

APPENDIX C, EXHIBIT 2A: SAMPLE SMALL MINISTRY – FULL ACCRUAL

The following illustrative financial statement is taken from Appendix C, Exhibit 2A of the *Accounting and Financial Reporting Guide for Churches and Ministries* published by the Accounting Committee for Churches & Ministries. As noted in Appendix C, this example is illustrative, not prescriptive.

It also is not intended to present all required disclosures. Care should be taken to display the most meaningful presentation for each organization based on the needs of the financial statement users within the prescriptive requirements of all FASB and AICPA pronouncements.



Accounting
Committee
for Churches
& Ministries

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SMALL MINISTRY
Statements of Financial Position

	December 31,	
	20X2	20X1
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 525,655	\$ 745,362
Advances, deposits, prepaid expenses, and other assets	155,192	151,516
Investments	485,236	135,851
	<u>1,166,083</u>	<u>1,032,729</u>
Long-Term Assets:		
Deferred compensation trust	290,680	238,944
Property and equipment—net	1,446,313	1,554,983
	<u>1,736,993</u>	<u>1,793,927</u>
Total Assets	<u><u>\$ 2,903,076</u></u>	<u><u>\$ 2,826,656</u></u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 140,847	\$ 150,979
Deferred revenues	92,700	89,350
Deposits held for others	19,665	18,952
Current portion of note payable	7,103	11,935
	<u>260,315</u>	<u>271,216</u>
Long-Term Liabilities:		
Note payable, net of current portion	10,324	17,427
Liability for deferred compensation	290,680	238,944
	<u>301,004</u>	<u>256,371</u>
Total liabilities	<u>561,319</u>	<u>527,587</u>
Net Assets:		
Net Assets Without Donor Restrictions:		
Operating	309,371	221,199
Board-designated reserves	325,000	25,000
Equity in property and equipment-net	1,428,886	1,525,621
	<u>2,063,257</u>	<u>1,771,820</u>
Net Assets With Donor Restrictions:		
Restricted by purpose or time	278,500	527,250
Total net assets	<u>2,341,757</u>	<u>2,299,070</u>
Total Liabilities and Net Assets	<u><u>\$ 2,903,076</u></u>	<u><u>\$ 2,826,657</u></u>

See notes to financial statements.

SMALL MINISTRY

Statements of Activities

	Year Ended December 31,	
	20X2	20X1
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Support and Revenue:		
Contributions-cash and stock	\$ 2,262,848	\$ 1,602,630
Gifts-in-kind	103,653	105,383
Program fees	1,221,741	1,316,070
Investment income	27,303	5,109
Other revenue	16,537	21,887
Total Support and Revenue	3,632,082	3,051,079
Reclassifications:		
Net assets released		
from restrictions	366,800	641,811
Total Support, Revenue and Reclassifications	3,998,882	3,692,890
Expenses:		
Program services:		
Education	3,041,780	2,966,752
Relief	222,795	252,885
	3,264,575	3,219,637
Supporting activities:		
General and administrative	369,010	338,945
Fundraising	73,860	81,589
	442,870	420,534
Total Expenses	3,707,445	3,640,171
Change in Net Assets Without Donor Restrictions	291,437	52,719
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
Support And Revenue:		
Contributions-cash and stock	\$ 118,050	\$ 414,800
Reclassifications:		
Net assets released	(366,800)	(641,811)
Change in Net Assets With Donor Restrictions	(248,750)	(227,011)
Change in Net Assets	42,687	(174,292)
Net Assets, Beginning of Year	2,299,070	2,473,362
Net Assets, End of Year	\$ 2,341,757	\$ 2,299,070

See notes to financial statements.

SMALL MINISTRY

Statements of Cash Flows

	Year Ended December 31,	
	20X2	20X1
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 42,687	\$ (174,292)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	124,718	125,045
Gain on sale of property and equipment	(3,031)	(11,844)
Net realized and unrealized gains on investments	(24,153)	(4,059)
Change in operating assets and liabilities:		
Advances, deposits, prepaid expenses, and other assets	(3,676)	23,792
Accounts payable and accrued expenses	(10,132)	57,033
Deferred revenues	3,350	(15,700)
Deposits held for others	714	(3,350)
Net Cash Provided (Used) by Operating Activities	130,477	(3,375)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(16,048)	(63,020)
Proceeds from sale of property and equipment	3,031	26,118
Purchase of investments	(462,165)	(105,150)
Proceeds from sale of investments	136,933	238,169
Net Cash Provided (Used) by Investing Activities	(338,249)	96,117
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable	(11,935)	(38,762)
Net Cash Used by Financing Activities	(11,935)	(38,762)
Change in Cash and Cash Equivalents	(219,707)	53,980
Cash and Cash Equivalents, Beginning of Year	745,362	691,382
Cash and Cash Equivalents, End of Year	\$ 525,655	\$ 745,362
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	\$ 1,564	\$ 2,176

See notes to financial statements.

SMALL MINISTRY

Notes to Financial Statements

December 31, 20X2 and 20X1

1. NATURE OF THE ORGANIZATION

Sample Small Ministry (the Organization) is a nonprofit corporation dedicated to teaching believers how to spread the Gospel in word and deed. Classes are held in the U.S. and abroad. Individuals choose to participate in a weekly session or in a three-month hands-on missions trip where, through relief efforts, they implement the lessons as they learn. Teams are encouraged to be the “hands and feet of Christ” when they are working in an area where natural disasters occur. Food and other relief supplies are shared, providing opportunities to share Biblical truths with recipients.

The Organization 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 Organization has been classified as a publicly supported organization that is not a private foundation under Section 509(a) of the code.

2. SIGNIFICANT ACCOUNTING POLICIES

The Organization maintains its accounts and prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of any contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses during the reporting periods. Actual results could differ from the estimates. The significant accounting policies followed by the Organization are described below to enhance the usefulness of the financial statements to the reader.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of checking and savings accounts with an original maturity of less than three months. At times, amounts in these accounts exceed federal deposit insurance limits. At December 31, 20X2 and 20X1, the Organization's cash balances exceeded federally insured limits by \$250,535 and \$465,125, respectively. The Organization has not experienced any losses on these accounts, and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and cash equivalents held in foreign bank accounts was approximately \$8,000 and \$5,000 for the years ended December 31, 20X2 and 20X1, respectively.

INVESTMENTS

Investments in mutual funds are reported at fair value. Investments in certificates of deposit are reported at initial investment plus accrued interest. Investment income, gains, and losses are reported as investment income without donor restrictions in the statements of activities unless donor restrictions or laws that extend donor restrictions limit their use.

PROPERTY AND EQUIPMENT AND DEPRECIATION

Items capitalized as property and equipment are reported at cost if purchased. Donated items are reported at their fair market value on the date of the gift. Items are capitalized if value at date of acquisition is at least \$1,000 and useful life is greater than one year. Property and equipment purchased in a foreign currency is converted at the date of the purchase to U.S. dollars and depreciated in U.S. dollars thereafter.

Depreciation is computed on a straight-line method over the estimated useful lives of the related assets. Depreciation is allocated to the various underlying program services and supporting activities. Depreciable lives by type of asset are:

Buildings	50 years
Foreign buildings	25 years
Furniture and equipment	3-5 years
Automobiles	5 years

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of liabilities for expense reports, vendor payments, and certain payroll-related remittances. See Note 7 for employee benefits.

DEPOSITS HELD FOR OTHERS

The Organization accepts deposits from mission-trip participants and their families and friends, to be used by the participants while on the trip. These deposits are held by the Organization as an agent for the convenience of the participants, and they are disbursed to the participants upon demand.

DEFERRED COMPENSATION TRUST

The Organization established a Rabbi Trust in 2000 for certain officers. The trust is presented in the financial statements as a long-term asset and a long-term liability because the trust assets, by law, remain those of the Organization; however, access to trust assets is severely restricted. The sum of the deferred payments to the trust for a calendar year may not exceed the maximum deferred amount authorized under IRC Section 457(b), adjusted for the calendar year to reflect increases in cost-of-living in accordance with IRC Sections 457(e)(15) and 415(d). In 20X2 and 20X1, contributions to the trust, as required by the agreements with the officers, of \$21,730 and \$14,982, respectively, were made to bring the trust assets to the required level.

CLASSES OF NET ASSETS

The financial statements report amounts separately by class of net assets:

Net assets without donor restrictions are those currently available for use in the ministries under the direction of the board, reserves established by the board, and those resources invested in property and equipment.

Net assets with donor restrictions are resources that can only be used for specific purposes or in specific time periods that are prescribed by a donor. A donor-imposed restriction limits the use of contributed resources in a manner narrower than the limitations imposed by the Organization's overall mission purposes.

PUBLIC SUPPORT AND RECLASSIFICATIONS

Support is reported when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of assets is transferred. Donated investments and gifts-in-kind are reported at their fair value on the date of donation. Gifts of cash and other assets are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated amounts. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

The Organization reports gifts of property and equipment as support without donor restrictions unless explicit donor stipulations specify how long the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how long the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

OTHER REVENUES

Program fees are collected for participation in educational and other programmatic activities provided by the Organization. Fees are recognized as revenue when services have been delivered to participants. Fees are typically collected upon registration for an activity (that is, in advance of the event) and are included in deferred revenue. The balance of the deferred revenue account at the end of a previous fiscal year is recognized as revenue during the next reporting period as the events occur.

EXPENSES, ALLOCATION OF EXPENSES, AND ADVERTISING COSTS

All expenses are reported when incurred, including advertising. Advertising costs include space ads and internal costs, including employee salaries to produce promotional materials. Total advertising was \$60,516 and \$58,441, respectively, for the years ended December 31, 20X2 and 20X1.

The financial statements report expenses by functional and natural categories. If an expense can be directly identified with a particular program or supporting function, it is assigned to that function. If direct identification is impossible or impracticable, an allocation is made when expenses are attributable to one or more program or supporting functions of the Organization. These expenses include depreciation, facilities operations, and other expenses. Depreciation and facilities operations is allocated

based on square footage and the programmatic purpose of the asset being depreciated. Costs of other expenses were allocated based on programmatic purpose of the employees directly affected by the expense.

3. LIQUIDITY AND FINANCIAL ASSETS AVAILABLE

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts that are not available for general use within one year of the financial statement date:

	December 31,	
	20X2	20X1
Financial assets:		
Cash and cash equivalents	\$ 525,655	\$ 745,362
Investments	485,236	135,851
Advances and mission trip deposits	112,048	104,323
Financial assets, at year-end	1,122,939	985,536
Less funds not available for general expenditure within one year:		
Mission trip deposits held for others	19,665	18,952
Restricted to international expansion and church projects	266,000	515,000
Board-designated reserves	325,000	25,000
Financial assets available to meet cash needs for general expenditures within one year	\$ 512,274	\$ 426,584

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Restricted resources are available to meet needs for general expenditures within one year if the resources are expected to be used to fund expenditures occurring in the normal course of operations for the coming year. Resources restricted to long-term projects and resources held for board-designated reserves are not available to meet cash needs for general expenditures. The governing board has set aside \$300,000 of resources at December 31, 20X2 for a new initiative to fund graduate-level theological education for employees permanently assigned to relief efforts and \$25,000 of resources at December 31, 20X2 and 20X1 for unanticipated liquidity needs.

4. INVESTMENTS

Organization invests excess operating cash and its board-designated reserves in mutual funds and certificates of deposits.

Investments consist of:

	December 31,	
	20X2	20X1
Mutual funds:		
Socially responsible investing (SRI) funds	\$ 168,945	\$ 65,147
Short-term bond funds	116,291	20,704
Investments reported at their fair values	285,236	85,851
Certificates of deposit	200,000	50,000
	<u>\$ 485,236</u>	<u>\$ 135,851</u>

Accounting standards require the Organization to maximize the use of observable inputs when measuring fair value. Fair value is defined under the standards as the exchange price that would be received for an asset (or paid to transfer a liability) in the principal or most advantageous market between market participants on the measurement date. The standards describe three levels of inputs to fair value measurement, which indicate the level of uncertainty in the measurement. All mutual funds of the Organization are measured using Level 1 inputs, which are quoted prices for identical instruments traded in active markets (the most reliable level of measurement). Certificates of deposit are not measured at fair value; they are measured at original investment plus accrued interest.

5. PROPERTY AND EQUIPMENT—NET

Property and equipment—net consist of:

	December 31,	
	20X2	20X1
Land	\$ 277,871	\$ 277,871
Buildings and improvements	1,404,119	1,388,071
Furniture and equipment	405,289	450,977
	<u>2,087,279</u>	<u>2,116,919</u>
Less accumulated depreciation	<u>(640,966)</u>	<u>(561,936)</u>
	<u>\$ 1,446,313</u>	<u>\$ 1,554,983</u>

Included in buildings and improvements at December 31, 20X2 and 20X1 is \$345,126 of assets held in other countries. Management has reviewed these assets and, in its opinion, they are under the control and ownership of the Organization.

While for these reasons such items are reported as the Organization's assets, it should be noted that the political situation in many foreign countries is subject to rapid change. Therefore, the reader should be aware that while the Organization believes the assets are properly stated at the date of this report, subsequent changes could occur that would adversely affect the value of the assets in other countries.

6. NOTE PAYABLE

The Organization obtained a loan which is secured by the related equipment. The following is a schedule by year of future minimum principal payments:

Year Ending December 31,

20X3	\$	7,103
20X4		8,197
20X5		2,127
		<hr/>
	\$	17,427
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The loan matures in 20X5 and has a stated interest rate of 6.8% with monthly payments of \$667. Interest expense was \$1,546 and \$2,156 for the years ended December 31, 20X2 and 20X1, respectively.

7. EMPLOYEE BENEFITS

The Organization sponsors a tax-deferred retirement plan pursuant to Section 403(b) of the Internal Revenue Code to provide retirement benefits for all eligible employees. Participating employees may voluntarily contribute up to limits provided by the Internal Revenue Service regulations. Annual contributions are made by the Organization equivalent to 6% of the covered payroll of the participants. Expenses related to this plan were \$76,842 and \$67,173 during 20X2 and 20X1, respectively.

8. GIFTS IN KIND

For the years ended December 31, the Organization recognized the following gifts in kind in its statement of activities:

	December 31,	
	20X2	20X1
Medical supplies, including pharmaceuticals	\$ 51,495	\$ 49,120
Other relief supplies	49,866	50,640
Other items	2,292	5,623
	<hr/>	<hr/>
	\$ 103,653	\$ 105,383
	<hr/>	<hr/>

Contributed medical supplies and relief supplies were utilized in relief efforts. In valuing most medical supplies and other relief supplies, the Organization estimated the fair value using wholesale prices that would be received for selling similar products in the United States. However, contributed pharmaceuticals were restricted by donors to use outside the United States and therefore were utilized only in international relief efforts. In valuing contributed pharmaceuticals otherwise legally permissible for sale in the United States, the Organization used the Federal Upper Limit based on the weighted average of the most recently reported monthly Average Manufacturer Prices (AMP), which approximates wholesale prices in the United States (that is, their principal market). In valuing pharmaceuticals not legally permissible for sale in the United States or primarily consumed in developing markets, the Organization used third-party sources for wholesale prices in the developing markets in which the pharmaceuticals are approved for sale (that is, their principal market). Other items, primarily office supplies, were valued using prices that would be received for selling similar items in the United States.

9. NATURAL CLASSIFICATION OF EXPENSES

The following tables reflect the natural classification of expenses:

Year Ended December 31, 20X2

	Education	Relief	Total Program Expense	General & Administrative	Fundraising	Total Expense
Salaries and benefits	\$ 1,873,795	\$ 31,988	\$ 1,905,783	\$ 198,241	\$ 55,734	\$ 2,159,758
Medical and relief supplies	63,328	121,110	184,438	-	-	184,438
Information technology	262,985	14,610	277,595	14,143	467	292,205
Office expenses	193,290	11,369	204,659	22,740	-	227,399
Conferences, conventions, and meetings	140,429	18,363	158,792	-	-	158,792
Depreciation expense	99,675	6,335	106,010	13,448	5,260	124,718
Grants to other organizations	52,100	-	52,100	-	-	52,100
Travel	76,497	15,300	91,797	10,200	-	101,997
Professional fees	191,033	-	191,033	90,464	12,399	293,896
Other expenses	88,648	3,720	92,368	19,774	-	112,142
	<u>\$ 3,041,780</u>	<u>\$ 222,795</u>	<u>\$ 3,264,575</u>	<u>\$ 369,010</u>	<u>\$ 73,860</u>	<u>\$ 3,707,445</u>

Year Ended December 31, 20X1

	Education	Relief	Total Program Expense	General & Administrative	Fundraising	Total Expense
Salaries and benefits	\$ 1,665,188	\$ 29,717	\$ 1,694,905	\$ 179,321	\$ 50,113	\$ 1,924,339
Medical and relief supplies	149,861	149,954	299,815	-	-	299,815
Information technology	333,206	18,511	351,717	16,919	1,592	370,228
Office expenses	169,515	9,971	179,486	19,943	-	199,429
Conferences, conventions, and meetings	159,898	23,300	183,198	-	-	183,198
Depreciation expense	100,953	5,335	106,288	13,517	5,240	125,045
Grants to other organizations	3,750	-	3,750	-	-	3,750
Travel	86,303	17,261	103,564	11,507	-	115,071
Professional fees	190,365	-	190,365	77,860	24,644	292,869
Other expenses	102,378	4,171	106,549	19,878	-	126,427
	<u>\$ 2,961,417</u>	<u>\$ 258,220</u>	<u>\$ 3,219,637</u>	<u>\$ 338,945</u>	<u>\$ 81,589</u>	<u>\$ 3,640,171</u>

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of:

	December 31,	
	20X2	20X1
Publications	\$ 12,500	\$ 12,250
Church project	16,000	15,000
Expansion of mission trips and relief efforts to additional countries	250,000	500,000
	<u>\$ 278,500</u>	<u>\$ 527,250</u>

11. FOREIGN OPERATIONS

As described in Note 5, the Organization maintains supporting facilities in countries outside the United States in connection with its global ministries. Total support and revenue received from foreign sources total approximately \$48,000 and \$37,000 for the year ended December 31, 20X2 and 20X1, respectively. Account balances relating to foreign operations are reflected in the financial statements in United States dollars.

Foreign currency transactions are recorded at the exchange rate in effect at the date of the transaction. Gains and losses resulting from foreign currency exchange rate fluctuations are included in Other revenue in the statements of activities for the period. The Organization does not hedge its foreign currency exposures.

12. RELATED-PARTY TRANSACTIONS

The Organization pays U.S. board members for various legal and professional fees. For the years ended December 31, 20X2 and 20X1, a total of \$6,000 and \$6,600, respectively, was paid to U.S. board members.

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 30, 20X3, which represents the date the financial statements were available to be issued. Events occurring after that date have not been evaluated.