

# Economia<sup>©</sup>

*A periodic publication of the Diocese of the South, Orthodox Church in America-Spring 2024*

*Christ is Risen!*

## **FIRST QUARTER FINANCIALS**

If one drills down into the details of the First Quarter Financial Operations, three accounts are sure to stand out above any others, namely Legal Fees, Interest Expense and Clergy Conference.

Legal Fees of \$241,460.76 are the expenditures for representation in the lawsuit brought by persons associated with Sts. Peter and Paul Orthodox Church in Miami. It is not for the DOS Treasurer to render an opinion on the potential outcome, but there are likely to be considerably more attorney fees incurred before a resolution is realized,

Interest Expense at \$100,308.31 is the product of the higher rate (5%) on Church Savings Accounts and a one-time adjustment of \$38,396.00 that relates to multiple loans (CFLs) connected to Holy Cross Orthodox Church that were paid off and/or repurposed.

The Clergy Conference Expense of \$12,147.87 is also a one-time expenditure.

Differentiating these one-time and extraordinary amounts from the underlying Financial Operations in the First Quarter would reveal operational Net Income of \$1,023.43, very closely in line with the 2024 Budget and Forecast.

Because our accounting is on a cash rather than accrual basis, the Clergy Conference expense, for example, appears unusually high when, if spread over the year, it would compare more favorably to the Budget which was set at \$10,000.00.

Likewise for Interest Expense. If the one-time adjustment is factored out the First Quarter Interest Expense would be \$61,912.31, closer to the \$50,000.00 Bud-

get level, although still higher largely due to the Budget having been adopted before knowing where interest rates would be in 2024.

## **THE REST OF THE RESULTS**

Continuing the trend of previous periods, Total Income (Tithes) exceeded the Forecast of \$343,750.00 by 7.01% at \$368,148.17 for the First Quarter. That also topped the same period last year by 16.9%, which yielded \$315,044.99 for January through March of 2023. Pundits and pedants alike have had to back away from previous forecasts and acknowledge that their prognostications were not just off the mark, but also not quite up to a reliable reading of our chameleon-like economy. We can prudently ignore them anyway, because our reliance is upon the faithful who share their “first fruits” in every season, fair or foul.

As referenced above, Net Income plunged \$278,833.33 into the red, owing to extraordinary expenses, most notably Legal Expense of \$241,460.76, which is likely to continue increasing before a resolution is achieved. We have complete confidence that legal counsel is among the most competent and experienced with this type of case and, in the end, will prevail in this significant dispute.

The Expense factors that are most subject to management direction and control are summed up under the Diocesan Administration account. Subtracting Legal Expense from that account would show that \$145,832.21 was spent for administrative activities, from personnel and travel to utilities, insurance and conferences. As stated above, the Clergy Conference expense is fully recognized on a contemporary cash basis. If recognized on an accrual basis the Diocesan Administration account, without

the Legal Expense, would compare favorably to the budget which is \$133,817.49 for the year to date at March 31, versus the imputed result of \$136,683.81. That might appear to be a tortured analysis, but it more accurately depicts the underlying financial operations than is evident when not looking beyond the extraordinary transactions.

As for our ongoing ratio analyses, the First Quarter outcome has not significantly altered the previous ratios with the exception of “Return on Equity”, which ended the quarter at a negative 67.7%, auguring a challenging climb back to a sustainable range. ☩

## **NOTEWORTHY EVENTS AND TRANSACTIONS**

**Non-Renewal of Insurance** -On March 13, the diocese received a notice of Non-Renewal from our insurer, Church Mutual, citing a loss ratio for the past six years of 136% and the weather patterns in Texas that “...are impacting our underwriting guidelines and appetite for exposure” as supported by “decades of research and data [that] clearly indicate a trend toward weather events that are more frequent, wider spread, stronger and longer in duration than ever before.” That was an unexpected development, although recent weather related damages resulted in a number of sequential claims. After learning that Church Mutual was not open to negotiation, we also learned that it is pulling out of Texas altogether, which is where three of the six properties owned by the diocese are located. We have since been assured by Guide One that it welcomes our business and will present a quote in ample time before the June expiration date of our current

**continued below**

*Economia # 20 is published by the diocesan office of the treasurer- Noel Busch, treasurer*

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insurance.

**Donation of Property** –Among the more interesting, but in the end, disappointing efforts concerned the offer of Caribbean island property and the year-long search of documents, history and legal ramifications. Although by all appearances the title is free of liens or encumbrances, the transfer of title, under recently adopted stamp duties on Alien Land Holdings, plus legal fees and Value Added Tax, would entail a front-end cost to the diocese approaching 25% of the property value as assessed by the Nevis Inland Revenue Office. The fees and tax expense and a valuation unrelated to what the property might actually yield on sale were sufficient cause to decline the offer, which for the reasons cited would be tantamount to a highly speculative land purchase.

**Parish Transactions** –As always, there were numerous Parish transactions for a variety of purposes. In addition to the previously referenced, the most notable were:

**Holy Spirit Orthodox Church**, Venice FL – Increase Savings \$66,681.34

**Protection of the Holy Virgin Mary**, Clarksville, TN – Withdraw Savings \$74,307.51

**St. Innocent Church**, Macon, GA – Withdraw Icon Account \$74,342.26

**St. Matthew the Apostle Mission**, Baton Rouge, LA – Increase Savings \$51,290.99

**St. Herman of Alaska Church**, Lake Worth, FL – Withdraw Savings \$47,376.95

**St. Herman Mission**, Tuscaloosa, AL – Increase Savings \$70,349.44

**Donations Portal** – Continuing at about the same pace as last year, fifteen parishes benefited in the First quarter from \$44,913.00 received via 157 entries.

**Website Makeover** – While still a work in progress, the dosoca.org website has been thoroughly reconstructed thanks to the expertise of our Secretary Fr. Peter Robichau, Fr. Stephen Osburn Jr. of Taffer Computers in Colorado and Fr. David Galloway of St. John the Merciful Mission in Kissimmee, Florida. This very much overdue makeover required

extensive architectural reconstruction, collaboration and content management, of which there is more to come. Stay tuned.

**Training and Advancement** – A new initiative this year was the enrollment of our Accounting Office Administrator, Mary Harkins, in a course of study that will credential her as a Certified Treasury Professional (CTP). The CTP course of study is sponsored by the Association for Financial Professionals (AFP) and trains the participants in the methods of cash and liquidity management and the many intricacies of Treasury operations and controls. Already well-versed in accounting methods and practice, Mary's enrollment will greatly benefit diocesan financial operations into the future. ☩

**[Find detailed financial reports at dosoca.org]**

### HACKING A CHURCH IS ABOUT EXPLOITING ITS WEAKEST LINK: US!

As generative AI improves communications, church hackers are refining their tactics. Email scams on churches in Florida, North Carolina, and Ohio led to millions of dollars in losses, but they also highlight the reality that hacking a church can be about human behavior as much as technology.

Contrary to Hollywood-produced stories, sophisticated work from a remote location to access a victim's network or computer isn't what leads to most breaches, says Jonathan Smith, technology director for Indiana-based Faith Ministries, a multisite church.

"Hacking' is a misnomer," Smith says. "It's the user usually unwittingly enabling the bad actor."

Phishing remains the most common tactic, but generative artificial intelligence (AI) is making it harder to spot. Using chatbots, bad actors create error- and typo-free messages, says Allison Ward, a partner with CapinTech.

"Bad actors follow what we do," Ward tells **Church Law & Tax**. "They do what we do, and do what's normal to us, to get us to fall victim."

"The tricks haven't changed. The methods haven't changed," Smith adds. "But now, AI makes the playing field level."

Some of the more common tactics include:

**Phishing:** An email sent to the victim appears to come from a familiar sender. Examples include an online retail website or the security team of a social media platform. The message sounds dire, It also instructs the recipient to take immediate action by clicking on a link or opening an attachment. Either option might contain malicious code, potentially infecting the victim's computer. Or the messages may redirect the victim to an official looking page that then captures sensitive information shared by the victim.

**Spear Phishing:** This is the same as a phishing attempt, except the email appears to come from someone the victim knows. The email may include specific instructions to coax the victim into doing something—send electronic gift cards, change routing information for making payments.

**Vishing:** A voice mail that uses similar messaging as a phishing email or spear phishing email. Generative AI can mimic the voice of someone the victim recognizes to make the message sound legitimate.

**SMSishing:** A phishing or spear phishing attempt sent via text message to a victim's mobile phone instead of email.

**Ransomware:** A phishing or spear phishing attempt containing malicious code in a link clicked by the victim or an attachment opened by the victim. The code enables a criminal to access systems and files and hold them ransom. Generative AI now allows bad actors with little programming experience to create ransomware. This means increased attempts are likely to come.

**Multifactor workarounds:** A bad actor obtains the victim's password to a site or system, either through a breach unrelated to the victim, or through a victim's weak password. The victim's church uses multifactor authentication (MFA), a commonly used best practice in which a code is sent via email or text to confirm the victim's identity. The bad actor has the site or system send the victim repeated MFA requests. Then, the bad actor sends an email or text claiming to be from the church, asking the victim to send the MFA code. ☩

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