net gains of \$15,308 in 2007 but incurred unrealized losses of \$25,683 in 2008. Approximately 60% of the portfolio had been sold off during 2005-07 at a profit of \$62,000, and the proceeds were "reinvested" in church building projects. The portfolio has increased in value by \$5,270 as of June 30.

Interest income decreased by \$16,996, partially due to lower rates on deposit accounts, but primarily because of a policy decision to discontinue charging interest on money loaned to the parishes and missions.

Tithes decreased by \$28,853 (5.5%) and were \$21,167 under budget. This may be explained away by the "bad economy" or even rationalized as a "market correction" following the explosive Tithe growth of the two preceding years. There is some truth in both. Economic downturns and market corrections are recurring phenomena that impact church finances. However, it appears that church organizations feel the recessionary pinch later than does the economy as a whole; that their decline is not as large; and that they recover more quickly when the economy begins to improve. Evidence to the foregoing is presented on Page 4 of this report, where a comparison is made between DOS Tithe growth performance and that of various financial market indices over the past fourteen years. Our Tithe growth has clearly outperformed the stock and bond market indices in both rising and declining economic periods, and resoundingly so during this decade.

Tithe income as of July 10, 2009 is \$251,872, compared to \$251,848 this time last year. If the average monthly Tithe patterns of the past thirteen years hold up we'll reach \$516,000 for the full year. If, in fact, the economic recovery has begun the budget goal of \$600,000 for 2010 is well within our historical Tithe growth patterns. The standard financial analyst disclaimer, "Past performance does not guarantee future results" is certainly applicable here. What has been demonstrated, however, is that the best investment for this Diocese, strictly on the basis of financial return, is not stocks, bonds, or bank accounts, but rather the planting of new churches and assisting in the development of its existing parishes and missions.

Last year the Diocese provided direct cash assistance of \$436,333 to its parishes and missions, an amount equal to 88% of Tithe income, but still finished the year with MORE cash than it had at the start. How was this possible? Didn't we have a decrease in Tithe income? Didn't we pass a budget that provided for large spending increases in other areas? Was there a cut in the OCA Membership Assessment? (No). Did we pay the OCA Membership Assessment? (Yes, and ahead of schedule). The answer is really very simple, but perhaps revolutionary.

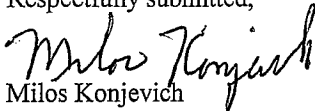
First, we started the year with cash reserves of \$308,920, and for only one week in late September did they dip below \$100,000. Second, Tithe and Membership Assessment receipts were running ahead of the 2007 pace for much of the year: it wasn't until September that the probability of a lesser year began to emerge. Third, on October 1st St. Sava, Plano, made a lump sum payment of \$151,000 on their 2007 loan from the Diocese. (The loan facilitated the purchase of land upon which St. Sava's promises to build a church that will rival the best that the Diocese has to offer.) Fourth, the cash increase that resulted from the growing

number of churches that have opted to deposit their cash reserves with the Diocese: such deposits increased by \$70,000 from October to December, which enabled us to finish the year with cash reserves of \$330,624, the largest year-end total in our history.

If the Diocese had NOT collected the Membership Assessment from the churches in 2008 the revenue loss would have \$205,638, and cash reserves would be reduced to \$124,987: our year-end total in 2005 was less than half that amount. Thus, cash reserves wouldn't have been dangerously depleted and the disposable income of the churches would have increased by \$205,638. Alternatively, had the Diocese collected the Membership Assessment but credited the proceeds to interest-bearing deposit accounts cash reserves would have remained at \$330,624 and the cash reserves of the churches would be have been enhanced by \$205,638. What the foregoing seeks to demonstrate is that the Membership Assessment charge to the churches could be eliminated without destabilizing the finances of the Diocese, and that the practice of depositing cash reserves with the Diocese not only mitigates that risk but also promotes the general welfare all the parties.

At year end 2008 there were nine church depositors, with total deposits of \$228,156. At June 30, 2009, the totals were thirteen and \$324,939, respectively. It is expected that the number of churches placing their cash reserves with the Diocese will continue to grow, perhaps at an increasing rate if the Membership Assessment is lifted. Banks utilize our church deposits for their own purpose but it is becoming increasingly evident that in difficult economic times, such as these, the commercial lending windows are simply closed to churches. It is therefore important that a system of internal financing be developed in order to ensure that funds will be available to support building initiatives, when needed, without having to wait until the banks are ready to start lending again. Our Balance Sheet already resembles that of a bank and we're really not far away from being able to provide primary funding for church land acquisition and building construction.

Respectfully submitted,



Milos Konjevich
Treasurer