Diocese of the South
Orthodox Church in America
PO Box 191109
Dallas, Texas 75219

Honorable Hierarchs, Reverend Fathers, Brothers and Sisters in Christ.

Subject: June 30, 2011 Financial Report

The funding base of the Diocese continued to show good growth through the first six months of 2011. Funding from all sources totaled $717,473, with Tithe income of $298,159, loan payments received from our churches of $150,163, and church deposits growth of $140,955 being most prominent. Funding was utilized as follows: Missions & Parish Development outlays $430,304 (60%); OCA Expense $155,342 (22%); Payroll, Travel, Occupancy Expense, Administrative Costs $118,128 (16%(); and additions to cash reserves $13,608 (2%).

Tithes are currently running about $39K ahead of last year, and if seasonal trends hold up the full year total will approach $635K. This would be a 14% increase over last year, exceeding the 12% average growth rate of the past fifteen years. The mid-year total virtually matches the 2005 full year total of $298,600.

The consistent growth in Tithe revenue enables the Diocese to use "leverage" (borrowing) to extend the scope and magnitude of its Missions and Parish Development initiatives. This can be illustrated by analyzing the results of the past 5 ½ years: Tithes during this period totaled $2,827,855, while spending for all purposes other than Missions was $2,726,806; the difference between these two numbers, $101,049, is the amount that would have been available for Missions support from earnings alone. However, because of leveraging the actual amount allotted to Missions during the period was $4,556,959, a sum equak to 161% of Tithe Income - a sum $1,729,104 greater than the amounts spent for all other purposes combined. The financial concept of leverage, as applied to the business world, presupposes that the money borrowed would come from outside sources, but the fact that we're utilizing monies from our own churches and people, in the form of Church Deposits and Church-Friendly Loans, indicates that "pooling of resources", rather than leverage, is the more descriptive term for this aspect of our financial operation.

Our Church Deposit Program was formally launched in 2008. By the end of the year there were nine church depositors, total deposits $228,881: on June 30, 2011 the totals were twenty-seven and $956,996, respectively. Though there is not sufficient history upon which to base future projections annual growth of $250,000 is a reasonable expectation. Two-thirds of our depositors are churches that were established since the year 2000. This is most likely attributable to the "missions mindedness" of the newer churches, versus the parochial mentality that tends to be characteristic of older churches. The rate of deposit growth will undoubtedly accelerate as the older churches are "won over to the cause", and as the realization sets in that funds on deposit with the Diocese are as readily accessible as those held in a bank savings account.

Church-Friendly Loans of $981,261 are slightly less than the year end total of $1,003,294, as one person needed to be cashed out. The underlying concept of these loans is that there are individuals with cash resources who have an abiding interest in the welfare of Christ's church, and are willing to lend money to the Diocese under favorable terms and conditions. Allowing the Diocese to defer scheduled payments at its discretion - the understanding that repayment of their debt is subordinate to more pressing needs of the church - is characteristic of the current lender group, comprised of an archbishop, a bishop, a priest a layman and his siblings. This flexibility of repayment is a nice-to-have safety net that has never had to be used.

No borrowing plan is sustainable if payments aren't made when they're supposed to be made. Church-Friendly Loans have been part of our financial structure since 2007; during that time we've borrowed $1,571,574 and repaid $646,704 - a payoff rate well ahead of a standard 15-year loan amortization schedule. The Diocese does not actively seek out potential Church-Friendly lenders but is always ready to talk to those who may be willing.

The Managed Debt Program (MDP) is the largest component of our Missions and Parish Development package, accounting for $2,429,760 of the $4,556,959 expenditure total of the past 5 ½ years. MDP outlays in the first half of the year were $209,150, compared to church payments received of $149,662. The differential of $59,488 is more than offset by the increase in Church Deposits, which points up their essential place in the MDP concept. Our current working assumption is that the MDP needs to have church loans payments equal to 60% of outlays to remain on a sound footing. But if deposit growth exceeds expectations there would be a corresponding increase in MDP funding capacity. One church has been added to the MDP this year, three others will be by the end of the third quarter, and hopefully two more by the end of the year; two churches "graduated" from the MDP early this year when the Diocese paid the full balance owed to their bank lenders. The amount of bank debt currently being serviced through the MDP is $3,248,045.

The primary purpose of the Managed Debt Program is to reduce church monthly mortgage payments in order to free up cash for ongoing obligations and emerging developmental needs. But, a church must first be able to secure outside financing, This is becoming more difficult to accomplish, as bank lending guidelines for church loans have been revised in such a way that no consideration is given to the value of the mortgaged property: foreclosing on a church to collect a debt is something banks aren't prepared to do, which renders the property valueless from the standpoint of loan support. Demographic factors, most notably average Sunday attendance, and number of financially supporting families, are paramount, with standards set at levels that only a few of our churches could meet. The Diocese's commitment to guarantee church debt and make the monthly loan payments has enabled three churches to obtain financing so far this year. In another instance, a bank financed a building purchase for a new mission with the stipulation that the debt be a direct obligation of the Diocese. Bankers that we've dealt with recognize the basic strengths of our financial statements and are receptive to our notion that the Dioceses and its churches should be seen as a single entity whose combined numbers, both financial and demographic, meet their lending criteria. Finding a lender who is willing to do a debt consolidation loan for the eleven creditors of the Managed Debt Program, and be an ongoing provider of funds to the Diocese for meeting the property acquisition and building construction needs of its churches, is a major strategic goal.

The strength of our financials is diminished in the eyes of potential lenders by the deficits in Net Income. Last year's deficit was ($89,959), that of the of the first six months was ($77,354), and a full year deficit of ($85,000) is projected. The deficits result from the decision of the Diocese to absorb the entire cost of the OCA Membership Assessment, a decision made in full awareness of the adverse impact on earnings that would surely follow, but also with confidence in our Tithe growth, and that the Assessment dollars which the churches had been sending to the Diocese would be replaced by their deposit dollars. And that is what happened: cash flow for this year and last compare favorably with the preceding years; and an equilibrium between income and expense will likely be restored in 2012.

There is a longstanding incongruity within the financial workings of the Orthodox Church in America that suggests a lack of discernment of, and a lack of thought about, how our autocephaly should be used to grow the Church. One would suppose that the methodology is self evident - that the work of the church is carried out in the local community, - that the primary focus within our hierarchal structure is the health and well-being of existing churches - to establish churches where the Orthodox witness is sparse or altogether lacking. But, as the saying goes, "follow the money" if you want to know what's really happening.

The Income Statements of most dioceses show the OCA Membership Assessment obligation as the predominant expense category. In many instances a diocese's ability to cover basic operating costs is marginal, with direct financial support of parishes and missions being meager or nonexistent. The membership assessment dollars collected by the dioceses for the OCA are used exclusively to support Central Administration functions. Thus, the financial statements of both the dioceses and Central Administration reflect an organizational survival posture; the response of the churches, having been left to fend ffor themselves, is to do likewise, and their survival posture is revealed in the steadily declining census numbers of the OCA.

That the membership assessment system needs to be replaced by percentage-based system should finally be apparent. A Resolution to reduce the present OCA Assessment amount from $105 to $50, put forth by the New York State Deanery for consideration at the upcoming All America Conference. is a necessary step in that direction, At first glance the magnitude of the proposed cut is a bit shocking, but the Central Administration is certainly no less capable than the Diocese of the South in devising alternatiive strategies to offset the loss of assessment income. Some dioceses may be more open to a percentage-based system than others, therefore a diocese-by-diocese transition, rather than transition 'en masse', would be.a more effective strategy. Thus, an AAC Resolution authoriizing the Central Administration to proceed in this manner is all that is needed to begin phasing out the present failed system.

Respectfully submitted,

Milos Konjevich
Treasurer