Accounting and Reporting Practices of Churches: an Empirical Study

by

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Sarah H. Smith

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Chapter 1 - Introductory Look at Accounting for Churches

In the last decade the accounting profession has shown increased interest in accounting for nonprofit organizations with a corresponding influence on accounting for churches. Statement of Position 78-10 prepared by the American Institute of Certified Public Accountants (AICPA) in 1978 and Statement of Financial Accounting Concepts No. 4 issued by the Financial Accounting Standards Board (FASB) in 1980 provide standards and objectives for church financial reporting. Although accounting standards that apply to church organizations have been determined, there is little available information delineating the current accounting and reporting practices followed by churches.

This research serves two purposes. First, it determines the actual accounting principles and reporting practices used by one significant group of churches. Second, it determines the areas of potential impact of the Statement of Position (SOP) on church accounting and reporting practices. Data measuring both churches' compliance with recommended principles and practices and church business administrators' attitudes toward the principles and practices are gathered using a mail questionnaire technique. Analysis of these compliance rates and attitude response scores begin to provide an understanding of the current status of church accounting and the potential impact of the recommendations found in the SOP.

Importance of Churches in the Economic Community

Economic entities in America are often segregated into profit and nonprofit or business and nonbusiness classifications. Recent studies show that churches are an important part of America's nonprofit sector. Gallup polls from 1975 show that about seven out of ten respondents consider themselves to be members of a church or synagogue. Forty percent describe themselves as having attended a church or synagogue in the last week, according to a 1979 Gallup Poll.[1]

The American Association of Fund-Raising Counsel in Giving USA reports annual contributions by year for the last fifteen years. Exhibit 1-1 summarizes data gathered by the Fund-Raising Counsel. Contributions to religious organizations account for about 47 percent of total giving.[2] This percentage for religious organizations is constant from year to year and much higher than for any other type of nonprofit organization. Religious organizations constitute a large segment of the nonprofit sector and, therefore, should be

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[1]George Gallup, The Gallup Poll-Public Opinion 1972-1977 (Wilmington, DE: Scholarly Resources, Inc., 1978), p. 624 and The Gallup Poll-Public Opinion 1979 (Wilmington, DE: Scholarly Resources, Inc., 1980), p. 291.

[2]American Association of Fund-Raising Counsel, Inc., Giving USA (New York: American Association of Fund-Raising Counsel, Inc., 1981).

Exhibit 1-1

GIVING IN AMERICA

(amounts shown in billions of dollars)

Organization	1977 Amount	1977 %	1978 Amount	1978 %	1979 Amount	1979 %	1980 Amount	1980 %
Religion	$16.93	47.0	$18.45	46.5	$20.14	46.5	$22.15	46.5
Health & Hospital	4.90	13.6	5.48	13.8	5.95	13.8	6.41	13.4
Education	4.75	13.2	5.56	14.0	5.99	13.8	6.68	14.0
Social Welfare	3.52	9.8	3.97	10.0	4.35	10.1	4.73	9.9
Arts & Humanities	2.27	6.3	2.50	6.3	2.70	6.2	2.96	6.2
Civic & Public	1.17	3.2	1.18	3.0	1.20	2.8	1.36	2.9
Other	2.48	6.9	2.54	6.4	2.94	6.8	3.37	7.1
Totals	$36.02	100.0	$39.68	100.0	$43.27	100.0	$47.66	100.0

Source: American Association of Fund-Raising Counsel, Inc., Giving USA (New York: American Association of Fund-Raising Counsel, Inc., 1981) considered when determining the principles of accountability for nonprofit organizations.

The religious community has begun to accept responsibility for financial disclosure to the public in limited ways. In October 1978, 1,200 charitable Christian organizations established a self-regulating organization to oversee financial disclosure for members, the Evangelical Council for Financial Accountability.[3] _Moody Monthly_ presents the organization's goals which are "... to set uniform guidelines for voluntary disclosure of finances and act as a united voice in opposing any threat of government red tape."[4] The Council recommended the following guidelines for member organizations:

- an annual audit by a public accounting firm
- an annual audited report made available upon request
- an audit or finance committee established by the governing board of the organization
- an active governing board, the majority of which would be nonemployees, which would meet at least semi-annually and have policy making authority.[5]

The Evangelical Council for Financial Accountability

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[3]"Leaders Approve Financial Disclosure Regulating Agency," _Moody Monthly_ (December, 1978), p. 16.

[4]_Ibid_., p. 14.

[5]_Ibid_.

represented organizations with combined annual income of $1 billion or about five percent of total giving to religious organizations in 1978.

Another organization, the National Association of Church Business Administrators (NACBA), has been in existence since 1957. The membership of this organization consists of more than 550 administrators who are primarily concerned with the exchange of information in the area of management. These church business administrators view accounting as an integral part of church business management. In their publications the organization places an emphasis on the concept of stewardship of resources with proper financial disclosure.

Increased interest in financial disclosure for churches resulted in several printed works. Religious leaders in some denominations have prepared manuals to aid their churches in recordkeeping. Examples include _Diocesan Accounting and Financial Reporting_ by the National Conference of Catholic Bishops, 1971 and _A Manual for Church Financial Records_ by the Baptist General Association of Virginia, 1975. Two additional works, written by accountants, are _Church Treasurer's Handbook_ by Loudell O. Ellis, 1978 and _Complete Handbook of Church Accounting_ by Rev. Manfred Holck, Jr. and Manfred Holck, Sr., 1978. These texts are applicable to any denomination. They are descriptive in nature, explaining the most basic accounting systems used in churches.

The Accounting Profession's Concern for the Accountability of Churches

Although the accounting profession has not ignored accounting for nonprofit organizations, relatively little time had been spent in the area. The 1970's and 1980's brought on increased interest in the area with a corresponding influence on accounting for churches. This increased interest culminated in the Filer Commission Report in 1974, Robert N. Anthony's research report entitled _Financial Accounting in Nonbusiness Organizations_ in 1978, the American Institute of Certified Public Accountants' _Statement of Position 78-10_ in 1978, and the Financial Accounting Standards Board's _Statement of Financial Accounting Concepts No. 4_ in 1980.

In 1974 an Accounting Advisory Committee was formed to report to the Congressional Subcommittee on Private Philanthropy and Public Needs (the Filer Commission). The Committee, consisting of four CPA's, made recommendations in two areas.

The Commission reported that accounting methods employed by nonprofits were uncoded, outdated, and liable to result in abuses of financial disclosure.[6] The first

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[6]Commission on Private Philanthropy and Public Needs, _Giving in America: Toward a Stronger Voluntary Sector_ (n.p.: Commission on Private Philanthropy and Public Needs, 1975)

recommendation from the committee of accountants called for the adoption of a uniform set of accounting principles by all philanthropic organizations, including religious organizations.

The second recommendation involved a uniform financial reporting format for governmental agencies requiring financial information from philanthropic organizations. The committee asserted that many of the existing reporting forms are not oriented to good financial statement format.[7] The applicability of financial disclosure to governmental agencies by churches is uncertain. At present churches are not required to report financial information to governmental units. The committee did not advocate a change in this area of disclosure neither does it preclude the possibility of such required disclosure. Robinson summarizes the Advisory Committee's overall position;

> The Accounting Advisory Committee believes that candid, understandable financial reporting based on uniform principles is important to maintain public confidence in the use of public funds and to avoid increasing regulation by government.[8]

This stated position incorporates two ideas reiterated in the objectives of the Evangelical Council for Financial

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[7]Malvern J. Gross, Jr., "Uniform Financial Reporting by Philanthropic Organizations," The CPA Journal (June 1975), pp. 25-29.

[8]Daniel D. Robinson, "Private Philanthropy and Public Needs," The Journal of Accountancy (February, 1976)

Accountability in 1978 - the need for uniform guidelines and the desired independence from government regulation.

In 1978 the FASB commissioned Robert N. Anthony to research conceptual issues relating to accounting for nonbusiness organizations. The report, Financial Accounting in Nonbusiness Organizations, discusses the following conceptual issues:

- users of nonbusiness accounting information
- information needs of users
- aggregated data for all funds or separate reporting of funds
- capitalization and depreciation of assets
- reporting endowment earnings
- valuing contributed services
- need for specific accounting principles
- preparation of basic financial statements.

Also in 1978 the AICPA issued Statement of Position 78-10 "Accounting Principles and Reporting practices for Certain Non-Profit Organizations." The recommendations in the Statement of Position (SOP) apply to nonprofit organizations not covered by existing industry audit guides. Religious organizations are specifically included in organizations covered by the SOP.[9] Although the Statement of Position

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[9]Statement of Position 78-10, "Accounting Principles and Reporting Practices for Certain Nonprofit Organizations," (New York: American Institute of Certified Public Accountants, 1978), para. 5.

does not contain an effective date, churches that wish to present financial statements in accordance with generally accepted accounting principles (GAAP) should apply the recommended principles. FASB Statement No. 32, designed to ammend Accounting Principles Board (APB) Opinion No. 20, cites Statement of Position 78-10 as preferable for purposes of justifying a change in accounting principle.[10] This pronouncement essentially accords the Statement of Position the status of GAAP. The Accounting Standards Division of the AICPA recognized that many nonprofit organizations find complex accounting both impractical and noneconomical. For these, the SOP suggests the preparation of special purpose financial reports (such as cash receipts and disbursement reports) which are not purported to be in accordance with generally accepted accounting principles.[11]

Statement of Position 78-10 provides detailed recommendations for recording and reporting the business events of a nonprofit organization. The content areas include users of financial statements, accrual basis accounting, fund accounting, financial statement preparation, and recording

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[10] Statement of Financial Accounting Standards No. 32, "Specialized Accounting and Reporting Principles and Practices in AICPA Statements of Position and Guides on Accounting and Auditing Matters," (Stamford, CT: Financial Accounting Standards Board, 1979), para. 11.

[11] Statement of Position 78-10, para. 2.

assets, liabilities, revenues and expenses. The _SOP_ guidelines provide the basis for the discussion of current standards for church accounting found later in this chapter.

In December 1980, the Financial Accounting Standards Board issued _Statement of Financial Accounting Concepts No. 4_, "Objectives of Financial Reporting by Nonbusiness Organizations," which is concerned with the general purpose external reporting of nonprofit organizations. _SFAC No. 4_ is preceded by and integrally related to _Statement of Financial Accounting Concepts No. 1_, "Objectives of Financial Reporting by Business Enterprises." Both statements are part of a developing conceptual framework for financial accounting and reporting.

The purpose of _SFAC No. 1_ is to present and discuss the broad objectives of accounting and reporting for business organizations. The three objectives are as follows:

1. Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions.

2. Financial reporting should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans.

3. Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other

> entities and owners' equity), and the effects of transactions, events, and circumstances that change resources and claims to those resources.[12]

SFAC No. 4 lists the major distinguishing characteristics of nonbusiness organizations.

> a. Receipts of significant amounts of resources from resource providers who do not expect to receive either repayment or economic benefits proportionate to resources provided.
> b. Operating purposes that are other than to provide goods or services at a profit or profit equivalent.
> c. Absence of defined ownership interests that can be sold, transferred, or redeemed, or that convey entitlement to a share of a residual distribution of resources in the event of liquidation of the organization.[13]

Churches are given as an example of organizations falling within the focus of the Statement.[14]

The five general objectives for external financial reporting for non-business organizations proceed in order from the general to the specific. The first objective states that information presented should be useful in making resource allocation decisions. This objective places an emphasis on the understandability of financial information.

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[12]*Statement of Financial Accounting Concepts No. 1*, "Objectives of Financial Reporting by Business Enterprises," (Stamford, CT: Financial Accounting Standards Board, 1978), para. 34-40.

[13]*Statement of Financial Accounting Concepts No. 4*, "Objectives of Financial Reporting by Nonbusiness Organizations," (Stamford, CT: Financial Accounting Standards Board, 1980), para. 6.

[14]*Ibid*, para. 7.

The second objective provides that information in accounting reports should be useful in assessing services and the ability to provide services. This provides one measure of the success of a nonprofit organization. The third objective involves the reporting of information useful in assessing management stewardship and performance. While not providing a measure of organizational success, this objective allows the statement user to judge whether restrictions placed on the use of resources were met. The fourth objective calls for the presentation of information about economic resources, obligations, net resources, and changes in them. This constitutes the basis for presentation of the balance sheet, operating statement, and statement of changes in financial position. The final objective of external reporting for nonprofit organizations states that the reports should include the management's explanations and interpretations. These comments serve to increase the usefulness of information to statement users.[15]

In summary, the amounts of funds currently received by religious organizations continue to grow in relation to total giving to nonprofit organizations. A major portion of America's population claims to be affiliated with some church organization. Several religious organizations express support for voluntary financial disclosure by

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[15] Ibid, para. 35-55.

churches. Despite these claims very little information is published regarding the financial affairs of churches. As the Filer Commission noted,

> The most crucial problem was a general lack of information. In general, religious organizations are excused from most federal and state reporting requirements and do not keep highly accurate records of their financial affairs. The accounting systems used by religious organizations vary greatly and attempting to derive comparable figures from the varying accounting concepts and from the minimal records kept is extremely difficult.[16]

General knowledge of the extent or sophistication of church accounting procedures is lacking. Accountants are familiar only with the practices of specific churches they have attended or have audited. Current research includes no major or uniform attempt to ascertain the financial reporting needs of churches.

Despite the lack of information describing the church population, the AICPA, in Statement of Position 78-10, provides guidelines for the accounting and reporting practices of numerous types of nonprofit organizations. Churches that wish to present statements in accordance with generally accepted accounting principles are included. The objectives outlined by the FASB in SFAC No. 4 apply to most nonprofit organizations, including churches.

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[16]S. Peter Goldberg, and others, "Church Income and Expenditures in the U.S.," Philanthropy Monthly (January, 1978), p. 20.

This overview of the development of accounting and reporting for churches suggests fundamental questions. Are the stated objectives and guidelines applicable to churches? Are they important in the minds of church financial officers? Are churches already in compliance with the guidelines? Are church officials in agreement with the objectives of external financial reporting? A discussion of the current standards of accounting and reporting for churches begins the answer to such questions.

Current Standards for Church Accounting

The AICPA's *Statement of Position 78-10* "Accounting Principles and Reporting Practices for Certain Nonprofit Organizations," identifies the major concerns in accounting and reporting for churches. Robert Anthony's *Financial Accounting in Nonbusiness Organizations* discusses similar topics. Nine major accounting and reporting issues, summarized from these sources, have been selected to represent the current standards for church accounting and financial reporting.

First, the *SOP* lists seven potential user groups of church financial information: contributors, beneficiaries, trustees and directors, employees, governmental units, creditors and potential creditors, and constituent organizations. *Statement of Financial Accounting Concepts No. 4* considers the major user group for external financial reporting to be resource providers or potential resource providers. These groups are not mutually exclusive. Each church should have its own individualized list of potential users.

Second, the SOP requires presentation of financial statements on an accrual basis. Many churches use the cash basis for recording transactions because of simplicity.[17] These churches may convert from a cash basis to an accrual basis for reporting purposes through year-end adjustments. For external reporting, any cash basis financial statements should be presented as special purpose reports.

Third, the statement discusses fund accounting. The committee viewed fund accounting as one method that segregates restricted from unrestricted resources.[18] All material restrictions on the resources of a nonprofit organization must be disclosed. Edward Weinstein, a member of the committee that prepared the SOP, explained that the committee intended to deemphasize the need to use fund accounting. While complete disclosure of restrictions on resources is important, the method of accounting used to accomplish

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[17]Manfred Holck Jr. and Manfred Holck, Sr., Complete Handbook of Church Accounting (Englewood Cliffs, NJ: Prentice Hall, 1978), p. 35.

[18]Statement of Position 78-10, para. 15.

disclosure is less important.[19]

Fourth, recommendations include three basic financial statements: balance sheet, statement of activity, and statement of changes in financial position. A good form balance sheet distinguishes between both restricted and unrestricted resources and current and noncurrent items.

The statement of activity reports results of operations. The line item "excess (deficiency) of revenue and support over expenses," replaces the profit figure that appears in the income statement of business enterprises. The ideal statement of activity organizes expenses on a functional basis, presenting each significant program and supporting activity separately. This would result in classifications such as Sunday School, Youth Training, Bulletin Preparation, etc. with indirect expenses allocated as feasible. General and management expenses need not be allocated to functional classifications. The statement of activity includes all changes in the fund balance in the absence of a separate equity statement.

The statement of changes in financial position summarizes the sources and uses of funds. A complete statement includes all information about the entity's financing and investing activities, and capital additions.

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[19]Edward A. Weinstein, "Forging Nonprofit Accounting Principles," The Accounting Review (October, 1978), p. 1009.

Recommendations include the presentation of comparative financial statements for as many years as possible. Other format considerations include the choice between layered balance sheet format, popularized through its use in fund accounting, and the columnar balance sheet format. The balance sheet using the columnar format should include a "total all funds column" designed to total all resources, restricted and unrestricted.

Many churches use a pledge system to facilitate the annual budget process. The fifth recommendation from the SOP requires that legally enforceable pledges be reported as revenues and receivables in the period designated by the donor. A legally enforceable pledge is a unilateral contract that is considered a binding obligation only when the organization incurs a liability in reliance thereon.[20] Pledges are reported at estimated realizable value.

Sixth, the SOP requires capitalization of all fixed assets. Purchased assets are recorded at cost and donated assets at fair value on date of donation. Appraisal value provides a substitute valuation method if historical cost data are not available. Proper accounting for all exhaustible assets includes depreciation over their useful lives. Programs in religious organizations are evaluated in part

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[20]Melvin J. Slade, "Accounting for Unpaid Contribution Pledges," The CPA Journal (August, 1975), p. 41.

based on cost, and depreciation appropriately allocates cost to the proper period. Depreciation is not required for assets that are used primarily as houses of worship. Such assets may encompass all of the buildings of a smaller church. Larger organizations may have office buildings, schools, day care centers, recreation facilities, etc. that are subject to depreciation.

The SOP provides the following choice of methods for investment valuation, which is the seventh issue:

1. Marketable debt securities to be held to maturity are reported at amortized cost, market value, or lower of amortized cost or market value.

2. Other marketable equity securities and marketable debt securities not held to maturity are reported at market value or lower of cost or market.

3. Other investments such as real estate are reported at fair value or lower of cost or fair value.

The method selected within each group must be applied consistently. Investments carried at other than cost result in increases or decreases in carrying value that are recognized in the period in which they occur. Current period revenue also includes both unrestricted gains and losses and unrestricted income from unrestricted and current restricted investments. Restricted gains and losses and restricted income from investments are deferred until restrictions are met.

The eighth issue involves current restricted gifts defined as amounts received in the current period and restricted for a specific purpose.[21] Revenue should be reported only to the extent that expenses have been incurred for the purpose specified by the donor. The balance of the gift remains a liability until donor restrictions are met.[22]

Finally, the SOP requires all fund raising costs be expensed as incurred. Fund raising costs are defined as costs incurred to induce others to contribute resources without receipt of any direct economic benefit by the contributor.[23] Expenditures for special events such as sales or dinners that involve direct economic benefit to the donor are not considered fund-raising costs. Proper accounting treatment is to subtract the costs of these events from the gross receipts and to report the net proceeds as support.

Organization of the Study

Chapter one contains a discussion of the importance of churches in the economic community. The accounting principles for churches that elect to present financial statements in accordance with GAAP are summarized.

Chapter two explains the objectives of the study and the data gathering techniques. This chapter also includes a

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[21] William Warshauer, Jr., "AICPA's New Statement of Position," Philanthropy Monthly (October, 1978), p. 12.

[22] Statement of Position 78-10, para. 62.

[23] Ibid, para. 92.

discussion of the development of the measurement instrument.

Chapter three provides a review of the procedures involved in administering the questionnaire and subsequent follow-up procedures. Chapter three also presents an analysis of the information gathered about the population, characteristics of church officers, and characteristics of the churches.

The next three chapters analyze data collected from the respondents to the questionnaire. Chapter four involves general accounting information for responding churches. Chapter five presents on analysis of specific questions regarding recommended accounting principles and reporting practices and chapter six discusses the responses of church administrators to certain attitude questions.

Chapters seven and eight summarize the data presented and indicate the general and specific conclusions that follow. Comparisons will be made between responses to questions about accounting principles and reporting practices and responses to corresponding attitude questions.

Chapter 2 - Methodology

Objectives of the Study

The previous examination of the state of the art of accounting for churches introduces the two objectives of this research study. The first objective is to determine the actual accounting principles and reporting practices used by one significant group of churches. This objective addresses the following two research questions:

1. Are the churches presently in substantial compliance with the accounting principles recommended in AICPA *Statement of Position 78-10*?
2. What classification variables of the church are associated with compliance with recommended principles?

The term compliance is defined as presently incorporating the *Statement of Position*'s recommendations into the church's accounting and reporting practices. The second objective of the research involves determining the areas of potential impact of the *Statement of Position* on church accounting and reporting practices. This aspect of the study addresses the following two research questions:

1. To what extent do church business administrators favor the practices recommended by *Statement of Position 78-10*?
2. What classification variables of the church are

associated with the church business administrators' attitudes toward the recommended principles?

Areas of potential impact are identified by comparing the attitude toward recommended practices with the degree of compliance found in the previous section.

Data Gathering Techniques

The data needed to answer one group of questions are technical in nature. Responses to these questions should come from actual church accounting reports, but such reports are not currently available to the public in any organized way. The technical questions lend themselves to yes and no answers. A second group of questions is designed to obtain attitude judgments from the church business officers. These questions result in scaled responses. To be representative of churches as a whole, the responses should come from widely scattered geographical areas. The data collection technique chosen for this study is a mail questionnaire. Many churches view their financial information and financial reporting procedures as confidential. Clover and Balsley state that an unsigned questionnaire is most apt to ellicit responses of an economic or personal nature.[1]

In an empirical study of church practices, it would be best to study all churches. The preliminary investigation

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[1]Vernon Clover and Howard Balsley, Business Research Methods (Columbus, OH: Grid, Inc., 1974), p. 78.

for this study established that it would be difficult if not impossible to identify the population of all U.S. churches on a national or even regional basis. Thus the population chosen for this research consists of those churches represented by business administrators who are members of the National Association of Church Business Administrators (NACBA). The directors of the NACBA granted permission to use the NACBA membership list for this study. The cover letter accompanying the questionnaire notes approval. The selection of the NACBA population may have had a positive effect on the response rate of the study. Clover and Balsley suggest this in their discussion of questionnaire surveys;

> A mail survey that is sanctioned by a professional or other type of association and is conducted among the membership of such a relatively homogeneous group will usually bring in a high percentage of satisfactorily completed questionnaires.[2]

The NACBA is a nondenominational organization representing churches seeking to enhance the professionalism with which their financial affairs are handled. The study of this population affords examination of churches on a national level, across denominational lines, and representative of all sizes (other than extremely small churches). The membership of the NACBA was analyzed and the study

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[2] Ibid, p. 79.

population was restricted to members currently employed by a local congregation. When more than one business officer from a single church belongs to the NACBA, only the first member listed alphabetically is included in the population.

The restriction of the research population to NACBA members currently affiliated with a local congregation limits the generalizability of this study. Results of the information provided by respondents can only be used to identify accounting and reporting practices for NACBA member churches. The results will not be used to infer accounting and reporting practices for all churches. The attitudes expressed by the business administrators are representative only of NACBA members. Because of the restricted degree of generalizability inherent in the use of a population, inference techniques are not appropriate. In presenting the data, graphs and charts are used to show the proportion of the population answering each particular question.

The identification and use of this particular research population results in several benefits. The group of respondents is fairly homogeneous. They have all shown an interest in a professional approach to their position by virtue of their association with the NACBA. The NACBA operates a program leading to certification as a Fellow in Church Business Administration. The program places an emphasis on continuing professional education. The association itself has sponsored surveys on topics as confidential as pastor's compensation, with good response rates. Therefore, the membership appears sympathetic toward research for information purposes. Although the results cannot be generalized beyond the population, they should provide a valuable beginning to a body of knowledge descriptive of church accounting and reporting. Generally accepted accounting principles are not required for churches but churches with a professional orientation to their accounting function will be most likely to adopt these principles voluntarily.

Development of the Measurement Instrument

The measurement instrument developed for this study has four sections. Section I gathers certain classifying information about the churches represented. The questions measure the following:

- title (position) of the church financial officer
- characteristics of the financial officer (education, experience)
- denomination of the church
- location of the church by state
- size of the church (membership, attendance, cash receipts)
- environment of the church

This information provides a basic description of the churches whose accounting and reporting practices are being analyzed. In addition, these demographic variables serve as a basis for summarizing and analyzing the specific information gathered from the other three sections of the questionnaire.

Exhibit 2-1 reproduces Section I of the questionnaire. Notice that the majority of the questions are open ended. Preliminary research did not find an acceptable basis for grouping responses prior to the study. The environmental question (number 9) provides an exception. All churches fall into one of the five possible environments listed: innercity, suburban, small city, small town, rural.

The second section of the instrument contains general questions about the scope of the church's accounting system. The answers provide insight into the extent and type of the churches' reporting systems. Questions in Section II examine the topics listed below:

- use of formal budget
- cash basis reporting
- internal and external user groups
- audited financial statements, internal, external, and denominational
- presentation of comparative and comprehensive financial statements
- use of computer for accounting purposes
- potential users of church accounting information

Preliminary research, consisting of discussions with church accountants and CPA's with experience in the area of church

Exhibit 2-1

Section I

The following demographic questions are designed to identify the types of churches that are included in this research study. Please answer all questions with the most current information you have available.

1. What is the title of your position in the church? ________________

2. How many years of formal accounting education have you had? ________

3. How many years of accounting experience have you had in churches or in other not-for-profit organizations? ____________________________

4. What is your church's denominational affiliation? ________________ (If none, indicate the church group with which you are most closely associated.)

5. In what state is your church located? ____________________________

6. What is the size of your church membership (express to the nearest 50)? ________________________

7. What is the size of your average church attendance at your main worship service of the week (express to the nearest 50)? __________

8. What were your total cash receipts in the accounting year ending in 1980 (express to the nearest thousand)? __________________________

9. Which of the following terms best describes the environment of your church? (circle one) A. inner city B. suburban C. small city D. small town E. rural

- -

I have completed and returned a copy of your questionnaire. I would like a copy of the results of your study.

Name ____

Church Name ____

Address ____

____

accounting, identified these topics as important. The Statement of Position lists potential users of nonprofit financial reports. All of the questions in Section II have general applicability to all churches. Answers can be indicated quickly by checking yes or no as presented in Exhibit 2-2.

Section III of the questionnaire is concerned with the specific accounting and reporting practices that comprise the current standards for nonprofit organizations. Questions determine each respondent church's current compliance with the practices suggested in the Statement of Position and discussed in Chapter 1. The questions are organized into subsections dealing with:

- the financial statements
- accounting for assets
- reporting liabilities
- recording expenses
- measuring revenue and support

Section III deals with various possible accounting situations. Individual churches may find that one or more of the situations do not apply to their accounting systems. Examples include accounting for legally enforceable pledges, investments in stocks and bonds, and restricted revenues. The "Not Applicable" (NA) option, added in this section, allows churches to indicate inapplicability. Exhibit 2-3

Exhibit 2-2

Section II

The following questions are designed to provide general information about the accounting and reporting systems of churches. Please indicate your answer to each question as it relates to your church using a check ( ) in the appropriate box.

YES	NO	DOES YOUR CHURCH:
☐	☐	10. Adopt a budget annually through a formal approval process?
☐	☐	11. Prepare periodic reports comparing budgeted expenditures with actual.
		12. Prepare reports of cash receipts and cash disbursements for use by:
☐	☐	a. officers of the church?
☐	☐	b. members of the church?
☐	☐	c. nonmember groups (banks, creditors, etc.)?
		13. Develop financial statements for use by:
☐	☐	a. officers of the church?
☐	☐	b. members of the church?
☐	☐	c. nonmember groups (banks, creditors, etc.)?
		14. Prepare financial statements which are audited by:
☐	☐	a. person(s) within the church?
☐	☐	b. an independent, external auditor (e.g. CPA)?
☐	☐	c. an auditor from your denomination?
☐	☐	15. Develop current year and prior year comparative financial statements?
☐	☐	16. Prepare a comprehensive annual financial report (financial statements and other information)?
☐	☐	17. Currently use or plan to convert to a computer for accounting purposes?

Exhibit 2-2 (continued)

INDICATE YOUR ANSWER TO THE NEXT QUESTION BY PLACING A CHECK ( ) BY EACH CHOICE WHICH IS APPROPRIATE FOR YOUR CHURCH.

18. Which of the following groups are users or potential users of the accounting reports of your church?

|_| a. membership
|_| b. governmental units
|_| c. nonmember contributors
|_| d. creditors
|_| e. constituent organizations
|_| f. trustees or directors of the church
|_| g. employees of the church (pastors and other)

Exhibit 2-3

Section III

The following questions are designed to provide specific information regarding the accounting practices of churches. Please respond to each question as it relates to your church, YES, NO, or NOT APPLICABLE (NA), with a check ( ) in the appropriate box.

YES	NO	NA	DO THE FINANCIAL STATEMENTS OF YOUR CHURCH INCLUDE:
☐	☐	☐	19. A balance sheet (statement summarizing assets, liabilities, and fund balances or equities)?
☐	☐	☐	20. An operating statement or statement of activity (statement reporting revenue and expenses)?
☐	☐	☐	21. A line item on the operating statement reporting Excess (or Deficiency) of Revenue over Expenses?
☐	☐	☐	22. A statement of changes in financial position (statement showing resources provided, resources used, and changes in resources available for future use)?
☐	☐	☐	23. Balance sheet restrictions that distinguish between restricted and unrestricted resources?
☐	☐	☐	24. Balance sheet restrictions that distinguish between resources restricted by officers of the organization and resources restricted by persons outside the organization?
☐	☐	☐	25. Separate columns or separate statements for different funds (examples: operating, plant, building, endowment, or loan funds)?
☐	☐	☐	26. If the columnar approach is used (question 25), does the format include a total-all-funds column?

YES	NO	NA	IN ACCOUNTING FOR THE ASSETS OF YOUR CHURCH:
☐	☐	☐	27. Are assets recorded when purchased (as opposed to when paid for)?
☐	☐	☐	28. Are purchased assets such as furniture and fixtures, equipment, and buildings recorded at their cost?
☐	☐	☐	29. Are donated assets recorded at their market value at the time received?

Exhibit 2-3 (continued)

YES NO NA IN ACCOUNTING FOR THE ASSETS OF YOUR CHURCH:

|_| |_| |_| 30. Is accumulated depreciation deducted from the cost of all long-term assets, excluding the house of worship, that have limited useful lives?

|_| |_| |_| 31. Are uncollected pledges reported as assets if they are legally enforceable (i.e. if they are used as the basis for incurring legal obligations)?

|_| |_| |_| 32. If pledges are reported, is an estimated amount of uncollectible pledges subtracted from uncollected pledges?

INDICATE YOUR ANSWER TO THE NEXT THREE QUESTIONS BY PLACING A CHECK ( ) BY EACH CHOICE WHICH IS APPROPRIATE FOR YOUR CHURCH.

33. Which of the following methods do you use in reporting investments in bonds that <u>are intended to be held to maturity</u>?

|_| a. We do not have investment in bonds.
|_| b. amortized cost (cost plus unamortized premium or minus unamortized discount).
|_| c. market value.
|_| d. lower of amortized cost or market value.

34. Which of the following methods do you use in reporting investments in stocks and bonds that <u>are not expected to be held to maturity</u>?

|_| a. We do not have investments in stocks and bonds.
|_| b. cost.
|_| c. market value.
|_| d. lower of cost or market.

35. Which of the following methods do you use to report other investments (e.g. real estate not used directly for church purposes)?

|_| a. We do not have other investments.
|_| b. cost.
|_| c. market value.
|_| d. lower of cost or market value.

Exhibit 2-3 (continued)

YES	NO	NA	IN REPORTING LIABILITIES FOR YOUR CHURCH:
|_|	|_|	|_|	36. Are notes payable, bonds payable, and other formal obligations reported as liabilities on the balance sheet?
|_|	|_|	|_|	37. Are obligations for items received but unpaid reported as liabilities on the balance sheet?
|_|	|_|	|_|	38. Are restricted revenues from investments, including interest on savings accounts and CDs, reported on the balance sheet as liabilities until restrictions are met?
|_|	|_|	|_|	39. Are restricted gifts reported in the balance sheet as liabilities until the restrictions are met?

YES	NO	NA	IN RECORDING EXPENSES FOR YOUR CHURCH:
|_|	|_|	|_|	40. Is depreciation expense on long-term assets included in your operating statement (statement of activity)?
|_|	|_|	|_|	41. Are expenses in your operating statement classified according to program or function (eg. Sunday School, Pastoral Program) as opposed to object of expenditure (eg. wages, supplies, utilities)?
|_|	|_|	|_|	42. Are voluntary cash contributions to higher levels of your church organization (diocese, conference) reported as expenses in your operating statement?
|_|	|_|	|_|	43. Are general fund-raising costs such as mailing or advertising reported as expenses in the period incurred or paid?

YES	NO	NA	IN MEASURING REVENUE AND SUPPORT FOR YOUR CHURCH:
|_|	|_|	|_|	44. Are uncollected pledges which are legally enforceable reported as revenue?
|_|	|_|	|_|	45. Are donated assets reported as revenue at their fair value when received?
|_|	|_|	|_|	46. Is unrestricted income from investments reported as revenue when earned or received?

Exhibit 2-3 (continued)

YES	NO	NA	IN MEASURING REVENUE AND SUPPORT FOR YOUR CHURCH:
|_|	|_|	|_|	47. Are fixed amounts or percents of revenue, required to be remitted to higher levels of your church organization, reported as deductions from revenue (as opposed to as expenses) in the operating statement?
|_|	|_|	|_|	48. Are receipts from fund raising events such as dinners or sales reported as revenue <u>without</u> deduction for the costs of such events?
|_|	|_|	|_|	49. Are gifts which are restricted by donor as to use reported as revenue even though expenses have <u>not</u> been incurred for the specified purpose?

shows this section of the questionnaire.

The final section of the measurement tool involves the direct measurement of attitudes toward specific accounting and reporting practices covered in Section III. The questions ask to what extent the church financial officers favor each of the accounting and reporting practices. The instructions clearly ask for the personal opinion of the respondent rather than any official church position.

Several adverbial and adjectival modifiers could be used to express a judgment of amount. Examples include all, complete, much, some, a little, hardly any, and none. These adverbs or adjectives, arranged on an interval scale, measure the degree of feeling toward someone or something. Several studies from the behavioral literature recommend particular scales and attempt to standardize the terms.[3]

In 1974 Bass, Cascio, and O'Conner used the technique of ratio scaling to determine a standardized list of terms for use in scaling. They concluded that the appropriate terms for a 5-point scale measuring amount are:[4]

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[3]Two such studies are S.S. Stephens, "Issues in Psychological Measurement," Psychological Review (1971), pp. 426-450, and Bernard M. Bass, "How to Succeed in Business According to Business Students and Managers," Journal of Applied Psychology (1968) pp. 254-262.

[4]Bernard M. Bass, and others, "Magnitude Estimations of Expressions of Frequency and Amount," Journal of Applied Psychology (June, 1974), pp. 313-320.

4 - all

3 - an extreme amount of

2 - quite a bit of

1 - some

0 - none

These terms were chosen for Section IV of the questionnaire as presented in Exhibit 2-4. "All" was changed to "complete" (another available term with a slightly lower degree of discrimination) to allow for fluidity of expression.

Testing Procedures

In the initial development stage of the instrument, several church financial officers and CPAs were asked to complete the questionnaire. Many of these church financial officers interacted with the researcher as they completed the questionnaire and made verbal as well as written comments. Through their comments, revisions were made to simplify and clarify the wording of individual questions. At this time the cover letter was developed. The letter placed special emphasis on the fact that NACBA directors had approved the use of their membership. Copies of study results offered inducement to the respondents. (Appendix A)

The second stage of testing the questionnaire was performed in March 1981 and involved a pilot study. Twenty-two members of the NACBA located in Ohio and Indiana received the revised questionnaire and cover letter.

Exhibit 2-4
Section IV

The following attitude questions are designed to obtain your feelings toward certain accounting and reporting practices used by churches. Please answer each question even if your church does not follow the practice. Indicate your answer by placing a check ( ) above the number on the scale which most clearly indicates your personal opinion of the practice. If you have no opinion on the item, please check the blank for "no opinion" found after each question.

NONE
| SOME
| | QUITE A BIT
| | | EXTREME AMOUNT
| | | | COMPLETE
| | | | |
| | | | | TO WHAT EXTENT DO YOU FAVOR:
| | | | |

____
0 1 2 3 4 — 00. Example - financial recordkeeping by churches? (__no opinion)

50. The preparation and issuance of:

____
0 1 2 3 4 — a. a balance sheet (statement summarizing assets, liabilities, and fund balances or equities)? (__no opinion)

____
0 1 2 3 4 — b. an operating statement or statement of activity (reporting revenue and expenses as opposed to cash receipts and disbursements)? (__no opinion)

____
0 1 2 3 4 — c. a statement of changes in financial position (showing resources provided, resources used, and changes in resources available? (no opinion)

____
0 1 2 3 4 — 51. Balance sheet restrictions that distinguish between resources restricted by persons outside the organization, resources restricted for specific uses by officers of the organization, and resources which are unrestricted? (__no opinion)

____
0 1 2 3 4 — 52. The use of fund accounting and reporting practices for churches (eg. separate columns for operating, building, or loan funds)? (__no opinion)

____
0 1 2 3 4 — 53. A line item on the operating statement for reporting the Excess (Deficiency) of Revenue over Expenses? (__no opinion)

____
0 1 2 3 4 — 54. Reporting assets when purchased and expenses when incurred? (no opinion)

Exhibit 2-4 (continued)

__________ 0 1 2 3 4 — 55. Recording purchased assets at cost and donated assets at market value? (__no opinion)

__________ 0 1 2 3 4 — 56. Reporting legally enforceable but uncollected pledges as assets in the balance sheet and as revenue in the operating statement? (__no opinion)

__________ 0 1 2 3 4 — 57. Reporting depreciation on long-term assets with limited useful lives as expenses in the operating statement? (__no opinion)

__________ 0 1 2 3 4 — 58. Reporting long-term obligations such as notes payable and bonds payable as liabilities in the balance sheet? (__no opinion)

__________ 0 1 2 3 4 — 59. Reporting restricted gifts as liabilities until restrictions are met? (__no opinion)

__________ 0 1 2 3 4 — 60. Reporting restricted revenues from investments as liabilities until restrictions are met? (__no opinion)

__________ 0 1 2 3 4 — 61. Reporting expenses according to programs or functions (eg. Pastoral Program) as opposed to object of expenditure (eg. wages, supplies)? (__no opinion)

__________ 0 1 2 3 4 — 62. Reporting voluntary cash contributions to higher levels of your church organization as expenses in the operating statement? (__no opinion)

__________ 0 1 2 3 4 — 63. Reporting all fixed amounts that are required to be remitted to a higher level of your church organization as revenue adjustments (deductions from revenue) rather than as expenses? (__no opinion)

__________ 0 1 2 3 4 — 64. Reporting general fund-raising costs as expenses in the operating statement? (__no opinion)

Subsequent to the first mailing a follow-up letter in April, 1981, and second copy of the questionnaire were sent. The letter is found in Appendix B. The two mailings resulted in ten usable responses or a response percentage of 45.5%.

Several more changes in wording resulted from the pilot study. The one major change involved adding the "no opinion" option to Section IV. The option enabled respondents to discriminate between a neutral or "none" response and a "no opinion" response.

Summary of Contributions and Limitations

The research study as described provides detailed information about the accounting and reporting systems of one set of churches. Although generalization to all churches in the U.S. is not possible because the population chosen is not a random sample of all churches, the NACBA does represent one national, professional group of churches with a self-proclaimed interest in adequate financial reporting. Analysis of the data reveals areas where compliance with *Statement of Position 78-10* is already substantial. Examination of the attitude questions identifies principles recommended in the *SOP* that are not considered appropriate by church business administrators. The study will identify the principles where confusion prevails as to terminology and application in the church sector. In these areas the possibilities of further education could be evaluated and might lead to additional research.

The use of a mail questionnaire that is comprised of technical questions allows no chance for follow-up on the degree of understanding by respondents. Data analysis will help in pointing out concepts where further interviews with church business administrators would provide valuable information. To keep the questionnaire a reasonable length, several of the extensive recommendations in the Statement of Position were not included. Additional research may be needed in these areas.

General interest might suggest that the questionnaire include a number of questions of a financial nature. These would assess the relative amounts of funds churches receive and disburse for purposes of staff support, investments, missions, building funds or fund raising costs. Preliminary investigation shows that religious organizations may be reluctant to provide such financial information. In order to minimize nonresponse bias the questionnaire only sought one item of financial information, total cash receipts for the fiscal year ending in 1980.

Chapter 3 - A Description of The Questionnaire Mailing and an Analysis of the Characteristics of NACBA Members and the Churches They Represent

Description of Mailing

The development and testing procedures described in chapter two culminated in the questionnaire and related cover letter found in Appendix A and Appendix B. The cover letter was designed to arouse interest by asking the NACBA member questions of common concern to church financial officers. The questions centered around reporting practices prevalent in most churches and the lack of availability of such information. Respondents were assured of their anonymity as results are aggregated and not presented individually. As an incentive to respond, NACBA members were offered a summary of the results of the study.

As previously discussed, the final version of the questionnaire included four sections. Section one was designed to gather information to aid in classifying churches by common characteristics. Room was provided for the respondents to give their addresses and request copies of the results of the study. Many business administrators detached this section and sent it under separate cover as suggested in the cover letter. The remaining three sections of the questionnaire were reduced to fit on both sides of one page. This rather efficient presentation was intended to maximize the response rate to the questionnaire.

The questionnaire was mailed in June, 1981 to 425 NACBA members that were affiliated with local congregations. The June mailing excluded the 22 members who were part of the pilot study. Addresses were obtained from the most recent mailing list of the association and were used with NACBA permission. The mailing included the two page questionnaire, the one page cover letter, and a stamped, addressed return envelope. The bulk of the responses was received within thirty days. During this period a total of 180 completed questionnaires was returned for a response rate of 42%. Subsequently a follow-up letter was mailed, along with a second copy of the questionnaire. This second mailing included the original population of 425 less those NACBA members identified as having responded to the first mailing. The follow-up mailing resulted in 71 returns giving an additional response rate of 17%. Responses from both mailings produced 251 usable questionnaires for an overall response rate of 59%.

The data gathering phase of the study concluded with a test for nonresponse bias. Oppenheim reviews two approaches for determining response bias - comparing respondents with nonrespondents and comparing early respondents with late respondents.[1] The nonresponse tests in this study follow

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[1]A. N. Oppenheim, Questionnaire Design and Attitude Measurement (New York: Basic Books, Inc., 1966), p. 34.

the first approach by gathering information about the nonrespondents. About 47% of the original 425 church business administrators in the major study identified themselves on their questionnaire response. The remaining 53% either did not respond or responded anonymously. This latter group received the nonresponse mailing which included a survey in the form of a postcard and a copy of the original questionnaire. The nonresponse survey asked the administrator to identify the reason for not responding and gave the respondent a final chance to complete the questionnaire. The format of the postcard mailed to test nonresponse bias was as follows:

> During the summer you received the accompanying survey regarding your church accounting practices. Although response was good, many questionnaires were not returned. If you did not respond to the survey please complete this card. Thank you for your cooperation.
>
> Sarah H. Smith
> Cedarville College
>
> I did not return the questionnaire because:
>
> ____ it required too much time.
>
> ____ the questions were technical and hard to understand.
>
> ____ I consider the information confidential.
>
> ____ other ____
>
> ____ I am completing the questionnaire <u>now</u> and returning it.

Forty-one of the postcards were completed and returned. Surprisingly, 22 of them were returned with completed questionnaires. These final returns bring the cumulative responses up to 273 for a 64% overall participation. The other 19 responses, together with nonresponse data returned by 6 participants in the first two mailings, provide information on the reasons for nonresponse. These 25 responses represent 6% of the total population and 16% of the total nonresponse group. The information about nonresponse is reported below in the order of frequency of mention. Many respondents gave more than one reason for not responding to the questionnaire.

Frequency of Mention		Reason for Nonresponse
number	%	
10	32.2%	The questionnaire required too much time.
8	25.7%	The NACBA member is no longer employed (or wrong address).
7	22.6%	The information was considered confidential by the NACBA member or a superior.
2	6.5%	The questions were technical and hard to understand.
2	6.5%	The church accounting system was considered too small by the NACBA member.
2	6.5%	The NACBA member lacked information about the current system.
31	100.0%	

Results of the survey indicate that there is no overriding reason to account for the nonresponse. This information, together with additional tests discussed later in the chapter, suggests that there is no systematic bias characteristic of the group of nonrespondents.

Data Compilation

As the questionnaires arrived they were analyzed and coded numerically. All questionnaires were reviewed and all of them were found to be usable in whole or in part. The nature of the research methodology allowed partially completed questionnaires to be included in the total.

Coded responses were accumulated by means of a computer program written for that purpose. Responses from individual NACBA members were maintained separately. The program stored the qualitative style answers (i.e. yes, no, Baptist) in numerically coded form. The computer program presented the results to Section I by accumulating the total number of times each answer was mentioned by the NACBA members. The number of NACBA members answering yes, no, or not applicable to each question in Sections II and III was tabulated and presented. The program reproduced the attitude scale used in Section IV including the number of times each degree of attitude was selected by the NACBA members. Responses were averaged for each attitude question. Any unanswered questions throughout the questionnaire were designated "no answer" and were presented separately. These unanswered questions were not included in further analysis.

Because the program was written for this research it required validation. This was accomplished in several ways. The program as a whole was tested by inputing the data from the pilot study and checking the results. The numerical codes for each individual member's responses were totaled by hand and by computer and compared to validate the data input. Finally an edit function, built into the program, allowed a visual check of every tenth record with the corresponding questionnaire.

Analysis of Classifying Information

The responses to Section I of the questionnaire divide into two groupings: characteristics of the church financial officers and characteristics of the local churches. This information provides background data and description for both the churches included in the research population and the business officers of these churches. A knowledge of the characteristics of the population serves as a basis for analyzing the accounting principles and reporting practices of the churches represented.

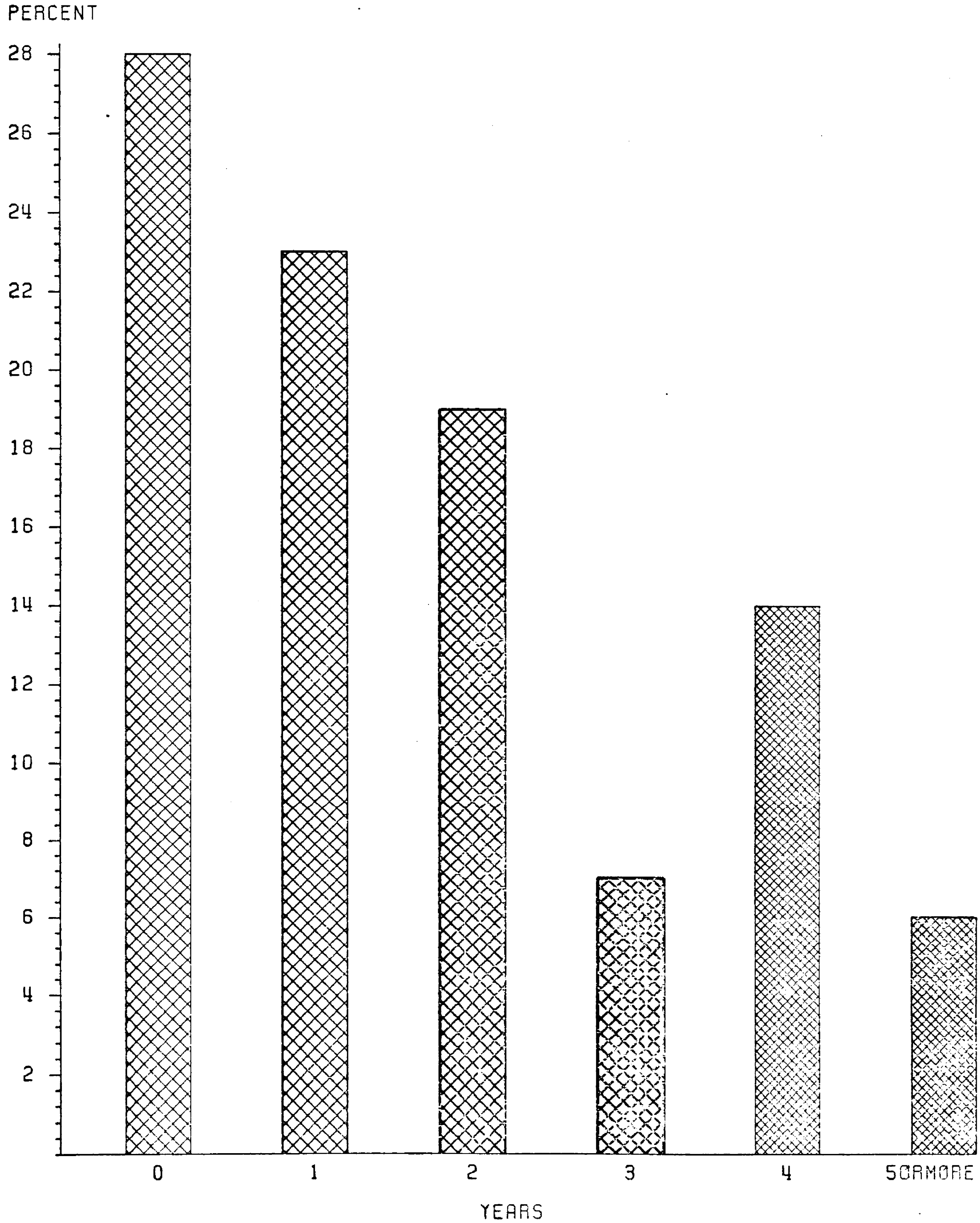
The NACBA members responding to the questionnaire identified the titles of their positions. The most common titles were Church Business Administrator and Business Manager. A total of 173 respondents (63%) acknowledged that their position title includes some reference to business administrator, treasurer, bookkeeper, or financial secretary. This figure contrasts with the 89 respondents (33%)

who indicated that their official position was of a more general type of administration. Ten respondents (4%) indicated their official position was that of Pastor or Minister, with no designation of specialization. The conclusion follows that, in these churches, the accounting function is ordinarily separated from the strict ministerial function. That is, while some of the church business officers may be ministers, their main function is not one of preaching.

A second characteristic of the church business officers involves their years of formal accounting education. As summarized in Exhibit 3-1, 28% of those answering this question have no formal accounting training. Forty-two percent report one or two years of accounting education. This group includes those with high school bookkeeping, college degrees in business administration in fields other than accounting, and vocational education in accounting above the high school level. The group of officers indicating a college degree in accounting, or four years of such training, include 17 percent of the total. Six percent indicated they had some accounting education beyond the college level. The population contains a great deal of diversity with regard to the amount of formal accounting education, with 72 percent indicating that they have at least had the basics.

Exhibit 3-1

Years of Formal Accounting Education



The final characteristic of the church business officers that responded is the number of years of experience in church accounting or accounting for other nonprofit organizations. Exhibit 3-2 illustrates the results. The median years of experience for the respondents is 8 years. Answers range from no experience to 39 years of experience.

A summary of the three characteristics of church business officers shows that the majority work in a position that is mainly business oriented. The years of education are quite diverse with almost three-fourths of the population claiming at least the basic principles of accounting in a formal educational setting. The majority, 64%, report 10 years or less accounting experience in nonprofit organizations.

The first characteristic of the churches represented by the respondents is denominational affiliation. Exhibit 3-3 lists the denominations represented. Four demoninations represent 70% of the churches, Baptist 25%, Lutheran 10%, Methodist 20% and Presbyterian 15%. The data gathered in Sections II, III, and IV of the questionnaire are compared, in part, in terms of of these four denominations.

The denominational affiliation of respondents represents a potential nonresponse bias, therefore a test of responses is conducted. The population is divided into denominations according to the church's name. Consequently any church with no denominational classification in the name

Exhibit 3-2

Years of Accounting Experience

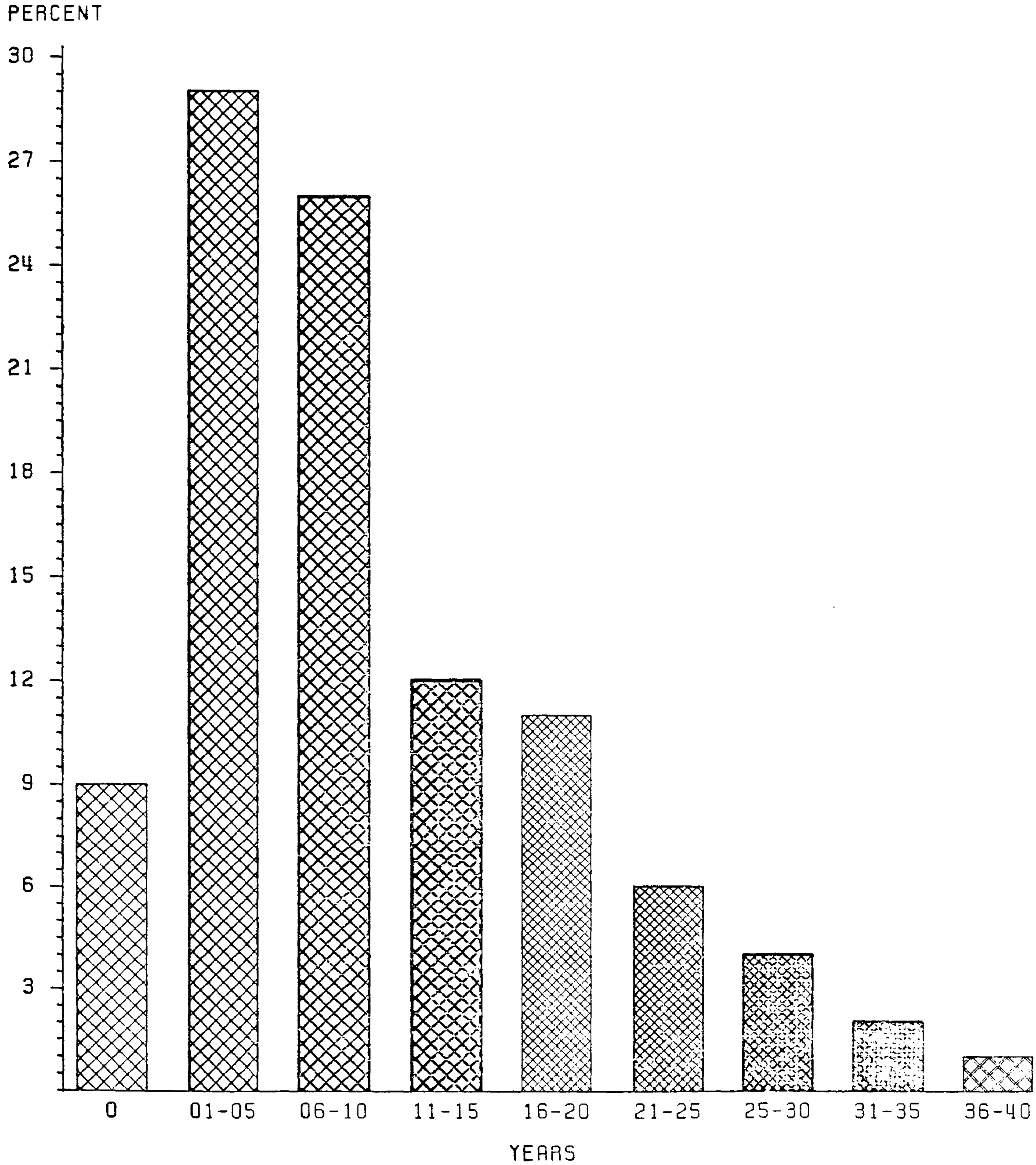


Exhibit 3-3

Denomination of the Responding NACBA Members

Denomination	Number	% of Total
Assemblies of God	11	4.0%
Baptist	67	24.5
Brethren	1	.4
Catholic	7	2.6
Christian/Disciples of Christ	8	2.9
Episcopal	6	2.2
Evangelical Free	2	.7
Foursquare	4	1.5
Friends	1	.4
Independent/ Nondenominational	12	4.4
Jewish	5	1.8
Lutheran	27	9.9
Methodist	55	20.1
Missionary	1	.4
Nazarene	6	2.2
Presbyterian	42	15.4
Reformed	3	1.1
Religious Science	1	.4
Seventh Day Adventist	2	.7
Unitarian	2	.7
United Church of Christ	10	3.7
Total	273	100.0%

is included as nondemoninational. Responding churches are classified according to the denomination given in the completed questionnaire. The percentage analysis suggests a close correspondence between the proportion of churches of each denomination in the total population and the proportion of each denomination in the group of respondents. A chi-square test performed on the frequencies indicates no nonresponse bias at the .05 level of significance. The complete details of this test are presented in Exhibit 3-4.

A second characteristic of the churches involves their geographic location. Exhibit 3-5 reports the location of the responding churches by state. The states most highly represented among the respondents are Texas (45 responses) and California (46 responses). Also well represented are Minnesota (14 responses), Missouri (13 responses), and Oklahoma (12 responses). All other states showed ten or fewer NACBA respondents. Exhibit 3-6 shows the regional division of responses. All regions are reasonably represented except for New England and the Rocky Mountain states. The analysis of location lends itself to a nonresponse test similar to that done for denomination. The test compares regional division of population taken from the mailing list with regional division of respondents. Again the test presents a close correspondence between the regional make up of the population and that of the respondents. A chi-square

Exhibit 3-4

Test for Nonresponse Bias by Demonination

Denomination	% of Population	% of Respondents
Baptist	23%	24%
Methodist	19	20
Presbyterian	15	15
Lutheran	8	10
Catholic	6	3
Christian/Disciples of Christ/United Church of Christ	6	7
Assemblies of God	2	4
Jewish	3	2
Nazarene	2	2
Other	16	13
	100%	100%

The Chi-square statistic is 15.890 with 9 degrees of freedom and is not significant at the .05 level.

Exhibit 3-5

Location of the Responding NACBA Members

State	Number	% of Total	State	Number	% of Total
			Mississippi	2	.7%
Alabama	5	1.8%	Missouri	13	4.8
Arizona	7	2.6	Nebraska	2	.7
Arkansas	3	1.1	New Jersey	2	.7
California	46	16.8	New Mexico	1	.4
Colorado	9	3.3	New York	10	3.7
Connecticut	1	.4	North Carolina	3	1.1
Delaware	2	.7	Oklahoma	12	4.4
Florida	9	3.3	Oregon	8	2.9
Georgia	10	3.7	Pennsylvania	3	1.1
Hawaii	2	.7	South Carolina	3	1.1
Illinois	2	.7	South Dakota	1	.4
Indiana	2	.7	Tennessee	4	1.5
Iowa	6	2.2	Texas	45	16.5
Kansas	6	2.2	Virginia	3	1.1
Kentucky	4	1.5	Washington	6	2.2
Louisiana	8	2.9	Wisconsin	9	3.3
Maine	1	.4			
Maryland	1	.4	No Answer	2	.7
Michigan	6	2.2			
Minnesota	14	5.1	TOTAL	273	100.0%

Exhibit 3-6

Regional Location of Responding NACBA Members

Region	Number	% of Total
New England	2	.7%
Mid-Atlantic	18	6.6
Great Lakes	19	7.0
Southeast	54	19.8
Plains	42	15.4
Rocky Mountain	9	3.3
Southwest	65	23.8
Far West	62	22.7
No Answer	2	.7
	273	100.0%

test performed on the frequencies indicates no nonresponse bias at the .10 level of significance. Exhibit 3-7 contains the complete results.

A third church characteristic distinguishs the size of the churches responding to the questionnaire. Size was measured in three ways, church membership, church attendance, and annual cash receipts. Church membership ranges from 50 to 10,000 with a median of 1,850 members. Church attendance ranges from 50 to 8,000 with a median of 750. Size is measured by the number of persons attending the church's main worship service in a week. Respondents were asked to give the cash receipts of their churches to the nearest thousand dollars for their fiscal year ended in 1980. The answers range from $18,000 to $8,500,000 with a median of $624,000. The total cash receipts reported amounted to $234,688,000. Exhibit 3-8 summarizes the responses to each of the three measures of size.

The last question in Section I classifies the churches as innercity, suburban, small city, small town, and rural. The results are shown in the chart in Exhibit 3-9. The small city response of 50 churches (19%) includes 3 small town churches and one rural area church. Innercity churches constitute 39% of responses (103 churches) and suburban, 42% (110 churches).

A summary of the above characteristics of churches

Exhibit 3-7

Test for Nonresponse Bias by Region

Region	% of Population	% of Respondents
New England	0%	1%
Mid-Atlantic	7	7
Great Lakes	7	7
Southeast	21	20
Plains	16	15
Rocky Mountain	4	3
Southwest	26	24
Far West	19	23
	100%	100%

The Chi-square statistic is 4.027 with 7 degrees of freedom and is not significant at the .10 level.

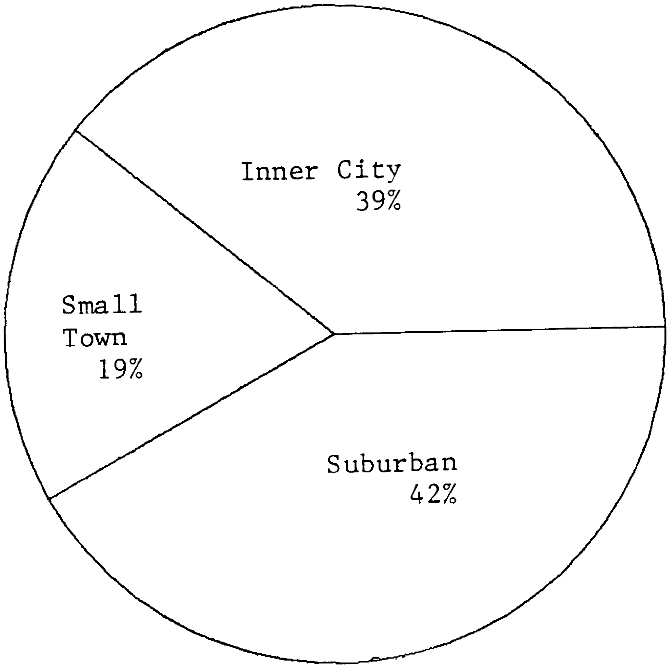
Exhibit 3-8

Size of Churches Represented by Responding NACBA Members

Church Membership	Number of Responses	% of Total
Less than 1500	93	34%
1500 - 3000	104	38
3100 - 4500	42	16
greater than 4500	33	12
No Answer	1	0
	273	100%
Church Attendance		
less than 500	65	24%
500 - 1000	109	40
1050 - 1500	39	14
greater than 1500	56	20
No Answer	4	2
	273	100%
Cash Receipts		
Less than $400,000	82	30%
$400,000 - $800,000	87	32
Greater than $800,000	95	35
No Answer	9	3
	273	100%

Exhibit 3-9

Environment of Responding Churches
Percent of Total



indicates that 70% belong to one of four major denominations Baptist, Methodist, Presbyterian and Lutheran. Most regions of the United States are represented. The two states with the largest response rates are Texas and California. The median church responding has 1850 members, 750 regular attenders and handles cash receipts of $624,000 annually. Eighty-one percent of all respondents serve large cities or suburban areas.

Chapter 4 - Analysis of General Accounting Information

In addition to the previous discussion of the characteristics of churches and church business administrators, this study analyzes some general reporting procedures common to churches. Responses to questions in Section II of the questionnaire provided data about the types of reports currently prepared by churches. The types of reports include budgets, cash basis financial statements, audited financial statements, and comparative financial statements. Other questions relate to the use of computers in the accounting function and the business administrator's conception of the potential users of church accounting information. The analysis compares these general reporting procedures for all churches, major denominations, and small, medium, and large churches.

For this analysis, total cash receipts is used to define church size. Small churches are those reporting receipts of $400,000 or less, medium churches report receipts between $400,000 and $800,000 and large churches report receipts of $800,000 or more. Cash receipts is chosen as the measure of size because it reflects the funds that flow through the church's accounting and reporting system. In addition, the total receipt figure represents both church members who are active in giving although not in attendance and nonmembers who are active in giving and attendance. The designations of small, medium, and large are appropriate for the purposes of this study and do not extend to churches in general.

Budget Reporting

An important tool of control and success measurement for churches is the annual budget. C. Neil Strait, in an article dealing with budgeting for churches, states,

> A budget will establish the priorities for ministry and improve money management, as well as provide a periodic review toward goals achievement. The church budget reveals what the congregation thinks is worth an investment.[1]

Robert N. Gray, in his book Managing the Church reminds the reader that church budgets are tools for management use and therefore are a means to an end, rather than an end in themselves. In his work Gray also includes an explanation of the normal budget process followed by churches;

> In constructing a budget, each group within the church should meet to review its own objectives, prepare proposals for the ensuing year, and calculate the costs. In due time, these projections are consolidated and reviewed by a budget committee and submitted to the governing board for approval. After adjustments have been made, this approved consolidation becomes the tentative budget which will be officially adopted when and if the financial campaign successfully underwrites the program. If it appears that not enough funds will be available, the budget will

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[1]C. Neil Strait, "A Budget Primer for Young Pastors," Leadership (Spring, 1981), p. 57.

need to be reviewed and adjustments devised.[2]

Henke adds a final step common to most church budget approval processes;

> The proposed service plan or budget is generally presented to the congregation for acceptance, modification, or rejection. Once approved by the membership, the budget becomes the operating plan for the church during the ensuing fiscal period.[3]

The NACBA members indicated the importance they place on budgeting by their responses. When asked if the church uses a formal budget approval process, 97% of the respondents answered positively. All churches in the four major denominations represented by NACBA members - Baptist, Methodist, Presbyterian, and Lutheran - adopt a formal budget. Exhibit 4-1 shows detailed analysis of the responses.

Responses to a second question regarding budgeting practices indicate a widespread comparison of budgeted figures with actual results. Once again 97% responded positively. Further analysis indicated similar budget presentations were used across denominational lines. (See Exhibit 4-1 for details.) Overall the importance of formal budgeting in church management seems to be recognized by all types of church business administrators.

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[2]Robert N. Gray, Managing the Church-Business Administration (Enid, OK: National Institute on Church Management, 1979), p. 75.

[3]Emerson O. Henke, Accounting for Nonprofit Organizations (Belmont, CA: Wadsworth Publishing Co., Inc., 1977), p. 164.

Exhibit 4-1

Percent of Churches Preparing Formal and Comparative Budgets

	Percent of Total	
	Formal Budget	Comparative Budget
All	97%	97%
Baptist	100%	96%
Methodist	100%	100%
Presbyterian	100%	100%
Lutheran	100%	100%
Other	89%	93%
Small	95%	96%
Medium	100%	98%
Large	95%	96%

Financial Statement Reporting

The prevalent view in the accounting profession holds that most churches keep records and report on the cash basis.[4] The results of this study, presented in Exhibit 4-2, support that view. Ninety-eight percent of all churches represented use some cash basis reporting procedures. When broken down by denomination, the positive response rates vary from 96% to 100%.

The respondents also were asked about their financial statement presentations. Ninety-seven percent indicated that they prepared financial statements. Analyzed by denomination, financial statements are prepared by 93% to 100% of each of the four major denominations. The close correspondence between these results and those for cash reporting suggest that the church business administrators did not distinguish between the two types of reports. An analysis of accrual accounting in chapter 5 will provide additional explanation.

To further determine types of reporting, NACBA members were asked to respond to two additional questions. The first question queried them about the presentation of current year and prior year comparative statements. The second

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[4]This view is supported by Manfred Holck, Jr. and Manfred Holck, Sr., Complete Handbook of Church Accounting (Englewood Cliffs, NJ: Prentice-Hall, 1978) and Loudell O. Ellis, Church Treasurer's Handbook (Valley Forge, PA: Judson Press, 1978).

Exhibit 4-2

Percent of Churches Reporting
Financial Information

Percent of Total				
	Cash Basis	Financial State- ments	Compara- tive State- ments	Annual Reports
All	98%	97%	80%	90%
Baptist	96%	96%	78%	88%
Methodist	100%	96%	78%	91%
Presbyterian	98%	100%	76%	91%
Lutheran	96%	93%	85%	96%
Other	99%	98%	81%	89%
Small	96%	92%	82%	85%
Medium	99%	100%	77%	88%
Large	98%	98%	80%	94%

involved the presentation of a comprehensive annual report including information beyond the basic financial statements. *Statement of Position 78-10* recommends, but does not require, financial statements to be presented on a comparative basis with one or more prior years.[5] Although the compliance rate is lower, 80% of the church business administrators reported that they present comparative current and prior year statements. Denominationally, the response varied from 76% to 85%. Ninety percent of the churches surveyed prepare what they consider to be comprehensive annual reports. From examples of reports that were collected, it appears that churches provide information from the pastoral staff and each committee of the church as well as financial information. The detailed results of these questions are presented in Exhibit 4-2.

Audited Financial Statements

An important phase of this study concerns the use of auditors by churches. Church business administrators responded to three questions on whether their statements were audited by 1. a person within the church (internal), 2. an independent, external auditor (CPA), or 3. an auditor from their denomination.

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[5]*Statement of Position 78-10*, para. 41.

Fifty-four percent of the churches present statements that are audited externally. As shown in Exhibit 4-3, the major denominations vary greatly on this point. Seventy-one percent of the Presbyterian churches present externally audited reports while only 18% of Lutheran churches report the use of external auditors. When data are analyzed by size of churches, distinct differences appear. The small churches have a 30% incidence of audited reports, while the large churches report external audits in 73% of the cases. Fifty-five percent of the medium sized churches have external audits. This analysis suggests that external auditors are more likely to be used in larger churches when size is defined as cash receipts.

In contrast to the above results, the financial statements of 46% of the churches are audited by persons from within the church, i.e. an internal audit. Presbyterian churches showed the lowest percentage of internal audits (26%) while Lutheran churches had the highest percentage (75%). While 65% of the small churches indicated that they have internal audits of their financial affairs, only 32% of the large churches have internal audits.

A third type of audit found in churches is the denominational audit. As shown in Exhibit 4-3, only 12% of the churches indicated that they use denominational auditors. An analysis by denomination shows varied results. For

Exhibit 4-3

Percent of Churches Presenting Audited Statements

Percent of Total			
	Presenting Externally Audited Statements	Presenting Internally Audited Statements	Presenting Demonina-tionally Audited Statements
All	54%	46%	12%
Baptist	61%	43%	4%
Methodist	45%	54%	14%
Presbyterian	71%	26%	12%
Lutheran	18%	74%	7%
Other	57%	44%	17%
Small	30%	65%	13%
Medium	55%	45%	14%
Large	73%	32%	7%

example, only 4% of the Baptist churches had denominational audits while 14% of the Methodist churches had them. A similar analysis by cash receipts shows that 13% of small churches use an auditor from their denomination, 14% of medium churches, and 7% of large churches.

A comparison of churches using denominational auditors with those using external and internal auditors is presented in the chart below. Although internal, external, and denominational audits are not always exclusive, analysis shows that 77% of the churches have only one of the three types of audit.

	# of churches	% of total
External only	112	41%
Internal only	82	30%
Denominational only	16	6%
External & Internal	28	10%
External & Denominational	1	0%
Internal & Denominational	9	3%
All of the three	7	3%
None of the three	18	7%
Total	273	100%

To summarize, the emphasis of the NACBA churches as a whole is mixed with respect to audited financial statements. Ninety-three percent of the churches appear to recognize the importance of the audit function and provide for some type of audit - external, internal, or denominational. The fact that 54% of the churches represented are audited by CPAs leads to the conclusion that professional pronouncements involving church accounting are applicable to over half the churches included in this population. Churches that handle large amounts of cash ($800,000 or more) are more likely to be aware of such professional pronouncements.

Computer Application

Another area of inquiry in this research is use of the computer in the accounting function of churches. As the application of computers permeates the business world, it seems important to identify the portion of churches using or planning to use computers for accounting purposes. Sixty-two percent of the churches represented in the study either used or planned to convert to computer applications for accounting. Several comments were received from respondents whose churches use the computer for only part of the accounting function, payroll for example. Computer usage by major denominations is varied, as shown in Exhibit 4-4.

Comparison of computer usage by size of cash receipts reveals a systematic difference. Thirty-nine percent of small churches reported computerized accounting functions and 63% of the medium size churches reported computer applications. The largest percent of churches reporting

Exhibit 4-4

Percent of Churches Using Computer
For Accounting Functions

	Percent of Total
All	62%
Baptist	69%
Methodist	47%
Presbyterian	69%
Lutheran	48%
Other	65%
Small	39%
Medium	63%
Large	81%

computer usage, 81%, was in the category of large churches. In summary, the churches represented by the NACBA are interested in the use of computer technology.

Users of Financial Information

The two major accounting pronouncements relevant to churches identify potential users of financial statement information. As mentioned in chapter one, the AICPA's Statement of Position 78-10 lists seven groups of potential users as follows:

- contributors
- beneficiaries
- trustees and directors
- employees
- governmental units
- creditors and potential creditors
- constituent organizations

The groupings from the SOP were adjusted and included in the questionnaire as follows:

- membership
- governmental units
- nonmember contributors
- creditors
- constituent organizations
- trustees or directors
- employees of the church (pastors and other)

The terms membership and nonmember contributors were substituted for beneficiaries and contributors to relate better to terminology familiar to church administrators.

The FASB's Statement of Financial Accounting Concepts No. 4 presents four groups of financial statement users for nonbusiness organizations. These are:

- resource providers (those directly compensated for providing resources and those who are not directly compensated)
- constituents
- governing and oversight bodies
- managers

All of the seven user groups listed in the questionnaire fit into one of the four groups listed in the concepts statement. The Statement of Position terminology seems closer to that commonly used by church officials.

The respondents indicated the groups that are users or potential users of the accounting reports of their churches. Exhibit 4-5 presents the combined results. Not surprisingly the most frequently cited user groups were trustees and directors, and employees including the pastors. These two groups were chosen as potential users by 94% of all churches represented in the study. When broken down by denominations, in all cases but one, these two groups were the most frequently selected user groups. When analyzed by size, churches consistently identified the trustees and directors and employees as the most probable users of financial reports.

The third most frequently chosen user group consists of members of the church. Results fluctuated widely. As size increases the identification of members as potential users decreases. Overall 69% of the churches identified members as a user group. Baptists showed the highest percentage with 90%. This is consistent with their emphasis

Exhibit 4-5

Percent of Churches Designating Potential
Users of Church Accounting Information

	Percent of Total						
	Members	Government	Contributors	Creditors	Constituents	Directors	Employees
All	69%	11%	13%	23%	17%	94%	94%
Baptist	90%	8%	16%	34%	19%	88%	97%
Methodist	71%	11%	11%	11%	14%	96%	93%
Presbyterian	50%	10%	12%	17%	21%	95%	88%
Lutheran	82%	4%	7%	15%	15%	96%	93%
Other	56%	18%	14%	30%	15%	98%	96%
Small	74%	8%	11%	17%	13%	95%	94%
Medium	69%	8%	12%	14%	14%	97%	97%
Large	65%	16%	16%	38%	22%	92%	93%

on congregational polity. Only 50% of the Presbyterian churches listed church membership as a potential user group. This is consistent with the philosophy of the Presbyterian church. Most financial decisions are made by the governing board.

Outside of the three major user groups of church financial statements, the identification of other user groups dropped off significantly. A general analysis (found in Exhibit 4-5) establishes the following order of importance: creditors, constituent organizations, nonmember contributors, and governmental units. Governmental units were generally the group least thought of as a user or potential user of church financial information. This is not unusual as governmental agencies do not require any general financial reporting for churches. Churches are tax exempt under Section 501(c)3 of the Internal Revenue code. Churches are not required to comply with Internal Revenue Service notification requirements to qualify for this tax exemption. Further, churches are not asked to file annual information returns with the Internal Revenue Service as are other nonprofit organizations. The exception to these exemptions involves the reporting and taxing of any unrelated church business income over $1000 per year. Although reporting requirements differ from state to state, generally all states with any reporting requirement for nonprofits exclude churches from such reporting.[6] Given the current standards for governmental reporting as a background, it is apparent that the church business administrators represented in this sample do not consider a change in the requirements to be imminent.

In conclusion, over half of the NACBA members recognized three major groups as users or potential users of their accounting information, regardless of denomination or size. The three groups are trustees and directors, employees including the pastor(s), and members. Responses to all others are significantly below these three groups. These major user groups fall into two categories mentioned by the concepts statement, resource providers and managers. Contrary to the emphasis found in _Statement of Financial Accounting Concepts No. 4_, the emphasis is placed on managers rather than resource providers. The fact that _SFAC No. 4_ is mainly concerned with _external_ reporting possibly explains the discrepancy.

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[6] Malvern Gross, Jr. and William Waushauer, Jr., _Financial and Accounting Guide for Nonprofit Organizations_ (New York: John Wiley and Sons, 1979), pp. 454-465.

Chapter 5 - Analysis of Accounting Principles and Financial Statement Reporting Practices

This analysis phase of the study reviews specific accounting principles and reporting practices presented by the AICPA in its *Statement of Position 78-10*. Reporting practices include the use of accrual accounting, presentation of basic financial statements, and disclosure of balance sheet restrictions. Accounting principles include methods of accounting for certain assets, deferring restricted revenues, recording certain revenues, and recording certain expenses.

Each of the questions included in Section III of the measurement instrument is analyzed for NACBA members as a whole. In addition, responses are grouped by denomination using five major classifications - Baptist, Methodist, Presbyterian, Lutheran, and Other. NACBA member churches are further dichotomized according to the use of the external audit. Finally, responses are classified based on the size of the churches.

Within these groupings responses are reported according to the proportions answering yes, no, or not applicable. Visual analysis of the results identifies any differences in the compliance rates of each classification in relation to each reporting practice and accounting principle.

Reporting Practices - Accrual Accounting

The method of accounting commonly used by churches is the cash basis, primarily because of simplicity. Gray presents the view of many church business officers toward accrual accounting;

> Most churches could benefit from the accrual system of accounting but unless a skilled accountant is carefully guiding the adjustments, a church should use the more simple approach, the cash basis, in determining the time for income and expense allocation. In the long run, both methods tend to come to the same total result.[1]

Gross and Warshauer take a practical view as they discuss the subject;

> Perhaps the easiest way to determine whether accruals are needed is to ask whether the board might make different decisions if it saw financial statements in which all accruals were reported. If the answer is 'yes,' then they are material and should be recorded.
>
> Many churches will continue to present cash basis reports and there is no reason to change as long as the board recognizes the limitation of this type of reporting. At the same time it is important to recognize that if the financial statements of the church are audited, the independent accountant will not be able to say that the statements have been prepared in accordance with generally accepted accounting principles if they are prepared on a cash basis (unless, in the accountant's view, unrecorded amounts are immaterial).[2]

Statement of Position 78-10 presents the accrual basis as the generally accepted basis of reporting financial information, given that there are material differences between accrual basis financial statements and cash basis financial

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[1]Robert N. Gray, Managing the Church-Business Methods, (Kansas City, MO: National Institute on Church Management, 1977), p. 122.

[2]Gross and Warshauer, p. 287.

statements. Recognizing the time and cost involved in keeping accounting records on the accrual basis, the SOP suggests the books be maintained on a cash basis, with adjustments to the accrual basis for reporting purposes. Any cash basis statements that are materially different from accrual basis statements should be presented and reported on as special purpose financial statements.

NACBA members were asked three questions to determine their use of accrual accounting. These questions surveyed the instances of recording assets when purchased as opposed to when paid for, the reporting of formal obligations such as loans or bonds as liabilities on the balance sheet, and the recording of items received but unpaid as liabilities (accounts payable) on the balance sheet. Results are summarized in Exhibit 5-1. Two thirds of the churches report formal obligations in their financial statements. Mortgage notes and bonds are examples of formal obligations. Audited churches report their outstanding debt in 75% of the cases while unaudited churches do so in only 56% of the cases. Seventy-eight percent of the large churches report formal obligations, compared to 67% of medium churches and 51% of small churches. A high percent of churches responded "not applicable" to the question of recording liabilities. Many churches do not have formal debt obligations outstanding because their buildings are paid for and they pay

Exhibit 5-1

Compliance with on the
Accrual Basis of Accounting in Percentages

	Record Assets When Purchased			Record Formal Liabilities			Record Accounts Payable		
	Y	N	NA	Y	N	NA	Y	N	NA
All Churches	41%	50%	9%	66%	12%	22%	36%	47%	17%
Baptist	38	52	10	76	10	14	38	52	10
Methodist	38	54	8	43	22	35	21	55	24
Presbyterian	44	51	5	72	13	15	33	54	13
Lutheran	26	59	15	67	7	26	18	48	34
Other denominations	51	42	7	72	38	20	53	32	15
Audited churches	45	49	6	75	8	17	45	42	13
Unaudited churches	37	52	11	56	17	27	26	52	22
Small	38	49	13	51	17	32	30	45	25
Medium	42	48	10	67	9	24	39	43	18
Large	42	54	4	78	10	12	38	52	10

for smaller items as purchased.

Answers to the first and third questions presented in Exhibit 5-1 involving assets and accounts payable provide a different view of accrual accounting. As the analysis shows, 50% of all churches do not record assets when purchased and 47% of them do not accrue accounts payable. About as many audited churches report that they do not follow accrual accounting practices for assets and accounts payable as those that do follow it. This suggests that the differences between cash basis statements and accrual basis statements are not material. Again, a relatively high percentage of the churches indicated that these items were not applicable.

Reporting Practices - Basic Financial Statements

Statement of Position 78-10 requires that churches preparing financial statements intended to show both financial position and results of operation present the three basic financial statements - Balance Sheet, Statement of Activity, and Statement of Changes in Financial Position - including related footnote disclosures. Specific formats and titles for these statements are not prescribed although the *SOP* includes several examples. The *SOP* emphasizes the importance of financial presentations that meet the needs of the church, and that are also in conformity with accounting principles.[3] Malvern Gross, as a contributing author in

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[3]*Statement of Position 78-10*, para. 18.

Gray's Managing the Church-Business Methods, suggests ways that financial statements can meet the needs of churches. In order to be meaningful, church financial statements should have the following characteristics:

> 1. They should be easily understood . . . This characteristic is the one most frequently absent.
> 2. They should be concise so that the person studying them will not get lost in detail.
> 3. They should be all inclusive and should embrace all activities of the church . . . If there are two or three funds, the statements should clearly show the relationships between the funds without a lot of confusing detail involving transfers and appropriations.
> 4. They should have a focal point for comparison so the church member will have some basis of arriving at a conclusion. In most instances this will be a comparison with a budget or figures from the corresponding period last year.
> 5. They should be prepared on a timely basis. The longer the delay after the end of the period, the longer the period before corrective action can be taken.[4]

Exhibit 5-2 shows that the financial statement most frequently produced by churches is the Statement of Activity, also called the Operating Statement, Statement of Revenues and Expenditures, or Income Statement. Ninety-eight percent of the churches represented in this study prepare a statement of activity on a regular basis. The importance of presenting the results of operations is recognized by churches of all sizes and denominations, and both audited and unaudited churches. The results of this study

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[4]Gray, Managing the Church-Business Methods, p. 124.

Exhibit 5-2

Compliance with Preparation Relating of Basic Financial Statements in Percentages

	Balance Sheet			Statement of Changes in Financial Position			Operating Statement			Excess or (Deficiency) Line-Item		
	Y	N	NA	Y	N	NA	Y	N	NA	Y	N	NA
All Churches	79%	20%	1%	45%	49%	6%	98%	1%	1%	88%	10%	2%
Baptist	79	18	3	43	48	9	96	3	1	90	9	1
Methodist	57	41	2	35	58	7	98	2	0	80	20	0
Presbyterian	95	5	0	50	50	0	100	0	0	93	5	2
Lutheran	77	19	4	50	42	8	96	0	4	85	11	4
Other denominations	84	16	0	48	46	6	99	1	0	91	6	3
Audited churches	86	13	1	48	48	4	98	2	0	91	7	2
Unaudited churches	70	29	1	41	50	9	98	1	1	86	13	1
Small	68	32	0	37	55	8	96	1	3	82	16	2
Medium	80	18	2	42	51	7	98	2	0	92	7	1
Large	87	12	1	54	42	4	99	1	0	90	8	2

suggest that this operating statement is the reporting tool used to make the majority of financial decisions in church organizations.

Although presented in the questionnaire in terms of revenues and expenses, examples collected from NACBA members indicate that the operating statement is often a cash receipts and disbursements statement. In addition, beginning and ending cash balances are presented in a cash flow statement format. An inspection of selected church financial statements also shows that the operating statement is often prepared as a budget report which compares actual receipts and disbursements with budgeted receipts and disbursements. (See Exhibit 5-3 for an example.)

While the SOP allows considerable flexibility in the general format of the operating statement, a line-item revealing the excess or deficiency of revenues over expenses is recommended. The SOP explains that "This measure is an important indicator of financial health ..."[5] The NACBA members reported an 88% compliance rate for the churches indicating their agreement with the importance of a line-item to report an excess of income over expenses. Audited churches use the excess designation at a rate of 91% compared to 86% for unaudited churches. Small churches comply

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[5]Statement of Position 78-10, para. 30.

Exhibit 5-3

Illustrative Financial Statement - General Fund
March 31, 1981

	MARCH	JAN-MARCH	BUDGET JAN-MAR	BUDGET OVER-UNDER	BUDGET
BUDGET INCOME:					
Pledges	$53,227	$129,196	$134,208	$(5,012)	$536,831
Plate	531	1,626	1,625	1	6,500
Church School	326	1,048	875	173	3,500
Miscellaneous	483	1,312	1,000	312	4,000
	$54,567	$133,182	$137,708	$(4,526)	$550,831
SUPPLEMENTARY INCOME:					
Food	$ 1,576	$ 4,211			
TOTAL INCOME:	$56,143	$137,393			
BUDGET EXPENSES:					
Our Church Program	$ 7,376	$ 19,215	$ 23,944	$(4,729)	$ 95,777
Pastoral Ministry General	3,367	9,070	9,002	68	36,007
Pastoral Ministry Local	4,724	14,364	14,930	(566)	59,718
Administration & Staff	10,279	37.011	38,800	(1,789)	155,201
Building & Maintenance	13,111	28,165	31,342	(3,177)	125.368
Office Equipment & Op.	199	3,552	5,050	(1,498)	20,200
Debt Retirement	3,715	11,726	12,140	(414)	48,560
Contingencies & Reserve	1,009	1,149	2,500	(1,351)	10,000
	43,780	$124,252	$137.708	$(13,456)	$550,831
SUPPLEMENTARY EXPENSE:					
Food	$ 1,348	$4,057			
TOTAL EXPENSE:	$45,128				
EXCESS OF INCOME OVER EXPENSE					
Add Balance 2/28/81	$11,015				
Balance on Hand	31,579				
	$42,594				

with the recommendation at a lower rate (82%) while medium and large churches respond with rates of 92% and 90% respectively. The high proportion of NACBA members reporting an excess (deficiency) of income over expenses in their churches suggests that the concept is not confused with a profit figure.

A second financial statement to be prepared by churches that present financial statements in accordance with generally accepted accounting principles is the balance sheet. Gross notes that the idea of what constitutes a balance sheet differs by church size and the use of accrual accounting. He illustrates a small church balance sheet with a few lines added to the bottom of the operating statement showing the cash balance(s) and the end of the period fund balance. Gross notes that medium size churches may have other assets to report such as marketable securities or accounts receivable and liabilities such as accounts payable. This results in a partial accrual accounting balance sheet. A final example shows church property reported as an asset with mortgage payable reported as a liability.[6] Other texts on church accounting give examples of church balance sheets prepared in the format shown in the

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[6]Gray, Managing Your Church-Business Methods, pp. 130-137.

appendices to Statement of Position 78-10.[7] The balance sheets shown in Exhibits 5-4 and 5-5 were collected from the NACBA members and they are shown to illustrate the diversity of practice.

Seventy-nine percent of the churches represented by NACBA members prepare a balance sheet on a regular basis (see Exhibit 5-2). Results show diversity among major denominations. Ninety-five percent of the Presbyterian churches present balance sheets while 57% of the Methodist churches comply. The Baptist churches and Lutheran churches included in the study were less likely to issue balance sheets - 79% for Baptists and 77% for Lutherans. Eighty-six percent of the churches audited by a CPA issue balance sheets on a regular basis while 70% of the unaudited churches do so. Similarly 87% of large churches comply in the matter of balance sheet presentation while 68% of small churches comply.

The difference in the proportion of churches studied that present balance sheets (79%) as opposed to operating statements (98%) suggests an emphasis on the operations of the church rather than on the property ownership or net worth of the church. For churches to whom cash is the only asset of significance, a cash-basis operating statement

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[7] Two such texts are those prepared by Holck and Holck and Ellis.

Exhibit 5-4

ILLUSTRATIVE STATEMENT OF FINANCIAL CONDITION as of 12/31/81

ASSETS:

Petty Cash			$ 30
Cash in Bank - Checking			103,121
Savings			2,746
Investments (I.N.B. stock)			9,747
Advances to Individuals			4,747
Advances to and Due From Other Funds			673
Deferred Expense			(33)
TOTAL ASSETS			$120,871

LIABILITIES AND FUNDS:

Wedding Receipts			$ (611)
Withholdings - Federal Income Tax			(5)
FICA			19
Indiana Gross Tax			459
Group Insurance Withheld			(52)
Pastor's Discretionary Fund			(674)
Session's Discretionary Fund			(359)
Church & Community Committee Project			328
Refugee Fund			57
Youth Special Project Fund			1,299
Delta Club			343
Paper Recycling Project			0
Mother's Day Out			200
Weekday Nursery & Kindergarten			(42)
Organ and Bell Choir Fund			2,830
Building Fund			866
Unexpended Income - Balance as of 1/1/81		$48,402	
Excess of Income - 12 months ended 12/31/81		67,811	
Balance 12/31/81			$166,213
TOTAL LIABILITIES AND FUNDS			$120,871

Exhibit 5-5

Illustrative Balance Sheet
December 31, 1981

GENERAL FUND

ASSETS		LIABILITIES AND NET WORTH	
Cash in bank	40,773	Accounts payable	15,265
Prepaid Expenses	5,005	Deferred Income	52.830
Investments	32,000	Fund Balance	12,341
A/Rec.	2,658	Total General Fund Liabilities & Net Worth	80,436
Total General Fund Assets	80,436		

BUILDING FUND

Land, Building and Furnishings (net)	962,851	Fund Balance	962,851
Total Building Fund Assets	962,851	Total Building Fund Liabilities & Net Worth	962,851

INVESTMENT ACCOUNT

Cash - checking	7,878	Endowment Fund	361,614
Cash - savings	39,165	Reserve Fund	53,302
Short Term Investments	25,000	Designated Gifts	35,049
U.S. Government Bonds	185,000	Scholarship Fund	7,567
Corporate Bonds	118,000	Hunt Memorial Fund	34,229
Common Stocks, at cost	192,977	DeWald Memorial Fund	14,566
(Market Value 225,328)		Parry Memorial Fund	1,560
Clearing Account	4,699	Deacon's Fund	1,759
Annuity Investments	37,000	Rood Fund	18,570
		Organ Memorial Fund	12,662
Total Assets	609,719	Annuity Fund	37,617
		Schwandt Fund	30
		Guild Fund	1,535
		Building Reserve Fund	29,659
		Total Fund Balances	609,719

effectively reports the financial position as well as operating results.

The third financial statement recommended by the SOP is the statement of changes in financial position. This statement receives little attention in the several handbooks prepared exclusively for churches. Holck and Holck reproduce the examples included in the AICPA's 1977 Discussion Draft with no further explanations. Ellis and Prentice each illustrate the statement of changes on the cash basis.[8] This lack of discussion in the literature suggests that few churches perceive a need to present the statement of changes in financial position.

Of the churches studied, 45% prepare a statement of changes in financial position. (See Exhibit 5-2). Although substantially lower than the rate of churches preparing balance sheets and operating statements, the response is higher than suggested by the review of literature. Forty-eight percent of the audited NACBA member churches prepare statements of changes. Apparently auditors feel a church can present its financial position and results of operations fairly without the preparation of a statement of changes in financial position. This should be interpreted in light of the fact that many church operating statements are presented

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[8]Ellis, pp. 136, 173; Holck and Holck, pp. 224-227; Karol Beth Prentice, "Church Accounting: Good Intentions and Good Accounting," The Woman CPA (April, 1981), p. 11.

as sources and uses of cash, including items not normally expensed such as payment of debt. The large churches represented in this population were the most likely to prepare the statement of changes (54%). This supports the idea that the large churches are more likely to prepare accrual basis operating statements.

In summary, 98% of the churches represented by the NACBA members participating in this study present operating statements on a regular basis with 88% including a line-item entitled Excess (Deficiency) of Revenue and Support over Expenses. Seventy-nine percent of the churches present some type of balance sheet, while 45% present the statement of changes in financial position. Comparable response rates for audited churches show 98% preparing an operating statement with 91% showing an excess line-item. Eighty-six percent comply with balance sheet presentation and 48% prepare the statement of changes in financial position.

Reporting Practices - Fund Accounting and Restrictions

Many churches receive resources restricted by the donor for specific purposes. Inherent in the concept of stewardship is the proper use of these restricted resources and adequate accounting to the donor for their expenditure.[9] Often fund accounting is used to account for these

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[9]Weinstein, p. 1008; Holck and Holck, p. 43.

restricted resources. The AICPA provides a brief description of such use of fund accounting in Statement of Position 78-10;

> To facilitate observance of limitations, the accounts are often maintained using fund accounting, by which resources are classified for accounting and reporting purposes into funds associated with specified activities or objectives. Each fund is a separate accounting entity with a self-balancing set of accounts for recording assets, liabilities, fund balance, and changes in the fund balance.[10]

Holck and Holck, in relating the concept of fund accounting to church financial officers, present it as a system of keeping separate records identifying the source and use of all gifts restricted by donors. They indicate that it can be further used by the governing board of the church to restrict previously unrestricted resources for special projects. The fund designations typically used by congregations include:

1. General Funds or Current Unrestricted Funds
2. Restricted Funds or Current Restricted Funds
3. Plant or Fixed Assets
4. Endowment Funds
5. Board-Designated or Quasi-Endowment Funds

Many churches use a simplified type of fund accounting termed by Holck and Holck the "one-fund approach." While separate asset, liability, revenue, and expense accounts are not maintained for each fund, the fund balance is detailed

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[10] Statement of Position 78-10, para. 14.

according to the restrictions placed on resources. In the opinion of Holck and Holck, this approach is viable for small and medium size churches.[11]

The accounting literature includes controversy as to the adequacy with which fund accounting accomplishes its goals of reporting the sources and uses of restricted resources. The diverse opinions center in the understandability of fund accounting based financial statements and the users ability to interpret the reports.[12] The SOP takes the position that "reporting on a fund accounting basis may be helpful where needed to segregate unrestricted from restricted resources." If fund accounting is not used, all material restrictions should be disclosed in the financial statements. This disclosure includes reporting restrictions on assets, liabilities, and fund balances where appropriate. Any material restrictions should be described in notes to the financial statements. If fund accounting is used, the presentation of totals of all fund groups is preferred although not required. Adequate disclosure when using fund accounting includes information by major fund groups and in

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[11]The previous discussion of fund accounting comes from Holck and Holck's Complete Handbook of Church Accounting, pp. 165-166.

[12]Both sides of the controversy may be found in Regina Herzlinger and H. David Sherman, "Advantages of Fund Accounting In 'Nonprofits,'" Harvard Business Review (May-June, 1980), pp. 94-105 and Robert N. Anthony, "Making Sense of Nonbusiness Accounting," Harvard Business Review (May-June, 1980), pp. 83-93.

total.[13]

Exhibit 5-6 summarizes the church's responses to reporting restricted resources. Eight-four percent of all responding churches use some type of fund accounting in their church financial reporting. Among the different classifications of the churches, size accounts for most of the diversity of response. Seventy-seven percent of small churches use fund accounting while 90% of large churches use fund accounting practices. Results suggest that fund accounting is a method of reporting restricted resources that is widely used among churches.

Sixty-nine percent of the churches studied present the total-all-funds figure. Response rates are diverse when examined according to major denomination. For example, 58% of Lutheran churches present the total-all-funds figure while 66% of the Presbyterian churches, 73% of the Methodist, and 77% of the Baptist churches present the total-all-funds figure. Audited churches were more likely to present the total-all-funds figure, (71% compared to 68% for unaudited churches), and large churches were more likely to present the figure than small ones, (76% compared to 65%).

Differences are noted between the churches using fund accounting, 84%, and those presenting the total-all-funds figure, 69%. The complexity of the fund accounting concept

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[13] Statement of Position 78-10, para. 37-40.

Exhibit 5-6

Compliance with Fund Accounting
and Reporting Restricted Resources in Percentages

	Fund Accounting			Total-All-Funds Figure			Balance Sheet Restrictions			Internal/ External Restrictions		
	Y	N	NA	Y	N	NA	Y	N	NA	Y	N	NA
All Churches	84%	13%	3%	69%	15%	16%	61%	30%	9%	15%	56%	29%
Baptist	88	9	3	77	14	9	58	29	13	12	48	40
Methodist	89	11	0	73	16	11	54	41	5	6	68	26
Presbyterian	83	14	3	66	10	24	76	21	3	28	55	17
Lutheran	82	7	11	58	23	19	52	30	18	8	59	33
Other denominations	78	20	2	65	14	21	62	28	10	17	54	29
Audited churches	86	12	2	71	15	14	67	27	6	20	54	26
Unaudited churches	81	15	4	68	14	18	53	34	13	8	58	34
Small	77	17	6	65	16	19	53	35	12	12	57	31
Medium	85	14	1	68	16	16	61	30	9	14	59	27
Large	90	9	1	76	11	13	69	25	6	17	53	30

in an individual congregation's reporting provides one interpretation of the difference. A small church using Holck and Holck's "one-fund approach" would segregate only the fund balance based on restrictions and the total of these fund balances would be presented in the equity section of the balance sheet. This figure may not be recognized as the total-all-funds figure being referenced in the research. A large church reporting separate assets, liabilities, and fund balance for each type of restriction would be more likely to present total-all-funds figures.

Because fund accounting is only one acceptable method for reporting restricted resources, NACBA members responded to two further questions regarding balance sheet restrictions. Sixty-one percent of the churches separate restricted and unrestricted resources on their balance sheet (see Exhibit 5-6). Presbyterian churches distinguish between restricted and unrestricted resources in 76% of the cases while Baptist, Methodist, and Lutheran churches respond with 58%, 54%, and 52% respectively.

For each of these church groups, the acknowledged use of fund accounting is greater than the acknowledged separation of balance sheet restrictions on resources. This difference suggests that many churches do not have funds expressly entitled "restricted" and do not equate the building fund, missions, or other designated funds with restricted funds. Large percentages of churches in some categories indicated that separate accounting for restricted resources was not applicable to their situation (for example Baptist churches, 13%; Lutheran churches, 18%; unaudited churches, 13%; and small churches, 12%). These proportions are consistently higher than the proportion of churches indicating that fund accounting was not applicable to their particular situation. This diversity suggests that church financial officers have found reasons for using fund accounting in addition to that of keeping separate records to identify the source and use of gifts restricted by donors.

Holck and Holck explain that a further reason for fund accounting is the ability it gives the governing board to restrict previously unrestricted resources. Fifteen percent of the churches represented by NACBA members indicated that they distinguish between resources restricted internally by officers of the organization and externally by persons outside the organization. Exhibit 5-6 shows a large majority of the churches indicated that such internal designations were not appropriate to their situations. These results indicate that fund accounting may be used in some churches to distinguish resources restricted internally by officers of the church.

Accounting Principles - Accounting for Assets

The AICPA emphasizes several types of assets in its recommendations in Statement of Position 78-10. These assets include fixed assets, pledges receivable, and investments. Section III of the questionnaire collected information regarding these three types of assets and the results are summarized in Exhibit 5-7.

The SOP requires purchased assets to be capitalized at cost and donated assets to be capitalized at their market value on the date of the gift. Seventy-eight percent of the churches studied record purchased assets at cost and 62% percent record donated assets at market value. The highest rate of recording purchased assets at cost was found in the Presbyterian churches (86%) while the Methodist churches showed the highest rate of recording donated assets at market value (66%). Lutheran churches responded with the lowest rate for recording purchased assets and donated assets as recommended - 67% and 52%, respectively. Audited churches are more apt to follow the recommended practices than unaudited churches. Large churches are more likely to capitalize purchased assets and donated assets according to generally accepted accounting principles than small churches. Interestingly, a total of 87% of the NACBA respondents taken as a whole indicated that recording donated assets applied to their situation. This supports the importance of "donations in kind" to church organizations. To summarize, over 50% of the churches studied capitalize assets as recommended by SOP. These findings do not support

Exhibit 5-7

Compliance with
Recording Fixed Assets in Percentages

	Record Purchased Assets at Cost			Record Donated Assets at MV			Record Accumulated Depreciation		
	Y	N	NA	Y	N	NA	Y	N	NA
All Churches	78%	16%	6%	62%	25%	13%	20%	67%	13%
Baptist	76	18	6	56	32	12	22	68	10
Methodist	71	26	3	66	29	5	11	76	13
Presbyterian	86	7	7	58	27	15	17	71	12
Lutheran	67	26	7	52	30	18	11	63	26
Other denominations	84	9	7	68	16	16	31	58	11
Audited churches	86	12	2	72	18	10	30	63	7
Unaudited churches	68	21	11	49	34	17	10	70	20
Small	62	29	9	58	30	12	12	74	14
Medium	78	14	8	58	26	16	21	66	13
Large	89	8	3	67	21	12	29	61	10

statements found in the literature which indicate that most churches do not capitalize fixed assets.[14]

The SOP recommends that church financial statements include the depreciation of exhaustible fixed assets. Structures belonging to churches and used primarily as houses of worship are exempt from depreciation according to the SOP.[15] Depreciation accounting is a second recording principle with which the literature suggests the majority of churches are not in compliance.[16] Only twenty percent of the respondents indicated that accumulated depreciation is deducted from the cost of depreciable assets other than the house of worship (see Exhibit 5-7). Sixty-seven percent of the churches did not record accumulated depreciation while 13% indicated the question was not applicable. This choice of "not applicable" could have been interpreted in several ways. For example, many churches have no fixed assets other than houses of worship. Or, business administrators may feel that depreciation is not applicable to churches, particularly those whose statements are prepared on a cash basis. While 22% of the Baptist churches record accumulated depreciation in the balance sheet, only 11% of both Methodist churches and Lutheran churches report accumulated

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[14]Gross and Warshauer, p. 287; Henke, p. 165.

[15]Statement of Position 78-10, para. 108.

[16]Gross and Warshauer, p. 287; Henke, p. 165.

depreciation. Twenty-nine percent of large churches comply with the SOP recommendations for depreciation and 12% of the small churches record depreciation. The greatest differentiation is apparent when the church population is grouped by its use of an external audit. Thirty percent of the audited churches record accumulated depreciation. This may suggest that in many auditors' judgment, depreciation is not applicable to the churches being examined.

A second type of asset, pledges, is addressed in this research. The SOP states that "pledges an organization can enforce should be recorded as assets and reported at their estimated realizable values."[17] The SOP does not define a "legally enforceable pledge." Court cases and rulings in this area are very rare because churches realize the negative affect that legal action would have on future giving. Gross and Waushauer approach the topic of pledges in a practical perspective;

> Note, however, that the criterion is the legal right to enforce collection of the pledge, not the willingness of the organization to actually exercise this right.[18]

For churches wishing to make clear that their pledges are not legally enforceable the authors continue with a suggestion;

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[17] Statement of Position 78-10, para. 64.

[18] Gross and Warshauer, p. 260.

> Those organizations wanting to avoid recording pledges can, therefore, include on their pledge card a statement to the effect that the pledgor can unilaterally withdraw the pledge at any time. As long as it is clear that the pledgor retains this right, the pledge would be unenforceable and therefore not recorded as an asset.[19]

On the questionnaire legally enforceable pledges were defined as pledges used as the basis for incurring legal obligations. The NACBA members indicated whether their churches recorded legally enforceable but uncollected pledges as receivables. In addition, they noted whether pledges receivable were recorded net of estimated uncollectibles. As Exhibit 5-8 shows, 5% of all churches record pledges as receivable. Compliance rates by major denominations range from zero to 6%. Seven percent of externally audited churches record pledges receivable and medium churches indicate 9% compliance. In contrast to the few churches recording pledges, the use of the "not applicable" option on this question was high. Written comments volunteered by NACBA members provide two possible reasons for this choice: many churches do not use the pledge system and business administrators feel that their pledges could not be enforced legally. This attitude on the part of church financial officers suggests the need for further research to define and illustrate the nature of a legally enforceable pledge.

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[19]Ibid.

Exhibit 5-8

Compliance with
Recording Pledges in Percentages

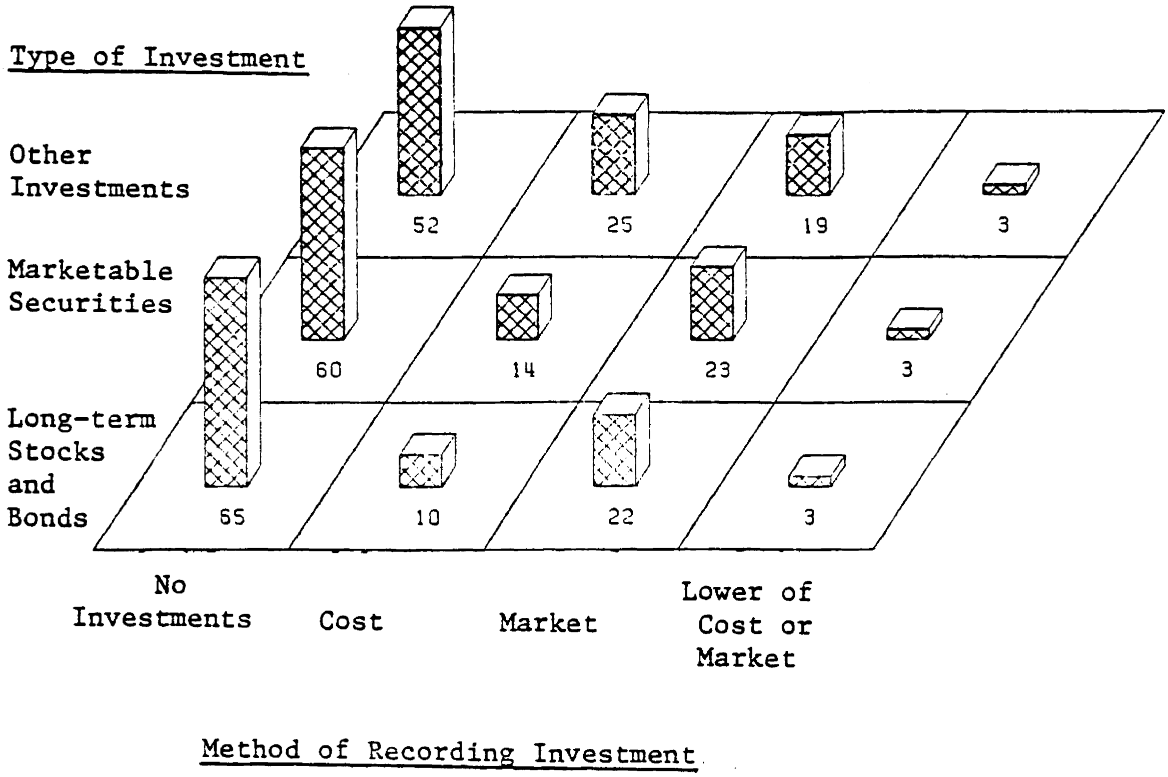
	Record Pledges As Receivable			Estimate Uncollectible Pledges		
	Y	N	NA	Y	N	NA
All Churches	5%	63%	32%	16%	42%	42%
Baptist	2	60	38	4	38	58
Methodist	6	80	14	31	53	16
Presbyterian	5	56	39	24	39	37
Lutheran	0	74	26	7	71	22
Other denominations	10	53	37	16	30	54
Audited churches	7	63	30	18	41	41
Unaudited churches	3	63	34	14	44	42
Small	0	69	31	11	58	31
Medium	9	61	30	18	43	39
Large	5	59	36	18	28	54

A greater percentage of churches report the estimation of uncollectible pledges (16%) than record pledges as receivables. While 18% of the audited churches and large churches report estimated uncollectible pledges, these same groups report pledges in their financial statements at the rates of 7% and 5% respectively. A possible reason for these differences is suggested by the fact that churches commonly use their pledges in the budgeting process. Pledges provide the basis for estimating the appropriate expenditures for the year. Many churches estimate the uncollectible portion of their total pledges and use the remainder in the budgeting process. The distinction between the portion of churches that report pledges receivable and the portion that claim to estimate uncollectible pledges supports the need for further research to identify current practices. The information gathered in this study is limited by the mail questionnaire design. Additional research should be designed to educate the population or sample as to the definition of terms. In addition, the research design should include follow-up procedures to test the respondents' understanding of the pledge items.

Investments are the final type of asset covered in this research. The <u>SOP</u> divides investments into three types (discussed in chapter one) and provides for many methods of recording these assets. This survey addresses the most commonly used methods (Exhibit 5-9) and indicates the

Exhibit 5-9

Methods of Recording Investments in Percentages



proportion of churches reporting that they do not have investments.

Sixty-five percent of the churches do not have investments in long-term bonds, 60% do not have current investments in stocks and bonds, and 52% do not have other types of investments (including real estate not used for church purposes). Churches recording long-term bonds and short-term stocks and bonds use market valuations most frequently, while churches recording other investments are more likely to use the cost method. The lower of cost or market method is used by only 3% of the churches.

A summary of the status of investments held by churches notes that over 50% of churches report no holdings in each of the three investment categories. Those that do hold investments use a variety of the three methods listed, cost, market, and lower of cost or market with a preference for the market value method.

Accounting Principles - Deferred Revenues

The *SOP* presents two methods commonly used by nonprofit organizations to record current restricted gifts. Many churches report all gifts as current revenue, whether restricted or unrestricted. Other churches defer restricted gifts until those particular resources are spent, disregarding any unrestricted resources already expended to meet the restriction. The *SOP* provides a third method as the generally accepted principle for churches whose reports are in accordance with GAAP. Revenue in the form of restricted gifts is to be deferred until the restrictions are met. Such restrictions may be met through expenditures from unrestricted funds, including those outlays previous to the date of the restricted gift.[20]

Churches may receive designated support that qualifies as current restricted revenue. NACBA members were queried to ascertain the current practice of their churches in accounting for such support. One question asked whether current restricted gifts are deferred until restrictions are met. To clarify the issue a second question asked whether restricted gifts are reported immediately as revenue. As summarized in Exhibit 5-10, the results were complementary although some individual churches claimed both methods of reporting restricted gifts. Sixty-two percent of the churches represented by NACBA members reported restricted gifts as revenue while 29% deferred recognition of revenue from restricted gifts. All denominations record restricted gifts as revenue more frequently than they report it as deferred liabilities. Both audited churches and large churches defer revenue from restricted gifts less frequently than they recognize it currently.

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[20]Statement of Position 78-10, para. 59-62.

Exhibit 5-10

Compliance with Deferred Liabilities in Percentages

	Restricted Gifts Deferred			Restricted Gifts As Revenues			Restricted Revenue From Investment Deferred		
	Y	N	NA	Y	N	NA	Y	N	NA
All Churches	29%	37%	34%	62%	23%	15%	25%	38%	37%
Baptist	29	31	40	71	18	11	19	37	44
Methodist	24	40	36	52	37	11	17	45	38
Presbyterian	49	36	15	51	36	13	41	41	18
Lutheran	16	52	32	78	11	11	22	39	39
Other denominations	28	35	37	62	15	23	27	33	40
Audited churches	36	33	31	59	23	18	29	38	33
Unaudited churches	21	42	37	65	23	12	19	39	42
Small	21	40	39	58	23	19	20	36	44
Medium	34	38	28	61	25	14	25	42	33
Large	32	32	36	67	20	13	26	37	37

A large portion of the churches, varying from 11% to 40%, indicated that reporting revenue from restricted gifts was not applicable to their situation. More churches indicated that deferral of restricted gifts was not applicable than indicated that current recognition as revenue was not applicable. This suggests several things. The churches may satisfy their restrictions very quickly, or they may discourage designated gifts. The revenue from restricted gifts, such as gifts to building funds, may be reported as current revenue and closed into a restricted fund balance. The questions regarding deferral were confusing to the NACBA members, both because of their technical nature and because of the questionnaire design. Further education regarding the definition and handling of restricted support could produce different results.

A second type of revenue that requires deferral under the SOP is restricted revenues from investments. Any NACBA member reporting a deferral of restricted revenue from investments would be stating indirectly that the church has an investment and the income that results is restricted as to use. Endowment funds or scholarship funds are typical examples. Twenty-five percent of the churches represented by the NACBA members defer restricted revenue from investments. Because of the large group of churches that do not have investments (over 50% for each type of investment) the recording of restricted investment revenue is not applicable to many churches (see Exhibit 5-10). Consequently 37% of the respondents indicated that the question was not applicable to their situation. Among the churches to whom reporting restricted revenue is applicable, the recommendation to defer the investment revenue was followed by less than half of the churches.

Accounting Principles - Recording Revenues

Another phase of the research covers four additional items of revenue recognition. This discussion includes appropriate comparisons for three of the four items with previously reported results. All responses from these four questions are found in Exhibit 5-11.

The first revenue item involves recording pledges as revenue. Three percent of the churches record legally enforceable pledges as revenues. This percentage corresponds to the 5% of churches reporting pledges as receivables (see Exhibit 5-8). These results give added support to the idea that revenues are conceived by many church business administrators as cash receipts. The results also suggest disagreement regarding the legal enforceability of church pledges.

A second revenue requirement, summarized in Exhibit 5-11, is the recording of donated assets as revenue. Fifty-nine percent of the churches record donated assets as revenue while 90% indicate that they receive donated assets.

Exhibit 5-11

Compliance with Revenue Items in Percentages

	Pledges As Revenue			Donated Assets As Revenue			Unrestricted Investment Revenue			Gross Receipts From Fund-Raising Events		
	Y	N	NA	Y	N	NA	Y	N	NA	Y	N	NA
All Churches	3%	61%	36%	59%	31%	10%	78%	6%	16%	24%	45%	31%
Baptist	0	60	40	61	29	10	72	7	21	16	40	44
Methodist	4	67	29	54	35	11	76	7	17	22	59	19
Presbyterian	3	74	23	51	46	3	87	8	5	20	49	31
Lutheran	4	63	33	70	15	15	78	4	18	34	33	33
Other denominations	4	52	44	59	27	14	81	2	17	30	40	30
Audited churches	4	65	31	64	28	8	80	8	12	21	47	32
Unaudited churches	2	57	41	53	33	14	77	2	21	28	42	30
Small	0	55	45	51	32	17	74	3	23	33	44	23
Medium	4	68	28	58	32	10	87	1	12	19	47	34
Large	2	60	38	66	27	7	76	11	13	22	40	38

This corresponds closely with the churches reporting donated assets (87%) (Exhibit 5-7) and it supports the previous finding regarding the importance of donated assets to churches. Lutheran churches report donated assets as revenue at the high rate of 70% while Presbyterian churches report donated assets as revenue in 51% of the cases. Larger churches comply with the requirement to record donated assets as revenue more often than smaller churches, 66% compared to 51%. In addition audited churches are more apt to record donated assets as revenue (64%) than are unaudited churches (53%).

A third revenue item surveyed in the research is the recognition of unrestricted revenue from investments. These unrestricted amounts are to be recorded as revenue in the period earned. Compliance rates show that 78% of the churches record unrestricted revenue from investments as revenue when earned. These compliance rates are much higher than the percentages of churches reporting that they hold investments in long-term bonds, short-term stocks and bonds, and other investments. Most likely church business administrators did not consider savings accounts or certificates of deposit, two very common revenue producing investments, to fall under any of the three investment classifications, yet they did consider the returns from these accounts or certificates to be unrestricted investment revenue.

The final revenue item involves the recording of receipts from fund raising events such as dinners or sales. Since the contributor receives some direct economic benefit from these events the expenditures are not classified as fund-raising costs. The SOP provides that the costs of such events be deducted from the receipts of fund-raising events and that only the net amount be shown as revenue. To avoid confusion, this question was worded so that a negative response would indicate compliance with generally accepted accounting principles. Forty-five percent of the churches did record the costs of fund-raising events as revenue deductions. Methodist churches responded with a 59% compliance rate while Lutheran churches reported 33% compliance. Thirty-one percent of all churches indicated that the question was not applicable to their situation, suggesting that their churches do not hold fund-raising events. In summary, the majority of the churches represented who indicated that reporting the costs of fund raising events was applicable to their church did comply with the SOP recommendation to record receipts net of costs (45% out of 69%).

Accounting Principles - Expense Recognition

Statement of Position 78-10 has four specific recommendations for recording expenses. Two of these involve recording depreciation and fund-raising costs and a third involves the functional format for recording expenses. The fourth recommendation presents two methods to account for contributions to higher levels of church denominational organizations. The appropriate method is determined by the type of contribution - voluntary or fixed.

Current standards indicate that exhaustible fixed assets are to be depreciated and that the expense is to be shown on the operating statement. Exhibit 5-12 shows that fourteen percent of all churches included in the study record depreciation as an expense. This figure compares with 20% of the churches that reported accumulated depreciation on their fixed assets. Of the externally audited churches 20% record depreciation as an expense. This compares with the 30% of externally audited churches that report accumulated depreciation on fixed assets (see Exhibit 5-7). Large churches record depreciation expense in 22% of the cases, compared to 29% that record accumulated depreciation. These differences are probably due to the fact that the operating statements are frequently prepared on the cash basis. A second possible explanation is that some churches maintain subsidiary fixed assets records that include an estimation of depreciation.

Statement of Position 78-10 defines fund-raising costs as those incurred to induce others to contribute resources without receipt of direct economic benefit.[21] Fund-raising

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[21] _Statement of Position 78-10_, para. 92.

Exhibit 5-12

Compliance with Questions Involving Reporting Expenses in Percentages

	Record Depreciation Expense			Expense Fund-Raising Costs			Expense Voluntary Cost			Fixed Contribution Rev. Reduction		
	Y	N	NA	Y	N	NA	Y	N	NA	Y	N	NA
All Churches	14%	77%	9%	92%	1%	7%	70%	18%	12%	11%	57%	32%
Baptist	15	74	11	90	2	8	72	14	14	8	46	46
Methodist	9	84	7	100	0	0	80	15	5	11	68	21
Presbyterian	5	85	10	90	5	5	77	20	3	15	72	13
Lutheran	7	89	4	94	3	3	70	26	4	15	66	19
Other denominations	23	65	12	87	0	13	61	19	20	9	47	44
Audited churches	20	70	10	92	1	7	69	19	12	9	52	39
Unaudited churches	7	84	9	92	2	6	72	17	11	13	62	25
Small	12	76	12	92	3	5	73	19	8	13	64	23
Medium	9	82	9	96	2	2	79	15	6	12	55	33
Large	22	69	9	87	0	13	60	19	21	7	54	39

costs must be expensed in the period incurred. Ninety-two percent of all churches account for fund-raising costs according to generally accepted accounting principles (see Exhibit 5-12). Methodist churches report 100% incidence of expensing fund-raising costs. In all other denominations, most churches (50% or more) that do not expense fund-raising costs indicate that they do not incur fund-raising costs. Audited and unaudited churches alike expense such costs in 92% of the churches studied. Large churches reported compliance with the recommendation at a rate of 87%, and the remaining 13% did not have fund-raising costs. The use of the "not applicable" response by most churches not applying the recommended practice suggests that either the churches are supported primarily by members or that the costs of communication of financial needs are included in other budgeted items.

A third SOP accounting principle for expense recognition relates to accounting for contributions by individual churches to higher levels of church denominational organizations. These contributions take two forms and should be accounted for as follows:

1. Voluntary cash contributions to higher levels of church organization such as diocese or conference are reported as expenses in the statement of activity.

2. Fixed contributions or fixed percents of revenue, required to be remitted to higher levels of church organization are reported as direct deductions from revenue on the

statement of activity.[22]

Seventy percent of the church population represented in this study expense voluntary contributions to higher levels of denominational hierarches while eighteen percent do not expense such contributions (see Exhibit 5-12). Twelve percent reported that the question was not applicable suggesting that they do not make voluntary contributions, they do not belong to denominations with an organized hierarchy, or they are non-denominational. Methodist, Presbyterian, Lutheran, and Baptist churches found the question applicable in the percentages of 95%, 97%, 96%, and 86% respectively. Of the churches classified as "other denominations" 80% indicated the question was appropriate. Many of the Baptist churches and "other" churches are independent with no denominational affiliation.

Eleven percent of the churches record fixed remittances as revenue reductions, while 57% expense such contributions. The remaining 32% of the churches studied indicate that fixed remittances were not appropriate for their situation. Once again, this suggests that they do not make such fixed remittances, they do not belong to a denomination with a hierarchy, or they do not belong to a denomination.

Churches commonly use one of two formats for classifying and reporting expenses; the functional format, often

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[22] Statement of Position 78-10, para. 90.

called program classification, and the object of expenditure classification. Functional classification is illustrated by these line items from the report of a Methodist church.

1.	Commission on Missions		
	100. World Services and Benevolences	$XXX	
	101. State Conference Fund	XXX	$XXX
2.	Commission on Worship		
	120. Literature and Supplies	$XXX	
	121. Radio Broadcasts	XXX	
	122. Order of Worship	XXX	XXX
3.	Commission on Education		
	130. Methodist Colleges	$XXX	
	131. Wesley Foundations	XXX	XXX

Another Methodist church provides an example of object of expenditure classifications.

300	Staff		
	1. Pastor Salaries	$XXX	
	2. Continuing Education	XXX	
	3. Social Security Tax	XXX	$XXX
400	Church Administration		
	1. Telephone	$XXX	
	2. Postage	XXX	
	3. Office Supplies	XXX	XXX

Statement of Position 78-10 requires that organizations receiving significant contributions from the general public summarize costs on a functional basis in their statement of activity. Other organizations not receiving significant contributions from the general public are also encouraged to use the functional classification. If expenses are reported on some other basis, notes to the financial statements should describe the basic programs of the organization. A program is defined in the SOP as an activity "directly related to the purposes for which the organization exists."[23]

The operating statement under a functional format allocates appropriate service costs to the programs benefitted. Churches, like most other organizations, have expenditures relating to supporting activities that are not directly related to any program. These costs should be reported separately.

The results of this study, summarized in Exhibit 5-13, show that 71% of the churches report expenses on a functional basis rather than an object of expenditure basis. The functional format is used by 58% of the small churches, 79% of the medium size churches and 75% of the large churches. The incidence of functional expense reporting is 77% for audited churches compared to 65% for unaudited churches. In summary, a majority of churches in all classifications report their expenses using the functional classification.

In conclusion, 70% or more of the churches are in compliance with expense recording principles for fundraising costs, use of functional format, and expensing voluntary contributions to higher levels of church organizations. Compliance is less than 20% in recording depreciation and in offsetting fixed contributions to higher levels of church organizations against revenue.

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[23] Statement of Position 78-10, para. 87.

Exhibit 5-13

Compliance with Use of Functional Classification of Expenses in Percentages

Use of Functional Classification			
	Y	N	NA
All Churches	59%	31%	10%
Baptist	61	29	10
Methodist	54	35	11
Presbyterian	51	46	3
Lutheran	70	15	15
Other denominations	59	27	14
Audited churches	64	28	8
Unaudited churches	53	33	14
Small	51	32	17
Medium	58	32	10
Large	66	27	7

Summary of Compliance Rates

In summary the accounting principles and reporting practices that the churches complied with most frequently include: preparation of a balance sheet (79%), preparation of an operating statement (98%), presentation of an excess of revenue and support over expenditures (88%), use of fund accounting (84%), capitalization of purchased assets at cost (78%), recording unrestricted revenues from investments (78%), and expensing fund raising costs (92%). Each of these principles and practices result in compliance rates over 75%.

On the other hand, the principles complied with least frequently include: identification of internally and externally restricted resources on the balance sheet (15%), recording accumulated depreciation (20%) and depreciation expense (14%), recording pledges as receivables (5%), reporting pledges as revenues (3%), estimating uncollectible pledges (16%), reporting receipts from fund-raising events net of fund-raising costs (24%), and reporting fixed contributions to higher levels of church organizations as revenue reductions (17%). Each of these principles and practices result in compliance rates of less than 25%.

Chapter 6 - Analysis of Attitudes Recommended Accounting Principles and Reporting Practices

The final phase of the research surveys the attitudes of NACBA members toward many of the accounting principles and reporting practices established by the AICPA in Statement of Position 78-10. The attitude questions, located in Section IV of the measurement instrument, include NACBA opinions toward the presentation of basic financial statements, use of accrual accounting, reporting restrictions on resources, recording certain assets and liabilities, and expense recognition. Attitudes were quantified on a scale from 0 to 4, indicating the degree of favor with which an NACBA member viewed the principle.

0 - none

1 - some

2 - quite a bit

3 - an extreme amount

4 - complete

Responses to each of the questions are averaged and presented for all NACBA members that responded to the questionnaire. In addition responses are grouped by denomination, use of external audit, and size based on cash receipts. Within these groupings the average response and the proportion of NACBA members selecting the "no opinion" response are presented.

Attitudes Toward Basic Financial Statements

Churches that prepare financial statements in accordance with the SOP must present a balance sheet, an operating statement, and a statement of changes in financial position. NACBA members were asked to give their opinion on the need for churches to prepare the three basic financial statements. The responses are shown in Exhibits 6-1 and 6-2 and are based on a scale of 0 to 4 with 4 indicating the maximum favorable attitude toward the preparation and issuance of each of the three statements.

NACBA members as a whole were most favorably disposed toward the presentation of a balance sheet with an average response of 3.08 (SD=1.25) or "an extreme amount." Average responses for the operating statement were 2.92 (SD=1.49), and for the statement of changes in financial position they were 2.52 (SD=1.46). Such responses indicate that the presentation of these statements is also favored among NACBA members. It is interesting to note the lower degree to which the respondents favored the operating statement when compared to the balance sheet. The question was worded to assess the attitude toward an accrual basis operating statement as opposed to a cash basis operating statement. In view of the results presented previously showing the high incidence of cash reporting by these NACBA members, the positive opinion expressed toward an accrual based operating statement is encouraging.

Exhibit 6-1

Attitudes Toward the Balance Sheet and Statement of Changes in Financial Position
(Data based on a 0 to 4 scale)

	Balance Sheet			Statement of Changes in Financial Position		
	Response Average	SD	%NO Opinion	Response Average	SD	% NO Opinion
All Churches	3.08	1.25	2%	2.52	1.46	16%
Baptist	2.93	1.33	0	2.55	1.51	18
Methodist	2.56	1.39	4	2.37	1.48	16
Presbyterian	3.38	1.09	0	2.56	1.56	13
Lutheran	2.83	1.47	4	2.67	1.50	24
Other demonin- ations	3.46	.94	1	2.52	1.37	14
Audited churches	3.26	1.14	2	2.56	1.50	18
Unaudited churches	2.88	1.35	2	2.47	1.41	15
Small	2.86	1.30	3	2.25	1.35	22
Medium	3.18	1.19	1	2.50	1.49	14
Large	3.18	1.28	0	2.71	1.50	12

Exhibit 6-2

Attitudes Toward the Operating Statement and Excess Item
(Data based on a 0 to 4 scale)

	Operating Statement			Excess or (Deficiency) Line Item		
	Response Average	SD	%NO Opinion	Response Average	SD	% NO Opinion
All Churches	2.92	1.49	8%	3.37	1.10	4%
Baptist	2.96	1.52	15	3.39	1.22	8
Methodist	2.87	1.56	8	3.08	1.35	4
Presbyterian	3.11	1.51	5	3.46	.88	0
Lutheran	2.61	1.70	4	3.46	1.06	0
Other denominations	2.93	1.36	7	3.47	.92	3
Audited churches	3.02	1.42	9	3.35	1.07	5
Unaudited churches	2.81	1.55	7	3.39	1.15	2
Small	2.54	1.49	13	3.17	1.15	6
Medium	3.27	1.38	6	3.41	1.15	4
Large	2.85	1.55	6	3.44	1.05	2

The NACBA members from major denominations have diverse attitudes toward preparation and issuance of financial statements. While the balance sheet was the most highly preferred statement for most denominations, the NACBA members affiliated with Methodist churches expressed the greatest degree of favor for the operating statement.

Business administrators affiliated with audited churches favored each of the proposed financial statements more than did business administrators from unaudited churches. Similarly, financial officers from large churches supported the issuance of each of the three financial statements to a greater degree than officers from small churches.

While the SOP allowed flexibility in the format of the statements, the use of a line-item reporting excess or (deficiency) of revenue over expenses was recommended. Respondents were in agreement with this recommendation, showing an average response of 3.37 (SD=1.10). The attitudes of all respondents, regardless of denominaton, size, or audit classification suggest that the excess figure provides a measure of the success of the church's operations with which NACBA members are comfortable (see Exhibit 6-2).

Attitudes Toward Accrual Accounting

The attitudes of NACBA members toward accrual basis and cash basis reporting provide interesting feedback (see Exhibit 6-3). Opinions regarding two applications of accrual

Exhibit 6-3

Attitudes Toward Accrual Accounting
(Data based on a 0 to 4 scale)

	Recording Assets When Purchased Expenses When Incurred			Reporting Liabilities		
	Response Average	SD	% No Opinion	Response Average	SD	% No Opinion
All Churches	2.94	1.40	8%	3.18	1.28	9%
Baptist	2.93	1.53	8	3.29	1.27	5
Methodist	2.80	1.41	17	2.72	1.35	17
Presbyterian	2.54	1.68	5	3.58	1.00	8
Lutheran	3.33	1.13	0	3.00	1.41	13
Other denominations	3.11	1.78	7	3.20	1.29	8
Audited churches	2.89	1.47	7	3.29	1.22	7
Unaudited churches	3.00	1.32	10	3.04	1.35	12
Small	3.05	1.20	11	3.22	1.08	19
Medium	2.80	1.58	10	3.10	1.33	7
Large	2.88	1.42	6	3.16	1.40	3

accounting were measured. First, an average response of 2.94 (SD=1.40) was obtained on attitudes toward recording assets when purchased and expenses when incurred. This indicates a moderately high degree of positive feeling toward the use of accrual accounting. Second, an even higher average response was calculated on the reporting of liabilities such as notes payable and bonds payable on the balance sheet (3.18 with SD =1.28). While these overall average responses are not significantly different, the greatest differences are registered by the Presbyterian churches. These churches indicate the highest degree of favor toward reporting liabilities and the lowest degree of favor toward recording assets when purchased and expenses when incurred.

These results suggest a diversity of feeling toward the application of accrual accounting and reporting. Some NACBA members favor a partial use of the accrual accounting concept with an emphasis on reporting formal debt. In conclusion, the of NACBA members show "an extreme amount" of favor toward accrual accounting.

Attitudes Toward Fund Accounting and Balance Sheet Restrictions

Statement of Position 78-10 requires restrictions on resources to be disclosed in the financial statements. This recommendation is moderately well accepted by NACBA members, with an average response score of 2.25 (SD=1.56). A large proportion of the respondents indicated "no opinion" on the question of reporting balance sheet restrictions (see Exhibit 6-4). When the attitudes of NACBA members are grouped by denominational affiliation, the average response scores vary from 1.71 (SD=1.60) for Baptist churches to 2.44 (SD= 1.50) for Presbyterian churches. Surprisingly, small and medium size church representatives view the reporting of balance sheet restrictions more favorably than do the representatives of large churches.

In contrast to the moderate views toward the presentation of balance sheet restrictions, the use of fund accounting (not an SOP requirement) was considered highly favorable by NACBA members with an average score of 3.24 (SD=1.14). This attitude measurement toward fund accounting includes both the "one fund approach" discussed by Holck and Holck and the multifund application illustrated in the appendices to the SOP. A small proportion of the respondents indicated "no opinion" regarding the use of fund accounting. These results suggest that church business administrators do not share the doubts expressed by many in the accounting profession about the understandability of fund accounting reports. Apparently many church business administrators have adjusted the format of fund accounting reports to meet their needs. In any case, church business administrators appear to be more open to the use of fund accounting in their reporting practices than they are to other means of

Exhibit 6-4

Attitudes Toward Reporting Restrictions
(Data based on a 0 to 4 scale)

	Balance Sheet Restrictions			Fund Accounting		
	Response Average	SD	% No Opinion	Response Average	SD	% No Opinion
All Churches	2.25	1.56	27%	3.22	1.14	4%
Baptist	1.71	1.60	33	3.32	1.17	3
Methodist	2.17	1.54	32	3.29	1.02	4
Presbyterian	2.44	1.50	13	3.21	1.22	0
Lutheran	2.18	1.53	8	3.45	.80	8
Other denominations	2.58	1.54	30	3.03	1.24	4
Audited churches	2.28	1.55	22	3.23	1.15	4
Unaudited churches	2.20	1.58	31	3.21	1.14	3
Small	2.31	1.47	33	3.09	1.11	6
Medium	2.37	1.56	25	3.28	1.21	1
Large	2.07	1.60	22	3.24	1.13	3

reporting restricted resources.

Attitudes Toward Recording Assets and Liabilities as Recommended

NACBA members were questioned about their attitudes toward recording purchased assets at cost and donated assets at market value (see Exhibit 6-5). Responses indicate highly favorable attitudes toward these accounting practices with a 3.12 (SD=1.21) average score for all respondents. The NACBA members affiliated with major denominations show diverse attitudes toward reporting purchased assets at cost and donated assets at market value. The average score for a representative of the Methodist churches was 3.00 (SD=1.35), and for representatives of Lutheran churches the average score was 3.52 (SD=.75). Interestingly, CBAs of large churches view the recording of purchased assets and donated assets less favorably than do CBAs of small and medium size churches. In the final analysis, all the CBAs on the average report "an extreme amount" of favor toward the SOP requirements for capitalizing purchased and donated assets.

The SOP requires that legally enforceable but uncollected pledges be recorded as assets and revenue in the period to which they relate. This accounting principle received the least positive attitudes of all principles and practices covered in the attitude section of the questionnaire. NACBA members indicated a mean response of .34

Exhibit 6-5

Attitudes Toward Accounting for Certain Assets
(Data based on a 0 to 4 scale)

	Purchased & Donated Assets			Pledges as Assets and Revenue		
	Response Average	SD	%NO Opinion	Response Average	SD	% NO Opinion
All Churches	3.12	1.21	13%	.34	.82	25%
Baptist	3.19	1.24	15	.16	.42	21
Methodist	3.00	1.35	17	.32	.84	28
Presbyterian	3.09	1.19	11	.06	.24	15
Lutheran	3.52	.75	12	.50	1.10	17
Other denominations	3.03	1.22	1	.67	1.07	33
Audited churches	3.13	1.25	9	.37	.88	17
Unaudited churches	3.11	1.16	17	.31	.72	34
Small	3.10	1.56	15	.44	.94	34
Medium	3.24	1.22	14	.27	.73	21
Large	2.99	1.26	9	.38	.83	20

(SD=.82), between "none" and "some," on a scale from 0 to 4. All denominational representatives were very low in their feelings toward recording pledges. Similarly, the CBAs of audited churches were not inclined to favor the reporting of pledges as assets and revenue. While the questionnaire did not allow for negative responses or disagreement with a particular response, NACBA members effectively communicated their antipathy toward reporting legally enforceable pledges. Several of the CBAs included comments stating that the requirement was totally inappropriate for churches. As further indication of the lack of enthusiasm for this recommendation, one-fourth of the NACBA members indicated they had no opinion on the subject. This supports the need for clarification as to the meaning of the expression "legally enforceable" and education involving current court rulings on the issue.

The SOP covers two types of restricted revenues that are to be deferred until restrictions are met (see Exhibit 6-6). These are restricted gifts and restricted revenues from investments. Respondents have rather moderate attitudes towards deferring restricted gifts, (average response score of 2.10 with SD=1.72) and lower but still moderate attitudes toward deferring restricted revenues from investments (average response score of 1.96 with SD=1.73). A significant percentage of the respondents had no opinion on deferring restricted revenues. CBA's affiliated with

Exhibit 6-6

Attitudes Toward Accounting for Deferred Liabilities
(Data based on a 0 to 4 scale)

	Restricted Gifts as Liabilities			Restricted Revenue from Investments		
	Response Average	SD	%NO Opinion	Response Average	SD	% NO Opinion
All Churches	2.10	1.72	24%	1.96	1.73	30%
Baptist	2.04	1.88	18	1.91	1.82	25
Methodist	1.97	1.67	28	1.53	1.68	32
Presbyterian	2.52	1.69	21	2.50	1.72	23
Lutheran	1.33	1.62	12	1.40	1.60	17
Other denominations	2.31	1.63	31	2.23	1.68	40
Audited churches	2.30	1.68	22	2.27	1.69	29
Unaudited churches	1.86	1.75	26	1.59	1.72	30
Small	2.10	1.63	32	1.98	1.61	36
Medium	1.94	1.75	25	1.72	1.82	31
Large	2.19	1.77	18	2.09	1.75	25

audited churches and Presbyterian churches expressed the greatest degree of favor toward deferring recognition of restricted revenues. Overall, NACBA members appear to be more comfortable with the recommendation to defer restricted gifts than they are with the recommendation to defer restricted revenue from investments. This finding may be biased because of the large number of NACBA members who indicated that their churches do not have investments.

Attitudes Toward Expense Recognition Principles

NACBA members were queried about their attitudes toward certain principles of accounting for expenses. The first principle involves recording depreciation on long-term assets with limited useful lives (see Exhibit 6-7). The average response score of CBAs was 1.23 (SD=1.47) on the scale from 0 to 4. This moderately low degree of favor falls between "some" and "quite a bit." The most favorable response was given by CBAs of churches in the smaller denominations while the least favorable was expressed by CBAs affiliated with Methodist churches. CBAs of audited churches were less in favor of recording depreciation on fixed assets than were CBAs of unaudited churches. Nineteen percent of the NACBA members had no opinion on recording depreciation on fixed assets.

A second principle involving accounting for expenses is the immediate recognition of fund raising costs. NACBA

Exhibit 6-7

Attitudes Toward Expense Recognition
(Data based on a 0 to 4 scale)

	Depreciation Expense			Fund Raising Costs		
	Response Average	SD	%NO Opinion	Response Average	SD	% NO Opinion
All Churches	1.23	1.47	19%	3.15	1.55	7%
Baptist	1.25	1.58	15	3.11	1.40	15
Methodist	.77	1.15	25	3.37	.96	4
Presbyterian	1.00	1.41	10	3.27	1.19	5
Lutheran	1.06	1.47	25	2.77	1.48	8
Other denominations	1.71	1.50	22	3.07	1.20	5
Audited churches	1.17	1.50	14	3.16	1.22	8
Unaudited churches	1.31	1.44	25	3.14	1.24	7
Small	1.34	1.46	32	3.19	1.07	4
Medium	.90	1.34	12	3.10	1.34	5
Large	1.40	1.52	17	3.14	1.25	12

members generally favor this treatment as indicated by the average response score of 3.15 (SD=1.23). The CBAs of major denominations expressed diverse opinions with CBAs of Lutheran churches having the lowest average response score, 2.77 (SD=1.48), and CBAs of Methodist churches the highest, 3.37 (SD=.96). The average attitudes scores of the CBAs of all major denominations were moderately high or high.

NACBA members were not in favor of the recommended treatment for fixed contributions to higher levels of the church organization. Their overall attitude score of .83 (SD=1.43) on the scale falls between "none" and "some" (see Exhibit 6-8). Thirty percent of the respondents indicated "no opinion" on recording fixed contributions to higher levels of a church organization. At the same time the NACBA members were in favor of expensing voluntary contributions with an average response score of 2.80 (SD=1.55) on the scale from 0 to 4. Nineteen percent of the CBAs expressed no opinion. These results suggest that the respondents prefer to expense both voluntary and fixed remittances to higher levels of their church organizations in the year incurred rather than to distinguish between the two types of contribution for accounting purposes. For both questions the greatest difference of opinion is found among the denominations. In attitudes toward recording fixed contributions as revenue adjustments, Baptist church CBAs

Exhibit 6-8

Attitudes Toward Methods of Reporting Certain Expenses
(Data based on a 0 to 4 scale)

	Contributions to Higher Levels						Functional Format		
	Voluntary			Fixed					
	Response Average	SD	%NO Opinion	Response Average	SD	%NO Opinion	Response Average	SD	%No Opinion
All Churches	2.80	1.55	19%	.83	1.43	30%	2.72	1.55	4%
Baptist	2.89	1.61	15	.41	1.02	37	2.90	1.56	0
Methodist	2.83	1.58	18	1.12	1.66	18	2.69	1.43	6
Presbyterian	3.09	1.44	16	.88	1.54	18	2.91	1.52	13
Lutheran	2.67	1.62	12	1.05	1.51	21	2.70	1.77	4
Other denominations	2.55	1.54	27	.82	1.39	42	2.55	1.55	3
Audited churches	2.79	1.55	18	.74	1.38	31	2.82	1.48	4
Unaudited churches	2.80	1.56	20	.93	1.50	29	2.62	1.63	4
Small	2.58	1.53	15	.98	1.51	22	2.38	1.64	6
Medium	2.91	1.52	16	.81	1.41	26	2.91	1.45	2
Large	2.82	1.16	25	.62	1.28	38	2.76	1.54	6

were the least favorably inclined while Methodist church CBAs were the most favorably inclined. In attitudes toward recording voluntary contributions as expenses, Presbyterian church CBAs were the most in favor while members of the smaller, less represented denominations expressed the least favorable attitude.

A final reporting principle involving expenses is the use of a functional format as opposed to object of expenditure reporting. The average opinion expressed by NACBA members was a moderately high 2.72 average score (SD=1.55). This score falls between "quite a bit" and "an extreme amount." The analysis by classification revealed similar average attitude scores regardless of denomination, size, or use of external audit. These results suggest that church business administrators acknowledge the superiority of reporting expenses according to program or function rather then object of expenditure.

<u>Summary of Attitudes</u>

The NACBA members surveyed were not favorably inclined toward two recommended principles, the recording of pledges as revenue and the recording of fixed contributions to higher levels of church organization as revenue adjustments. Both of these principles result in attitude scores below 1.0 on the 4.0 scale. One of these areas, recording pledges, can be identified through the literature as an area of controversy. The opinions expressed by NACBA members suggest that church business administrators do not favor recording pledges in their accounting and reporting systems.

Responses to six of the recommended principles, fall in the highly favorable category. These include: preparing a balance sheet, recording purchased assets at cost and donated assets at market value, expensing fund raising costs, reporting long-term obligations on the balance sheet, use of fund accounting (not a required principle), and reporting an excess or deficiency of revenue over expenses on the operating statement. Each of these six principles resulted in an attitude measure above 3.00. The highly favorable responses by the majority of NACBA members indicate a professional approach toward these accounting principles and a willingness to operate within the recommendations presented for church accounting by the accounting profession.

Chapter 7 - Profiles and Comparisons of Church Compliance Rates and CBA Attitude Response Scores

NACBA members responded to thirty-one questions relating to the compliance of their churches with accounting principles and reporting practices recommended by the AICPA's Statement of Position 78-10. NACBA members were also queried about their attitudes toward seventeen of these accounting principles and reporting practices. The respondents' attitudes were measured on a scale from 0 to 4 by choosing the degree to which they favored each of the seventeen practices.

To facilitate comparison both the compliance and attitude questions are clustered into the fifteen general accounting and reporting topics listed below. Only topics with both compliance questions and corresponding attitude questions are considered. Appendix C details the basis for combination. When two or more questions are grouped, each question receives equal weight.

- capitalization of assets
- recording pledges
- deferring restricted revenues
- depreciating fixed assets
- expensing fund raising costs
- functional classification of expenses
- expensing voluntary contributions to higher levels
- reporting fixed contributions to higher levels as revenue deductions.

- use of accrual accounting
- preparation of balance sheet
- preparation of statement of changes in financial position
- preparation of operating statement

- reporting excess (deficiency) of revenue over expenses
- use of fund accounting
- reporting balance sheet restrictions on resources

In addition to the clustering by topic, NACBA member responses to both compliance and attitude questions are categorized as low, medium low, medium high, and high. Compliance questions are classified according to frequency of positive response and attitude questions are classified according to degree of favor. The classification scheme is presented below.

	Low	Medium Low	Medium High	High
Compliance Percentages	0%-24%	25%-49%	50%-74%	75%-100%
Attitude Measures	0 - .99	1.00 - 1.99	2.00 - 2.99	3.00 - 4.00

When categorized as low, medium low, medium high, and high the church's compliance with a particular principle can be compared with the attitude expressed by the NACBA member toward that particular principle. Comparisons will identify the degree of correspondence between what NACBA members think about accounting principles and reporting practices and the extent to which the CBA's church is in compliance with the practices.

Profile and Comparison of Compliance and Attitudes for All NACBA Members

Classifying compliance rates into four major categories provides a profile of the extent to which NACBA member attitudes and related church accounting practices are compatible. Exhibit 7-1 reveals that the churches represented by NACBA members comply to a high degree with five of the fifteen recommendations. These are expensing fund raising costs, preparation of the balance sheet, preparation of an operating statement, disclosure of any excess of revenues over expenses on the operating statement, and the use of fund accounting. (Fund accounting was presented by the AICPA as an alternative rather than a recommendation.) The medium high category of compliance includes three more principles, capitalization of assets, classification of expenses on a functional basis, and expensing voluntary contributions to higher levels of church organization. In eight of the fifteen items compliance is above the midpoint of 50%.

A comparable profile of attitudes for NACBA members shows six areas where attitude responses are high. These are capitalization of assets, expensing fund raising costs, use of accrual accounting, presentation of the balance sheet, disclosure of excess of revenue over expenses, and the use of fund accounting. An additional six items result in attitudes classified as moderately high. These six items are deferring restricted revenues, functional classification of expenses, expensing voluntary contributions to higher levels of church organizations, presentation of both the statement of changes and an operating statement, and

Exhibit 7-1

Comparison of Church Compliance Rates and CBA Attitudes Regarding Accounting Principles and Reporting Practices for All Churches

Accounting Principles	Low	Medium Low	Medium High	High
Capitalize Assets			C	A
Record Pledges	AC			
Defer Restricted Revenues		C	A	
Depreciate Fixed Assets	C	A		
Expense Fund Raising Costs				AC
Functional Classification of Expenses			AC	
Expense Voluntary Contributions			AC	
Fixed Contributions as Revenue Adjustments	AC			
Accrual Accounting		C		A
Balance Sheet				AC
Statement of Changes in Financial Position		C	A	
Operating Statement (accrual)			A	C
Excess item				AC
Fund Accounting				AC
Balance Sheet Restrictions		C	A	

A = Attitude C = Compliance

disclosure of balance sheet restrictions. In total, eleven items or 73% of the average attitude response scores for the CBAs are above the midpoint of 2.00 or "quite a bit."

Low compliance, under 25%, is found in three of the recommended principles, recording pledges, depreciation of fixed assets, and recording fixed contributions to higher levels of church organizations as revenue reductions rather than as expenses. Church business administrators seem reasonably consistent in their nonapplication of these recommendations. The low compliance rates on these two items support the previous indications of the continued use of cash basis reporting in churches.

The final four principles and practices fall into the medium low compliance category and include deferring restricted revenues, use of accrual accounting, preparation of the statement of changes in financial position, and disclosure of balance sheet restrictions. While there is much discussion of accrual accounting in the church accounting literature, the other three items are not addressed in the literature in a complete way.[1] The lack of instruction and illustration suggests that NACBA members who are familiar with general accounting literature may be more likely to follow these recommendations than NACBA members

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[1] See texts by Ellis, Gray, and Holck and Holck for examples of the treatment of these principles.

relying only on church accounting publications.

Low attitude response scores are reported toward recording pledges and reporting fixed contributions to higher levels of church organizations as revenue reductions. A moderately low attitude response is expressed for one item, depreciating fixed assets.

An overview of churches' compliance with recommended accounting principles and reporting practices reveals a high degree of compliance for about half of the principles. The principles complied with on a greater level are those that seem to be discussed more frequently in the church accounting literature. An overall look at NACBA members' attitudes toward the AICPA's recommended principles and related church accounting practices is quite positive. These results suggest that this population of church business administrators is in substantial agreement with the accounting profession on the treatment of a number of accounting and reporting items.

The relatively close correspondence between the attitudes of all responding NACBA members and the compliance of their churches with the fifteen general principles and practices is illustrated in Exhibit 7-1. For eight of the fifteen items the frequency of compliance and the degree of favorable attitude fall in the same category. Interpretation of such close correspondence is straight forward. For example, the <u>Statement of Position</u> recommends that legally enforceable pledges be recorded as revenue in the period to which the pledge is designated. Less than 25% of the responding churches comply with the recommendation to record pledges. The NACBA members affiliated with these same churches indicate an attitude toward recording pledges of less than 1.00, or "some" favor, on the scale. On the other hand, fund accounting, while not required by the AICPA, is practiced by over 75% of the churches and is held to be a highly favorable reporting practice by CBAs whose attitude scores average over 3.00 or "an extreme amount" on the scale.

Seven of the areas surveyed show disparity between compliance and attitude. Analysis of six of these principles - capitalization of assets, deferring restricted revenues, depreciation of fixed assets, use of accrual accounting, preparation of the statements of changes, and reporting balance sheet restrictions on resources -identifies a church compliance rate less favorable than the average attitude response. That is, the church business administrators expressed more favorable attitudes about these accounting principles and reporting practices than their financial statements reveal. These results suggest several interpretations. First, there may be nonbusiness leaders in the church who have input into the financial reporting process, and who may recommend differing principles. In order to provide information useful for decision making, the NACBA members may follow the management's recommendations. Second, this disparity between compliance and attitude may indicate a time lag. As the church business administrator develops a positive attitude toward a certain principle, compliance with the principles may follow.

In most cases of disparity, the compliance rate is only one classification lower than the attitude measure. The diversity in the area of accrual accounting is the greatest with compliance in the medium low category while attitudes highly favor the use of accrual accounting. Analysis of the individual accrual accounting questions shows that partial accrual accounting is practiced by many of the churches. While 66% of the churches record formal liabilities, 41% record assets when purchased as opposed to when paid for, and 36% record expenses in the period incurred as opposed to in the period when payment is made. When these three measures are weighted equally, resulting compliance rates are lower.

The sixth principle reporting disparity between compliance and attitude involves the presentation of the operating statement. Results indicate that 98% of the churches prepare an operating statement. Compliance then is classified as high. The CBA attitudes toward presentation of an operating statement average 2.92 and the average is classified as medium high. In the attitude section of the measurement instrument an operating statement is explained as a statement reporting revenues and expenses as opposed to cash receipts and cash disbursements. The additional defining phrase, "as opposed to cash receipts and cash disbursements," results in evaluating the operating statement on the accrual basis. The difference in wording suggests that while some type of operating statement is prepared by 98% of the churches, an accrual basis operating statement meets with less support.

To summarize, when attitude measures and compliance rates are classified as low, medium low, medium high, and high, close correspondence is found between the two. Churches are complying with many recommended principles and practices at levels for which CBAs favor the principles and practices. In six of the seven areas where attitude and compliance do not correspond, the NACBA members' attitudes more closely approximate the accounting profession's recommendations than do compliance rates.

Profile and Comparison of Compliance and Attitudes for Audited and Unaudited Churches and Their CBAs

Audited churches comply at high rates with six of the recommended principles and practices (see Exhibit 7-2). An additional three items result in moderately high compliance rates. These results are similar to the average compliance rates for all churches. Audited churches are more likely to

Exhibit 7-2

Comparison of Church Compliance Rates and CBA Attitudes Regarding Accounting Principles and Reporting Practices for Audited Churches

Accounting Principles	Low	Medium Low	Medium High	High
Capitalize Assets				AC
Record Pledges	AC			
Defer Restricted Revenues		C	A	
Depreciate Fixed Assets		AC		
Expense Fund Raising Costs				AC
Functional Classification of Expenses			AC	
Expense Voluntary Contributions			AC	
Fixed Contributions as Revenue Adjustments	AC			
Accrual Accounting			C	A
Balance Sheet				AC
Statement of Changes in Financial Position		C	A	
Operating Statement (accrual)				AC
Excess item				AC
Fund Accounting				AC
Balance Sheet Restrictions		C	A	

A = Attitude   C = Compliance

capitalize fixed assets and to use accrual accounting than the average church.

Low compliance is evidenced by audited churches in the recording of pledges and fixed contributions to higher levels of church organizations. Moderately low compliance is found in the remaining four accounting and reporting areas. While these low compliance rates are similar to the average, audited churches are more likely to depreciate fixed assets than the average church. Interestingly, the fact that the church is audited does not assure compliance with all recommended principles and practices. This suggests that CPAs may judge certain items to be immaterial or inappropriate for church financial statements.

Attitudes of NACBA members whose financial statements are audited are generally positive with seven response scores falling in the highly favorable category and five response scores in the medium high category. Analysis shows that NACBA members of audited churches are more favorably disposed toward preparing an operating statement than the average NACBA member. In 80% of the items surveyed NACBA members reported attitudes more favorable than the midpoint of "quite a bit," or 2.0 on the scale.

Unaudited churches report a high degree of compliance with only four recommendations and moderately high compliance rates for another four as summarized in Exhibit 7-3.

Three additional items result in moderately low compliance rates and the final four have low compliance rates. Compliance in five of the fifteen items has shifted down one category for unaudited churches as compared to audited churches. This suggests that unaudited churches are less likely to capitalize assets, use accrual accounting, prepare a balance sheet, defer restricted revenues and depreciate fixed assets than are audited churches. Even with these differences 53% of the recommended principles and practices are complied with by at least half of the unaudited churches.

Attitudes of NACBA members affiliated with unaudited churches are similar to attitudes of members whose church financial statements are audited. Opinions are one category less favorable in only three areas, deferring restricted revenues, preparation of the balance sheet, and preparation of the operating statement. Results suggest that the use of an external audit can be identified with only minor changes in attitude.

The comparison of attitudes and compliance rates for audited churches in Exhibit 7-2 presents one of the highest degrees of correspondence among the several groupings of NACBA members. In eleven of the fifteen general accounting and reporting areas the attitude measure is categorized at the same level as the compliance rate. Interpretation of these results suggests that although CBAs of externally

Exhibit 7-3

Comparison of Church Compliance Rates and CBA Attitudes Regarding Accounting Principles and Reporting Practices for Unaudited Churches

Accounting Principles	Low	Medium Low	Medium High	High
Capitalize Assets			C	A
Record Pledges	AC			
Defer Restricted Revenues	C	A		
Depreciate Fixed Assets	C	A		
Expense Fund Raising Costs				AC
Functional Classification of Expenses			AC	
Expense Voluntary Contributions			AC	
Fixed Contributions as Revenue Adjustments	AC			
Accrual Accounting		C		A
Balance Sheet			AC	
Statement of Changes in Financial Position		C	A	
Operating Statement (accrual)			A	C
Excess item				AC
Fund Accounting				AC
Balance Sheet Restrictions		C	A	

A = Attitude C = Compliance

audited churches do not favor every principle recommended by the AICPA, the degree of coherence between attitude toward a particular recommendation and church compliance with that recommendation is high. A comparison of the recommended capitalization and depreciation of assets provides an illustration. A high percentage (greater than 75%) of audited churches capitalize assets and a corresponding high degree of favor is expressed by NACBA members toward the principle of asset capitalization. On the other hand, a moderately low percentage of churches (between 25% and 49%) record depreciation on exhaustible fixed assets and CBAs express a corresponding moderately low attitude toward that principle. Although the results are different from one principle to the next, compliance rates and attitude measures are at equal levels for each individual principle. CBAs of audited churches seem to feel comfortable with the church's level of compliance in eleven out of fifteen recommended principles.

In the final four areas summarized in Exhibit 7-2, the rate of compliance lags behind the measure of attitude. Church business administrators expressed a more favorable attitude toward these principles and practices than their financial statements reveal. Along with previous interpretations of this disparity, the fact that this group of churches is audited and that the church business administrator consults with the accounting profession on the presentation of financial statements may influence the attitudes expressed in a positive way. As previously noted, the fact that an audit is performed does not insure a positive attitude toward SOP recommendations nor a high degree of compliance with all recommendations.

The comparison of unaudited churches' compliance rates with the attitudes of their CBAs, found in Exhibit 7-3, reveals a somewhat different profile. Eight of the accounting and reporting areas reveal close correspondence between attitudes and compliance while seven areas show disparity. In six of the items showing disparity, compliance rates lag behind attitude scores, suggesting interpretations similar to those illustrated for audited churches. The seventh item of disparity showing a compliance rate greater than the attitude score involves the presentation of an operating statement. This difference may occur because of the change in wording emphasizing the accrual basis.

A summary comparison of audited churches and their CBAs with unaudited churches and their CBAs reveals greater compliance among audited churches and greater coherence between church compliance and CBA attitudes for audited churches. The classification of churches as audited or unaudited did not significantly differentiate the NACBA members' attitudes.

Profile and Comparison of Compliance and Attitudes by Denomination

Exhibits 7-4 through 7-8 report profiles for both compliance rates and attitude response scores grouped by denomination. The churches in each denomination consistently report high compliance rates for four principles. These are, expensing fund raising costs, preparation of an operating statement, disclosure of excess of revenue over expenses, and use of fund accounting. Two items consistently resulting in low compliance rates for all demoninations are the recording of pledges and depreciation of fixed assets. Of the remaining items, functional classification is consistently complied with on a moderately high level and compliance rates for the other eight principles change from one denomination to the next. An overview of the denominational profiles reveals differences in compliance rates for about half of the principles and practices. No pattern is suggested by the differences in denominational compliance.

Analysis of attitudes expressed by NACBA members results in Presbyterian churches exhibiting the greatest number of highly favored principles and practices. Eight of the principles result in attitude scores of 3.0 or greater on the 0-4 scale.

Comparison of Exhibits 7-4 through 7-8 shows that high attitude scores are reported by all denominations toward three principles. These are capitalization of assets,

Exhibit 7-4

Comparison of Church Compliance Rates and CBA Attitudes Regarding Accounting Principles and Reporting Practices for Baptist Churches

Accounting Principles	Low	Medium Low	Medium High	High
Capitalize Assets			C	A
Record Pledges	AC			
Defer Restricted Revenues	C	A		
Depreciate Fixed Assets	C	A		
Expense Fund Raising Costs				AC
Functional Classification of Expenses			AC	
Expense Voluntary Contributions			AC	
Fixed Contributions as Revenue Adjustments	AC			
Accrual Accounting			C	A
Balance Sheet			A	C
Statement of Changes in Financial Position		C	A	
Operating Statement (accrual)			A	C
Excess item				AC
Fund Accounting				AC
Balance Sheet Restrictions		AC		

A = Attitude C = Compliance

Exhibit 7-5

Comparison of Church Compliance Rates and CBA Attitudes Regarding Accounting Principles and Reporting Practices for Methodist Churches

Accounting Principles	Low	Medium Low	Medium High	High
Capitalize Assets			C	A
Record Pledges	AC			
Defer Restricted Revenues	C	A		
Depreciate Fixed Assets	AC			
Expense Fund Raising Costs				AC
Functional Classification of Expenses			AC	
Expense Voluntary Contributions			A	C
Fixed Contributions as Revenue Adjustments		AC		
Accrual Accounting		C	A	
Balance Sheet			AC	
Statement of Changes in Financial Position		C	A	
Operating Statement (accrual)			A	C
Excess item				AC
Fund Accounting				AC
Balance Sheet Restrictions		C	A	

A = Attitude C = Compliance

Exhibit 7-6

Comparison of Church Compliance Rates and CBA Attitudes Regarding Accounting Principles and Reporting Practices for Presbyterian Churches

Accounting Principles	Low	Medium Low	Medium High	High
Capitalize Assets			C	A
Record Pledges	AC			
Defer Restricted Revenues		C	A	
Depreciate Fixed Assets	C	A		
Expense Fund Raising Costs				AC
Functional Classification of Expenses			AC	
Expense Voluntary Contributions				AC
Fixed Contributions as Revenue Adjustments	AC			
Accrual Accounting		C		A
Balance Sheet				AC
Statement of Changes in Financial Position			AC	
Operating Statement (accrual)				AC
Excess item				AC
Fund Accounting				AC
Balance Sheet Restrictions			AC	

A = Attitude   C = Compliance

Exhibit 7-7

Comparison of Church Compliance Rates and CBA Attitudes Regarding Accounting Principles and Reporting Practices for Lutheran Churches

Accounting Principles	Low	Medium Low	Medium High	High
Capitalize Assets			C	A
Record Pledges	AC			
Defer Restricted Revenues	C	A		
Depreciate Fixed Assets	C	A		
Expense Fund Raising Costs			A	C
Functional Classification of Expenses			AC	
Expense Voluntary Contributions			AC	
Fixed Contributions as Revenue Adjustments	C	A		
Accrual Accounting		C		A
Balance Sheet			A	C
Statement of Changes in Financial Position			AC	
Operating Statement (accrual)			A	C
Excess item				AC
Fund Accounting				AC
Balance Sheet Restrictions		C	A	

A = Attitude C = Compliance

Exhibit 7-8

Comparison of Church Compliance Rates and CBA Attitudes Regarding Accounting Principles and Reporting Practices for Other Churches

Accounting Principles	Low	Medium Low	Medium High	High
Capitalize Assets				AC
Record Pledges	AC			
Defer Restricted Revenues	C		A	
Depreciate Fixed Assets	C	A		
Expense Fund Raising Costs				AC
Functional Classification of Expenses			AC	
Expense Voluntary Contributions			AC	
Fixed Contributions as Revenue Adjustments	AC			
Accrual Accounting			C	A
Balance Sheet				AC
Statement of Changes in Financial Position		C	A	
Operating Statement (accrual)			A	C
Excess item				AC
Fund Accounting				AC
Balance Sheet Restrictions		C	A	

A = Attitude C = Compliance

disclosure of excess of revenues over expenses, and use of fund accounting. Moderately high attitude response scores are reported by all denominations toward the functional format for reporting expenses and the presentation of the statement of changes in financial position. Low attitude scores are expressed by all denominations represented toward only one principle, recording pledges. An overview of denominational attitude profiles shows differences among denominations in CBA attitudes toward the remaining nine AICPA recommendations, or 60%. Attitude response scores differed among the denominations although the differences do not form a pattern and only consist of one category.

In Exhibits 7-4 through 7-8 each denomination is examined for the degree of correspondence between CBA attitudes and the compliance rates for affiliated churches. The comparison shows that Presbyterian church compliance and affiliated CBA attitudes reflect the greatest correspondence with coherence in eleven areas and Lutheran church compliance and related CBA attitudes reflect the least correspondence with coherence in six areas. Baptist and Methodist church compliance and CBA attitudes are in correspondence at a level between the Presbyterian and the Lutheran churches.

While the disparity between compliance rates and attitude response scores normally shows compliance lagging behind the CBA's attitudes, this is not necessarily the case for several items when grouped by denomination. Along with the unusual disparity in the question of operating statement presentation, the Lutheran churches' rates of compliance with the principles of expensing fund raising costs and presentation of the balance sheet was greater than the attitude responses of Lutheran NACBA members toward these principles. In addition, Methodist churches expensed voluntary contributions to higher levels of church organization at a rate that exceeds the classification of Methodist NACBA members' attitudes. Baptist churches presented the balance sheet at a rate that exceeds the classification of Baptist NACBA members' attitudes toward the presentation of a balance sheet. In summary, although denominational grouping does not portray consistent patterns for many of the compliance rates and attitude response scores, it does reveal unusual relationships between the compliance rates and attitude scores for several items.

Profile and Comparison of Compliance and Attitudes for Different Size Churches

Exhibits 7-9, 7-10, and 7-11 present the profiles for small, medium, and large churches. Examination of large churches (Exhibit 7-11) reveals church compliance rates in the high category for six principles and practices and an additional five practices report moderately high compliance. Small churches (Exhibit 7-9) in comparison, comply to a high

Exhibit 7-9

Comparison of Church Compliance Rates and CBA Attitudes Regarding Accounting Principles and Reporting Practices for Small Churches

Accounting Principles	Low	Medium Low	Medium High	High
Capitalize Assets			C	A
Record Pledges	AC			
Defer Restricted Revenues	C		A	
Depreciate Fixed Assets	C	A		
Expense Fund Raising Costs				AC
Functional Classification of Expenses			AC	
Expense Voluntary Contributions			AC	
Fixed Contributions as Revenue Adjustments	AC			
Accrual Accounting		C		A
Balance Sheet			AC	
Statement of Changes in Financial Position		C	A	
Operating Statement (accrual)			A	C
Excess item				AC
Fund Accounting				AC
Balance Sheet Restrictions			AC	

A = Attitude C = Compliance

Exhibit 7-10

Comparison of Church Compliance Rates and CBA Attitudes Regarding Accounting Principles and Reporting Practices for Medium Churches

Accounting Principles	Low	Medium Low	Medium High	High
Capitalize Assets			C	A
Record Pledges	AC			
Defer Restricted Revenues		AC		
Depreciate Fixed Assets	AC			
Expense Fund Raising Costs				AC
Functional Classification of Expenses			AC	
Expense Voluntary Contributions			A	C
Fixed Contributions as Revenue Adjustments	AC			
Accrual Accounting		C	A	
Balance Sheet				AC
Statement of Changes in Financial Position		C	A	
Operating Statement (accrual)				AC
Excess item				AC
Fund Accounting				AC
Balance Sheet Restrictions			AC	

A = Attitude   C = Compliance

Exhibit 7-11

Comparison of Church Compliance Rates and CBA Attitudes Regarding Accounting Principles and Reporting Practices for Large Churches

Accounting Principles	Low	Medium Low	Medium High	High
Capitalize Assets			A	C
Record Pledges	AC			
Defer Restricted Revenues		C	A	
Depreciate Fixed Assets	C	A		
Expense Fund Raising Costs				AC
Functional Classification of Expenses			AC	
Expense Voluntary Contributions			AC	
Fixed Contributions as Revenue Adjustments	AC			
Accrual Accounting			C	A
Balance Sheet				AC
Statement of Changes in Financial Position			AC	
Operating Statement (accrual)			A	C
Excess item				AC
Fund Accounting				AC
Balance Sheet Restrictions			AC	

A = Attitude C = Compliance

degree with four principles and practices and moderately high with five items. These results indicate a higher overall compliance on the part of large churches although differences are not major.

All churches, small, medium, and large, consistently comply to a high degree with four items - expensing fund raising costs, preparation of an operating statement, disclosure of excess of revenue over expenses, and use of fund accounting. Three items are consistently rated low in compliance - recording pledges, depreciating fixed assets, and reporting fixed contributions to higher levels of church organization as revenue deductions. Functional classification of expenses is rated medium high by all sizes of churches. The remaining seven items differ according to size with large churches generally most likely to comply.

Profiles of the attitudes expressed by NACBA members from small, medium, and large churches are very similar. Ten of the total fifteen principles and practices result in attitude response scores at the same level, regardless of the size of the churches. Only five items provide different results as the size of the church differs.

Exhibits 7-9, 7-10, and 7-11 also compare CBA attitude measures and church compliance rates for small, medium, and large churches. Correspondence between attitude and compliance rate is most prevalent in the medium size churches. Attitude ratings and compliance percentages are classified together for eleven of the principles and practices. This figure is comparable to the high degree of cohesiveness found in audited churches and Presbyterian churches. When examining large churches, coherence is evident in ten accounting and reporting items. Small churches and their CBAs report the least correspondence between attitude and compliance. Even so, in nine areas the attitude response scores and compliance rates are classified equally.

Summary

The comparison of attitude measures with compliance ratings for all groupings has resulted in differing profiles. When all NACBA members and their affiliated churches are examined together, close correspondence is found in 8 of 15 areas analyzed. In the areas where there was disparity, compliance rates lag about one classification behind attitudes. The closest correspondence between the church compliance rates and CBA attitudes is evidenced by CBAs and affiliated churches whose financial statements are externally audited, CBAs and affiliated churches of the Presbyterian denomination, and CBAs and affiliated churches of medium size. All three of these classifications show coherence in 73% of the principles and practices (11 out of 15).

Chapter 8 - Conclusions, Limitations, and Recommendations

The conclusions from this study begin to provide a description of the accounting practices followed by churches. Due to limitations in the research design, the results cannot be generalized to all churches in the U.S. Exploratory by nature, the study identifies several areas where further research is needed to clarify the accounting practices of churches and to identify the relationship between the needs of churches and the recommendations of the accounting profession for church accounting and reporting practices.

Conclusions

Churches represented by the National Association of Church Business Administrators are in substantial compliance with a number of the accounting principles and reporting practices recommended in the SOP. Substantial compliance is used to describe any principle or practice resulting in a compliance rate of 75% or greater. The churches represented in this study appear to be in substantial compliance with the following principles and practices recommended in the SOP.

1. preparation of a balance sheet
2. preparation of an operating statement
3. disclosure of an excess of revenue and support over expenses
4. use of fund accounting (suggested by the SOP as one alternative method for disclosure of restriction)

5. capitalization of purchased assets at cost
6. recording unrestricted revenues from investments in the year earned
7. expensing fund raising costs

In analyzing responses of CBAs to questions about compliance with recommended principles and practices, the classification of churches by size resulted in the most consistent differentiation. Large churches (cash receipts greater than $800,000) were more likely to comply with the recommended principles than small churches (cash receipts less than $400,000). Compliance rates for medium sized churches (cash receipts between $400,000 and $800,000) generally fell between the rates for large and small churches. This interrelationship seems to hold for most principles and practices whether the rates indicate substantial compliance or noncompliance.

A second classification providing a definite pattern of differentiation occurs when the churches represented by NACBA members are grouped according to their use or nonuse of external auditors. Churches whose financial statements are audited externally are more likely to comply with SOP recommendations than are churches whose financial statements are not audited externally. The results of classifying churches according to external audits are highly associated with the classifications based on size. Exhibit 4-3 shows that 73% of the large churches issue externally audited financial statements, while 55% of the medium size churches and 30% of the small churches have external audits. As the church size decreases the likelihood of external audits decreases. The apparent association of church size and external audits explains the findings that both classification based on size and classification based on use of an external audit differentiate compliance rates well. When the churches represented in the study were classified by denomination, the analysis of compliance rates did not indicate a distinct pattern.

NACBA members represented in this study are favorably disposed toward six of the seventeen accounting and reporting principles included in the attitude questionnaire. A highly favorable attitude is measured by a 3.0 or greater response on a scale from 0.0 to 4.0. The highly favored principles are:

1. preparation of a balance sheet
2. disclosure of an excess of revenue and support over expenses on the operating statement
3. capitalization of fixed assets
4. expensing fund raising costs
5. reporting formal obligations on the balance sheet
6. use of fund accounting (suggested by the SOP as one alternative method for disclosure of restrictions

In classifying the average response scores, the groupings based on size and use of external audit again provide the most consistent pattern of differentiation, although the large standard deviations indicate variance within the groupings. NACBA members from large churches and from churches whose financial statements are externally audited generally hold the most favorable attitudes toward the accounting principles and reporting practices.

In the analysis of compliance rates and attitude response scores three accounting principles are consistently low in average response scores: recording legally enforceable pledges, recording fixed remittances to higher levels of church organizations as revenue deductions, and depreciating exhaustible fixed assets. In these areas a small percentage of the churches comply with the recommendations and the attitudes of NACBA members toward them are generally unfavorable. Despite the fact that the population of NACBA members is a professional group oriented toward proper financial disclosure, they indicate basic disagreement with these three recommendations.

A comparison of the attitude response scores for NACBA members and the compliance rates of their affiliated churches produces one general conclusion with respect to agreement. The average attitude scores of the NACBA members are consistently at the same level or one level higher than the comparable compliance rates for their affiliated churches. These results suggest that churches do not use accounting principles that the CBAs view as unfavorable. The study, however, was not designed to reveal any cause and effect relationships.

The results of the study support the commonly held view of a preponderance of cash basis reporting among churches.

Roughly 98% of the churches represented in the study present some type of cash basis reports. Several questions involving accrual based principles were interpreted by the CBAs in light of their cash basis systems. The extensive use of the "not applicable" designation by many respondents on items such as depreciation, pledges, and deferral or restricted revenue, appears to result from the prevalence of cash basis reporting.

Associated with the use of cash basis reporting is the orientation of church reporting toward internal user groups. An analysis of potential user groups for church financial statements reveals that employees of the church including the pastor, directors and trustees of the church, and church members are the groups perceived most often as users of accounting information. These three user groups are primary decision makers for the church and are internal to the church organization. The emphasis placed on each individual group differs with denomination. The external groups are less frequently identified as users of church accounting information. This emphasis on internal users and management decision-making may influence the use of cash basis reporting.

The potential impact of the recommendations in the SOP would be primarily upon those churches whose financial statements are audited externally. Fifty-four percent of all churches represented in this study present externally audited financial statements. Furthermore, the financial statements of large churches are externally audited in 73% of the cases. Thus, the greatest impact of the SOP is expected for churches whose cash receipts are greater than $800,000 per year.

The SOP will influence audited churches in the accounting and reporting practices with which they are not currently in compliance. These areas include: use of the accrual basis of accounting, presentation of the statement of changes in financial position, recording depreciation, recording legally enforceable pledges, deferring restricted revenues, and accounting for fixed remittances to higher denominational levels. Except for the principles involving fixed remittances and the statement of changes in financial position, these areas of potential impact are associated with the application of accrual accounting. Therefore a major area in which the SOP may change the accounting and reporting practices of churches lies in the presentation of financial statements on an accrual basis.

The SOP may also influence changes in accounting principles and practices in areas where discrepancies exist between the attitudes of CBAs toward a recommended principle and the compliance of the church with the principle. For audited churches these areas include: depreciation, accrual accounting, preparation of the statement of changes in financial position, and disclosure of balance sheet restrictions. In each of these areas the average attitude score for NACBA members from churches whose statements are audited was higher than the compliance rate for the church. In these cases the SOP provides an authoritative basis for the CBA to use in suggesting changes in practices.

While the primary impact of the SOP is expected to be with audited churches, unaudited churches may also be influenced. These churches need a defensible basis for their accounting and reporting practices. The SOP provides such a base, contingent on the awareness of the CBAs from these unaudited churches.

Although statistical inference was not appropriate for this study, the analysis performed on the compliance rates indicates differences in the application of recommended accounting principles. These differences are sufficient to conclude that sweeping generalizations about church accounting practices are not appropriate. Some churches appear to have excellent accounting and reporting practices and others appear to have major deficiences in terms of the SOP recommendations.

Limitations

The population of NACBA members was chosen for this study because the association is national in scope and represents a professional orientation toward church accounting systems. Although national in scope, a classification of the membership by geographic location indicates that the southeast, plains states, southwest, and far west represent 82% of the total NACBA population and that the remaining four regions represent only 18% of the population. The conclusions are limited by the geographic skewness of the population.

It was expected that churches with the position of business administrator would be primarily large churches. This expectation proved to be valid. The median membership of the churches represented in the study is 1850, the median attendance at a weekly service is 750, and the median amount of cash receipts is $624,000. The conclusions of the study are limited to relatively large churches. Because the large churches in the study were found to have the best accounting practices, the findings are probably not representative of all churches.

As previously discussed, the use of a population rather than a sample limits the generalizability of the results of the study. While the NACBA is a relatively homogeneous association of professionals, it is not representative of all church financial officers in the U.S. The churches affiliated with the responding NACBA members probably are not representative of churches as a whole and the conclusions made in this study should not be generalized to other groups of churches. The differences in compliance rates and attitude scores cannot be used to predict similar differences in other groups of churches.

The mail questionnaire was chosen as the data gathering technique because of the national scope of the survey. An updated membership list was obtained from the NACBA national headquarters. Clover and Balsley indicated that mail questionnaires would produce a high response rate for populations of homogeneous professional groups. The 64% response rate in this study tends to confirm their hypothesis. In addition, the questionnaire technique made it possible to gather data on numerous accounting and reporting practices. Despite these advantages, the use of a mail questionnaire has its limitations. Although several highly technical items from the SOP were not covered in the study, the technical nature of many items in the questionnaire and the terminology used may have been confusing to some NACBA members, especially the 28% of the respondents with no formal accounting education. The mail questionnaire technique along with the promised anonymity does not permit follow-up on these difficult items. The results are limited by the degree of understanding attained by the NACBA members as they completed the questionnaire.

The compliance questions in Section III of the questionnaire included a "not applicable" option, intended to be used for principles beyond the scope of the individual church's needs. For example, recording pledges as revenue would be "not applicable" for a church that did not use a pledge system. The questionnaire design provided no ability to discern the reason for a choice of "not applicable."

Chapter 7 of this study compared the attitude response scores for NACBA members with the compliance rates for the affiliated churches. CBA's attitudes, although representing an important influence on church accounting and reporting practices, are only one factor in determining the accounting principles followed by an individual church.

The questionnaire was used to gather information of general interest about churches and their accounting and reporting practices. These questions were designed in part to provide a description of the population of churches represented by the NACBA. Preliminary investigation suggested that churches might be reluctant to provide financial information and, accordingly the only item of financial information obtained from the study was the total cash receipts for the fiscal year ending in 1980. A better financial profile of the churches might have improved the study.

Recommendations for CBAs and Churches

The study results contain several implications for churches and their church business administrators. These recommendations involving accounting and reporting practices are primarily appropriate for larger churches, although the effects may filter down to smaller churches.

First, CBAs should continue to develop their professional orientation. Although certain accounting principles may not apply to their current situation, it is important that they be familiar with them. CBAs should consider all recommended principles and establish opinions on their merit and their applicability to church accounting systems. If the CBAs are knowledgeable with respect to accounting principles, they will be able to implement appropriate principles when their ministries grow and new situations arise.

Secondly, CBAs should continue to develop a view toward external reporting for churches. This recommendation appears to be in harmony with the objectives expressed by church business organizations such as the NACBA and the Evangelical Council for Financial Accountability.

Finally, CBAs of all size churches should consider having an external audit. This consideration should include an evaluation of both the costs and benefits of an external audit. In addition to the control involved in an external audit, the auditor-client relationship could be an invaluable source of information to the CBA. This information could help the CBA maintain a current understanding of principles that may affect the church.

Recommendations for the Accounting Profession

The SOP was issued to recommend accounting principles and reporting practices for nonprofit organizations. These principles and practices apply to all nonprofit organizations not covered by existing audit guides and preparing financial statements in accordance with GAAP. The group of organizations to whom the SOP is addressed includes numerous types with varied purposes. Even the category of religious organizations, designated in the SOP, includes a variety of organizations, of which churches are a part. The fact that the SOP sets uniform accounting and reporting standards for many nonprofit organizations is the basis for disagreement among the accounting profession. It is not surprising that some provisions of the SOP do not fit existing church accounting and reporting practices.

The SOP recommendations to record legally enforceable pledges, to depreciate fixed assets, and to reduce revenue for fixed remittances to higher levels of church organizations illustrate provisions that do not coincide with the CBAs' interpretation of appropriate church accounting principles. Compliance rates for these three accounting principles reflect low or medium low compliance in churches whose financial statements are externally audited. This suggests that application of some of these accounting principles to church financial statements may need re-evaluation.

While the goal of uniform accounting standards is appropriate, the overriding objective of financial reporting for nonprofits stated in SFAC No. 4 is to provide information useful in making resource allocation decisions. The needs of church financial statement users should be considered in determining accounting principles and reporting practices for churches. The accounting standards division considered some of the special requirements of the organizations covered by the SOP and provided certain exceptions to the uniform standards. This study suggests that there are further exceptions to be considered. Although totally separate accounting standards for churches may not be necessary, this study indicates that in several areas adjustments may be appropriate to meet the needs of the church financial statement users.

Recommendations for Further Research

This study was designed to provide general insight into the accounting principles and reporting practices used by churches. Many principles and practices were surveyed to begin to create a body of knowledge about church financial practices. More specific research is needed in many of these areas. Controversial principles such as recording pledges and depreciating fixed assets should be approached in more detail.

An appropriate design for the research may include the ability to educate the population with respect to technical terminology, the meaning of legally enforceable pledge, for example. Data gathering techniques that allow adequate follow-up seem essential in future research. The interview questionnaire would be an example of data gathering with follow-up capabilities. Further research in these areas may include examination of actual church financial statements to determine the varied methods used to account for certain items.

This study suggests that cash basis reporting is commonly used by churches even though many of the recommendations of the SOP involve accrual basis principles. Future study is needed to clarify the use of accrual basis reporting among churches. An investigation may assess the extent of the material differences between the two accounting and reporting systems.

NACBA members represented in this study indicated that fund accounting was used by 84% of the churches. Selected financial statements collected from respondents show applications of the "one fund approach" and the multifund approach. Further research may be appropriate to determine the varied applications of fund accounting by churches.

While the classification of churches by denomination did not result in any distinct pattern of differentiation, major differences were apparent for some principles and practices. An example is the differing degree to which members were identified as users of church financial information. An interesting area of research would be an to study relationships between the doctrinal position of a denomination, its organizational type, and the accounting principles followed by the local congregations. Although major denominations are quite different in doctrine and organizational type, they may or may not be different in applied accounting principles.

The attitude portion of this study was based on the assumption that CBAs have significant influence in the financial decision making of a church. While this assumption is logical, further research would aid in identifying all of the financial decision makers in a church and the extent of influence exercised by each. The levels at which financial decisions are made may vary with denominations and with size. In summary this exploratory study identifies several areas where further research may be needed to clarify the relationships between the financial reporting needs of churches and the recommendations of the accounting profession as stated in the SOP.

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Appendix A
Cover Letter

EDARVILLE
COLLEGE
A Baptist College of Arts and Sciences

513-766-2211 CEDARVILLE, OHIO 45314

June 23, 1981

Dear NACBA member:

Do you ever ask yourself any of the following questions?

Are other churches preparing financial statements?
Do they adopt a formal budget each year?
Are most church reports done on a cash basis?
Who is going to use this reported information?
What reporting format is most popular?
How do other church business administrators feel about presenting detailed financial information?

If you have these questions, where could you go for answers? At present there are no readily available reports of church accounting practices.

This survey is designed to identify reporting practices that are used by churches and the opinions of church business officers about them. The questionnaire first asks for information about both general and specific accounting practices. Second, it asks your opinion of many of the accounting practices. If you are not the person most familiar with your church's accounting practices, please pass this questionnaire on to the appropriate individual. The total questionnaire should be completed by only one person to ensure valid results.

The Board of the National Association of Church Business Administrators has given me permission to survey its membership as the population for this study. Because you are an NACBA member, your participation in the study is extremely important. Your responses will be handled confidentially to ensure your anonymity. The results will be reported as a whole and for certain subgroups rather than individually.

If you would like to receive the results of this study you may fill out the bottom portion on page one of the questionnaire and mail separately to the return address. Thank you for your participation. The value of the study is enhanced because you chose to complete the questionnaire.

Sincerely,

Sarah H. Smith
Assistant Professor

PASSING THE TORCH

Appendix B
Follow-Up Letter and Questionnaire

EDARVILLE
COLLEGE
A Baptist College of Arts and Sciences

513-766-2211 CEDARVILLE, OHIO 45314

Dear NACBA member:

Several weeks ago you received a letter asking for your participation in a study of church accounting practices. This survey is designed to identify reporting practices used by churches and the opinions of church business officers about them.

Although response to the first mailing has been favorable, many members have not returned their questionnaires. To encourage complete participation in the study a second copy of the questionnaire is enclosed with this reminder.

If you would like to receive the results of this study you may fill out the bottom portion on page one of the questionnaire and mail separately to the return address. Thank you for your participation.

Sincerely,

Sarah H. Smith
Assistant Professor

Appendix B (continued)

Section I

The following demographic questions are designed to identify the types of churches that are included in this research study. Please answer all questions with the most current information you have available.

1. What is the title of your position in the church? ____________________
2. How many years of formal accounting education have you had? ____________
3. How many years of accounting experience have you had in churches or in other not-for-profit organizations? ____________________
4. What is your church's denominational affiliation? ____________________ (If none, indicate the church group with which you are most closely associated.)
5. In what state is your church located? ____________________
6. What is the size of your church membership (express to the nearest 50)? ________
7. What is the size of your average church attendance at your main worship service of the week (express to the nearest 50)? ____________________
8. What were your total cash receipts in the accounting year ending in 1980 (express to the nearest thousand)? ____________________
9. Which of the following terms best describes the environment of your church? (circle one) A. inner city B. suburban C. small city D. small town E. rural

---

I have completed and returned a copy of your questionnaire. I would like a copy of the results of your study.

Name ____________________

Church Name ____________________

Address ____________________

____

Appendix B (continued)

Section II

The following questions are designed to provide general information about the accounting and reporting systems of churches. Please indicate your answer to each question as it relates to your church using a check (✓) in the appropriate box.

YES	NO	DOES YOUR CHURCH:
☐	☐	10. Adopt a budget annually through a formal approval process?
☐	☐	11. Prepare periodic reports comparing budgeted expenditures with actual?
		12. Prepare reports of cash receipts and cash disbursements for use by:
☐	☐	a. officers of the church?
☐	☐	b. members of the church?
☐	☐	c. nonmember groups (banks, creditors, etc.)?
		13. Develop financial statements for use by:
☐	☐	a. officers of the church?
☐	☐	b. members of the church?
☐	☐	c. nonmember groups (banks, creditors, etc.)?
		14. Prepare financial statements which are audited by:
☐	☐	a. person(s) within the church?
☐	☐	b. an independent, external auditor (e.g. CPA)?
☐	☐	c. an auditor from your denomination?
☐	☐	15. Develop current year and prior year comparative financial statements?
☐	☐	16. Prepare a comprehensive annual financial report (financial statements and other information)?
☐	☐	17. Currently use or plan to convert to a computer for accounting purposes?

INDICATE YOUR ANSWER TO THE NEXT QUESTION BY PLACING A CHECK (✓) BY EACH CHOICE WHICH IS APPROPRIATE FOR YOUR CHURCH.

18. Which of the following groups are users or potential users of the accounting reports of your church?
   - ☐ a. membership
   - ☐ b. governmental units
   - ☐ c. nonmember contributors
   - ☐ d. creditors
   - ☐ e. constituent organizations
   - ☐ f. trustees or directors of the church
   - ☐ g. employees of the church (pastors and other)

Section III

The following questions are designed to provide specific information regarding the accounting practices of churches. Please respond to each question as it relates to your church, <u>YES</u> <u>NO</u>, or NOT APPLICABLE (<u>NA</u>), with a check (✓) in the appropriate box.

YES	NO	NA	DO THE FINANCIAL STATEMENTS OF YOUR CHURCH INCLUDE:
☐	☐	☐	19. A balance sheet (statement summarizing assets, liabilities, and fund balances or equities)?
☐	☐	☐	20. An operating statement or statement of activity (statement reporting revenue and expenses)?
☐	☐	☐	21. A line item on the operating statement reporting Excess (or Deficiency) of Revenue over Expenses?

Appendix B (continued)

YES NO NA DO THE FINANCIAL STATEMENTS OF YOUR CHURCH INCLUDE:

☐ ☐ ☐ 22. A statement of changes in financial position (statement showing resources provided, resources used, and changes in resources available for future use)?

☐ ☐ ☐ 23. Balance sheet restrictions that distinguish between restricted and unrestricted resources?

☐ ☐ ☐ 24. Balance sheet restrictions that distinguish between resources restricted by officers of the organization and resources restricted by persons outside the organization?

☐ ☐ ☐ 25. Separate columns or separate statements for different funds (examples: operating, plant, building, endowment, or loan funds)?

☐ ☐ ☐ 26. If the columnar approach is used (question 25), does the format include a total-all-funds column?

YES NO NA IN ACCOUNTING FOR THE ASSETS OF YOUR CHURCH:

☐ ☐ ☐ 27. Are assets recorded when purchased (as opposed to when paid for)?

☐ ☐ ☐ 28. Are purchased assets such as furniture and fixtures, equipment, and buildings recorded at their cost?

☐ ☐ ☐ 29. Are donated assets recorded at their market value at the time received?

☐ ☐ ☐ 30. Is accumulated depreciation deducted from the cost of all long-term assets, excluding the house of worship, that have limited useful lives?

☐ ☐ ☐ 31. Are uncollected pledges reported as assets if they are legally enforceable (i.e. if they are used as the basis for incurring legal obligations)?

☐ ☐ ☐ 32. If pledges are reported, is an estimated amount of uncollectible pledges subtracted from uncollected pledges?

INDICATE YOUR ANSWER TO THE NEXT THREE QUESTIONS BY PLACING A CHECK (✓) BY EACH CHOICE WHICH IS APPROPRIATE FOR YOUR CHURCH.

33. Which of the following methods do you use in reporting investments in bonds that <u>are intended to be held to maturity</u>?
   - ☐ a. We do not have investment in bonds.
   - ☐ b. amortized cost (cost plus unamortized premium or minus unamortized discount).
   - ☐ c. market value.
   - ☐ d. lower of amortized cost or market value.

34. Which of the following methods do you use in reporting investments in stocks and bonds that <u>are not expected to be held to maturity</u>?
   - ☐ a. We do not have investments in stocks and bonds.
   - ☐ b. cost.
   - ☐ c. market value.
   - ☐ d. lower of cost or market.

35. Which of the following methods do you use to report other investments (e.g. real estate not used directly for church purposes)?
   - ☐ a. We do not have other investments.
   - ☐ b. cost.
   - ☐ c. market value.
   - ☐ d. lower of cost or market value.

Appendix B (continued)

YES NO NA IN REPORTING LIABILITIES FOR YOUR CHURCH:

☐ ☐ ☐ 36. Are notes payable, bonds payable, and other formal obligations reported as liabilities on the balance sheet?

☐ ☐ ☐ 37. Are obligations for items received but unpaid reported as liabilities on the balance sheet?

☐ ☐ ☐ 38. Are restricted revenues from investments, including interest on savings accounts and CDs, reported on the balance sheet as liabilities until restrictions are met?

☐ ☐ ☐ 39. Are restricted gifts reported in the balance sheet as liabilities until the restrictions are met?

YES NO NA IN RECORDING EXPENSES FOR YOUR CHURCH:

☐ ☐ ☐ 40. Is depreciation expense on long-term assets included in your operating statement (statement of activity)?

☐ ☐ ☐ 41. Are expenses in your operating statement classified according to program or function (eg. Sunday School, Pastoral Program) as opposed to object of expenditure (eg. wages, supplies, utilities)?

☐ ☐ ☐ 42. Are voluntary cash contributions to higher levels of your church organization (diocese, conference) reported as expenses in you operating statement?

☐ ☐ ☐ 43. Are general fund-raising costs such as mailing or advertising reported as expenses in the period incurred or paid?

YES NO NA IN MEASURING REVENUE AND SUPPORT FOR YOUR CHURCH:

☐ ☐ ☐ 44. Are uncollected pledges which are legally enforceable reported as revenue?

☐ ☐ ☐ 45. Are donated assets reported as revenue at their fair value when received?

☐ ☐ ☐ 46. Is unrestricted income from investments reported as revenue when earned or received?

☐ ☐ ☐ 47. Are fixed amounts or percents of revenue, required to be remitted to higher levels of your church organization, reported as deductions from revenue (as opposed to as expenses) in the operating statement?

☐ ☐ ☐ 48. Are receipts from fund raising events such as dinners or sales reported as revenue <u>without</u> deduction for the costs of such events?

☐ ☐ ☐ 49. Are gifts which are restricted by donor as to use reported as revenue even though expenses have <u>not</u> been incurred for the specified purpose?

Section IV

The following attitude questions are designed to obtain your feelings toward certain accounting and reporting practices used by churches. Please answer each question even if your church does not follow the practice. Indicate your answer by placing a check (✓) above the number on the scale which most clearly indicates your personal opinion of the practice. If you have no opinion on the item, please check the blank for "no opinion" found after each question.

Appendix B (continued)

NONE	SOME	QUITE A BIT	EXTREME AMOUNT	COMPLETE	TO WHAT EXTENT DO YOU FAVOR:
0	1	2	3	4 ✓	00. Example - financial recordkeeping by churches? (__no opinion)
					50. The preparation and issuance of:
0	1	2	3	4	a. a balance sheet (statement summarizing assets, liabilities, and fund balances or equities)? (__no opinion)
0	1	2	3	4	b. an operating statement or statement of activity (reporting revenue and expenses as opposed to cash receipts and disbursements)? (__no opinion)
0	1	2	3	4	c. a statement of changes in financial position (showing resources provided, resources used, and changes in resources available)? (__no opinion)
0	1	2	3	4	51. Balance sheet restrictions that distinguish between resources restricted by persons outside the organization, resources restricted for specific uses by officers of the organization, and resources which are unrestricted?(_no opin-
0	1	2	3	4	52. The use of fund accounting and reporting practices for churches (eg. separate columns for operating, building, or loan funds)? (__no opinion)
0	1	2	3	4	53. A line item on the operating statement for reporting the Excess (Deficiency) of Revenue over Expenses? (__ no opinion)
0	1	2	3	4	54. Reporting assets when purchased and expenses when incurred? (__no opinion)
0	1	2	3	4	55. Recording purchased assets at cost and donated assets at market value? (__ no opinion)
0	1	2	3	4	56. Reporting legally enforceable but uncollected pledges as assets in the balance sheet and as revenue in the operating statement? (__ no opinion)
0	1	2	3	4	57. Reporting depreciation on long-term assets with limited useful lives as expenses in the operating statement? (__ no opinion)
0	1	2	3	4	58. Reporting long-term obligations such as notes payable and bonds payable as liabilities in the balance sheet? (__ no opinion)
0	1	2	3	4	59. Reporting restricted gifts as liabilities until restrictions are met? (__ no opinion)
0	1	2	3	4	60. Reporting restricted revenues from investments as liabilities until restrictions are met? (__ no opinion)
0	1	2	3	4	61. Reporting expenses according to programs or functions (eg. Pastoral Program) as opposed to object of expenditure(eg. wages, supplies)? (__ no opinion)
0	1	2	3	4	62. Reporting voluntary cash contributions to higher levels of your church organization as expenses in the operating statement? (__ no opinion)
0	1	2	3	4	63. Reporting all fixed amounts that are required to be remitted to a higher level of your church organization as revenue adjustments (deductions from revenue) rather than as expenses? (__no opinion)
0	1	2	3	4	64. Reporting general fund-raising costs as expenses in the operating statement? (__no opinion)

Appendix C

Clustering of Compliance Questions and Attitude Questions

General Topic	Compliance Questions From Section III Weighted Equally	Attitude Questions From Section IV Weighted Equally
Capitalize Assets	#28, 29	#55
Record Pledges	#31, 44	#56
Defer Restricted Revenues	#38, 39	#59, 60
Depreciate Fixed Assets	#30, 40	#57
Expense Fund Raising Costs	#43	#64
Functional Classification of Expenses	#41	#61
Expense Voluntary Contributions	#42	#62
Fixed Contributions as Revenue Adjustments	#47	#63
Accrual Accounting	#27, 36, 37	#54, 58
Balance Sheet	#19	#50a
Statement of Changes in Financial Position	#22	#50c
Operating Statement (accrual)	#20	#50b
Excess item	#21	#53
Fund Accounting	#25	#52
Balance Sheet Restrictions	#23, 24	#51

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ACCOUNTING AND REPORTING PRACTICES OF CHURCHES:

AN EMPIRICAL STUDY

by

Sarah H. Smith

(ABSTRACT)

In the last decade the accounting profession has shown increased interest in accounting for nonprofit organizations including accounting for churches. _Statement of Position 78-10_ and _Statement of Financial Accounting Concepts No. 4_ provide standards and objectives for church financial reporting. Although accounting standards have been determined for churches, there is little information about the current accounting and reporting practices followed by churches. This research determines the actual accounting principles and reporting practices used by the group of churches whose business administrators belong to the National Association of Church Business Administrators (NACBA). The NACBA is national in scope and represents larger churches from many denominations. Secondly, the research determines the potential impact of the _Statement of Position_ (_SOP_) on church accounting and reporting practices.

Data measuring the churches' compliance with principles recommended in the _SOP_ and NACBA members' attitudes toward the principles are gathered using a mail questionnaire. The compliance questions are answered by checking yes, no, or

not applicable. The attitude responses are indicated on a Likert scale measuring degree of favor from 0 to 4. The questionnaire also includes demographic information about the churches and items of general interest about the type of financial reports they present.

After appropriate pretesting, the questionnaire was sent to the NACBA members currently employed by a local congregation. The mailing and follow-up procedures resulted in a 64% response rate. The questionnaire was sent to a population rather than a sample, therefore, inferential statistics are not used to analyze the responses.

Compliance percentages and average attitude response scores are presented for all responding NACBA members and their churches. Additional analysis provides profiles of compliance rates and attitude response scores for three groupings - denomination, size, and audit classification. In general, the analysis shows that the group of large churches and the group of churches whose financial statements are externally audited are most likely to be in compliance with recommended principles. These same groups express the most favorable attitudes toward the recommended principles.