

## APPENDIX C, EXHIBIT 3: SAMPLE CHURCH

The following illustrative financial statement is taken from Appendix C, Exhibit 3 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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**ABC CHURCH**  
**Statements of Financial Position**

	December 31,	
	20X2	20X1
<b>ASSETS:</b>		
Current Assets:		
Cash and cash equivalents	\$ 2,527,665	\$ 2,987,552
Investments held for operating purposes	292,045	327,573
Tuition and fees receivable, net	288,790	312,678
Prepays and other current assets	251,246	244,374
	<u>3,359,746</u>	<u>3,872,177</u>
Long-Term Assets:		
Assets held for long-term purposes	1,396,194	1,231,338
Property and equipment–net	3,242,606	3,485,033
	<u>4,638,800</u>	<u>4,716,371</u>
Total Assets	<u>\$ 7,998,546</u>	<u>\$ 8,588,548</u>
<b>LIABILITIES AND NET ASSETS:</b>		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 746,082	\$ 626,745
Accrued expenses	281,203	394,269
Unearned revenue	333,309	279,697
Current portion of debt	175,249	372,670
	<u>1,535,843</u>	<u>1,673,381</u>
Long-Term Liabilities:		
Debt, net of current portion	245,423	16,901
Deferred rent	206,808	235,327
	<u>452,231</u>	<u>252,228</u>
Total liabilities	<u>1,988,074</u>	<u>1,925,609</u>
Net Assets:		
Net Assets Without Donor Restrictions:		
Operating	311,407	75,447
Board-designated operating reserves	175,000	125,000
Equity in property and equipment–net	2,929,332	3,345,462
	<u>3,415,739</u>	<u>3,545,909</u>
Net Assets With Donor Restrictions:		
Restricted by purpose or time	2,594,733	3,117,030
Total net assets	<u>6,010,472</u>	<u>6,662,939</u>
Total Liabilities and Net Assets	<u>\$ 7,998,546</u>	<u>\$ 8,588,548</u>

See notes to financial statements.

# ABC CHURCH

## Statements of Activities

Year Ended December 31,

	20X2			20X1		
	Without Donor	With Donor		Without Donor	With Donor	
	Restrictions	Restrictions	Total	Restrictions	Restrictions	Total
SUPPORT AND REVENUE:						
Contributions	\$ 2,061,977	\$ 1,002,297	\$ 3,064,274	\$ 2,824,915	\$ 733,001	\$ 3,557,916
School tuition and fees, net	1,774,712	-	1,774,712	1,847,661	-	1,847,661
Conferences and events	295,733	-	295,733	416,820	-	416,820
Daycare tuition	472,181	-	472,181	345,295	-	345,295
Bookstore and café sales	372,299	-	372,299	200,722	-	200,722
Other revenue	509,782	-	509,782	469,758	-	469,758
Total Support and Revenue	5,486,684	1,002,297	6,488,981	6,105,171	733,001	6,838,172
RECLASSIFICATIONS:						
Net assets released						
from restrictions	1,524,594	(1,524,594)	-	1,376,496	(1,376,496)	-
EXPENSES:						
Program services:						
Worship and families	1,179,957	-	1,179,957	1,515,389	-	1,515,389
School	1,356,891	-	1,356,891	1,209,102	-	1,209,102
Outreach	656,473	-	656,473	642,531	-	642,531
General church activities	2,040,663	-	2,040,663	2,192,837	-	2,192,837
	5,233,984	-	5,233,984	5,559,859	-	5,559,859
Supporting activities:						
General and administrative	1,390,002	-	1,390,002	741,551	-	741,551
Fundraising	517,462	-	517,462	353,449	-	353,449
	1,907,464	-	1,907,464	1,095,000	-	1,095,000
Total Expenses	7,141,448	-	7,141,448	6,654,859	-	6,654,859
Change in Net Assets	(130,170)	(522,297)	(652,467)	826,808	(643,495)	183,313
Net Assets, Beginning of Year	3,545,909	3,117,030	6,662,939	2,719,101	3,760,525	6,479,626
Net Assets, End of Year	\$ 3,415,739	\$ 2,594,733	\$ 6,010,472	\$ 3,545,909	\$ 3,117,030	\$ 6,662,939

See notes to financial statements.

**ABC Church**  
**Statements of Cash Flows**

	Year Ended December 31,	
	20X2	20X1
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (652,467)	\$ 183,313
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	353,113	418,204
Gifts restricted for long-term purposes	(175,115)	(733,001)
Gain on sale of property and equipment	-	(4,918)
Net realized and unrealized gains on investments	(46,033)	(396)
Change in operating assets and liabilities:		
School tuition and fees receivable, net	23,888	(50,666)
Prepays and other current assets	(6,872)	15,433
Accounts payable	119,337	(67,656)
Accrued expenses	(113,066)	(68,050)
Unearned revenue	53,612	12,098
Deferred rent	(28,519)	(28,519)
Net Cash Used by Operating Activities	(472,122)	(324,158)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(69,622)	(63,020)
Proceeds from sale of property and equipment	-	26,118
Purchase of certificates of deposit and reinvested income	(164,856)	(112,034)
Purchase of investments	(231,069)	(65,144)
Proceeds from sale of investments	312,630	37,416
Net Cash Provided (Used) by Investing Activities	(152,917)	(176,664)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on debt	(167,361)	(22,791)
Payment on line-of-credit, net	(142,602)	-
Issuance of new debt	300,000	-
Gifts restricted for long-term purposes	175,115	733,001
Net Cash Provided by Financing Activities	165,152	710,210
Change in Cash and Cash Equivalents	(459,887)	209,388
Cash and Cash Equivalents, Beginning of Year	2,987,552	2,778,164
Cash and Cash Equivalents, End of Year	\$ 2,527,665	\$ 2,987,552
<b>SUPPLEMENTAL DISCLOSURES</b>		
Purchase of vehicle using a financing agreement	\$ 41,064	\$ -
Cash paid for interest	\$ 26,386	\$ 21,340

See notes to financial statements.

# **ABC Church**

## **Notes to Financial Statements**

December 31, 20X2 and 20X1

### **1. NATURE OF ORGANIZATION**

ABC Church (the Church) was founded in 1963 to serve the community of Anytown, Anystate. In 1978, ABC Academy (the Academy) was started as a ministry of the Church and continues to operate under the Church without being separately incorporated. The accompanying financial statements include the assets, liabilities, and financial activities of the Church including the Academy. The Church's purpose is to spread the gospel of Jesus Christ and provide an opportunity for Christian growth and maturity.

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.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

The Church 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 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, unless those financial instruments are held for long-term purposes. At times, amounts in these accounts exceed federal deposit insurance limits. The Church 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.

At December 31, 20X2 and 20X1, the Church's cash balances exceeded federally insured limits by \$2,527,665 and \$2,487,552, respectively.

#### **INVESTMENTS**

Investments in equity securities are reported initially at purchase price and thereafter reported at fair value. Donated investments are reported at the fair value on the date of donation and thereafter reported at fair value. Unrealized and realized net gains and losses are reported as investment income without donor restrictions in the statements of activities. Investments

are publicly traded mutual funds, which are reported at the published fair value per share (unit) that is the basis for current transactions (a Level 1 measurement in the Fair Value Measurements hierarchy).

## **TUITION AND FEES RECEIVABLE, NET**

Tuition and fees receivable are primarily composed of receivables due within one school year, but some receivables have a longer term if parents sign a financing plan because of financial hardship. All receivables are noncollateralized and are reported net of any anticipated credit losses due to uncollectible accounts. The Academy's policy for determining when receivables are past due or delinquent is when a student graduates with an account balance or when a student with an account balance is withdrawn from school or does not return the following fall and does not have an agreed-upon payment plan to address the balance. Expected uncollectible amounts are reported as additions to the allowance for uncollectible accounts as described in Note 4. The Academy assesses a \$25-per-month fee against student receivables that are past due 15 days or more. The Academy stops the accrual of late fees if no collections are received on the account after one school year. Payments received from receivables in nonaccrual status are credited first to accrued late fees and then to the tuition and fees balance.

The allowance for uncollectible accounts is maintained at a level that, in management's judgment, is adequate to absorb potential losses inherent in the receivable portfolio. The amount of the allowance is based on management's evaluation of the collectability of the receivable portfolio, including the nature of the portfolio, trends in historical loss experience, specific impaired amounts, and economic conditions. The expected credit losses for tuition and fees receivable are determined on a collective (single pool) basis and are assigned to categories based on student enrollment status (currently enrolled or withdrawn), school year (current school year charges or past years), and payment history (paying on time or late). Receivable categories are determined at the end of each grading period (November, February, and June).

## **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. The capitalization policy is \$1,000 and a useful life of more than one year.

Depreciation is computed on a straight-line method over the estimated useful lives of the related assets. Depreciable lives by type of asset are:

Buildings	50 years
Furniture and equipment	3 - 7 years
Land improvements	15 years

## **ASSETS HELD FOR LONG-TERM PURPOSES**

Assets held for long-term purposes are held for future construction costs. The balances are held in certificates of deposits with initial maturities of six months. The amounts are recorded at cost plus accrued interest.

## **DEFERRED RENT**

A local organization uses the Church facilities on a weekly basis. The organization chose to prepay rent for 10 years. Rental income is recognized as earned.

## **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, operating reserves established by the board, and those resources invested in property and equipment.

*Net assets with donor restrictions* are those stipulated by donors for specific operating purposes or for use in future periods.

## **SUPPORT, REVENUE, 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. 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 accomplished, 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 Church reports gifts of property and equipment as support without donor restrictions unless explicit donor stipulations specify how 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 Church reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Tuition and fees amounts for the Academy and the daycare facility are reported as unearned revenue if received in advance of providing schooling or childcare services, and recognized as revenue when obligations to provide schooling or childcare have been met. Tuition and fees revenue is reported net of any financial aid granted by the Academy, which was \$161,829 and \$230,416 for the years ended December 31, 20X2 and 20X1, respectively. Revenue from other exchange transactions (bookstore and café sales and conferences and events) is reported when earned, that is, when the Church has no remaining obligations to transfer goods or services to its customers.

## **EXPENSES, ALLOCATION OF EXPENSES, AND ADVERTISING COSTS**

Expenses are reported when incurred. Advertising costs, which also were expensed when incurred, were insignificant in amount for the years ended December 31, 20X2 and 20X1.

The financial statements report expenses by functional classification. When expenses are directly related to a single program or supporting activity, they are directly charged to that function. Certain categories of expenses are attributable to more than one program or supporting activity of the Church and therefore require allocation using a reasonable basis and consistent method. Those expenses include salaries and benefits, depreciation, facilities operations, information technology, and office expenses. Salaries and benefits are allocated based on the time employees spent performing the various activities. Depreciation and facilities operations are allocated based on square footage and the purpose for which the underlying assets are used. Costs

of information technology and office expenses were allocated based on the number of employees involved in providing services for each program or supporting activity.

### 3. LIQUIDITY AND FINANCIAL ASSETS AVAILABLE

The following reflects the Church's financial assets as of the statement of financial position sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date:

	December 31,	
	20X2	20X1
Financial assets available to meet cash needs for general expenditures within one year	\$ 2,933,500	\$ 3,502,803

In addition to those financial assets, the Church has set aside financial assets that are restricted for the construction of a new building. Those amounts, which are reported as assets held for long-term purposes in the statements of financial position, totaled \$1,396,194 and \$1,231,228 at December 31, 20X2 and 20X1, respectively.

As part of the Church'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. The Church had \$1,198,539 and \$1,885,692 in net assets with donor restrictions for Church and Academy programs as of December 31, 20X2 and 20X1, respectively. These funds are considered available to meet needs for general expenditures within one year because they are available to support any general expenditures for the restricted purposes, all of which are ongoing programs of the Church. In addition, the Church had \$142,062 and \$0 available on a line of credit with a financial institution as of December 31, 20X2 and 20X1, respectively.

### 4. TUITION AND FEES RECEIVABLE, NET

The Academy accepts students from the Anytown community. Tuition and fees are billed at the beginning of the school year, and most families chose to pay tuition monthly over the course of the school year. The Academy has tracked historical loss information for its tuition and fees receivables and compiled the following historical credit loss percentages:

- 0.5 percent for receivables that are for the current school year
- 15 percent for receivables for a previous school year if the student is currently enrolled
- 50 percent for receivables if the student has withdrawn and the parents are abiding with the terms of a payment plan
- 75 percent for receivables if the student has withdrawn and the parents are 30-180 days past due on their payment plan

Uncollected accounts are written off against the allowance if the student has withdrawn and either the parents are more than 180 days past due on their payment plan or the parents were unresponsive when asked to sign a payment plan.

The Church believes that this historical loss information is a reasonable base on which to determine expected credit losses for receivables held at the reporting date because the composition of the receivables at the reporting date is consistent with that used in developing the historical credit-loss percentages (that is, there are similar risk characteristics of its families and the Academy's enrollment practices have not changed significantly over time). Additionally, the Church has determined that the



current and forecasted economic conditions for the Anytown community are similar to the economic conditions included in the historical information.

The composition of the tuition and fees receivable at the reporting date are:

	December 31,	
	20X2	20X1
Current school year	\$ 224,354	\$ 245,541
Previous school years, student still enrolled	53,953	49,086
Student has withdrawn	53,152	71,375
	331,459	366,002
Allowance for uncollectible accounts	(42,669)	(53,324)
	<u>\$ 288,790</u>	<u>\$ 312,678</u>

The activity in the allowance account for the year ended was:

	December 31,	
	20X2	20X1
Beginning balance	\$ (53,324)	\$ (50,183)
Current period provision	(10,873)	(11,238)
Write-offs	22,528	9,597
Recoveries of amounts previously written off	(1,000)	(1,500)
Ending balance	<u>\$ (42,669)</u>	<u>\$ (53,324)</u>

## 5. PREPAIDS AND OTHER CURRENT ASSETS

Prepays and other assets consist of:

	December 31,	
	20X2	20X1
Prepaid expenses	\$ 219,779	\$ 202,446
Deposits	18,000	20,000
Receivables from staff	13,467	21,928
	<u>\$ 251,246</u>	<u>\$ 244,374</u>

## 6. PROPERTY AND EQUIPMENT—NET

Property and equipment—net consist of:

	December 31,	
	20X2	20X1
Land	\$ 69,000	\$ 69,000
Land improvements	113,928	113,928
Buildings	2,787,465	2,787,465
Furniture and equipment	1,436,088	1,325,402
	<u>4,406,481</u>	<u>4,295,795</u>
Less accumulated depreciation	(1,163,875)	(810,762)
	<u>\$ 3,242,606</u>	<u>\$ 3,485,033</u>

## 7. DEBT

Debt consists of:

	December 31,	
	20X2	20X1
The Academy entered into a \$41,064 financing agreement secured by a vehicle. Monthly principal and interest payments are \$1,247 with a maturity date of July 20X4. The annual interest rate is 5.86%.	\$ 35,782	\$ -
The Church entered into a 60-month \$300,000 mortgage arrangement with a local financial institution for building renovations. The debt is secured by buildings. Monthly payments are \$5,593 at a stated interest rate of 4.5%.	277,492	-
The Church entered into a 15-year \$500,000 mortgage arrangement with a local financial institution for classroom construction. The debt was secured by buildings. Monthly payments were \$4,006 at a stated interest rate of 5.2%. This debt was paid off during the year ended December 31, 20X2.	-	139,571
Unsecured \$250,000 line of credit with local financial institution. No minimum monthly payments are required, although the Church is required to pay off the line for at least 30 days each year. The stated interest rate is 5.0%.	107,398	250,000
	420,672	389,571
Less current portion	(175,249)	(372,670)
	\$ 245,423	\$ 16,901

The debt is estimated to mature as follows:

### Year Ending December 31,

20X3	\$ 175,249
20X4	82,030
20X5	163,393
	<u>\$ 420,672</u>

Interest expense for the years ended December 31, 20X2 and 20X1 was \$24,732 and \$20,312, respectively.

There was no interest capitalized during the years ended December 31, 20X2 and 20X1.

## 8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of:

	December 31,	
	20X2	20X1
Church programs and missions	\$ 859,064	\$ 1,160,442
Construction of new building	1,396,194	1,231,338
Academy scholarships and programs	339,475	725,250
	<u>\$ 2,594,733</u>	<u>\$ 3,117,030</u>

## 9. RELATED-PARTY TRANSACTIONS

The Church paid \$35,642 and \$21,312 to a board member during the years ended December 31, 20X2 and 20X1, respectively, for construction management services.

## 10. SUBSEQUENT EVENTS

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