Seventh-day Adventist Accounting Manual

January 2011 Edition

General Conference of Seventh-day Adventists
Silver Spring, Maryland

Table of Contents

FOREWORD

During the past five years, the General Conference and Division Treasurers have been working on developing and updating the denomination's accounting manuals for the world church. *The Seventh-day Adventist Church Accounting Manual* you are now holding is the final product of that process. It reflects and incorporates current international accounting pronouncements and denominational financial policies. The primary purpose of this manual is to provide a standardized system of accounting and financial reporting in compliance with generally accepted accounting principles for the global church, assist denominational accountants and treasurers to prepare financial statements that will provide meaningful information to church administrators, committees and constituencies, as well as enhance the audit function of the church.

This manual is divided into four major segments. The first segment covers a general overview of financial accounting and reporting concepts. The second segment discusses the financial statement in detail by type of account. It also takes into consideration International and United States of America accounting principles. The third segment addresses accounting and reporting by type of entity: for example, accounting and financial reporting formats of conferences, schools, retirement plans, publishing houses, and food factories. Finally, the fourth segment deals with tools for using the manual.

Many individuals and committees have participated in the writing and reading of this manual, for which we are greatly indebted. The General Conference Auditing Service was heavily involved in the technical writing of the manual on behalf of Treasury. We are very grateful to Eric Korff, retired Director of General Conference Auditing Service and Jim Trude (who was the primary writer of the manual), Assistant Director, General Conference Auditing Service who pulled all the sections of the manual together. We express our appreciation to the members of The Reading and Editing Committee, comprised of Elaine Hagele, Eric Korff, Martin Moores, Danny Orillosa, Leon Sanders, and George Egwakhe for their time in reading and reviewing the manual. A special thanks to the Division Treasurers for their comments and suggestions.

This manual supersedes all previous denominational accounting manuals and has been approved by the General Conference and Division Treasurers. It shall be adhered to by all denominational entities, except as it shall be amended by decisions of the General Conference and Division Treasurers from time to time.

It is my hope that the users of this manual will find it user-friendly and the accounting functions significantly simplified, and that the financial statements produced will be an invaluable tool of financial management.

George O Egwakhe, Associate Treasurer
General Conference of Seventh-day Adventists
January 2009

Section 101 - Overview of the Manual

Section 102 - Denominational Organization

Section 103 - The Accounting and Financial Reporting System

Section 104 - Relationships Within an Organization

Section 101 - Overview of the Manual

101.01 Primary Objectives - This Manual was prepared to meet the following objectives:

- ♦ *To serve as a reference resource for administrators of SDA denominational entities*
- ♦ *To foster improved uniformity and accuracy in record-keeping and financial reporting*
- ♦ *To improve accountability and stewardship of denominational resources*
- ♦ *To help in training those who perform accounting and treasury functions*
- ♦ *To assist in raising professional standards among accounting personnel*

101.02 Outline of the Manual - The Seventh-day Adventist Church is one body, with a united mission to spread the gospel to the world. The Church operates many different entities, among people who speak many languages, and employs individuals with a wide range of education and training. The challenge for this Manual is to balance the uniform application of standards and procedures that apply to every entity with flexibility to accommodate unique requirements in specific geographic areas. To address the challenge, this Manual is divided into four segments:

- Segment One: Chapters 1 to 8 discuss general concepts of accounting and financial reporting.
- Segment Two: Chapters 9 to 16 discuss specific accounting standards for various types of accounts.
- Segment Three: Chapters 17 to 23 display sample financial statements for different types of entities.
- Segment Four: Chapters 24 to 26 include a glossary, a quick reference guide, and an index.

101.03 Advantages of Uniform Standards and Procedures - Many administrators receive and review the financial reports of affiliated denominational entities within their territory. In addition, the General Conference Office of Archives and Statistics compiles a financial summary based on the audited financial reports of all church organizations throughout the world. Principles applied uniformly and consistently allow for meaningful comparison among similar entities and among different periods of time. Also, an organization may compare its results with those of other similar entities in an effort to improve its own operations.

This Manual includes a Glossary of Terms as Chapter 24. Section 24.01 describes terms that have particular meaning within the denomination, Section 24.02 describes certain terms created by accounting and reporting standards, and Section 24.03 describes a number of abbreviations and acronyms used by this Manual.

101.04 Unity in Diversity - This Manual identifies general accounting principles and financial reporting standards that should lead to uniformity for comparative purposes without requiring rigid adherence regardless of constraints encountered in a particular geographic area. While minor adjustments to meet local needs may be necessary, major deviations from this Manual should be made only with division approval after counsel with the General Conference treasury department.

101.05 Language Translations - Many denominational entities prepare their financial reports in languages other than English. Translation of technical terms in any context always represents a challenge, as word-for-word translation does not always express the true meaning of the translated term. An attempt has been made to find published references that give the accepted business, financial, and accounting terms in various major languages, which convey essentially the same concept as the English terms used in this Manual. Those reference materials will be given to the individuals who will be responsible for translation of this Manual.

Section 102 - Denominational Organization

102.01 Perspective on Organization - The users of this Manual routinely interact with various other denominational entities. It is important to understand how each entity's accounting and reporting functions relate to the overall organizational structure.

102.02 Levels of Denominational Structure - The Seventh-day Adventist Church uses the following structural hierarchy, as defined in *General Conference Working Policy* (GCWP).

Local Church - A specific-group of Seventh-day Adventist members in a defined location that has been granted, by the constituency of a local conference/mission, in session, official status as a Seventh-day Adventist church.

Local Conference/Mission/Field - A group of local churches, within a defined geographic area, that has been granted, by the constituency of a union conference/mission, in session, official status as a Seventh-day Adventist local conference/mission/field.

Union Conference/Mission - A group of local conferences/missions/fields, within a defined geographic area, that has been granted, by a General Conference Session, official status as a Seventh-day Adventist union conference/mission.

Union of Churches – A group of local churches, within a defined geographical area, that has been granted, by a General Conference Session, official status as a Seventh-day Adventist union of churches.

General Conference and its Divisions - To facilitate its worldwide activity, the General Conference has established regional offices, known as divisions of the General Conference, which have been assigned, by action of the General Conference Executive Committee at Annual Councils, general administrative and supervisory responsibilities for designated groups of unions and other church units within specific geographic areas.

Throughout this Manual, use of the term "conference" will apply equally to local conferences, missions, and fields, to union conferences and missions, and to the General Conference and its divisions.

102.03 Relationships Between Organizations

The General Conference is authorized by its Constitution to create additional organizations to promote specific interests in various sections of the world. All organizations and institutions throughout the world will recognize the authority of the General Conference in session as the highest authority under God. When differences arise in or between organizations and institutions on matters not already addressed in the Constitution and Bylaws, in the policies of the General Conference, or in its Executive Committee actions at Annual Councils, appeal to the next higher organization is proper until it reaches the General Conference in session, or the Executive Committee in Annual Council. During the interim between these sessions, the Executive Committee shall constitute the body of final authority on all questions where a difference of viewpoint may develop, whose decisions shall control on such controverted points, but whose decision may be reviewed at a session of the General Conference or an Annual Council of the Executive Committee.

102.04 Model Constitutions and Bylaws - GCWP Section D contains model constitutions and bylaws for various types of entities. The officers of each of these organizations should be well acquainted with these models, and with minor variations that may exist in specific fields.

The model constitution authorizes conferences to carry out their responsibilities through the use of other organizations and institutions, either incorporated or unincorporated, as they deem necessary. These other organizations typically include book centers, literature distribution entities, academies, colleges, health care facilities, and other entities. Whenever an organization establishes a new entity in the form of a legal corporation, GCWP BA 20 10 requires approval to be obtained from the General Conference or the appropriate division.

102.05 The Chief Financial Officer - Various job titles, such as Treasurer, Controller, or Vice-president for Finance, are used throughout the world to refer to the individual who has been given primary responsibility for the financial affairs of an entity. For simplicity, this Manual refers to that individual as “chief financial officer” or CFO.

The CFO should understand the duties specifically assigned to that office by the constitution or other governing document of the organization, since the accounting, financial reporting, and internal control processes are based on this delineation of responsibility.

For example, the Model Conference Bylaws, Article VI, Section 1c in GCWP D 20 05 say:

> Section 1c Treasurer: The treasurer, associated with the president as an executive officer, shall serve under the direction of the executive committee. The treasurer shall report to the executive committee of the conference after consultation with the president. The treasurer shall be responsible for providing financial leadership to the organization which will include, but shall not be limited to, receiving, safeguarding and disbursing all funds in harmony with the actions of the executive committee, for remitting all required funds to the union/division/General Conference in harmony with the ____ Division policy, and for providing financial information to the president and to the executive committee. The treasurer shall also be responsible for furnishing copies of the financial statements to the ____ Union officers.

102.06 Entities Subject to Audit - One procedure the denomination uses to help ensure accountability and instill confidence in financial reports is the audit function. GCWP requires audits of the financial records of various types of denominational entities. GCWP defines which entities are subject to audit by General Conference Auditing Service and which entities are subject to audit or review by local conference employees.

Section 103 - The Accounting and Financial Reporting System

103.01 Stewardship and Custody of Assets - While the primary purpose of an accounting system is to record transactions and generate financial reports, another vital purpose is to provide accountability for the possession and use of an entity's assets. The CFO and accounting personnel have a stewardship responsibility to constituents, donors, and the governing committee. Procedures for handling and safeguarding the assets of the organization must comply with the policies of the organization and of affiliated denominational entities.

For example, church members expect tithe to be channeled to the proper organizations, to be used as Scripture, Spirit of Prophecy counsel, and policies of the church direct. Some offerings are restricted for specific purposes, and must be used as the donor intended. Appropriations from higher organizations may be for either specific purposes or the general operation of the receiving organization. All of these resources are to be used either as specifically directed by the donor or within the limits of an operating budget previously approved by the governing committee.

103.02 Financial Reports - The CFO is responsible for giving periodic reports about the financial condition and operations of the entity to its governing committee, and to other intended users and constituents. A good accounting system will enable the CFO to produce these reports efficiently, without additional editing and reorganizing of the underlying data, and in a format that will be understandable to the average well-informed reader. In addition, the reports should comply with generally accepted accounting principles and conform to the standards of uniformity required for statistical comparison with the reports of other denominational organizations.

The degree of detail required for adequate disclosure of information in these reports may vary. It is the CFO's responsibility to determine the amount of detail the users of the statements need. The CFO must guard against either submitting so much detail that it is confusing, or so little detail that the financial statements might be misleading or not in compliance with minimum standards for disclosure.

103.03 Generally Accepted Accounting Principles - This Manual provides a framework of uniform accounting principles that are consistent with standards established by the International Accounting Standards Board. The principles outlined in this Manual are to be implemented by all denominational entities. Many countries, of course, have standard-setting bodies and established accounting principles, but there is a widely-acknowledged process currently operating to foster a convergence of country-specific standards with the international standards.

In accordance with its primary objectives, this Manual describes accounting and reporting principles that conform to the International Financial Reporting Standards, and also illustrates, where applicable, major differences between those standards and certain country-specific standards. This Manual will be updated as necessary to conform to the evolving set of international standards. However, it is understood that anytime the professional standards change, entities may choose to make conforming changes themselves without waiting for this Manual to be updated.

103.04 Other Bases of Presentation - Tax, Special Purpose, etc. - This Manual recognizes that in addition to regular financial reporting in conformity with established standards, many entities may also be required to issue other types of reports to comply with government tax regulations, bank or lender requirements, etc. This Manual encourages compliance with all government and other regulations that require special types of reporting, with the understanding that those special reports are in addition to the regular general-use financial statements required by, and illustrated in, this Manual.

103.05 Sources of Information - While this Manual is a resource for denominational use, and attempts to reflect current accounting standards, it is not intended to be the final authority on questions of accounting standards. Each organization should have a library of current reference material, including international accounting standards, country-specific accounting standards, basic and intermediate accounting textbooks, and copies of any actions taken and decisions made by the organization or by any affiliated higher denominational entity regarding specific accounting principles or resolution of specific accounting issues.

Section 104 - Relationships Within an Organization

104.01 CFO as an Administrative Officer - The CFO, as an administrative officer, has significant influence and a duty to guide and counsel in plans and decisions affecting financial matters. At the same time, the CFO is responsible to the governing committee and constituents. The CFO needs to find a balance between too little control on one hand and unilateral decision-making on the other hand.

Operations can be conducted on a day-to-day basis within the framework of governing committee directions, budget authorization, and general objectives, without reference, generally, to either the committee or fellow officers. The CFO should gain the agreement of fellow officers and, when warranted, specific direction from the governing committee, when making far-reaching decisions. This should be considered a protection against criticism for decisions made, rather than a restriction on the CFO's authority.

104.02 Relationship of Departments to Budgets - GCWP S 05 15 states, "All denominational organizations shall follow the budget plan of financial operating. The annual operating budget shall be approved by the controlling committee." The approval of a budget by a governing committee generally constitutes authorization for the administration to spend specified amounts to accomplish various functions. However, such authorization should not be construed as unlimited discretion over how to spend the total amount of the budget. It is the duty of the CFO, through tactful counsel and the exercise of wise leadership, to work with operating personnel to help ensure that budgetary allocations are expended efficiently and effectively.

104.03 The Governing Committee - While the governing committee is the employer directing the organization's officers, the CFO has a responsibility to give information and advice to the governing committee. The ultimate decision-making power, according to denominational policy, rests with the governing committee. GCWP requires governing committee action in the following matters: appropriations to other organizations, response to auditor's reports, adoption of budgets, and monitoring of the results of financial activity.

104.04 Related or Affiliated Organizations - The denomination operates through a variety of organizations. Many of these entities are affiliated with each other, typically through financial support or the ability to select members of governing committees. Such terms as "related, affiliated, controlled, parent, or subsidiary" describe these various relationships. The nature of the relationship between two denominational entities affects the type of financial statements each of those entities is required, or allowed, to produce. This is discussed in Chapter 6.

104.05 Audits and Auditors - GCWP requires an annual audit of the financial records of all entities subject to audit by GCAS (see section 102.06). Management is responsible to ensure that the accounting records are maintained and financial statements are produced in accordance with generally accepted accounting principles. The auditor is responsible to examine the financial statements, related records, and underlying evidence for the purpose of expressing an opinion on the fairness of presentation of the financial statements. In connection with the examination, the auditor will also report to management and the governing committee any significant deficiencies that have been observed in the organization's internal control process (see Glossary for definition).

In addition to these assigned functions, GCAS is one of the resources available to CFOs to address accounting problems and to provide information. GCAS can particularly assist in analyzing such areas as internal control processes, changes in accounting, methods of processing accounting data, financial statement note disclosures, and possible solutions to specific accounting problems.

104.06 Financial Audit Review Committee - GCWP SA 15 05 requires each organization's governing committee to establish a Financial Audit Review Committee. This committee has responsibility to study the auditor's reports and letters to management, and management's response to the auditor. This committee then makes recommendations to the organization's governing committee.

Section 201 - Introduction

201.01 Users of Financial Statements - An organization's financial statements are of interest to management, the governing committee, constituents, contributors, affiliated entities, banks, and others. These users make financial decisions based on those financial statements. The financial reports and the accounting system from which they are derived must be organized to provide the desired information in terms and format which users can understand.

201.02 Objectives of Financial Statements - The objectives of the financial statements of not-for-profit organizations are somewhat different from those of profit-oriented entities. Profit-oriented business financial statements emphasize the use of assets for production of income for the benefit of owners or shareholders. In contrast, the financial statements of a not-for-profit organization serve the following objectives:

- Communicate the ways resources have been used to carry out the organization's objectives
- Report the nature, amount, and net change in available resources
- Describe the organization's principal functions and the resources allocated to those functions
- Disclose the restrictions imposed by donors or other providers over the use of resources
- Enable the reader to evaluate the organization's ability to carry out its mission and objectives

201.03 Financial Statement Format - International GAAP consists of accounting and reporting principles that are intended to apply to all types of organizations. However, the IASB acknowledges that those standards use terminology that is suitable for profit-oriented businesses. Therefore, it allows not-for-profit enterprises to adapt the suggested financial statement formats to be more useful for their particular needs. In accordance with that flexibility, and to ensure comparability, the Seventh-day Adventist denomination has established specific financial statement formats for various types of organizations. These formats are discussed in Chapters 6 and 7.

201.04 Accrual Basis of Accounting - The accrual basis of accounting is required for financial reports to be presented in accordance with GAAP. The accrual basis is widely accepted as providing a more complete record of an entity's assets, liabilities, revenues, and expenses than the cash basis of accounting. Financial statements prepared on the accrual basis inform users about revenue that has been earned and expenses that have been incurred, using multiple criteria in addition to the receipt or payment of cash. This Manual continues the denomination's historical position, and requires use of the accrual basis of accounting.

201.05 Examples of Accrual Basis Accounting - Under the accrual basis, goods and services purchased should be recorded as assets or expenses at the time the liability to acquire or pay for them is incurred, not when the account is paid. For example, an invoice for electricity or telephone service is recorded as an expense and an account payable when the invoice is received, rather than when the bill is paid. In the same way, revenue and related assets are recorded when the transactions are consummated and the defined right of ownership of the asset passes, not just when the physical transfer takes place. For example, tithe donated by church members is accrued by the respective conference/mission as an account receivable and income as of the period in which the donation was given to the local church, not when the money is actually remitted by the church and received by the conference.

On the other hand, outstanding purchase orders and other commitments for future acquisition of materials or services should not be reported as expenses or included in liabilities until the other party to the transaction agrees to complete it. This does not prevent the disclosure of significant commitments of resources in the notes to the financial statements, nor does it prevent a designation in the financial statements of the portion of net assets so committed.

Section 202 - Financial Statement Structure

202.01 Required Financial Statements -International GAAP requires a complete set of general-use financial statements to include: a statement of financial position, an income statement, a statement showing changes in equity, a cash flow statement, and certain explanatory notes. It also allows not-for-profit entities to modify the financial statement titles, line items, and applicable content to suit their needs. It does not provide any guidance on what those modifications might consist of, so this Manual explains the modifications developed by the SDA Church.

For organizations that use fund accounting, the general-use format is modified as follows. Each of the basic financial statements will be prepared for each fund. Notes to the financial statements are not required for each fund. Supporting schedules will be included to provide adequate disclosure about various elements.

The following paragraphs summarize the content of the financial statements, and in most cases apply to financial statements for either the organization as a whole or any individual fund alone. Discussion about these requirements may be found in Chapters 6 and 7. Illustrative financial statements for an organization as a whole, and for individual funds where applicable, are included in the Appendices for each type of organization.

202.02 Financial Position - The Statement of Financial Position presents the financial position of an entity (its assets, liabilities, and net assets) at a specific point in time. Historically, international GAAP used the title "balance sheet," but that has recently been changed to the more-contemporary title "statement of financial position." The illustrative financial statements in this Manual will use the title "Statement of Financial Position."

Although optional by GAAP, this Manual requires all denominational entities to present assets and liabilities in a classified format, that is, with sub-totals for current and noncurrent assets and liabilities. Also, to highlight the nature of equity as the residual of assets minus liabilities, and to avoid confusion between entities that do or do not use fund accounting, this Manual refers to the equity group of accounts as "net assets" rather than "fund balance." Chapters 6 and 15 discuss net assets further.

202.03 Financial Activity - The statement of financial activity presents the activities of an entity over a period of time. For not-for-profit entities, the scope of this statement is broader than that of a business-oriented income statement. It includes revenue, expense, gains, losses, and for entities that use fund accounting, transfers between funds (which will net to zero for the organization as a whole). It also separates these activities between operating and nonoperating activity. Further details are discussed in Chapters 6 and 15.

202.04 Committee Designations versus Donor Restrictions - Financial activity and net assets are classified in ways that maintain accountability for resources that are intended for specific purposes. The term "allocated" is synonymous with the term "designated" and describes resources which have been designated for particular programs or projects by the entity's governing committee. Since the committee may designate resources for a particular use, they also have the authority to re-direct the use of these resources to some other purpose at any time.

On the other hand, the term "restricted" describes resources that have been given by donors with express instructions to be used for specific programs or projects. Neither management nor a governing committee can change the nature of a donor-restricted resource. The accounting records must be designed in a manner that maintains the distinction between "allocated" and "restricted" resources. These concepts are discussed in detail in Chapter 15.

202.05 Cash Flows - The statement of cash flows provides relevant information about cash receipts and cash payments during a period. The statement reports receipts and payments according to their character as either operating, investing, or financing activities. Separate disclosure of noncash investing and financing activities is also required. Preparation of a statement of cash flows makes reference to amounts in both the statement of financial position and the statement of financial activity. See Chapter 6 for further discussion.

202.06 Schedule of Working Capital and Liquidity - Working capital is defined as the excess of current assets over current liabilities. GCWP T 15 05 recommends that each denominational entity maintain a specified minimum amount of working capital. It recommends percentages and formulas to be used by various types of entities to calculate that amount. Historically, denominational financial statements have included a schedule of working capital and liquidity. Although not required by GAAP, this schedule is a note that is required by this Manual, and is illustrated as the last of the notes to the financial statements.

The schedule discloses the organization's actual working capital, a comparison of actual to the amount recommended by policy, and the percentage of actual to recommended at the financial statement date. The schedule also includes a computation of net liquid assets available for operations. Net liquid assets are defined as cash and cash equivalents, certain investments, receivables from the next higher denominational entity, and church remittances receivable, less all current liabilities and the balances of all allocated capital functions.

Section 203 - Structure and Control

203.01 Account Structure - Because the financial statements are compiled from the accounting ledger, the account structure used by the ledger must be organized in a manner that identifies and arranges the accounts to correspond to the required financial statement presentation. It is appropriate to determine the form of financial statement presentation first, and then to design the ledger account structure to meet the reporting needs. Chapter 4 describes elements of the account structure, including the minimum account structure required for use by all denominational entities. This minimum account structure is to be used regardless of which accounting software they use to produce the reports.

203.02 Internal Control - The management of each entity is responsible to design and operate a system of internal control that ensures the orderly and efficient conduct of the entity's activity. This includes adherence to policies, safeguarding of assets, prevention and detection of error and fraud, accuracy and completeness of accounting records, and timely preparation of reliable financial reports. The use of a computerized information system does not negate the need for other internal control considerations. A computerized information system can be an important part, but it is only one part of the internal control system. All parts must work together to meet the objectives of internal control. The design and operation of an adequate internal control system is discussed in Chapter 3.

Section 204 - Financially Related Organizations

204.01 Organizational Relationships - The organizational plan of the SDA Church comprises several levels, as discussed in Section 102.02. These organizations are closely related in many respects; operating under uniform denominational working policies, having overlapping memberships on governing committees, and giving and receiving appropriations of resources. Which financial statements of these various organizations should be consolidated? The following sections discuss this complex topic.

204.02 Consolidation of Entities - International GAAP requires the financial statements of a controlling organization (parent) to be consolidated with all entities that it controls (subsidiaries). In the Seventh-day Adventist denomination, due to its representative form of organization, entities on one level of organization do not control entities on another level. (For example, union conferences do not have organizational control over local conferences.) However, union and conference entities do frequently control other entities on the same level of organization.

204.03 Application of the Standard - The goal of meaningful and informative financial statements makes it desirable for organizations to maintain the practice of separate reporting by churches, local conferences and missions, union conferences and missions, divisions, and General Conference, respectively. However, the application of GAAP requires denominational organizations, particularly conferences/missions/fields, to analyze their relationships with affiliated entities, such as book centers and secondary schools (academies). Further guidance on consolidations is given in Chapter 6.

204.04 Combination of Entities - The general consolidation principles do not apply to situations in which two or more entities have a common constituency but neither entity controls the other. For example, in some countries the denomination holds title to land in the name of a legal entity other than the administrative entity or entities which use the property. The governing committees of these entities are typically chosen by the same constituency, or the officers of one entity serve on the governing committee of another entity by virtue of their position. As a result, the entities are effectively under common control. In many cases, the property-holding entity is so closely related to the operation of an administrative entity that it is meaningful to combine the information for both entities into one set of financial statements. The same principle may also be applied to other situations involving commonly controlled entities. Additional guidance is given in Chapters 6 and 7.

204.05 Related Party Transactions - GAAP requires the financial statements and notes to identify "related parties" and to disclose the balances and transactions between those parties and the reporting entity.

GAAP defines related parties in the following manner:

A party is related to the reporting entity if:

a. directly, or indirectly through one or more intermediaries, the party:
   controls, is controlled by, or is under common control with, the reporting entity,
   has an interest in the reporting entity that gives it significant influence over the entity, or
   has joint control over the reporting entity;

the party is a member of the key management personnel of the reporting entity or its parent (executive officers, vice-presidents, and members of the entity's governing committee); or

b. the party is a post-employment benefit plan for the benefit of employees of the reporting entity or of any organization that is a related party of the reporting entity.

For any party that meets the above definition, GAAP requires the following disclosures:

- the nature of the relationship between the party and the reporting entity,
- the balance of any account or loan receivable or payable between the party and the reporting entity, including terms and conditions for repayment and whether the balance is secured,
- the expense recognized during the reporting period for uncollectibility of any balances listed in (b),
- a total for transactions, by type, between the party and the reporting entity
- (Contributions made to an organization by its governing committee members, officers, or employees need not be separately disclosed if the contributors receive no reciprocal economic benefit.), and
- for the key management personnel as a group, the amount of their total compensation apart from that of all other employees.

Section 205 - Fund Accounting

205.01 Need for Fund Accounting - GAAP does not require the use of fund accounting, but allows it to be used if considered necessary. Fund accounting is used when the segregation of resources into funds is the best way to monitor and report on the entity's stewardship responsibility. Entities that use fund accounting should have at least an Operating Fund and a Plant Fund. Entities may establish other Funds as considered necessary to serve the needs of the users of their financial statements.

Each denominational entity must determine whether the cost and accumulated depreciation related to land, improvements, and buildings used by the entity should be included in its financial statements. Appendix 13A provides guidance about factors to consider, and contains illustrations of many, but not all, possible relationships between property owners and users.

For conferences, missions, colleges, and universities, the denomination has established the following principles. If it is determined that the conference, mission, college, or university financial statements should include land, improvements, and buildings, this Manual requires the use of fund accounting. If it is determined that the conference, mission, college, or university financial statements should not include land, improvements, or buildings, but include only equipment and furnishings, this Manual allows the entity to choose whether to use fund accounting.

The denomination does not require fund accounting for other entities, such as secondary schools, publishing houses, book centers, literature evangelism organizations, healthcare entities, or industry operations. This Manual recommends consideration of fund accounting for those secondary schools which have significant endowment or other funds in addition to accounts used for operating and property purposes, or which have ownership of significant plant-related assets.

205.02 Definition of Fund Accounting - Fund accounting is the procedure by which resources are classified for accounting and reporting in accordance with activities, objectives, or limitations that are either specified by donors, imposed by outside sources, or designated by the governing committee. Thus, for applicable organizations, the account structure enumerates one or more operating funds, a separate fund for accounts related to land, buildings, and equipment, and separate funds for each of several other possible categories of activities. This segregation within the total accounting system allows separate reports to be produced for selected segments of the organization.

205.03 Definition of a Fund - A fund, in this context, is defined as a separate accounting entity with a self-balancing set of accounts for recording assets, liabilities, net assets, and financial activity. While separate funds are maintained in the account structure, funds with similar characteristics may be combined for reporting purposes. Further discussion about fund accounting is given in Chapters 6 and 7. Examples of funds combined for statement presentation are given in the illustrative financial statements in the Appendices for relevant organizations.

205.04 Property or Plant Funds - Several terms related to land, buildings, and equipment have historically held different meanings in different places. To some, the term “property” means only land, or only land and buildings, but not equipment and furnishings. To some, the term “plant” means buildings and equipment that are used only for factory or industrial purposes. In the interest of uniformity, for those entities that are required to use fund accounting, this Manual uses the term “Plant Fund” for the fund that includes all the accounts related to the entity’s land, land improvements, buildings, equipment, and furnishings. Also, for the related Statement of Financial Position line item, this Manual refers to “land, buildings, and equipment” rather than “plant and equipment” or “property, plant, and equipment.” (Note that if an entity holds land or buildings only for future sale or only for long-term appreciation in value, those assets are usually held in a fund other than the plant fund.)

Section 301 - Characteristics of Internal Control

301.01 Definition of Internal Control - Internal control is the process designed and implemented by management and individuals charged with governance to provide reasonable assurance about achievement of the entity's objectives. Those objectives include reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control is designed and implemented to address identified risks that threaten the achievement of those objectives.

Internal control consists of the following inter-related components:
- The control environment
- The risk assessment process
- Information and communication
- Control activities
- Monitoring of controls

301.02 Limitations of Internal Control - Because of inherent limitations, no internal control process can provide absolute assurance that all the entity's objectives will be met. These limitations include:

- Human judgment can contribute to errors in the design of internal control
- Individuals can make errors in the application of specified internal controls
- Two or more individuals can circumvent controls through collusion
- Individuals, especially those in management, can over-ride or disable internal controls
- Human judgment can affect decisions about which internal controls are cost-effective
- The extent of segregation of duties can be limited in smaller entities

301.03 The Control Environment - The control environment sets the tone of an organization, influencing the control consciousness of all its employees and the individuals charged with governance. It includes the attitudes, awareness, and actions of those individuals concerning the importance of internal control. It is the responsibility of those charged with governance and management to design internal controls that will help prevent and detect error and fraud. The control environment includes the following elements:

- Communication and enforcement of integrity and ethical values
- Commitment to competence in skills and knowledge
- Participation by those charged with governance
- Management's philosophy and operating style
- The organizational structure
- Assignment of authority and responsibility

Smaller entities may implement the control environment factors differently than larger entities. For example, smaller entities might not have a written code of conduct, but instead, develop a culture that emphasizes the importance of integrity and ethical behavior through oral communication and by management example.

301.04 The Risk Assessment Process - Most organizations perform some degree of risk assessment. It may be informal and undocumented or sophisticated and well-documented. The organization's financial reporting objectives may be recognized implicitly rather than explicitly. This process asks questions such as:

- What risks affect the accuracy and integrity of the financial reporting process?
- How significant are those risks?
- How likely is it that such risks will occur?
- What actions are appropriate to address and minimize such risks?

301.05 Information and Communication - This involves the accounting and financial reporting information system as well as the procedures used to communicate that system to employees and others.

The information system includes the procedures and records that are used to initiate, record, process, and report transactions, events, and conditions. It includes procedures to maintain accountability for assets, liabilities, and net assets. Smaller entities with active management involvement may operate with less-extensive descriptions of accounting systems and less-sophisticated accounting records.

The communication system includes procedures and records that inform employees of their respective roles and responsibilities within the accounting and financial reporting process. It includes information about how employees can report exceptions to appropriate levels of management, and how management can communicate with the individuals charged with governance. In smaller entities, communication may be less formal due to fewer levels of organization and management's greater availability and involvement.

301.06 Control Activities - Control activities are the policies and procedures which help ensure that management directives are carried out. Control activities address both manual and information technology processes, and are applied at various organizational and functional levels. Control activities address questions such as:

- Authorization - who initiates and who approves transactions?
- Performance reviews - is each employee meeting his/her responsibilities?
- Information processing - does the system, whether manual or computerized, work as designed?
- Physical controls - are assets guarded against loss or unauthorized use?
- Segregation of duties - are as many people as practical involved in each record-keeping process?

Smaller entities may find that certain control activities are not relevant because of controls applied by management. An appropriate segregation of duties often appears to be difficult in smaller entities. Even then, however, they may be able to assign responsibilities to achieve some segregation of duties, or to use management oversight of the incompatible activities to achieve control objectives.

301.07 Monitoring of Controls - Management not only establishes internal controls, but should continually monitor those controls to determine whether they are functioning as intended. Ongoing monitoring activities are often built into the normal recurring activities of the entity and include regular management and supervisory activities. Such monitoring should include an assessment of the accuracy of the data that is used for periodic testing of controls. The monitoring process also includes determining corrective action when controls are found to be deficient.

Section 302 - General Observations

302.01 Controls Not Employee Specific - The internal control process should be designed to meet the organization's needs and to accomplish stated objectives. It should be documented so that the intended process may be implemented by any employee. Especially in smaller organizations, internal control may be addressed in only an informal manner. Experienced employees may perform these processes out of well-developed habit rather than reference to written procedures. However, when new employees are hired, good documentation is essential to provide understanding and continuity of the process.

302.02 Attention to Errors and Fraud - Internal control is designed to safeguard assets and to enhance the reliability and efficiency of the operation. The internal control process is designed just as much to detect unintentional errors as to discover deliberate fraud. Even the most trustworthy employee will readily admit the possibility of an occasional error, and the need to detect and correct errors on a timely basis.

302.03 Exposure to Temptation - It is a disservice to employees to put them in positions, or to allow them to work under circumstances, which expose them to temptation and make it easy for them to yield. If one eventually succumbs to the pressure, those who have permitted that exposure must share the responsibility.

302.04 Fidelity Bond - GCWP S 45 05 (and similar division working policies) recommends that denominational organizations protect church assets by utilizing a commercial blanket fidelity bond of adequate limits. This policy points out that employees who have committed prior acts of theft or dishonesty are not covered under fidelity bonds. It also requires that where fidelity bonds are not available, entities should allocate funds to cover possible fidelity losses.

302.05 Financial Audit Review Committee - GCWP SA 15 (and similar division working policies) requires the governing committee of each entity to establish a Financial Audit Review Committee to study reports submitted by the auditors as well as management's responses to those reports. This committee is empowered to make recommendations to the governing committee to respond to auditor's reports, and constitutes an important element in setting the control environment of the organization. Appendix 3B lists internet resources available for organizations to obtain guidance about best practices in the operation of an audit committee.

302.06 Conflict of Interest - As discussed in GCWP E 85, committee members, officers, other employees, and volunteers have a duty to be free from influence of any conflicting interests when serving an organization. It also requires the administration to obtain signed statements of acceptance of the conflict of interest policy from committee members and designated employees, and to remind them annually of the duty to disclose potential conflicts of interest. A model statement of acceptance is included in the policy.

302.07 Job Descriptions - Effective internal control depends on clear job descriptions formulated for each accounting and treasury position. Job descriptions should clearly define the duties and responsibilities of the position, the extent of authority specified, and to whom the employee is responsible. The job descriptions should be written cooperatively whenever possible, with input from the personnel themselves. A copy should be given to the individual, and copies of job descriptions for all accounting employees should be held on file by the CFO.

302.08 Evaluation of Personnel - All personnel should be evaluated annually based on their job descriptions and standards of performance. All participants in the process should approach the evaluation in a spirit of constructive exchange of views and with an attitude of helpfulness.

302.09 Segregation of Duties - While it may seem more efficient to assign one whole area of accounting to a single individual, who can become acquainted with every transaction from beginning to end, that can lead to serious internal control risk. Where the size of the entity permits, a small degree of "efficiency" can be given up in the interest of more effective control. It is more difficult in small entities where an ideal separation of accounting duties is not feasible. Practical considerations of cost, relative risk, and relative efficiency must be balanced, and the best possible solution reached under existing circumstances.

302.10 Information Systems Personnel - It is not unusual to find only one or two employees responsible for preparing data for processing, entering data into the computer, and handling and distributing the reports and other documents generated. As far as practical, these duties should be segregated to minimize the opportunity for fraud and errors to occur and remain undetected. To address this issue, some internal control questions related to computerized information systems are presented as Appendix 3A.02.

302.11 Management Involvement - One solution to effective internal control in a small entity is the involvement of senior management in critical control processes, such as review of unusual or non-routine transactions. The CFO may become better acquainted with the day-to-day financial operations of the organization, and avoid the risk of becoming so absorbed in other duties that internal control suffers. If the CFO is already involved in the daily accounting duties, it may be practical for review of significant transactions to be performed by a member of an oversight group, such as an audit committee or finance committee.

302.12 The Auditor's Review - As part of their annual audit of the financial records of the organization, auditors will obtain an understanding of the internal control process. They do this to help determine the extent of their own procedures for verifying recorded transactions. Also, auditing standards require them to submit a written report to management and the governing committee identifying material weaknesses they observed in internal control. This report is intended to be given in a spirit of constructive criticism to help the organization attain its objectives.

302.13 Questions to Ask - As a resource for management and governing committees, two internal control questionnaires are included in this Manual. Appendix 3A.01 relates to internal controls in general and Appendix 3A.02 relates to internal controls over computerized information systems. Each question is written so that a “yes” answer represents a desirable condition, while a “no” answer indicates a potential weakness in controls.

Appendix 3A.01 General Internal Control Questions

The following questions are designed to help the governing committee evaluate the internal control process. “Yes” answers indicate desirable conditions, and “no” answers indicate potential weaknesses.

I. Control Environment	YES	NO	N/A
1. Are the duties and responsibilities of the governing committee and of management clearly defined and documented in writing?	____	____	___
2. Does the governing committee meet in regularly scheduled meetings, and are clear written minutes kept of all their meetings?	____	____	___
3. Is sufficient information provided to the governing committee in a manner that allows adequate and timely monitoring?	____	____	___
4. Is the governing committee advised of sensitive information, investigations, or improper acts of employees on a timely basis?	____	____	___
5. Does the governing committee take sufficient follow-up action when needed?	____	____	___
6. Do management and the governing committee take measures to minimize the organization’s exposure to potentially contentious legal issues?	____	____	___
7. Does the entity have a current approved organization chart?	____	____	___
8. Is the organizational structure appropriate for the entity’s size and function?	____	____	___
9. Does top management demonstrate a concern for internal control by performing important internal control activities?	____	____	___
10. Does top management encourage and support compliance with denominational working policies?	____	____	___
11. Does management use conservative accounting assumptions in preparing financial reports?	____	____	___
12. Does management seek outside counsel and adequate discussion when faced with potentially contentious accounting issues?	____	____	___
13. Does management use a conservative approach to the investment of funds?	____	____	___
14. Is the entity free from external influences (e.g., tax regulations, bank loan covenants) that could generate pressure on management to modify normal accounting and reporting policies?	____	____	___
15. Has management established a control environment that minimizes biases that may affect accounting estimates and other judgments?	____	____	___
16. Are background checks made before hiring key employees, and are the results of these investigations adequately considered by management?	____	____	___
17. Are there regular evaluations of personnel performance?	____	____	___

Appendix 3A.01 General Internal Control Questions

I. Control Environment (continued)	**YES**	**NO**	**N/A**
18. Does the workload permit management and accounting personnel the time to be alert to the quality of their work?	____	____	___
19. Are controls over the authorization of transactions established at an appropriate level of management?	____	____	___
20. Are there procedures to ensure a smooth transition of duties in the event that key treasury or accounting personnel leave employment?	____	____	___
21. Has a formal code of conduct been adopted, with policies on conflicts of interest, and are employees required to make a declaration of compliance with it?	____	____	___
22. Do accounting personnel appear to have the background, education, and experience appropriate for their assigned duties?	____	____	___
23. Is adequate training provided for new accounting personnel?	____	____	___
24. Do job descriptions exist, listing specific responsibilities for key personnel?	____	____	___
25. Have employee job responsibilities including specific duties, reporting relationships, and constraints been clearly communicated to them?	____	____	___
26. Are accounting personnel required to take mandatory vacations, and are their duties rotated when they are on vacation?	____	____	___
27. Do personnel have a clear understanding of the types of problems that should be reported to management or the governing committee?	____	____	___
28. Are employees encouraged to report suspected improprieties to management or the governing committee?	____	____	___
II. Control Activities			
1. Has management identified risks relevant to the financial reporting process?	____	____	___
2. Has management identified risks associated with safeguarding of assets?	____	____	___
3. Does management have a plan to manage the risks they have identified?	____	____	___
4. If there are risks relevant to financial reporting that management has decided to accept because of cost or other considerations, are the effects considered to be immaterial to the financial statements?	____	____	___
5. Does management or the governing committee take appropriate follow-up action for identified problems or weaknesses in internal controls?	____	____	___
6. Do employees (including management) keep personal accounts and transactions separate from those of the entity?	____	____	___

Appendix 3A.01 General Internal Control Questions

II. Control Activities (continued)	**YES**	**NO**	**N/A**
7. Has the entity purchased a fidelity bond covering all employees who handle cash, securities, and other valuable assets?	____	____	___
8. Is the segregation of duties sufficient, given the size and complexity of the organization and treasurer involvement, to avoid incompatible duties within: the accounting function?	____	____	___
computer operations and programming functions?	____	____	___
9. Are budgets approved by the governing committee?	____	____	___
10. Are financial statements prepared at frequent regular intervals?	____	____	___
11. Do management and the governing committee compare actual results with budgets at regular intervals?	____	____	___
12. Are significant accounting estimates reviewed and approved by senior treasury personnel?	____	____	___
13. Are all journal entries approved before entry?	____	____	___
14. Does someone independent of the related accounting function analyze and reconcile significant accounts on a timely basis?	____	____	___
15. Are periodic comparisons made between actual assets and recorded assets?	____	____	___
16. If significant donations or other revenue are received in cash, are there adequate procedures to protect against theft or loss?	____	____	___
17. Are there sufficient procedures to ensure that restricted donations are properly identified and recorded?	____	____	___
18. Are there sufficient procedures to ensure that management monitors compliance with donor-restricted and committee-designated resources?	____	____	___
19. Has management established policies and procedures to accept and utilize comments or complaints from constituents or other third parties?	____	____	___
20. Has the nature of the entity's computer information system been considered in deciding which control procedures to implement?	____	____	___
21. Have appropriate information systems contingency plans been developed to ensure continued operation in the event of a disaster?	____	____	___
22. Are there policies and procedures that limit access of personnel to data, computer equipment, and computer programs?	____	____	___
23. Has management established procedures for authorizing transactions and approving changes to computer programs?	____	____	___

Appendix 3A.02 Questions Related To Computerized Information Systems

The following questions are designed to help the governing committee evaluate internal controls that relate to a computerized information system. Problems that might occur with any computer system include: human errors, hardware or software failures, computer abuse, and catastrophe. "Yes" answers indicate desirable conditions, and "no" answers indicate potential weaknesses.

	YES	NO	N/A
I. Organizational Controls			
1. Is the information systems (IS) department structurally independent of the departments it serves?	____	____	___
2. Are IS personnel prohibited from initiating or authorizing accounting or financial transactions?	____	____	___
3. Are IS personnel prohibited from initiating changes to master files, or are appropriate procedures followed to control such changes?	____	____	___
4. Are reports of changes given to departments that initiated the changes?	____	____	___
5. Are appropriate procedures followed when IS personnel make corrections to errors in data files or software applications?	____	____	___
6. Is there adequate separation of duties between programmers, system administrators, and computer users?	____	____	___
7. Are the duties of IS personnel rotated periodically?	____	____	___
8. Are IS personnel required to take annual vacations of at least one continuous week, and during the vacationing person's absence are their duties performed by other personnel?	____	____	___
II. Access Controls			
1. Is a specific employee assigned the responsibility for IS security?	____	____	___
2. Are there adequate physical controls to ensure that access to computer facilities is restricted to authorized personnel?	____	____	___
3. Are programmers restricted from access to live operations and data files?	____	____	___
4. Are procedures in place to prevent testing of new or revised software applications on live current data files?	____	____	___
5. Are software users prohibited from having access to source code and programming documentation?	____	____	___
6. Is access to application processing parameter databases restricted to authorized personnel?	____	____	___
7. Are software utilities that can alter data or applications adequately controlled, and is their usage logged for subsequent review?	____	____	___
8. Is access control software used for terminals and workstations so that:			
a. Access is limited to specified persons?	____	____	___
b. Individuals have access to only those applications or files that are necessary to perform their duties?	____	____	___

Appendix 3A.02 Questions Related To Computerized Information Systems

	YES	NO	N/A
II. Access Controls (continued)			
9. If passwords are used to control terminal or workstation access:			
a. Are procedures established to determine that those passwords are confidential and unique?	____	____	___
b. Are passwords changed at regular intervals?	____	____	___
c. Are passwords promptly cancelled for terminated employees?	____	____	___
10. When IS personnel are terminated:			
a. Are they released from sensitive duties immediately?	____	____	___
b. Is their access to the IS system suspended immediately?	____	____	___
c. Are their actions appropriately supervised until their departure from the premises?	____	____	___
11. Are there procedures to prevent remote access to the network through dial-up, Internet, VPN, or other means?	____	____	___
12. If confidential or sensitive data is transmitted via public carrier networks, are protection methods (carrier security, encryption, etc.) used to prevent or detect unauthorized access?	____	____	___
13. For internal network traffic, are procedures that are commensurate with data sensitivity in place to provide security over transmission of data across the network?	____	____	___
14. Are intrusion detection systems in place on the internal network?	____	____	___
15. Has all data been classified and has appropriate risk ranking been established to support and provide evidence for network security controls?	____	____	___
16. For centralized data centers, are there appropriate controls over access to system administrator instruction manuals?	____	____	___
17. For decentralized client server systems, are there appropriate education, training, and support materials available over the server for the system administrator and security administrator?	____	____	___
III. Operational Controls			
1. Are schedules prepared and followed for processing of data through specified software applications?	____	____	___
2. Are changes to work schedules appropriately authorized?	____	____	___
3. Are logs used to record system administrator activities?	____	____	___
4. Are system administrators required to report system failures, restart and recovery, or other unusual incidents, and are those reports reviewed by an appropriate official?	____	____	___

Appendix 3A.02 Questions Related To Computerized Information Systems

	YES	NO	N/A
III. Operational Controls (continued)			
5. Are system administrator instruction manuals available to each system administrator?	____	____	___
6. Are there appropriate procedures to monitor system administrator compliance with prescribed operating procedures?	____	____	___
7. Are there appropriate procedures for back-up and storage of software applications and data files?	____	____	___
8. Is there documented background screening of IS personnel?	____	____	___
9. Are periodic security briefings provided for IS personnel?	____	____	___
10. Are there appropriate procedures to prevent test versions of software applications from being run on live current data, and to control such tests when it is necessary to run them?	____	____	___
11. Are there appropriate controls for situations when outside third parties (such as vendors from whom software is licensed) are permitted to sign on to the client's system, for example, to perform problem detection and resolution procedures?	____	____	___
IV. Disaster Recovery and Contingency Planning			
1. Have contingency plans been developed for alternative processing in the event of loss or interruption of the IS function?	____	____	___
2. If contingency plans have been developed, have they been tested for adequacy in the event of a disaster?	____	____	___
3. Is off-premises storage maintained for:			
a. Master files and transaction files sufficient to recreate the current master files?	____	____	___
b. Application software and related documentation?	____	____	___
c. Copies of the contingency plans?	____	____	___
4. Are copies of the backup files for the following items tested periodically to make certain they are usable:			
a. Software copies?	____	____	___
b. Master files?	____	____	___
c. Transaction or transaction history files?	____	____	___
Do contingency plans include procedures for replacing employees who may be injured or otherwise unavailable as the result of a disaster?	____	____	___

Appendix 3B - Resources for Audit Committees

Audit committees can find many resources on the Internet to help them learn more about their roles, responsibilities, and functions. Some of the resources available are listed below, in alphabetical sequence.

American Institute of Certified Public Accountants www.aicpa.org

The AICPA has developed an Audit Committee Toolkit to aid audit committee members in performing their functions. The AICPA produces publications on accounting, financial reporting, technology, and other relevant topics.

Some additional online resources useful to audit committees include:

- Audit Committee Effectiveness Center at www.aicpa.org/acec
- Anti-fraud and Corporate Responsibility Resource Center at www.aicpa.org/antifraud

Committee of Sponsoring Organizations of the Treadway Commission www.coso.org

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a voluntary private-sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. Originally formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, COSO has released numerous influential publications, including *Internal Control—Integrated Framework*.

Conference Board www.conference-board.com

The Conference Board is a global, independent membership organization that creates and disseminates knowledge about management and the marketplace to help businesses strengthen their performance and better serve society. They conduct research, convene conferences, make forecasts, assess trends, publish information and analysis, and bring executives together to learn from one another.

Ethics Resources Center www.ethics.org

The Ethics Resources Center (ERC) is a nonprofit, nonpartisan educational organization whose vision is a world where individuals and organizations act with integrity. Their mission is to strengthen ethical leadership worldwide by providing leading-edge expertise and services through research, education and partnerships. Especially useful are their resources on business and organizational ethics.

Financial Executives International www.fei.org

Financial Executives International (FEI) is a professional association for senior level financial executives including chief financial officers, VPs of Finance, Controllers, Treasurers, and Tax Executives. They provide peer networking opportunities, emerging issues alerts, personal and professional development and advocacy services.

Institute of Management Accountants (IMA) www.imanet.org

The Institute of Management Accountants (IMA) is a professional organization devoted to management accounting and financial management. Its goals are to help members develop both personally and professionally, by means of education, certification, and association with other business professionals. A respected leader within the global financial community, the IMA influences the concepts and ethical practices in management accounting and financial management.

IT Governance Institute www.itgi.org

Established by the Information Systems Audit and Control Association and Foundation (ISACA) in 1998, the IT Governance Institute (ITGI) exists to assist enterprise leaders in understanding and guiding the role of IT in their organizations. ITGI helps senior executives to ensure that IT goals align with those of the business, deliver value, and perform efficiently, while IT resources are properly allocated and its risks mitigated. Through original research, symposia and electronic resources, ITGI helps ensure that boards and executive management have the tools and information they need to effectively manage the IT function.

Section 401 - The Goal - Required Financial Reports

401.01 General-use Financial Reports - The account structure must ultimately support preparation of the required financial statements. This includes combining all funds of an organization that uses fund accounting, and consolidating or combining affiliated organizations when appropriate. The required statements consist of a statement of financial position, statement of financial activity, statement of changes in net assets, and statement of cash flows. For organizations that use fund accounting, these statements will generally display the funds in columns, as illustrated in the Appendices for the different types of organizations. Usually, there will be columns with comparative totals for the organization as a whole for the current and prior years.

401.02 Reports for Single Funds - As building blocks for the general-use statements, the account structure must support the preparation of the same four statements (financial position, financial activity, changes in net assets, and cash flows) for each fund that is used. It should support the preparation of detail schedules for each line item in those financial statements. It should also be able to generate the expanded detail of operating fund activity illustrated by Note 18 in Appendix 17A.05. Further, as an optional report, the system should be able to generate a schedule of activity by both object and function, as illustrated in Appendix 17E.07.

401.03 Asset and Liability Schedules - The statement of financial position normally contains a line for each specific type of asset, liability, and net assets. Subtotals and totals are calculated for major groups of accounts. To support this data, the account structure should provide for preparation of schedules listing the individual accounts and balances that make up each total or sub-total. Although it should have the capability of producing schedules for all assets and liabilities, the system should have the flexibility to allow management to produce only selected schedules, based on the needs of management and the governing committee.

401.04 Financial Activity Schedules - The statement of financial activity contains a line for each category of revenue, each type of expense, and each gain, loss, or transfer category. Unless country-specific standards require a specific presentation, denominational entities can choose whether to present expenses by object or by function. Each schedule of financial activity by object should indicate which fund or function it relates to. The system should be able to produce a schedule of financial activity for each function, which would report beginning balance, revenue and expense items, gains and losses, transfers, and ending balance for that function.

The connection between these schedules for individual functions and the overall statement of financial activity is reflected in the statement of changes in net assets. To support these various types of reports, every account in the account structure must be linked in some manner to an object as well as to a function.

401.05 Statement of Cash Flows - The statement of cash flows is an analytical tool that focuses on receipts and payments of cash and cash equivalents. Because it presents data that is calculated or taken from the other financial statements, it is not generated solely from the account structure.

Section 402 - Account Structure Definitions

402.01 Rationale for Structure - Because the financial statements are compiled from the accounting ledger, the account structure must be organized in a manner that identifies and arranges the accounts to correspond to the required financial statements. To allow a variety of reports to be generated for management and general use, the denomination has adopted a four-segment account structure. **To ensure comparability, this four-segment account structure is to be used by all entities.**

402.02 Essential Segments - The four essential segments of the account structure are: Fund, Function, Restriction, and Object. This Manual recognizes that various accounting software may arrange the account structure segments in different ways. For example, the SunPlus software configured and recommended by the GC starts with the Object (called the Class Code) and uses "analysis codes" to designate the fund, function, and restriction segments. Other software may use a different approach, such as entering segment numbers as part of one overall account number. Under that approach, the segments of the account number would usually be arranged in sequence by Fund, Function, Restriction, and Object. **Regardless of the software used to produce the financial reports, the account structure must incorporate this four-segment approach.**

402.03 Funds - Funds are large groups of accounts that have all the necessary elements of a self balancing ledger; assets, liabilities, net assets, revenue, and expenses. Regardless of how many funds are used, each one must follow the principle of being a self-balancing ledger. Some kinds of organizations use only one fund, while others use a number of funds within the concept of fund accounting (see Section 205.01). For each fund, the account structure should allow the entity to produce financial reports and supporting schedules as described in Chapter 7. For entities with multiple funds, the account structure should be applied uniformly, so that they can easily generate the general-use financial statements described in Chapter 6. For entities that have only a single fund, the accounting software may provide for omitting the fund segment.

402.04 Functions - Functions are groups of accounts that identify and help analyze the financial activity for a specific department, program, or cost center. Functions encompass the activity of committee-allocated funds as well as unallocated funds and other groupings of activity as desired. Each function will contain related accounts for beginning balance, revenue, expenses, and if applicable, transfers, which will allow the system to calculate each function's ending balance. The account structure should allow the entity to produce a schedule of financial activity for each function, as described in Chapter 7. Functions are grouped into categories that relate to specific line items in the statement of financial activity. Functions may be added as needed, but must conform to the categories specified in the required financial statements for each type of organization.

402.05 Restrictions - The restriction segment identifies specific purposes for financial activity and related net asset accounts, and indicates the account is either tithe, non-tithe, or donor-restricted. (See Section 202.04 regarding the distinction between donor-restricted and committee-allocated resources.) For asset and liability accounts, the accounting software can either omit the restriction segment or use a zero to designate such accounts. See Chapters 6 and 15 for further discussion about how to identify these characteristics.

402.06 Objects - Objects are a means of identifying specific assets, liabilities, balances, income, expenses, gains, losses, and transfers regardless of the fund or function they relate to. Objects may be divided into general, specific, and sub-classifications, as necessary. The numbering of the objects has been designed to sort accounts and produce financial reports in the required formats. By their nature, similar objects will be repeated across different functions and funds. To prepare computer-generated reports, the object number will be either the least significant or the most significant segment to be sorted, depending on the report desired.

The object segment uses a minimum of 3 digits, but can be expanded as needed. For accounts like cash, investments, and receivables (if a subsidiary ledger is not used), the number would be expanded to provide ledger accounts for each actual account within the various categories. For example, if the entity held fewer than ten bank checking accounts, object 102 could be expanded into a range of numbers from 1021 to 1029 for the bank accounts. If the entity held more than 100 accounts of a particular type, they would probably use at least 6 digits for each object number. For example, if the entity held investments in a large number of time deposits, object 113 could be expanded into a range of numbers from 113001 to 113999 for long-term time deposits.

Section 403 - Account Structure Detail

403.01 Account Relationships - The number assigned to any account will determine where the balance for that account will appear in the financial reports. Different segments of the number will determine which account balances will be grouped together and totaled for different levels of reporting. For this reason it is important to understand which reports are desired at each level of reporting and how they build on and reconcile to each other. Every employee who is involved in the accounting process should have access to a printed copy of the account structure for the organization, listing every account and its intended purpose.

403.02 Activity Details - Financial activity is reported by either object or function, depending on the report being produced. This means the accounting software must be able to sort and retrieve data on both paths (objects and functions). The sort sequence for production of an account listing, a trial balance, general ledger detail, and supporting schedules for financial activity would typically be: Fund; Function; Restriction; Object. The sort sequence for production of the financial statements, and supporting schedules for assets and liabilities, however, would typically be: Object; Fund; Function; Restriction.

403.03 Selection of Software To encourage uniformity and comparability, the denomination has modified a software application (known as SunPlus) to implement this account structure, and has made that software available to all denominational entities. Although organizations can choose to obtain other accounting software, the GC recommends the use of SunPlus.

403.04 Segments Illustrated - The following outline defines the four segments of the account structure. Also, for organizations that use accounting software other than SunPlus, it illustrates how the segments might be represented by an account number. As indicated in Section 402.02, various accounting software can arrange these segments in different ways, but the software must provide for each segment.

12.12345.1.123456	**Account number**; consisting of four segments, each separated by a hyphen, period, or similar character. Each individual account will have a separate unique number.
12.xxxxx.x.xxxxxx	**Fund**; 2 digits, to separate the respective self-balancing groups of accounts. This segment can be omitted for entities that are not required to use fund accounting.
xx.**12**345.x.xxxxxx	**Function**; minimum of 2 digits, expandable as necessary; numbered in sequence to group accounts according to allocated fund, department, program and support functions, or other criteria. Numbered so that similar functions within different funds can be combined on the same line on the financial statements.
xx.xxxxx.**1**.xxxxxx	**Restriction**; 1 digit required, to indicate whether financial activity and net asset accounts are restricted for the use of any particular purpose.
xx.xxxxx.x.**123**456	**Object**; minimum of 3 digits, expandable as necessary; identifying the specific account. Numbered so that similar objects within different functions can be regrouped to provide object totals for the organization as a whole.

The Appendices on the following pages describe this account structure in greater detail. Appendix 4A illustrates the framework for the required account structure and the minimum level of account segments and categories necessary to produce the required financial statements. Appendix 4B describes the way in which SunPlus, the accounting software recommended by the GC, implements the four-segment account structure. Appendix 4C is a sample chart of accounts that illustrates the ranges of account numbers that might be used, but is not intended to include every possible account. It is recommended that groupings of subsidiary or related accounts be alphabetized to facilitate accounting. To avoid potentially misleading or incorrect financial statements, the selected ranges of numbers must conform to the required account structure framework.

Appendix 4A - Framework for Required Account Structure

This appendix illustrates the minimum structure necessary to produce the financial statements required by this Manual. It is understood that SunPlus and similar software may not use the full-segment account number, but will maintain the indicated account structure and category relationships. It is also expected that accounting software that does use a full-segment account number will apply the following illustration as the required minimum account numbering. As long as this minimum required structure is used, accounting software can incorporate any detail or process that accomplishes the financial reporting objectives of this Manual.

12.12345.1.123456	Account number consisting of four segments, each expandable as necessary
12.xxxxx.x.xxxxxx	**Fund** (Operating, Plant, Endowment, Annuity, etc.)
xx.**12**345.x.xxxxxx	**Function** (Unallocated and Committee-Allocated Programs or Departments)
xx.xxxxx.**1**.xxxxxx	**Restriction** (Tithe, Non-tithe, and Donor-Restricted)
xx.xxxxx.x.**123**456	**Object** (checking account, account payable, revenue, employee salary, etc.)

Minimum Account Segments and Categories

Fund Segment (Self-balancing set of accounts separated for management purposes) (2 digits)

1x **Operating Fund(s)** (For organizations that use fund accounting)
2x **Plant Funds**
3x **(reserved for future use)**
4x **Endowment Funds**
5x **(reserved for future use)**
6x **Demand Funds**
7x **Charitable Gift Annuities**
8x **Charitable Remainder Trusts**
9x **Retirement Funds**

Function Segment (Identifies areas of activity or specific purpose) (minimum 2 digits, expandable)

0x **Undesignated** (Unallocated - not yet designated for a Specific Purpose)
01 **Unallocated Tithe**
02 **Unallocated Non-Tithe**

1x-9x **Designated** (Allocated - Specific Purposes - Areas of Activity)
1x **Program Services (Operating)**
11 **Church and Evangelistic Programs**
12 **Education Programs**
13 **Publishing Programs**
14 **Medical and Health Programs**
15 **Humanitarian Programs**
18 **Other Programs**
3x **General Supporting Services (Operating)**
32 **Conventions and Meetings**
34 **Employee Hospital and Health Benefit Programs**
35 **Employee Defined Benefit Retirement Plan Contributions**
36 **Fund-Raising**
39 **General Administration**
4x **Auxiliary Operations**
41 **Conference Auxiliary Operations**
42 **Educational Auxiliary Operations**
7x **Contingencies (Operating)**
73 **Investments Value Fluctuation Allocated Fund**
75 **Currency Exchange Fluctuation Allocated Fund**
8x **Independent Operations**

Appendix 4A - Framework for Required Account Structure (continued)

Function Segment (continued)

9x	**Non-Operating Functions**
90	**Investment in Plant Function**
91	**Unexpended Plant Capital Functions**
92	**Pooled Investment Functions**
93	**Gift Annuities Functions**
94	**Endowment Functions**
95	**Agency Functions**
96	**Revolving Loan Fund Functions**
97	**Irrevocable Trusts**
98	**Revocable Trusts**

Restriction Segment (Identifies restriction on financial activity and net asset accounts) (1 digit)

0	**Assets and Liabilities** (Asset and liability accounts use zero as a default)
1	**Tithe** (Quasi-restricted)
2	**Non-tithe** (Unrestricted)
7	**Temporarily Restricted** (Donor Restricted for Programs or Departments)
9	**Permanently Restricted** (Donor Restricted Endowments or Similar)

Object Segment (description of the actual account) (minimum 3 digits, expandable)

	ASSETS
1xx	**Current Assets**
10x	**Cash and Cash Equivalents**
11x	**Investments**
119	**Unrealized Appreciation (Decline) in Fair Value**
120	**Remittances Receivable (Tithe and Offerings)**
13x	**Accounts Receivable (current)**
14x	**Accrued Receivables**
15x	**Notes and Loans Receivable (current)**
16x	**Inventories**
17x	**Prepaid Expenses**
18x	**Other Assets (current)**
19x	**Inter-Fund Receivables (current)**
2xx	**Long-term Assets**
20x	**Plant Assets** (cost and accumulated depreciation accounts)
240	**Accounts Receivable (long-term)**
250	**Notes and Loans Receivable (long-term)**
259	**Allowance for Uncollectible Notes and Loans**
280	**Other Long-term Assets**
290	**Inter-Fund Receivables (long-term)**
	LIABILITIES
3xx	**Current Liabilities**
320	**Remittances Payable (Tithe and Offerings)**
33x	**Accounts Payable**
34x	**Accrued Payables**
35x	**Notes and Loans Payable (current)**
36x	**Offering Funds and Agency Accounts**
37x	**Deferred Revenue**
38x	**Other Current Liabilities**
39x	**Inter-Fund Payables (current)**

Appendix 4A - Framework for Required Account Structure (continued)

Object Segment (continued)
4xx Long-term Liabilities
44x Leases Payable
45x Notes and Loans Payable (long-term)
48x Other Long-term Liabilities
49x Inter-Fund Payables (long-term)

NET ASSETS

5xx Net Assets
51x Prior Year Adjustment
55x Principal Corpus
59x Suspense (Used only for importing data)

REVENUE

6xx-7xx Revenue and Increases
60x Net Sales (including gross sales and cost of goods sold)
61x Tithe (including gross tithe and percentages passed on)
620 Academic Tuition
63x Non-tithe Offerings and Donations
65x Appropriations and Subsidies Received from SDA Organizations
66x Subsidies and Grants Received from Non-SDA Organizations
67x Direct Operating Income
71x Investment Income
711 Investment Earnings [expandable]
712 Realized Gain on Sale of Investments
715 Unrealized Gain in Fair Value of Investments
73x Irrevocable Split-Interest Agreements Additions
74x Endowment Additions
75x Currency Fluctuation Gains
76x Additions to Unexpended Plant Assets
77x Additions to Investment in Plant Assets
78x Other Income
781 Retirement Plan Contribution Income
790 Restricted Income Released

EXPENDITURES

8xx-9xx Expenses and Deductions
80x Advertising and Selling Expenses
81x Employee Related Expenses
811 Salary and Allowances
812 Contributions Made To Retirement Plans
82x Travel Expenses
83x Appropriations Made to SDA Organizations
84x Student Grants and Scholarships
850 Other Appropriations Made
86x Program Specific Expenses
87x Administrative Expense
88x Office Expenses
89x General Expenses
90x Plant Operation and Maintenance

Appendix 4A - Framework for Required Account Structure (continued)

Object Segment (continued)
91x Investment Deductions
912 Realized Loss on Sale of Investments
915 Unrealized Loss in Fair Value of Investments
93x Irrevocable Split-Interest Agreements Deductions
94x Endowment Deductions
95x Currency Fluctuation Losses
96x Deductions from Unexpended Plant Assets
97x Deductions from Investment in Plant Assets
98x Other Expenses
981 Retirement Plan Benefit Payments

TRANSFERS
99x Transfers

Appendix 4B - Account Structure for Users of SunPlus Software

The SunPlus account structure consists of four essential segments, with function and object codes expandable as necessary. The account "number" consists of the Object segment; "analysis codes" are used to select or specify the other three segments for each transaction being entered into the accounting system. SunPlus provides for additional optional segments for use by management when desired to produce detailed information for management analysis.

The four essential segments are:
Object (checking account, account payable, donation revenue, employee salary expense, etc.)
Fund (Operating, Plant, Endowment, Annuity, etc.)
Function (Unallocated and Committee-Allocated Programs or Departments)
Restriction (Tithe, Non-tithe, and Donor-Restricted)

Object Segment [called the Class Code] (description of the actual account)
(minimum 3 digits required, expandable as needed)
[see Section 402.06 for a discussion of how and when to expand the object segment]

ASSETS

1xx **Current Assets**
100 **Cash and Cash Equivalents**
101 Cash on Hand [expandable]
102 Bank and Checking Accounts [expandable]
103 Savings and Interest-bearing Accounts [expandable]
104 Time Deposits - due in 3 months or less [expandable]
105 Money Market Accounts - due on demand [expandable]
106 Government Bills and Bonds - due in 3 months or less [expandable]
107 Commercial Paper Accounts [expandable]
108 Other Cash Equivalents
109 Allowance for Government Currency Restrictions
110 **Investments**
111 General Conference Unitized Funds
1111 Bond Fund
1112 Emerging Markets Fund
1113 Income Fund
1114 International Fund
1115 Investment Fund
1116 Large Cap Equity Fund
1117 Small Cap Equity Fund
113 Time Deposits - terms longer than 3 months [expandable]
114 Mutual Funds [expandable]
115 Government Bonds - terms longer than 3 months [expandable]
116 Corporate Bonds [expandable]
117 Equity Securities [expandable]
118 Other Investments
119 Unrealized Appreciation (Decline) in Fair Value
[expandable to provide accounts related to each group of instruments, by type, such as unitized funds, mutual funds, bonds, stocks, etc.]
120 **Remittances Receivable (Tithe and Offerings)**
122 R/R: SDA Organizations
130 **Accounts Receivable**
The Manual requires a separate account to be established for each individual debtor, separated into four basic groups by type of debtor.
132 A/R: SDA Organizations
For receivables from other SDA entities, SunPlus begins with the Organization Identification Number for each entity, and then uses an analysis code to link to the specific receivable group.

Appendix 4B - SunPlus Users - Object Segment (continued)

133 A/R: Employees
For receivables from employees, SunPlus begins with the letter "E" and uses a combination of the first three letters of the specific employee's last name along with the first letter of the first name for the account number. Then it uses an analysis code to link to the specific receivable group.
134 A/R: Students
For receivables from students, SunPlus begins with the letter "S" and uses a combination of the first three letters of the specific student's last name along with the first letter of the first name for the account number. Then it uses an analysis code to link to the specific receivable group.
135 A/R: Customers
For other receivables, SunPlus begins with the letter "D" and uses the same combination of letters from the debtor's name as with employees or students for the account number. Then it uses an analysis code to link to the specific receivable group.
137 Not Used by Sun (Placeholder for Vendor A/P debit balances)
138 Not Used by Sun (Other Accounts Receivable)
139 Allowance for Uncollectible Accounts
140 **Accrued Receivables**
141 Accrued Interest Receivable
148 Other Accrued Receivables
150 **Notes and Loans Receivable (current)**
152 N/R: SDA Organizations (current)
153 N/R: Employees (current)
158 Other Notes Receivable (current)
159 Allowance for Uncollectible Notes and Loans (current)
160 **Inventories**
162 Merchandise Inventory
165 Supplies Inventory
167 Livestock Inventory
170 **Prepaid Expenses**
171 Prepaid Insurance
175 Prepaid Taxes
178 Other Prepaid Expenses
180 **Other Assets (current)**
181 Deposits (current)
182 Disposable Assets (current)
186 Investments Held for Others (Asset)
190 **Inter-Fund Receivables (current)**
191 Inter-Fund Accounts Receivable (current)
197 Inter-Fund Loans Receivable (current)
2xx **Long-term Assets**
200 **Plant Assets (net book value)**
201 Land
202 Land Improvements
203 Buildings and Fixtures
204 Residences
205 Furnishings and Equipment
206 Vehicles
207 Church and School Properties (title held for local church)
208 Other Plant Assets
209 Accumulated Depreciation
209202 Land Improvements
209203 Buildings and Fixtures
209204 Residences
209205 Furnishings and Equipment
209206 Vehicles
209207 Church and School Properties
209208 Other Plant Assets

Appendix 4B - SunPlus Users - Object Segment (continued)

240 **Accounts Receivable (long-term)**
250 **Notes and Loans Receivable (long-term)**
Similar to accounts receivable, SunPlus uses analysis codes to link the object code to identifiers for specific debtors.
252 N/R: SDA Organizations (long-term)
253 N/R: Employees (long-term)
258 Other Notes and Loans Receivable (long-term)
259 Allowance for Uncollectible Notes/Loans
280 **Other Long-term Assets**
281 Long-term Deposits
282 Disposable Assets (long-term)
283 Life Insurance Cash Surrender Value
284 Unconditional Irrevocable Agreements
286 Long-term Assets Held For Others
288 Other Long-term Assets
289 Intangibles
290 **Inter-Fund Receivables (long-term)**
297 Inter-Fund Loans Receivable (long-term)

LIABILITIES

3xx **Current Liabilities**
320 **Remittances Payable (Tithe and Offerings)**
322 R/P: SDA Organizations
330 **Accounts Payable**
331 A/P: Creditors and Vendors
Similar to receivables, the Manual requires a separate account to be established for each individual creditor. SunPlus begins with the letter "C" or "V" with the first three letters of the specific creditor's name. Then it uses an analysis code to link to the specific payable group.
332 Not Used by SunPlus (Placeholder for SDA Organizations A/R credit balances)
333 Not Used by SunPlus (Placeholder for Employee A/R credit balances)
334 Not Used by SunPlus (Placeholder for Student A/R credit balances)
335 Not Used by SunPlus (Placeholder for Customer A/R credit balances)
338 Not Used by SunPlus (Other Accounts Payable)
339 Not Used by SunPlus (Placeholder for Bank Overdraft balance)
340 **Accrued Payables**
341 Accrued Interest Payable
343 Accrued Payroll
345 Accrued Payroll Taxes
348 Other Accrued Payables
350 **Notes and Loans Payable (current)**
352 N/P: SDA Organizations (current)
353 N/P: Employees (current)
358 Other Notes and Loans Payable (current)
360 **Offering Funds and Agency Accounts**
361 Offering Funds Remittance Clearing
The Manual requires the system to be able to identify and report beginning balance, receipts, disbursements, and ending balance for each church offering fund. SunPlus starts with the number 361, and then uses analysis codes to identify the transaction as either beginning balance, receipt, or disbursement. It then calculates the ending balance.
363 Conference or Institution Agency Accounts
Similar to accounts payable, the Manual requires a separate account for each provider or depositor of agency funds. SunPlus starts with the number 363, and then uses analysis codes to link to an ID code or name code for the provider who directs the use of the agency account.

Appendix 4B - SunPlus Users - Object Segment (continued)

364 Student Bank
Similar to receivables from students, the Manual requires a separate account for each student "bank" account. SunPlus starts with the number 364, and then uses analysis codes to link to the specific student's last name.
368 Other Agency Accounts
For other agency accounts, the Manual requires a separate account for each provider. SunPlus starts with the number 368, and then uses analysis codes to link to ID codes for each provider.
370 **Deferred Revenue**
371 Deferred Operating Income
372 Deferred Operating Donations
373 Deferred Capital Donations
380 **Other Current Liabilities**
381 Deposits (current)
386 Investments Held for Others (Liability)
390 **Inter-Fund Payables (current)**
391 Inter-Fund Accounts Payable (current)
397 Inter-Fund Loans Payable (current)

4xx **Long-term Liabilities**
440 **Leases Payable**
441 Capital Leases Payable
450 **Notes and Loans Payable (long-term)**
Similar to loans receivable, SunPlus uses analysis codes to link the object code to identifiers for specific creditors.
452 N/P: SDA Organizations (long-term)
453 N/P: Employees (long-term)
458 Other Notes and Loans Payable (long-term)
480 **Other Long-term Liabilities**
481 Deposits (long-term)
484 Present Value Liability Split-Interest Agreements
485 Liabilities to Residual Beneficiaries Split-Interest Agreements
486 Long-term Liabilities Held For Others
490 **Inter-Fund Payables (long-term)**
497 Inter-Fund Loans Payable (long-term)

NET ASSETS

5xx **Net Assets**
50 Operating Fund Balance
5000 Retirement Fund Balance
5001 Regular Fund Balance
500100 Fund Balance
51x **Prior Year Adjustment**
519 Prior Year Adjustment
54x **Agency/Demand**
541 A/D Additions
546 A/D Withdrawals
55x **Principal Corpus**
551 Revocable Trust Assets Received
556 Revocable Trust Distributions
5561 Matured Trust Distributions
5563 Revocable Trust Assets Returned
5565 Payments on Behalf of Trustors
590 **Suspense**
599 Suspense -Used only for importing data

Appendix 4B - SunPlus Users - Object Segment (continued)

REVENUE

6xx **Revenue and Increases**
600 **Net Sales (including departmental sales)**
601 Sales [expandable to provide individual accounts by sales product line]
603 Cost of Goods Sold [expandable to match sales detail by product line]
610 **Tithe (Net)**
611 Gross Tithe - Local Churches
612 Gross Tithe - Direct
616 Tithe Percentages From Lower Denominational Entities
617 Tithe Percentages To Higher Denominational Entities
619 Tithe - Non-tithe Exchange
620 **Academic Tuition**
630 **Non-tithe Offerings and Donations**
631 World Offerings Received
632 Division Offerings Received
633 Union Offerings Received
634 Conference Offerings Received
635 Local Church Offerings Received
638 Non-tithe Donations Received
650 **Appropriations and Subsidies Received from SDA Organizations**
651 Tithe Operating Appropriations Received
654 Non-tithe Operating appropriations Received
657 Capital Appropriations Received
658 Other Appropriations and Subsidies Received
660 **Subsidies and Grants Received from Non-SDA Organizations**
666 Government Appropriations Received
668 Other Appropriations Received from non-SDA Organizations
670 **Direct Operating Income**
671 Services Income
672 Incidental Department Sales
673 Fees Charged to Individuals
6731 School Fees (other than tuition)
6732 Campmeeting Fees
6733 Youth Camp Fees
674 Cost-sharing Charged to Church Schools
675 Finance Charge Income
676 Shipping and Handling Income
677 Rent Income
678 Other Direct Operating Income
710 **Investment Income**
711 Investment Earnings
712 Realized Gain on Sale of Investments
715 Unrealized Gain in Fair Value of Investments
720 **Matured Deferred Gifts**
722 Matured Wills
724 Matured Trusts
726 Matured Annuities
730 **Irrevocable Split-Interest Agreements Additions**
731 New Annuity Gift Portion
732 Annuity Adjustment from Present Value
735 New Split-Interest Agreements
736 Additions to Split-Interest Agreements
737 Split Interest Agreement Adjustment from Present Value

Appendix 4B - SunPlus Users - Object Segment (continued)

740 **Endowment Additions**
741 New Endowments
745 Additions to Endowments
750 **Currency Fluctuation Gains**
751 General Currency Fluctuation Gains
752 Operating Appropriation Currency Fluctuation Gains
755 Capital Appropriation Currency Fluctuation Gains
760 **Additions to Unexpended Plant Assets**
761 Insurance Proceeds: Property Loss
762 Proceeds from Sale of Plant Assets
762245 PSPA: Equipment
766 Proceeds From Loans
768 Other Additions to Unexpended Plant Assets
770 **Additions to Investment in Plant Assets**
772 Donated Plant Assets
773 Value of Plant Assets Purchased
773225 Assets Acquired (25)
774 Church and School Properties Added
776 Loan Principal Reductions
778 Other Additions to Investment in Plant Assets
778225 Assets Sold Net Gain (25)
780 **Other Income**
781 Retirement Plan Contribution Income
7811 DB Plan - Tithe-based Contribution Revenue, by entity
7812 DB Plan - Payroll-based Contribution Revenue, by entity
7813 DB Plan - Contributions to Cover Retirement (Severance) Allowances
7814 DB Plan - Contributions for Other Types of Benefits
7815 DC Plan - Employer Basic Contribution Revenue
7816 DC Plan - Employer Matching Contribution Revenue
7817 DC Plan - Employee Voluntary Contribution Revenue

The Manual requires the system to record contribution revenue by type of contribution, and for defined benefit plans, also by participating employer. SunPlus starts with the number for the type of contribution, such as 7811, then uses analysis codes to link to the ID code for the employer.

782 Gain on Sale of Other Assets
785 Ingathering Reversion
787 Donated Services
788 Miscellaneous Other Income
790 **Restricted Income Released**

EXPENDITURES

8xx **Expenses and Deductions**
800 **Advertising and Selling Expenses**
801 Sales Commissions
803 Bad Debts Expense
805 Shipping and Handling Expense
807 Advertising and Promotion
808 Other Advertising and Selling Expenses
810 **Employee Related Expenses**
811 Salary and Allowances
8111 Basic Salary and Wage Expense
8112 Basic Allowances
8113 Housing Allowance
8114 Area Travel and Telephone Allowance
8115 Retirement (Severance) Allowance
8116 Bonuses, Holiday Gift, Farewell Gift

Appendix 4B - SunPlus Users - Object Segment (continued)

812 Contributions Made To Retirement Plans
8121 Tithe Percentage Contributions To Defined Benefit Plans
(Tithe-based contributions due to all defined benefit plans, whether the plan is active or frozen)
8122 Payroll-based Contributions to Defined Benefit Plans
(Payroll-based contributions due to all defined benefit plans, whether the plan is active or frozen)
8123 Employer Basic Contributions to Defined Contribution Plans
8124 Employer Matching Contributions to Defined Contribution Plans
813 Employee Moving Expenses
8131 Moving Allowance
8132 Moving Reimbursement
8133 Direct Moving Expense
814 Dependent Scholarship Expenses
815 Employee Insurance Expense
8151 Accident Insurance
8153 Survivor Insurance
8155 Long-term Disability Insurance
8157 Worker's Compensation Insurance
8159 Other Insurance
816 Health Care Expenses
817 Employee Related Taxes
818 Other Employee Related Expenses
819 Employee Related Returns
820 **Travel Expenses**
822 Employee Regular Travel
823 Employee Special Travel
825 Recruitment Travel
828 Other Travel
829 Employee Travel Expense Returns
830 **Appropriations and Grants Made to SDA Organizations**
831 Tithe Operating Appropriations Made
834 Non-tithe Operating Appropriations Made
837 Capital Appropriations Made
838 Other Appropriations Made
840 **Student Grants and Scholarships**
841 Scholarships Charged to Donor-restricted or to Committee-allocated Funds
842 Scholarships Charged to Endowment Income Funds
843 Scholarships Charged to Undesignated Resources
850 **Other Appropriations Made**
860 **Program Specific Expenses**
862 Public Meetings
864 Pathfinder Programs
865 Strategic Planning
867 Youth Camp Programs
868 Other Program Expenses
870 **Administrative Expense**
871 Auditing Expenses
872 Committees and Meetings Expenses
875 Legal Expense
876 Public Relations
878 Other Administrative Expense
880 **Office Expenses**
881 Office Supplies
882 Postage and Shipping
884 Printing and Copying
887 Telecommunications and Related
888 Other Office Expenses

Appendix 4B - SunPlus Users - Object Segment (continued)

890 **General Expenses**
893 Information Systems, Services, and Support
894 Insurance, General and Liability
896 Finance Charge Expense
897 Interest Expense
898 Other General Expenses
900 **Plant Operation and Maintenance**
901 Rental Expense
9011 Land Rent
9012 Building Rent
9013 Equipment Rent
902 Maintenance and Repair
9022 Land Improvement Repairs
9023 Building Repairs
9025 Equipment and Vehicle Repairs
903 Depreciation Expense
903202 Land Improvements
903203 Buildings and Fixtures
903204 Residences
903205 Furnishings and Equipment
903206 Vehicles
903207 Church and School Properties
903208 Other Plant Assets
904 Property Taxes
905 Property Insurance (other than liability coverage)
906 Vehicle Expense
907 Utilities
9071 Electricity - Gas - Fuel
9072 Water - Sewer
908 Other Plant Operation Expenses
9084 Grounds-keeping Expense
9085 Janitorial and Custodial Expense
910 **Investment Deductions**
911 Investment Expense
912 Realized Loss on Sale of Investments
915 Unrealized Loss in Fair Value of Investments
930 **Irrevocable Split-Interest Agreements Deductions**
931 Annuity Distributions
932 Split-Interest Agreements Adjustment to Present Value
935 Payments to Income Beneficiaries
937 Payments to Residual Beneficiaries
940 **Endowment Deductions**
941 Endowment Distributions
950 **Currency Fluctuation Losses**
951 General Currency Fluctuation Losses
952 Operating Appropriation Currency Fluctuation Losses
955 Capital Appropriation Currency Fluctuation Losses
960 **Deductions from Unexpended Plant Assets**
962 Acquisition Payments
964 Mortgage Loan Principal Payments
968 Other Deductions from Unexpended Plant Assets
970 **Deductions from Investment in Plant Assets**
976 New Loans Obtained
977 Net Value of Plant Assets Sold
978 Other Deductions from Investment in Plant Assets

Appendix 4B - SunPlus Users - Object Segment (continued)

980 **Other Expenses**
981 Retirement Plan Benefit Payments
9811 DB Plan - Basic Retirement Pension, by entity
9812 DB Plan - Retirement Allowance (Severance Benefit), by entity
9813 DB Plan - Health Care - Reimbursed Services, by entity
9814 DB Plan - Health Care - Reimbursed Premiums (Medicare), by entity
9815 DB Plan - Health Care - Supplemental (in lieu of reimbursed services)
9816 DB Plan - Death or Funeral Benefit, by entity
9817 DB Plan - Dependent Tuition Assistance (Scholarship), by entity
9818 DB Plan - Other Miscellaneous Benefits, by entity
9819 DC Plan - Distribution of Participant Account Balance

The Manual requires benefit payments to be recorded by type of benefit, and for defined benefit plans, also by territory of each participating employer. SunPlus starts with the number for the type of benefit, such as 9811, then uses analysis codes to link to the ID code for the employer.

982 Loss on Sale of Other Assets
988 Miscellaneous Other Expenses
989 Inter-department Contra-account

TRANSFERS

990 **Transfers**
991 Distributed Overhead
992 Internal Tithe Exchange
995 Transfers To and From Other Functions

Transfers Between Functions: The Manual requires the system to identify and accumulate transfers received apart from transfers paid out, for each inter-function transfer account. SunPlus starts with the number 995, and then adds the function code from the other function. It then uses analysis codes to identify the item as either a receipt or disbursement.

997 Transfers To and From Other Funds

Transfers Between Funds: The Manual requires the system to identify and accumulate transfers received apart from transfers paid out, for each inter-fund transfer account. SunPlus starts with the number 997, and then adds the fund code from the other fund. It then uses analysis codes to identify the item as either a receipt or disbursement.

Appendix 4B - SunPlus Users - Fund Segment

Fund Segment (Self-balancing set of accounts separated for management purposes)
(2 digits required)

1x **Operating Fund(s) (For organizations that use fund accounting)**
(Required for all conferences/missions, for all colleges and universities, and for those secondary schools that have endowment or special funds other than Plant.)
10 General Operating
(Fund code 10 will be identified as Conference Operating, College Operating, Academy Operating, etc., depending on the type of reporting entity.)
12 Corporation/Association Operating
(Fund code 12 will be used by only those entities that have a separately incorporated legal entity, apart from an unincorporated operating entity.)
2x **Plant Fund(s)**
20 Property Fund
24 Unexpended Plant
25 Investment In Plant
27 External Properties - Used by Other Entities
3x **Not Used**
4x **Endowment Fund(s) (True / Term / Quasi)**
41 True Endowments
42 Term Endowments
49 Quasi-Endowments
5x **Insurance Fund(s)**
6x **Demand Fund(s)**
61 Agency and Demand
63 Pooled Investments
65 Revolving Loan Fund
7x **Charitable Gift Annuities**
71 Annuity
8x **Charitable Remainder Trusts**
81 Irrevocable Trusts
82 Unitrusts
88 Revocable Trusts
9x **Retirement Funds**
91 Defined Benefit Retirement Plans
92 Defined Contribution Retirement Plans

Function Segment (Identifies areas of activity or specific purpose)

For entities in the USA, where GAAP requires expenses to be reported by program and supporting service functions, see the illustrated Function listing in Appendix 4C.

For entities outside the USA, SunPlus has developed a Function Segment adapted to international needs, which uses alpha-numeric codes, and is illustrated on the following pages.

Appendix 4B - SunPlus Users - Function Segment (alpha-numeric codes)

AF	ALLOCATED FUND
AFC	ALLOCATED FUND - CAPITAL
AFO	ALLOCATED FUND - OPERATING
AS	ADMINISTRATIVE SERVICES
ASPRESI01	Presidential
ASSECRE01	Secretariat
ASTREAS01	Treasurer
AU	ADMINISTRATIVE SUPPORT
AUACCOU01	Accounting
AUTREAS01	Treasury
DP	DEPARTMENTAL SERVICES
DPCHILD01	Children's Ministries
DPCOMMU01	Communication
DPEDUCA01	Education
DPMINIS01	Ministerial / GM
DPPHILA01	Philanthropic
DPPUBLI01	Publishing
DPSABBA01	Sabbath School / PM
DPSTEWA01	Stewardship / Trust
DPYOUTH01	Youth / PARL / NSO
IS	INSTRUCTIONAL SERVICES
ISENGLI01	English Department
ISBIOLO01	Biology Department
ISTHEOL01	Theology Department
IN	INDUSTRIAL SERVICES
INCAFET01	Cafeteria
INFARM01	Farm
INMOTOR01	Motor Pool
DS	DEPARTMENTAL SUPPORT
NO	NON-OPERATING FUNCTION
NOI	INVESTMENT IN PLANT
NOIBAF	Investment in Buildings and Fixtures
NOIFAE	Investment in Furnishings and Equipment
NOILAN	Investment in Land
NOILIM	Investment in Land Improvements
NOIOPA	Investment in Other Plant Assets
NOIRES	Investment in Residences
NOIVEH	Investment in Vehicles (if used)
NOU	UNEXPENDED PLANT CAPITAL FUNCTIONS
NOUBAF	Unexpended for Buildings and Fixtures
NOUFAE	Unexpended for Furnishings and Equipment
NOULAN	Unexpended for Land
NOULIM	Unexpended for Land Improvements
NOUOPA	Unexpended for Other Plant Assets
NOURES	Unexpended for Residences
NOUVEH	Unexpended for Vehicles
PS	PROGRAM SERVICES
PSCM	CHURCH MINISTRIES
PSED	EDUCATION PROGRAMS
PSEP	EVANGELISM PROGRAMS
PSYP	YOUTH PROGRAMS
SU	SUPPORT SERVICES
UF	UNALLOCATED FUND
UFNT	Unallocated Fund Non-tithe
UFTF	Unallocated Fund Tithe
UFUN	Unallocated Fund Unexpended Plant
UFIN	Unallocated Fund Invested in Plant

Appendix 4B - SunPlus Users - Restriction Segment

Restriction Segment (Identifies restriction on financial activity and net asset accounts)
[SunPlus does not ask for a restriction code on asset and liability accounts.]
(1 or 2 digits, as necessary)

0	Unrestricted (Non-tithe)
01	Unallocated Non-tithe
05	Allocated Unrestricted
07	Capital Allocated
3	Tithe (Quasi-restricted)
31	Unallocated Tithe
35	Allocated Tithe
37	Capital Allocated
7	Temporarily Restricted
75	Allocated Restricted
77	Capital Allocated Restricted
9	Permanently Restricted

Appendix 4C - Sample Chart of Accounts for Users of Other Software

12.12345.1.123456	Account number consisting of four segments, with function and object numbers expandable as necessary
12.xxxxx.x.xxxxxx	**Fund** (Operating, Plant, Endowment, Annuity, etc.)
xx.**12**345.x.xxxxxx	**Function** (Unallocated and Committee-Allocated Programs or Departments)
xx.xxxxx.**1**.xxxxxx	**Restriction** (Tithe, Non-tithe, and Donor-Restricted)
xx.xxxxx.x.**123**456	**Object** (checking account, account payable, revenue, employee salary, etc.)

This appendix uses bold italic font to highlight the required components of the account structure, and then illustrates possible expanded digits as an example of account numbering that might be used. The expanded portion of the Function segment in these account numbers is illustrated for entities that are required to report activity by program and supporting service functions.

Detailed Chart of Accounts

Fund Segment (Self-balancing set of accounts separated for management purposes) ***(2 digits required)***

1x Operating Fund(s) (For organizations that use fund accounting)
(Required for all conferences/missions, and for all colleges and universities.)
10 General Operating
(Fund code 10 will be identified as Conference Operating, College Operating, etc.)
12 Corporation/Association Operating
(Fund code 12 will be used by only those entities that have a separately incorporated legal entity, apart from an unincorporated operating entity.)
2x Plant Funds
20 Plant Fund (for entities that use a single undivided plant fund)
24 Unexpended Plant
25 Investment In Plant
27 Properties Used by Other Entities
3x (reserved for future use)
4x Endowment Funds (True / Term / Quasi)
41 True Endowments
42 Term Endowments
49 Quasi-Endowments
5x Insurance Fund(s)
6x Demand Funds
61 Agency and Demand
63 Pooled Investments
65 Revolving Loan Fund
7x Charitable Gift Annuities
71 Annuity
8x Charitable Remainder Trusts
81 Irrevocable Trusts
82 Unitrusts
88 Revocable Trusts
9x Retirement Funds
91 Defined Benefit Retirement Plans
92 Defined Contribution Retirement Plans

Function Segment (Identifies areas of activity or specific purpose)
(minimum 2 digits required, expandable as needed)

0x Undesignated (Unallocated - not yet designated for a specific purpose)
01 Unallocated Tithe
02 Unallocated Non-Tithe
05 Unallocated School Operating

Appendix 4C - Other Software Users - Function Segment (continued)

1x-9x Designated (Allocated - Specific Purposes - Areas of Activity)

1x Program Services (Operating)
11 Church & Evangelistic Programs
111 Pastoral and Ministerial Programs
1111 Pastors and Bible Workers
1113 Ministerial Interns
1118 Misc. Pastoral and Ministerial Programs
1119 Ministerial Administration
113 Evangelism Programs
1131 General Evangelism
1132 Child Evangelism
1133 Church Planting
1134 Health Evangelism
1136 Radio, TV, and Satellite Evangelism
1138 Misc. Evangelism
1139 Evangelism Administration
114 Church Ministries
1142 Children's Ministries
1143 Family Ministries and Administration
1144 Women's Ministries
1146 Sabbath School Ministries and Administration
1147 Stewardship Ministries
1148 Misc. Church Ministries Programs
1149 Church Ministries Administration
115 Youth Programs
1151 Pathfinders
1152 Task Force
1153 Youth Activities
1154 Youth Camps
1156 Youth Congress
1157 Collegiate Ministries
1158 Miscellaneous Youth Programs
1159 Youth Administration
116 Campground and Campmeeting
1162 Campground
1163 Campmeeting
117 Church Building and Equipment Funding
1172 Church Building Funding
1174 Church Equipment Funding
118 Misc. Church and Evangelistic Projects
119 Church Programs Administration

12 Education Programs
121 School Operation Funding
1212 Elementary Schools Operation Funding
1214 Secondary Schools Operation Funding
1217 College and University Operation Funding
122 Instructional Programs
1221 Classroom Instruction
12210 Various Departments
12229 Various Departments
1226 Library Operation
123 Instructional Support
1232 Curriculum Development
1237 Teacher Training

Appendix 4C - Other Software Users - Function Segment (continued)

124 Student Services
1241 Health Services
1242 Recreation and Entertainment
1243 Registrar's Office
1244 Student Insurance
125 Student Financial Aid
1251 Worthy Student
1253 Worthy Student - Special
1254 Student Aid and Loan Amortization
1256 Women's Ministries Scholarship
127 Education Building and Equipment Funding
1272 Elementary School Capital Funding
1274 Secondary School Capital Funding
1277 Higher Education Capital Funding
128 Misc. Education Projects
1288 Miscellaneous Educational
129 General Educ Institutional Support (Administration)
1291 Fund-Raising
1296 Plant Operation and Maintenance
1299 General Educational Administration

13 Publishing Programs
131 Adventist Book Center
133 Literature Evangelism Programs (HHES/FHES)
1331 Literature Evangelism Merchandise
1334 Literature Evangelism Personnel
135 Publishing and Printing
138 Misc. Publishing Projects
139 Publishing Administration

14 Medical and Health Programs
144 Health and Temperance Programs
1442 Health Programs
1443 Temperance Programs
1444 Temperance Rallies
1445 Home and Family Services
1447 Inner City
1449 Health and Temperance Administration
148 Misc. Medical and Health Projects

15 Humanitarian Programs
152 Community Service Programs
1522 Better Living Centers
1524 Community Service Centers
1525 Food Security (ADRA)
1527 Adventist Disaster Response and Preparedness
1529 Community Service Administration
153 Ingathering Reversion
158 Misc. Humanitarian Projects

18 Other Programs
181 ASI
183 Indirect Support Programs

Appendix 4C - Other Software Users - Function Segment (continued)

1831 Auditing Provided For Other Entities
1834 Information Systems, Services, and Support
(To be used for an ISS department that provides services to other entities)
1837 Union or Conference Publication
184 Religious Liberty Emergency
185 Miscellaneous Appropriations
1851 Miscellaneous Tithe Appropriations
1853 Miscellaneous Non-Tithe Appropriations
186 Employee Retirement Plan (Use for the plan itself)
188 Misc. Other Program Projects
1885 Mission Projects
1886 Native American Initiative
189 Other Programs Administration
1891 Agency Administration
1892 Annuity Administration
1893 Internal Auditing Administration
1894 Communications and PR Administration
1895 Religious Liberty Administration
1896 Revolving Fund Administration
1898 Trust Services Administration

3x General Supporting Services (Operating)
32 Conventions & Meetings
325 General Conference Session
34 Employee Hospital and Health Benefit Programs
35 Employee Defined Benefit Retirement Plan Contributions
36 Fund-Raising
39 General Administration
393 In-House Operations (Copy-Print Center, Security, etc.)
394 Loss Control
396 Office Operation and Maintenance
397 Administration Support
3971 Treasury and Accounting
3972 Information Systems and Services
(To be used by an ISS department that serves only the reporting entity)
3973 Human Resources
3974 Retirement Office (Liaison with Retirement Plan)
3975 Risk Management
398 Miscellaneous General Supporting Functions
3981 Library
3983 Switchboard
3984 Payroll Clearing
3985 Translation
3987 Transportation and Purchasing
3988 Grounds and Janitorial
399 Executive Administration
3991 Presidential
39910 President's Office
39911 Vice President A
39912 Vice President B
39913 Vice President C
3993 Secretariat
3995 Treasurer

Appendix 4C - Other Software Users - Function Segment (continued)

4x	***Auxiliary Operations***
41	***Conference Auxiliary Operations***
411	Health Food
4111	Health Food Company
4117	Food Store
412	Insurance Operations
4121	Accidental Death and Dismemberment
4123	Church Insurance
4125	Survivor Benefit Plan
413	Moving Van
414	Conference Vehicle Operations
415	Airplane Operations
416	Residence and Parsonage Rental
42	***Educational Auxiliary Operations***
421	Book Store
422	Student Housing
4221	Men's Dormitory
4223	Women's Dormitory
4227	Married Student Housing
423	Food Service
424	Education Vehicle Operations
425	Laundry
426	Staff Housing
428	Other Auxiliary
7x	***Contingencies (Operating)***
71	Recommended Working Capital
73	***Investments Value Fluctuation Allocated Fund***
75	***Currency Exchange Fluctuation Allocated Fund***
78	Other Assets and Loans
8x	***Independent Operations***
81	Sub-categories
9x	***Non-Operating Functions***
90	***Investment in Plant Function***
901	Investment in Land
902	Investment in Land Improvements
903	Investment in Buildings and Fixtures
904	Investment in Residences
905	Investment in Furnishings and Equipment
906	Investment in Vehicles
907	Investment in Churches and Schools
908	Investment in Other Plant Assets
91	***Unexpended Plant Capital Functions***
911	Unexpended for Land
912	Unexpended for Land Improvements
913	Unexpended for Buildings and Fixtures
914	Unexpended for Residences
915	Unexpended for Furnishings and Equipment
916	Unexpended for Vehicles
917	Unexpended for Churches and Schools
918	Unexpended for Other Plant Assets
92	***Pooled Investment Functions***
921	Pooled Investment Activity
929	Securities Fluctuation: Investments

Appendix 4C - Other Software Users - Function Segment (continued)

93 Gift Annuities Functions
94 Endowment Functions
95 Agency Functions
96 Revolving Loan Fund Functions
962 Revolving Fund Activity
967 Sinking Functions
97 Irrevocable Trusts
98 Revocable Trusts

Restriction Segment (Identifies restriction on financial activity and net asset accounts)
(1 digit required) (Asset and liability accounts use zero as a default)

0 Assets and Liabilities
1 Tithe (Quasi-restricted)
2 Non-tithe (Unrestricted)
7 Temporarily Restricted (Donor Restricted for Programs or Departments)
9 Permanently Restricted (Donor Restricted Endowments or Similar)

Object Segment (description of the actual account)
(minimum 3 digits required, expandable as needed)
[see Section 402.06 for a discussion of how and when to expand the object segment]

ASSETS

1xx Current Assets

10x Cash & Cash Equivalents
101 Cash on Hand [expandable]
102 Bank and Checking Accounts [expandable]
103 Savings and Interest-bearing Accounts [expandable]
104 Time Deposits - due in 3 months or less [expandable]
105 Money Market Accounts - due on demand [expandable]
106 Government Bills and Bonds - due in 3 months or less [expandable]
107 Commercial Paper Accounts [expandable]
108 Other Cash Equivalents
109 Allowance for Government Currency Restrictions
11x Investments
111 General Conference Unitized Funds [expandable]
1111 Bond Fund
1112 Emerging Markets Fund
1113 Income Fund
1114 International Fund
1115 Investment Fund
1116 Large Cap Equity Fund
1117 Small Cap Equity Fund
113 Time Deposits - terms longer than 3 months [expandable]
114 Mutual Funds [expandable]
115 Government Bonds - terms longer than 3 months [expandable]
116 Corporate Bonds [expandable]
117 Equity Securities [expandable]
118 Other Investments
119 Unrealized Appreciation (Decline) in Fair Value
[expandable to provide accounts related to each group of instruments, by type, such as unitized funds, mutual funds, bonds, stocks, etc.]

Appendix 4C - Other Software Users - Object Segment (continued)

120 Remittances Receivable (Tithe and Offerings)
122 R/R: SDA Organizations
13x Accounts Receivable

The Manual requires a separate account to be established for each individual debtor, separated into four basic groups by type of debtor. This can be done within the general ledger, using ranges of numbers as follows, or within a subsidiary ledger, using control accounts as follows.

132 A/R: SDA Organizations (control account related to a subsidiary ledger)
1321 to 132999 accounts for individual SDA entities (if no subsidiary ledger is used)
133 A/R: Employees (control account related to a subsidiary ledger)
1331 to 133999 accounts for individual employees (if no subsidiary ledger is used)
134 A/R: Students (control account related to a subsidiary ledger)
1341 to 134999 accounts for individual students (if no subsidiary ledger is used)
135 A/R: Customers (control account related to a subsidiary ledger)
1351 to 135999 accounts for individual customers (if no subsidiary ledger is used)
137 Reserved as a Placeholder for Vendor A/P debit balances
138 Reserved for Other Accounts Receivable
139 Allowance for Uncollectible Accounts
14x Accrued Receivables
141 Accrued Interest Receivable
148 Other Accrued Receivables
15x Notes and Loans Receivable (current)
152 N/R: SDA Organizations (current)
153 N/R: Employees (current)
158 Other Notes Receivable (current)
159 Allowance for Uncollectible Notes and Loans (current)
16x Inventories
162 Merchandise Inventory
165 Supplies Inventory
17x Prepaid Expenses
171 Prepaid Insurance
175 Prepaid Taxes
178 Other Prepaid Expenses
18x Other Assets (current)
181 Deposits (current)
182 Disposable Assets (current)
186 Investments Held for Others (Asset)
19x Inter-Fund Receivables (current)
191 Inter-Fund Accounts Receivable (current)
197 Inter-Fund Loans Receivable (current)

2xx Long-term Assets

20x Plant Assets (cost and accumulated depreciation accounts)
201 Land
202 Land Improvements
203 Buildings and Fixtures
204 Residences
205 Furnishings and Equipment
206 Vehicles
207 Church and School Properties (title held for local church)
208 Other Plant Assets
209 Accumulated Depreciation
2092 Land Improvements
2093 Buildings and Fixtures
2094 Residences
2095 Furnishings and Equipment

Appendix 4C - Other Software Users - Object Segment (continued)

2096 Vehicles
2097 Church and School Properties
2098 Other Plant Assets

240 Accounts Receivable (long-term)
250 Notes and Loans Receivable (long-term)
252 N/R: SDA Organizations (long-term) (control account if a subsidiary is used)
2521 to 252999 accounts for individual SDA entities (if no subsidiary ledger is used)
253 N/R: Employees (long-term) (control account if a subsidiary is used)
2531 to 253999 accounts for individual employees (if no subsidiary ledger is used)
258 Other Notes and Loans Receivable (long-term)
259 Allowance for Uncollectible Notes and Loans
280 Other Long-term Assets
281 Long-term Deposits
282 Disposable Assets (long-term)
283 Life Insurance Cash Surrender Value
284 Unconditional Irrevocable Agreements
285 Intangibles
290 Inter-Fund Receivables (long-term)
297 Inter-Fund Loans Receivable (long-term)

LIABILITIES

3xx Current Liabilities

320 Remittances Payable (Tithe and Offerings)
322 R/P: SDA Organizations
33x Accounts Payable
The Manual requires a separate account to be established for each individual creditor, using either the general ledger or a subsidiary ledger.
331 A/P: Creditors and Vendors (control account related to a subsidiary ledger)
3311 to 331999 accounts for individual creditors and vendors (if no subsidiary ledger is used)
332 Reserved for SDA Organizations A/R credit balances
333 Reserved for Employee A/R credit balances
334 Reserved for Student A/R credit balances
335 Reserved for Customer A/R credit balances
338 Reserved for Other Accounts Payable
339 Reserved for Bank Overdraft balance
34x Accrued Payables
341 Accrued Interest Payable
343 Accrued Payroll
345 Accrued Payroll Taxes
348 Other Accrued Payables
35x Notes and Loans Payable (current)
352 N/P: SDA Organizations (current)
353 N/P: Employees (current)
358 Other Notes and Loans Payable (current)
36x Offering Funds and Agency Accounts
361 Offering Funds Remittance Clearing [expandable]
The Manual requires the system to be able to identify and report beginning balance, receipts, disbursements, and ending balance for each church offering fund. To do that, the software might establish a suitable range of numbers between 3611 and 361999.
363 Conference and Institution Agency Accounts [expandable]
Similar to accounts payable, the Manual requires a separate account for each provider or depositor of agency funds. To do that, the software might establish a suitable range of numbers between 3631 and 363999.

Appendix 4C - Other Software Users - Object Segment (continued)

364 Student Bank [expandable]
Similar to receivables from students, the Manual requires a separate account for each student "bank" account. To do that, the software might establish a suitable range of numbers between 3641 and 364999.
368 Other Agency Accounts [expandable]
For other agency accounts also, the Manual requires a separate account for each provider or depositor.
37x Deferred Revenue
371 Deferred Operating Income
372 Deferred Operating Donations
373 Deferred Capital Donations
38x Other Current Liabilities
381 Deposits (current)
386 Investments Held for Others (Liability)
39x Inter-Fund Payables (current)
391 Inter-Fund Accounts Payable (current)
397 Inter-Fund Loans Payable (current)

4xx Long-term Liabilities

44x Leases Payable
441 Capital Leases Payable
45x Notes and Loans Payable (long-term)
452 N/P: SDA Organizations (long-term) (control account if a subsidiary is used)
4521 to 452999 (accounts for individual SDA entities if no subsidiary ledger is used)
453 N/P: Employees (long-term)
458 Other Notes and Loans Payable (long-term)
48x Other Long-term Liabilities
481 Deposits (long-term)
484 Present Value Liability Split-Interest Agreements
485 Liabilities to Residual Beneficiaries Split-Interest Agreements
49x Inter-Fund Payables (long-term)
497 Inter-Fund Loans Payable (long-term)

NET ASSETS

5xx Net Assets
500 Net Assets
51x Prior Year Adjustment
519 Prior Year Adjustment
55x Principal Corpus
551 Revocable Trust Assets Received
556 Revocable Trust Distributions
59x Suspense
599 Suspense - Used only for importing data

Appendix 4C - Other Software Users - Object Segment (continued)

REVENUE

6xx-7xx Revenue and Increases

60x Net Sales (including departmental sales and cost of goods sold)
601 Sales
[expandable to provide individual accounts by sales product line]
603 Cost of Goods Sold
[expandable to match sales detail by product line]
61x Tithe (including gross, percentages, and net)
611 Gross Tithe - Local Churches
612 Gross Tithe - Direct
616 Tithe Percentages From Lower Denominational Entities
617 Tithe Percentages To Higher Denominational Entities
619 Tithe - Non-tithe Exchange
620 Academic Tuition
63x Non-tithe Offerings and Donations
631 World Offerings Received
632 Division Offerings Received
633 Union Offerings Received
634 Conference Offerings Received
635 Local Church Offerings Received
638 Non-tithe Donations Received
65x Appropriations and Subsidies Received from SDA Organizations
651 Tithe Operating Appropriations Received
654 Non-tithe Operating Appropriations Received
657 Capital Appropriations Received
658 Other Appropriation and Subsidies Received
66x Subsidies and Grants Received from Non-SDA Organizations
666 Government Appropriations Received
668 Other Appropriations Received from non-SDA Organizations
67x Direct Operating Income
671 Services Income
672 Incidental Department Sales
673 Fees Charged to Individuals
6731 School Fees (other than tuition)
6732 Campmeeting Fees
6733 Youth Camp Fees
674 Cost-sharing Charged to Church Schools
675 Finance Charge Income
676 Shipping and Handling Income
677 Rent Income
678 Other Direct Operating Income

71x Investment Income
711 Investment Earnings [expandable]
712 Realized Gain on Sale of Investments
715 Unrealized Gain in Fair Value of Investments
73x Irrevocable Split-Interest Agreements Additions
731 New Annuity Gift Portion
732 Annuity Adjustment from Present Value
735 New Split-Interest Agreements
736 Additions to Split-Interest Agreements
737 Split Interest Agreement Adjustment from Present Value

Appendix 4C - Other Software Users - Object Segment (continued)

74x Endowment Additions
741 New Endowments
745 Additions to Endowments
75x Currency Fluctuation Gains
751 General Currency Fluctuation Gains
752 Operating Appropriation Currency Fluctuation Gains
755 Capital Appropriation Currency Fluctuation Gains
76x Additions to Unexpended Plant Assets
761 Insurance Proceeds: Property Loss
762 Proceeds from Sale of Plant Assets
763 Donations for Plant Asset Acquisition
768 Other Additions to Unexpended Plant Assets
77x Additions to Investment in Plant Assets
772 Donated Plant Assets
773 Value of Plant Assets Purchased
774 Church and School Properties Added
776 Loan Principal Reductions
778 Other Additions to Investment in Plant Assets
78x Other Income
781 Retirement Plan Contribution Income
78111 to 7811999 DB Plan - Tithe-based Contribution Revenue, by entity
78121 to 7812999 DB Plan - Payroll-based Contribution Revenue, by entity
78131 to 7813999 DB Plan - Contributions to Cover Retirement (Severance) Allowances
78141 to 7814999 DB Plan - Contributions for Other Types of Benefits
7815 DC Plan - Employer Basic Contribution Revenue
7816 DC Plan - Employer Matching Contribution Revenue
7817 DC Plan - Employee Voluntary Contribution Revenue

The Manual requires contribution revenue to be recorded by type, and for defined benefit plans, also by participating employer. Objects 7811, 7812, 7813, and 7814 might be expanded to 5 or 6 digits, based on how many participating employers there were.

782 Gain on Sale of Other Assets
785 Ingathering Reversion
787 Donated Services
788 Miscellaneous Other Income
790 Restricted Income Released

EXPENDITURES

8xx Expenses and Deductions

80x Advertising and Selling Expenses
801 Sales Commissions
803 Bad Debts Expense
805 Shipping and Handling Expense
807 Advertising and Promotion
808 Other Advertising and Selling Expenses
81x Employee Related Expenses
811 Salary and Allowances
8111 Basic Salary and Wage Expense
8112 Housing Allowance
8113 Area Travel and Telephone Allowance
8114 Bonuses, Holiday Gift, Farewell Gift
8115 Retirement (Severance) Allowance

Appendix 4C - Other Software Users - Object Segment (continued)

812 Contributions Made To Retirement Plans
8121 Tithe Percentage Contributions To Defined Benefit Plans, whether plan is active or frozen)
8122 Payroll-based Contributions to Defined Benefit Plans, whether the plan is active or frozen)
8123 Employer Basic Contributions to Defined Contribution Plans
8124 Employer Matching Contributions to Defined Contribution Plans
813 Employee Moving Expenses
8131 Moving Allowance
8132 Moving Reimbursement
8133 Direct Moving Expense
814 Dependent Scholarship Expenses
815 Employee Insurance Expense
8151 Accident Insurance
8152 Survivor Insurance
8153 Long-term Disability Insurance
8154 Worker's Compensation Insurance
816 Health Care Expenses
817 Employee Related Taxes
818 Other Employee Related Expenses
819 Employee Related Returns
82x Travel Expenses
822 Employee Regular Travel
823 Employee Special Travel
825 Non-employee Travel
829 Employee Travel Expense Returns
83x Appropriations Made to SDA Organizations
831 Tithe Operating Appropriations Made
834 Non-tithe Operating Appropriations Made
837 Capital Appropriations Made
838 Other Appropriations Made
84x Student Grants and Scholarships
841 Scholarships Charged to Donor-restricted or to Committee-allocated Funds
842 Scholarships Charged to Endowment Income Funds
843 Scholarships Charged to Undesignated Resources
850 Other Appropriations Made
86x Program Specific Expenses
864 Pathfinder Programs
867 Youth Camp Programs
87x Administrative Expense
871 Auditing Expenses
872 Committees and Meetings Expenses
875 Legal Expense
876 Public Relations
878 Other Administrative Expense
88x Office Expenses
881 Office Supplies
882 Postage and Shipping
884 Printing and Copying
887 Telecommunications and Related
888 Other Office Expenses
89x General Expenses
893 Information Systems, Services, and Support
894 Insurance, General and Liability
896 Finance Charge Expense
897 Interest Expense
898 Other General Expenses

Appendix 4C - Other Software Users - Object Segment (continued)

90x Plant Operation and Maintenance
901 Rental Expense
9011 Land Rent
9012 Building Rent
9013 Equipment Rent
902 Maintenance and Repair
9022 Land Improvement Repairs
9023 Building Repairs
9025 Equipment and Vehicle Repairs
903 Depreciation Expense
9032 Land Improvements
9033 Buildings and Fixtures
9034 Residences
9035 Furnishings and Equipment
9036 Vehicles
9037 Church and School Properties
9038 Other Plant Assets
904 Property Taxes
905 Property Insurance (other than liability coverage)
906 Vehicle Expense
907 Utilities
9071 Electricity - Gas - Fuel
9072 Water - Sewer
908 Other Plant Operation Expenses
9084 Grounds-keeping Expense
9085 Janitorial and Custodial Expense
91x Investment Deductions
911 Investment Expense
912 Realized Loss on Sale of Investments
915 Unrealized Loss in Fair Value of Investments
93x Irrevocable Split-Interest Agreements Deductions
931 Annuity Distributions
932 Split-Interest Agreements Adjustment to Present Value
935 Payments to Income Beneficiaries
937 Payments to Residual Beneficiaries
94x Endowment Deductions
941 Endowment Distributions
95x Currency Fluctuation Losses
951 General Currency Fluctuation Losses
952 Operating Appropriation Currency Fluctuation Losses
955 Capital Appropriation Currency Fluctuation Losses
96x Deductions from Unexpended Plant Assets
962 Acquisition Payments
964 Mortgage Loan Principal Payments
968 Other Deductions from Unexpended Plant Assets
97x Deductions from Investment in Plant Assets
976 New Loans Obtained
977 Net Value of Plant Assets Sold
978 Other Deductions from Investment in Plant Assets
98x Other Expenses

Appendix 4C - Other Software Users - Object Segment (continued)

981 Retirement Plan Benefit Payments

98111 to 9811999 DB Plan - Basic Retirement Pension, by entity
98121 to 9812999 DB Plan - Retirement Allowance (Severance Benefit), by entity
98131 to 9813999 DB Plan - Health Care - Reimbursed Services, by entity
98141 to 9814999 DB Plan - Health Care - Reimbursed Premiums (Medicare), by entity
98151 to 9815999 DB Plan - Health Care - Supplemental (in lieu of reimbursed services)
98161 to 9816999 DB Plan - Death or Funeral Benefit, by entity
98171 to 9817999 DB Plan - Dependent Tuition Assistance (Scholarship), by entity
98181 to 9818999 DB Plan - Other Miscellaneous Benefits, by entity
9819 DC Plan - Distribution of Participant Account Balance

The Manual requires benefit payments to be recorded by type of benefit, and for defined benefit plans, also by territory of each participating employer. Objects 9811, 9812, 9813, 9814, 9815, 9816, 9817, and 9818 might be expanded to 5 or 6 digits, based on how many participating employers there were.

982 Loss on Sale of Other Assets
988 Miscellaneous Other Expenses

TRANSFERS

99x Transfers

991 Distributed Overhead
992 Internal Tithe Exchange
995 Transfers Sent To Other Functions [expandable]
996 Transfers Received From Other Functions [expandable]

Transfers Between Functions: The Manual requires the system to identify and accumulate transfers received apart from transfers paid out, for each inter-function transfer account. Objects 995 and 996 could be expanded to 4, 5, or 6 digits in a number of ways. The Manual recommends that they be expanded to 6 digits, with the extra 3 digits being the function code for the other function involved in the transaction.

997 Transfers Sent To Other Funds [expandable]
998 Transfers Received From Other Funds [expandable]

Transfers Between Funds: The Manual requires the system to identify and accumulate transfers received apart from transfers paid out, for each inter-fund transfer account. Objects 997 and 998 could be expanded to 4 or 5 digits in a number of ways. The Manual recommends that they be expanded to 5 digits, with the extra 2 digits being the fund code for the other fund involved in the transaction.

Section 501 - Introduction

501.01 Cycle of Activity - Every organization has a normal cycle of activity that is generally repeated each month and each year. For most entities, that cycle involves many routine transactions as well as a number of non-routine transactions. One goal of the accounting system is to capture the routine as well as non-routine transactions and then record and report them in an accurate, timely, and efficient manner.

501.02 Office Organization and Control - Because recorded transactions must be summarized for each accounting period, the work flow during the period should be organized so that summarizing and reporting is as problem-free as possible. While this Manual highlights year-end procedures, most of them will also be employed each month in the production of interim financial reports.

If written job descriptions are used, each individual will know what his/her responsibilities are. There should be no overlapping of responsibility and no procedures which have not been specifically assigned. For example, the cashier will generate daily totals of cash credits which will be recorded in various accounts. Other accounting personnel will verify the total credits recorded in these accounts with the daily cash total furnished by the cashier. Each office procedure or function should be specifically assigned and all such procedures should be coordinated.

501.03 Schedule of Operations - To produce timely reports, the CFO or office manager should have a schedule of all tasks that must be performed each month and assigned dates on which each task should be completed. Some procedures are performed daily and should be kept current at all times. Other items can be performed several days before the close of the fiscal period. The CFO can establish the earliest date desirable and request that certain reports from other departments or from outside entities be received by that date. The task schedule should be in writing and should be communicated to all accounting personnel.

Section 502 - The Nature of Accounting Records

502.01 Origin of Information - An accounting entry is the record of an event. The basis for the record is the fact that **something has happened or has the right to occur**. Sometimes that event involves persons or firms outside the organization; sometimes it relates to duties of employees of the organization; frequently it has to do with transactions between the recording entity and other denominational entities. Also, there are events, such as depreciation, which are internally generated, but events nevertheless, which must be recorded.

502.02 Source Documents - Every accounting entry will be the result of a document either received from outside the organization or prepared within the organization. It may be communicated on paper, in electronic form, or by some other medium. This supporting document may be an invoice, a debit or credit voucher, a letter of authorization, a journal voucher, or a copy of a check. In any case, every entry should have a supporting document that explains the nature of the event and the amounts involved. All transactions, except those which are purely routine, should be authorized by a responsible person, and the authorization should be documented. It is not ordinarily appropriate for the accountant on his/her own initiative to approve vouchers for entry.

502.03 Committee-Authorized Transactions - Many transactions are recorded as the result of specific actions voted by the governing committee or other authorized committee. For example, appropriations to affiliated entities, or certain special allowances given to employees, are commonly approved by committee. Whenever entries are recorded for such transactions, a copy of the committee action should be attached to the voucher, or the voucher should include a reference to the committee action, citing action number, date, and page number of the minute book.

502.04 Specific Journals - The first recording of an accounting event is on a chronological basis. Events are recorded as they occur, in either a general journal or specific journals for designated types of transactions, such as cash receipts, cash disbursements, sales, purchases, payroll, and so on. There is no rule as to which journals are required; a journal should be developed for any class of transactions which are numerous enough to justify the use of a separate record.

For example, a payroll journal is usually essential in any entity that employs a large number of people. Similarly, a retail store would find a sales journal essential. Each journal should be organized so that a balanced journal entry can be extracted from it. For example, a cash receipts journal will contain information for a debit to cash, and one or more credits to other appropriate accounts totaling up to the same amount as the debit.

502.05 General Journal - Even when special journals are used for similar types of transactions, there will always be infrequent or unique transactions for which a general journal will be used. Especially in denominational entities, much of the inter-organization business is done through the use of debit and credit vouchers. The general journal commonly holds these vouchers, and is the source of the accounting entries which they support. The document itself, either a debit or credit voucher from another entity, or a voucher prepared within the office that originated the transaction, would constitute the journal entry. The journal vouchers must be numbered, and a continuous numerical sequence must be maintained. Then every journal number must be accounted for.

The document representing the journal voucher must state clearly what the journal entry is: which accounts are debited, which accounts are credited, and the amount. If the document itself does not clearly express the reason for the entry, then an adequate explanation should be written on the document by the person who authorizes the entry. Finally, all journal entries except those which are strictly routine should bear the approval of an appropriate individual. The authority for approval of entries of certain types, or within certain monetary limits, should be indicated in the individual's job description.

502.06 General Ledger - The journal entry process records groups of transactions of a similar nature - cash receipts, cash disbursements, etc. - chronologically. The general ledger then takes all of these entries and sorts them, not by type of transaction, but by the nature of the asset, liability, income, or expense accounts affected. This process of posting transactions from the journals to the general ledger simply assembles all the transactions under various financial statement groupings. Each of the journal entries is a balanced transaction, so when they are transferred to the general ledger, it too will be in balance.

It is imperative that every transaction recorded in the specific or general journals is posted to the general ledger, whether individually, simultaneously, or in batch totals. It is also strongly recommended that the general ledger detail include cross-reference to the journal voucher number and the source document number. Some computerized accounting systems may use a system-generated sequential transaction number as the primary reference for transactions. This is acceptable as long as the general ledger detail includes cross-reference to the sequential transaction number and indicates the type of transaction. No entry should ever be made to the general ledger unless it has first been recorded, or is simultaneously recorded, in one of the accounting journals.

Section 503 - Handling Current Transactions

503.01 Recording Transactions - In planning the work flow, the CFO needs to consider whether to record routine transactions daily, or accumulate such transactions and record them either individually or in summary at the end of the month. Sometimes, although daily recording may take more time overall, the advantage of eliminating a task from the peak work-load at the end of the month may justify such a use of additional time.

Cash receipts should be entered immediately to achieve the objectives of daily cash balancing and daily intact deposit of funds. Similarly, cash disbursements should be entered at timely intervals to help generate information about the status of the bank account balance.

Routine billings for various transactions relating to churches, schools, students, and employees should not be accumulated, but should be handled currently whenever possible. Regular monthly charges, usually billed as of the end of the month, can sometimes be prepared in advance of that date. Every task done before month-end will alleviate the peak-load pressure and make it easier to complete the accounting and reporting cycle.

503.02 Posting the Ledgers - For entities that use a manual or mechanical accounting process, much of what has already been said about the recording of transactions applies equally to the posting process. Generally, by using special journals for cash receipts, cash disbursements, and certain routine and repeating billing transactions, etc., the posting of totals to the general ledger accounts can be deferred until the end of the month without adding too much to the closing work load. However, the individual transactions affecting subsidiary ledger accounts should be posted as frequently as possible; daily posting of such transactions is recommended.

503.03 Computerized Information Systems - Similar principles as discussed in the preceding paragraphs apply to a computerized information system, and in some instances are even more important. Recording and posting are usually handled as a single operation, and the computer software performs such tasks as producing customer billings, updating the accounts receivable ledger, and updating the general ledger control accounts. The idea of daily or frequent recording is applicable to computerized data entry as much as it is to manual or mechanical processes.

Because the recording, posting, and updating is done electronically, it does not automatically leave the kind of paper record which is necessary for accounting support. It is **imperative** that every transaction processed through the computer be documented in a report produced at the time the transaction is processed. For example, if cash receipt credits are being entered and posted to the ledger accounts, a printout should be produced at the close of each processing run showing receipt number, name and/or number of account credited, the amount credited, and the total credits posted with a corresponding debit to the cash account.

The same sort of information should be produced for every transaction batch or other form of data entry that is processed. The computer printout should be in sufficient detail and form to represent a balanced accounting entry. It is not sufficient that the printout show only totals updated on general ledger accounts or only individual debit or credit postings to detail accounts without a total entry to balance the debits or credits as a group. The raw data should be totaled in the originating department, and the predetermined totals should be compared after computer processing with the totals generated by the computer system.

503.04 Division of Functions - Section 302.09 discussed the internal control concept of segregation of duties. Whenever the accounting function employs enough people, it is important that the duties and the work-flow be assigned so that no individual handles a transaction from its inception to its conclusion. For example, the cashier should not also be assigned the duty of posting cash receipt credits to accounts receivable. The individual who prepares the disbursement checks and accumulates the supporting documentation should not also record and post the related accounting entries.

If one individual handles the same group of figures several times (for example, if that person prepared billings, postings, statements, and reconciliations), there is a strong tendency to see the same figure for a given transaction every time, even though the original recognition of that figure may have been wrong. For example, a debit entry of 387.78 may be erroneously recognized as 837.78 the first time through; if the same person handles the same transaction in other contexts, human tendency will be to repeat the error. One objective of internal control is not solely to detect errors but to prevent them from occurring.

Section 504 - Completing the Accounting Cycle

504.01 Preparation for Financial Statements - The whole purpose of the accounting process is to produce financial information which management can use to evaluate past operations, determine present position, and make wise decisions for the future. If the data going into the financial statements is incomplete or inaccurate, then the statements themselves will not be as useful. Completing the accounting cycle involves careful review of all the basic data, adjustment of those items which need to be corrected or more exactly defined, and determination that the financial data are internally consistent.

504.02 Closing Entries for the Period - An examination of certain general ledger accounts will reveal that adjustments need to be made at the end of the accounting period. The following paragraphs discuss some of the situations which require attention before compilation of the financial statements.

Accrued Interest Receivable and Payable. Interest on loans receivable and loans payable accrues at the stated rate with the passage of time. Interest on loans is usually paid on dates other than the last day of a fiscal period. Adjusting entries must be made to recognize the expense or the revenue from the date of last payment to the closing date of the period. The entry for interest accrued on Loans Receivable is to debit Accrued Interest Receivable and credit Interest Income, and for interest accrued on Loans Payable is to debit Interest Expense and credit Accrued Interest Payable. If the organization holds interest-bearing investment instruments, the accrued interest at the closing date will be recognized in a similar manner. An entry can be made to **reverse** these adjusting entries on the first day of the new fiscal period. Then, as it is received, interest can be credited entirely to the income account; and would not need to be divided between current earnings and the receivable.

Accrued Payroll Expense. For organizations that pay employees weekly or biweekly, there can be one to thirteen days from the end of the last pay period to the statement of financial position date. An adjusting entry must be made to accrue the amount of payroll costs for this portion of a pay period as a liability and an expense.

Accrued Vacation and Sick Time. Accounting principles require a liability to be accrued for compensation for future absences if (a) the employer's obligation is attributable to employee services already rendered, and (b) if the employee's right to such compensation either vests or accumulates. Vested means an employer must pay even if the individual terminates employment. Accumulate means unused benefits earned may be carried forward to subsequent periods. In denominational organizations, a liability must be recorded each year-end for accumulated vacation benefits for employees. No accrual is required for non-vesting accumulating rights to receive sick pay benefits.

Allowance for Uncollectible Accounts. Receivables in many organizations are confined to employees or other denominational entities, and it is not ordinarily necessary to recognize an element of doubtful collectibility. Schools and sales organizations carry other receivables, though, and sometimes even a denominational receivable may turn out to be uncollectible. The CFO should review the receivables at or near the close of the fiscal period, and if a reasonable possibility of uncollectibility exists, it should be recognized. If the Allowance account is not enough, it should be increased by debiting Uncollectible Accounts Expense and crediting Allowance for Uncollectible.

Deferred Revenue - Rental Properties. Many organizations rent properties to employees or others. Where such rentals are on a month-to-month basis, simply recording the rent for the current month reflects the actual condition. If, however, rent is collected in advance (either the common first-and-last-month arrangement or advance payment of several months' rent), part of the rent so paid is revenue for the current period, and the remainder is **unearned** revenue (a liability) at the closing date.

The accounting entries follow a similar pattern to that illustrated above. If the original credit was to the revenue account, that account must be decreased (debited) and the Deferred Revenue account increased (credited) to reflect the amount of revenue attributable to future periods. If the original credit was to the Deferred Revenue account, the procedure is reversed, debiting the Deferred Revenue and crediting a current revenue account for the amount attributable to the current period. A similar process would be applied to rental expenses, if any, such as utilities, that apply to a time period which overlaps the end of the fiscal period.

Depreciation. Section 1303 discusses depreciation accounting in detail. The depreciation entries at the close of the year should be adjusted or modified so that the total depreciation recorded for the year agrees with the total depreciation computed on all property, plant, and equipment owned. If monthly depreciation entries are made on an estimated basis, the final entry for the year must be modified so that the total for the year will agree with the asset detail records.

Fair Value of Investments. Section 1004 discusses the standards for recognition of unrealized gains or losses arising from the change in fair value of marketable investments. An entry is necessary to adjust the valuation account related to the asset group so that the net carrying value of the investment portfolio as a whole will equal fair value at the financial statement date. When fair value for the whole portfolio exceeds cost, the valuation account is debited and an unrealized gain is recognized. When fair value for the whole portfolio is less than cost, the valuation account is credited and an unrealized loss is recognized. Illustrative entries for this subject are given in Appendix 10A.

Imprest or Petty Cash. As discussed in Chapter 9, an organization should count its imprest or petty cash at the end of each month. Many organizations "replenish" their petty cash at the end of each month, so that the amount of cash actually on hand will equal the stated imprest amount in the ledger account. However, it is not unusual for the petty cash to have not been replenished right at the end of the month. If this is the case, then there will be some amount of paid out vouchers on hand, and the actual cash on hand will be less than the maximum imprest amount. If this is the case, an adjustment should be recorded to charge appropriate expense accounts and reduce the petty cash account in the ledger so it will be equal to the actual cash on hand at the statement of financial position date.

Inventory. The method of recording inventory balances on hand varies. Either the original debit at the time of purchase was to an inventory account, so the year-end balance will represent both inventory used or sold and inventory still on hand; or the original debit was to an expense account so that the expense at year-end represents both used and unused inventory. The same may apply if the organization uses a postage meter; the unused balance in the postage meter represents a prepaid expense at the end of the period, and the prepaid amount should be carried as an asset. The journal entries to make these adjustments will follow a similar pattern as illustrated below for prepaid insurance. If the original debit was to expense rather than to the asset, the adjustment will be to *credit* the expense account and *debit* the asset account for the unused portion. See Chapter 12 for discussion about the physical count of inventory on hand at the statement of financial position date.

Maintenance Contracts. Equipment maintenance contracts frequently run for a period of a year or more, and the contract dates rarely coincide with the closing dates of the organization's fiscal period. Here again, it is necessary to recognize a portion of the total payment as expense in the current period and the remainder as a Prepaid Expense attributable to future periods. The adjusting entries will follow the pattern of those described for prepaid insurance.

Prepaid Insurance. Some organizations debit the Prepaid Insurance account when the premium is paid, while others debit an expense account. Either one is acceptable as an interim procedure, but both will require an adjustment at the close of the fiscal period. The premium payment will usually apply to portions of two fiscal periods. At the closing date a portion of the payment will represent expired coverage while the remainder is still unexpired or prepaid. If the original debit was to Prepaid Insurance (an asset), an adjustment must be made to remove the expired portion from the asset account and record it as an expense. If the original debit was to Insurance Expense, an adjustment must be made to remove the unexpired portion from the expense account and record it as an asset.

Section 505 - Reconciliations

505.01 Need for Reconciliation - An essential step before preparing the financial statements is to reconcile various general ledger accounts with supporting information from other sources. This includes reconciliation of bank accounts and receivable and payable accounts. **These reconciliations should be performed on a monthly basis, not delayed until the close of the fiscal year**. Because of the volume of transactions in either the bank accounts or the receivable and payable accounts, reconciling the accounts each month helps to identify errors or inconsistencies so that timely corrections can be made. If reconciliations are delayed, the volume of business to be reviewed makes the reconciliation process a huge task, and may impact the reliability of the financial reports.

505.02 Reconciliation of Equipment Records - A possible exception to the requirement for monthly reconciliations is the equipment ledger, which is a detail ledger supporting the general accounts for equipment and furnishings and for accumulated depreciation. In this case the volume of transactions is usually not large, and an annual reconciliation may in most instances be sufficient. Included in the reconciliation of accumulated depreciation will be the final annual adjustment for depreciation mentioned in Section 1303.

505.03 Bank Reconciliations - All bank checking accounts, for all funds of the organization, should be reconciled monthly with the statements received from the bank. This will include not only the general operating bank account, but bank accounts used for payroll and other purposes as well. In accordance with the internal control process of segregating duties, the reconciliations should be prepared by an individual who is not responsible for deposits or withdrawals from the bank account or for maintaining the related accounting records. See Appendix 5A for a checklist of how to prepare a bank reconciliation.

505.04 Accounts Receivable Subsidiary Reconciliation - The reconciliation of subsidiary ledgers, such as those that can be maintained for accounts receivable, brings two records (the subsidiary ledger and the control account) into agreement. For those entities that use subsidiary ledgers, it is a process of determining that all entries made to the subsidiary ledger are reflected in the control account and that all entries in the control account are reflected in the related subsidiary ledger accounts. When the control account balance agrees with the total of the balances in the subsidiary ledger, no further work is necessary. When the control account does not agree with the subsidiary ledger, they must be reconciled. See Appendix 5B for further guidance on reconciliations.

505.05 Inter-Fund Transactions - Entities that use fund accounting commonly have numerous transactions between funds, as well as balances receivable and payable between funds. Each fund is a self-balancing, independent ledger, and if amounts are paid from one set of accounts to another which must later be repaid, the entry in one fund must be balanced by a similar entry in the related fund. Obviously, if one fund shows a receivable from another, the second fund must show a payable to the first, in the same amount. For the whole organization, the total of all inter-fund receivables should equal the total of all inter-fund payables. Discrepancies between these "Due to" and "Due from" accounts will result in line items in the statement of financial position that do not properly net to zero. To avoid this problem, all inter-fund receivables and payables should be reconciled before preparing the financial statements, following the illustration in Appendix 5B.

505.06 Avoiding Trouble - When the process illustrated in Appendix 5B is performed, any discrepancies between the accounts being reconciled will be identified, and adjustments will be recorded to bring the accounts into agreement. The time and effort needed to recheck transactions can be minimized by following two steps:

1. **Ensure that transaction totals or batch totals entered in one subsidiary ledger or account agree with the amount entered in the related general ledger account; and**
2. **Reconcile all related ledgers and accounts every month.**

Section 506 - Review and Compilation

506.01 Review of Adjustments - Another important step before preparing the financial statements is a careful review of the account balances to determine that all necessary adjustments have been made. Many accountants find it effective to maintain a list of necessary adjustments, revising and extending the list through the fiscal period as situations arise which indicate the need for pre-closing adjustments. This checklist can then be followed in preparing adjustments and making the final trial balance review.

506.02 Trial Balance Review - In addition to reviewing adjustments, the overall trial balance should be reviewed for reasonableness and internal consistency. Obviously, a trial balance should be in balance. The net increase or decrease from all the financial activity accounts should agree with the cumulative difference between current and prior year of all the statement of financial position accounts. The beginning net assets accounts should agree with the final net assets from the prior year audited financial statements. If there are any significant differences in the distribution between current and long-term receivables or payables for the current year compared to prior year, there should be reasonable explanations for such differences. Similarly, if there are significant variances between any account this year versus last year, there should be an explanation available. For organizations that use fund accounting, this review process should be done for each fund before they can be combined into the overall financial statements.

506.03 Compilation of Financial Statements - When all the reviewing has been done, a complete printing should be obtained of the pre-closing trial balance, and the general ledger detail should either be printed or copied to a computer backup file. In some computerized accounting applications, a reprint of the current period's financial activity cannot be obtained once the activity has been "closed" into net assets and recording for the next period has begun. Then the formal financial statements can be compiled, whether they are produced from the accounting software, prepared manually from the final trial balance, or produced in some other manner.

Section 507 - Preparing for the Annual Audit

507.01 CFO and Auditor Work Together - The CFO and the auditor have separate roles, of course, but they are both involved in preparing information that supports the work of the church. If the year-end adjusting and closing procedures outlined earlier have been properly completed, the records will be ready for the auditor's visit without any special effort. The CFO and the District Director of GCAS (or the external auditor, where applicable) can then coordinate the schedule of the audit. The sooner the audit is completed, and the auditor's opinion is rendered on the financial statements, the sooner they can be published and distributed.

507.02 Auditor's Opinion on the Financial Statements- The CFO should understand the purpose of an audit, and what the auditor is looking for as the records, the accounting system, and the activities of the organization are examined. The auditor's examination leads to the **expression of an opinion** on the financial statements for the period under review. The following points are a summary of the "standards of reporting" required of all professional auditors. The examination enables the auditor to:

- State whether the financial statements are prepared in conformity with generally accepted accounting principles.
- Identify circumstances in which such principles have not been consistently observed in the periods presented.
- Assume, in the absence of a statement to the contrary, that informative disclosures are reasonably adequate.
- Express an opinion regarding the financial statements taken as a whole, or assert that such an opinion cannot be expressed, with reasons therefore.

507.03 Auditor's Report on Internal Control - Although this Manual discusses the importance of internal control, it is noted that the auditor's opinion on the financial statements does not say anything specific about internal control. This does not mean internal control is unimportant; in fact, the internal control process has a direct impact on the scope of the auditor's examination. In some cases, internal control may be so deficient that the auditor will be unable to express an opinion on the financial statements. If so, the deficiency and its impact on the scope of the auditor's work must be mentioned in the auditor's report as the reason for a disclaimer of opinion. In addition, auditing standards require the auditor to communicate to management (which includes the CFO, other officers, and the governing committee) about any significant deficiencies or material weaknesses observed in the internal control process. This is ordinarily done in the auditor's "audit communication letter."

507.04 Closing Process Not to be Delayed - The outlined procedures for adjusting and closing the financial records should be followed by individuals under the direction of the CFO without waiting for the auditor's visit. Scheduling pressures in the auditor's office can make it impossible for auditors to reach every organization in their territory immediately following the close of the fiscal period. Organizations should not delay the start of recording transactions for the new year just because they might be waiting for the audit of the prior year. The closing procedures should be followed as outlined, and drafts of the financial statements should be prepared in good form as promptly as possible. If the auditor notifies the CFO that there will be a delay in the completion of the audit, the CFO may wish to produce formal financial statements without waiting for the auditor's opinion. If that is done, *every page* of the financial statements should be conspicuously marked, "Unaudited."

Appendix 5A - How To Reconcile A Bank Balance (a step-by-step outline)

1. Open and inspect the contents of the statement of account received from the bank.
   - **a.** Compare all canceled checks and copies of debit memos against the bank statement.
   - **b.** Compare the amounts shown on the bank statement against the amount written on the check itself.
   - **c.** Be aware that banks post their entries from the magnetic ink amount imprinted in the lower right-hand corner of the check, **not** from the amount typed or written on the check.

2. Sort the returned checks in numerical order, keeping debit and credit memos separate.

3. Compare both the check number and the amount on each returned check against:
   - **a.** last month's bank reconciliation, which listed outstanding checks at the end of last month, and
   - **b.** against the current check disbursements journal, which lists all checks written during the current month.

4. Compare deposits recorded by the bank against:
   - **a.** deposits in transit at the end of last month as shown on last month's reconciliation, and
   - **b.** deposits recorded in the current month's cash receipts journal.

5. Compare debit and credit memos from the bank against the receipts and disbursements journals.
   - **a.** Such items typically include returned checks, service charges, and interest charges.
   - **b.** Returned checks may already have been entered as disbursements in the accounting system.
   - **c.** Service charges and other credits by the bank may not have been entered in the accounting records.

6. Begin with the final balance on the bank statement, and calculate an adjusted bank balance.
   - **a.** Add any deposits not credited by the bank.
   - **b.** Deduct all checks outstanding (recorded by the organization, but not cleared through the bank).
   - **c.** Include from last month's reconciliation those checks which were outstanding and still have not cleared.
   - **d.** Include from the current month's disbursements journal all checks written which have not yet cleared.
   - **e.** The balance per bank statement, plus deposits not entered by the bank, minus checks written but not cleared by the bank, equals the adjusted bank balance.

7. Begin with the final bank balance according to the ledger, and calculate an adjusted ledger balance.
   - **a.** Add any credit memos from the bank which have not previously been entered.
   - **b.** Deduct any debit memos from the bank which have not already been entered.
   - **c.** The balance per ledger, plus bank credits not entered in the ledger, minus bank debits not entered in the ledger, equals the adjusted ledger balance.

8. Step 6 above has **corrected the bank statement balance** by including all entries made by the organization which have not yet been recorded by the bank. **Step 7** above has **corrected the ledger balance** to include all entries made by the bank which have not yet been recorded by the organization.

9. If the adjusted balance from Step 6 is not the same amount as the adjusted balance from Step 7, the difference must be determined.
   - **a.** Review last month's bank reconciliation to see that
   - **b.** any deposits in transit have since been entered by the bank,
   - **c.** all outstanding checks are either checked off as cleared or carried over to the current reconciliation, and
   - **d.** all debit and credit memos shown on last month's reconciliation as un-entered have either been entered in the current month's business or are carried over to the current reconciliation.
   - **e.** Then review current period transactions to determine that
     - i. **all** entries made by the bank have either been recorded, or are included in the reconciliation, and
     - ii. **all** entries recorded in the ledger are either on the bank statement, or included in the reconciliation.

10. After the reconciliation is completed, the preparer should make sure that journal entries are prepared to record any un-entered bank debits or credits.

See the following page for a sample bank reconciliation form, illustrating the result of the above steps.

Appendix 5A - Illustrated Bank Reconciliation Form

Local Conference/Field of Seventh-day Adventists

Bank Reconciliation - 30 April 20X1

National Bank, account # 01-2345-67
Branch located in (*name of city and country*); account held in (*indicate which currency*)

Balance from Bank Statement, 30 April 20X1			116,844.85
Add: Deposits made by us but not yet recorded by bank:			
30 April 20X1			12,410.91
Subtract: Outstanding checks, written by us but not yet recorded by bank:			
date of check	name of payee	amount	
18 February 20X1	Timothy Alexander	1,546.89	
21 March 20X1	Martha Elizabeth	1,798.44	
25 April 20X1	Citywide Security Service	9,800.00	
29 April 20X1	State Electric Company	10,543.27	
Total outstanding checks			(23,688.60)
Adjusted Bank Balance			105,567.16
Balance from General Ledger, 30 April 20X1			105,311.99
Add: Bank credits (additions to account) not yet recorded by us:			
Interest earned on account for April			505.17
Subtract: Bank debits (charges on account) not yet recorded by us:			
Bank fee for processing foreign currency			(250.00)
Adjusted Ledger Balance			105,567.16

Appendix 5B - How To Reconcile Receivable and Payable Accounts

5B.01 Introduction - As discussed in Section 505, reconciliations need to be made between control and subsidiary accounts, between various funds of entities that use fund accounting, and between the reporting entity and other denominational entities. The reconciliation format illustrated in this appendix uses a common approach that can be applied to any of these types of reconciliations.

5B.02 Reconciliation Between Entities - One of the prominent features of our denominational environment is the use of debit and credit vouchers to reflect charges and credits between various entities. The nature and volume of these vouchers raises an obvious question. At the end of an accounting period, what really is the balance receivable from or payable to another specific denominational entity?

Each entity has a balance in its ledger, but at any given time there may be a number of vouchers which one of the entities has generated but which the other entity has not yet received, or has received but has not yet recorded. Consequently, at any given time, it is possible that **neither** the reporting entity's ledger nor the other entity's ledger reflects the actual balance.

What is needed is to **reconcile** the records of each entity to the other. The purpose of a reconciliation is to identify differences, if any, between the entities' balances, and to prompt the reporting entity to make journal entries to correct its own balance.

Reconciliations should be performed every month, so that unresolved matters do not become so old or so numerous that the process becomes burdensome or the balance becomes misleading.

5B.03 Illustrated Reconciliation - The illustrated reconciliation form is organized in a columnar format, with debit and credit columns for the reporting entity's details on the left, debit and credit columns for the other entity's details on the right, and description columns in the center. This reconciliation format is used with minor variations throughout the denomination.

The reconciliation displayed on the following pages illustrates accounts between a Local Conference or Field and its respective Union Conference or Mission. The illustration consists of four separate documents:

1. the Local Conference general ledger account detail for the Union receivable for the current month,
2. the Union Conference statement of account with the Local Conference for the current month,
3. the Local Conference reconciliation from the previous month (August, for illustration), and
4. the Local Conference reconciliation for the current month (September, for illustration).

5B.04 Step-by-Step Process - Preparing a reconciliation involves the following steps:

1. Enter the reporting entity's ledger balance at the top of the left-hand columns. Enter the other entity's statement balance at the top of the right-hand columns.

2. Compare the prior month's reconciliation to the general ledger detail and to the other entity's statement of account for the current month.

a. Look for items on the prior month's reconciliation that have not been posted or cleared in the current month's general ledger or other entity statement of account.

b. If there are any old items that are still not cleared, enter them in the current month's reconciliation form, in the same manner as they appeared in the prior month's reconciliation.

c. Include dates, document reference numbers, and descriptive details for each item.

3. Compare the current month's general ledger detail from the reporting entity with the current month's statement of account from the other entity.

a. Look for any items in the other entity's statement of account that are not in the general ledger detail. If there are any, enter them in the left-hand columns under the reporting entity's balance.

b. Look for any items in the general ledger detail that are not in the other entity's statement of account. If there are any, enter them in the right-hand columns under the other entity's balance.

c. Include dates, document reference numbers, and descriptive details for each item.

4. Add up the amounts in each column, including the beginning balance, to get sub-totals in each set of debit and credit columns.

5. Calculate the difference between the debit sub-total and the credit sub-total for each entity. Enter this difference on the next line under the column sub-totals.

a. If all un-posted transactions have been entered in the reconciliation, this "difference" will be the same amount for the reporting entity as it is for the other entity. This amount represents the reconciled balance receivable or payable between the entities.

The illustrated reconciliation on the following pages applies this step-by-step process.

5B.05 Illustrated general ledger detail for the reporting entity

LOCAL CONFERENCE OR FIELD
ACCOUNT RECEIVABLE FROM UNION CONFERENCE OR MISSION
FOR THE MONTH OF SEPTEMBER 20X1

Date	Reference	Debit	Credit	Balance
31-8-20X1	Balance			48,185.30
1-9-20X1	108119	108,785.00		156,970.30
1-9-20X1	109218		75,220.90	81,749.40
1-9-20X1	81-5108	60.40		81,809.80
20-8-20X1	108707	4,325.10		86,134.90
1-9-20X1	81-5216	14,230.00		100,364.90
28-8-20X1	108941	9,016.80		109,381.70
1-9-20X1	109323		80,000.00	29,381.70
12-8-20X1	108457		278.50	29,103.20
2-9-20X1	108460	751.80		29,855.00
12-9-20X1	81-6005		3,017.20	26,837.80
16-9-20X1	109821		11,980.00	14,857.80
14-9-20X1	81-6089		4,028.10	10,829.70
15-9-20X1	81-6102	6,562.20		17,391.90
17-9-20X1	109840		13,872.50	3,519.40
18-9-20X1	81-6178	16,945.00		20,464.40
19-9-20X1	81-6192	11,751.40		32,215.80
21-9-20X1	81-6205	1,037.30		33,253.10
5-9-20X1	108470		11,328.10	21,925.00
6-9-20X1	108472	6,051.80		27,976.80
22-9-20X1	81-6207	20,000.00		47,976.80
23-9-20X1	81-6309		15,638.20	32,338.60
29-9-20X1	81-6383		184.50	32,154.10

5B.06 Illustrated statement of account from the other entity

UNION CONFERENCE OR MISSION
STATEMENT OF ACCOUNT WITH LOCAL CONFERENCE OR FIELD
FOR THE MONTH OF SEPTEMBER 20X1

Date	Reference	Debit	Credit	Balance
31-8-20X1	Balance			(175,658.50)
1-9-20X1	109218	75,220.90		(100,437.60)
1-9-20X1	81-5108		60.40	(100,498.00)
29-7-20X1	81-3501		184.70	(100,682.70)
1-9-20X1	81-5216		14,230.00	(114,912.70)
8-3-20X1	81-4141	1,086.30		(113,824.40)
18-8-20X1	81-4702	15,842.00		(97,984.40)
1-9-20X1	109323	80,000.00		(17,984.40)
28-8-20X1	81-5010		8,718.70	(26,703.10)
2-9-20X1	108460		751.80	(27,454.90)
1-9-20X1	109341		108,785.00	(136,239.90)
15-9-20X1	109713		15,424.70	(151,664.60)
16-9-20X1	109821	11,980.00		(139,684.60)
15-9-20X1	81-6102		6,562.20	(146,246.80)
17-9-20X1	109840	13,872.50		(132,374.30)
20-9-20X1	81-6192		11,751.40	(144,125.70)
18-9-20X1	109911		1,098.20	(145,223.90)
5-9-20X1	108470	11,328.10		(133,895.80)
21-9-20X1	110051	437.10		(133,458.70)
6-9-20X1	108472		6,051.80	(139,510.50)
21-9-20X1	110052	604.50		(138,906.00)
22-9-20X1	81-6207		20,000.00	(158,906.00)
23-9-20X1	81-6309	15,638.20		(143,267.80)

5B.07 Illustrated reconciliation form - prior month

RECONCILIATION OF ACCOUNTS

Between LOCAL CONFERENCE or FIELD and UNION CONFERENCE or MISSION

For the Month of August 20X1

Local Conference					**Union Conference**	
Debit	Credit	Date	Reference	Description	Debit	Credit
48,185.30		31-8-20X1		Balance Per Ledger		175,658.50
				Union vouchers not yet entered by Local:		
1,798.40		21-7-X1	107812	Reimbursed expense		
108,785.00		1-8-X1	108119	August appropriation		
	278.50	12-8-X1	108457	Supplies delivered		
4,325.10		20-8-X1	108707	Reimbursement sent		
9,016.80		28-8-X1	108941	Funds transferred		
				Local vouchers not yet entered by Union:		
		20-6-X1	81-2143	Reimbursement billed		4,198.50
		29-8-X1	81-3501	Correct July ret. ben.		184.70
		3-8-X1	81-4141	Materials sent	1,086.30	
		18-7-X1	81-4702	Seminar expenses	15,842.00	
		28-8-X1	81-5010	Funds transferred		8,718.70
172,110.60	278.50			**Sub-totals**	16,928.30	188,760.40
	171,832.10			**Reconciled Balance**	171,832.10	
172,110.60	172,110.60			**Column Totals**	188,760.40	188,760.40

DATE RECONCILED 15 September, 20X1 RECONCILED BY Senior Accountant

5B.08 Illustrated reconciliation form - current month

RECONCILIATION OF ACCOUNTS

Between LOCAL CONFERENCE or FIELD and UNION CONFERENCE or MISSION

For the Month of September 20X1

Local Conference					**Union Conference**	
Debit	Credit	Date	Reference	Description	Debit	Credit
32,154.10		30-9-20X1		Balance Per Ledger		143,267.80
				Union vouchers not yet entered by Local:		
1,798.40		21-7-X1	107812	Reimbursed expense		
108,785.00		1-9-X1	109341	Sept. appropriation		
15,424.70		15-9-X1	109713	Evangelism subsidy		
1,098.20		18-9-X1	109911	Adjust exchange rate		
	431.70	21-9-X1	110051	Supplies delivered		
	604.50	22-9-X1	110052	Supplies delivered		
				Local vouchers not yet entered by Union:		
		20-6-X1	81-2143	Reimbursement billed		4,198.50
		12-9-X1	81-6005	TF adjusted by audit	3,017.20	
		14-9-X1	81-6102	Materials sent	4,022.70	
		18-9-X1	81-6178	Retirement benefits		16,945.00
		21-9-X1	81-6205	Reverse duplicate JV		1,037.30
		29-9-X1	81-6283	Materials sent	184.50	
159,260.40	1,036.20			**Sub-totals**	7,224.40	165,448.60
	158,224.20			**Reconciled Balance**	158,224.20	
159,260.40	159,260.40			**Column Totals**	165,448.60	165,448.60

DATE RECONCILED 18 October, 19x1 RECONCILED BY Senior Accountant

5B.09 Analyzing the Reconciliation

Completing the reconciliation form, as illustrated in the preceding pages, only identifies which transactions result in the differences between the two balances being reconciled. The final necessary step is to analyze those differences and determine what action to take to resolve them.

The illustrated reconciliation indicates that the total reconciling difference amounts to 158,218.80. A review of the reconciling items reveals that a large portion of the total is from one transaction, reference #109341 for 108,785.00. A review of the prior month reconciliation indicates that this same amount was included as a reconciling item there also. Further review of the posting dates reveals that this is a recurring item that is recorded at the beginning of each month by the other entity, but is not recorded until the beginning of each following month by the reporting entity. To resolve this apparent timing difference, inquiry should be made of the other entity to clarify the nature of the item. If it is an appropriation that is approved to be paid by the other entity in the month they recorded it, the amount should be accrued in the same month by the reporting entity. When the accrual for the receivable is recorded in the same month as the accrual for the payable, the item will no longer appear as a reconciling item.

Review of the remaining reconciling items reveals that most are identified as current month transactions, but that two items are two or three months old. The current items can be expected to be recorded during the next month's processing, and as long as their descriptions appear routine, no further action need be taken at this time. The two old items, however, should be researched to determine why they have not been recorded.

Assume, for illustration, that item #107812 on 21-7-X1 for 1,798.40 is a credit voucher from the other entity to reimburse the reporting entity for an expense. Assume also, that the reporting entity has not recorded the item because the employee in charge of the matter claims the amount should be 4,214.50. The reporting entity should ensure that all supporting documentation is assembled, then provide that information to the other entity, and request an adjustment to the credit voucher so that it equals the correct amount. When the other entity responds and issues a corrected voucher, the reporting entity can record it, and the item will not appear on the following month's reconciliation.

Now assume, for illustration, that item #81-2143 on 20-6-X1 for 4,198.50 is a debit voucher billing the other entity for reimbursement of an expense. Assume also, that the other entity has now informed the reporting entity that the item does not meet the criteria for such reimbursement. The reporting entity should prepare a journal voucher to reverse the debit in the receivable account and record the item as either an expense or a reduction in accrued revenue (depending on what account was credited when the receivable was debited originally). When this entry canceling the original charge is recorded, this item, too, will disappear from the following month's reconciliation.

As indicated in this illustration, it is not enough simply to **identify** the reconciling items. Any transaction which dates back beyond the current month should be investigated. As a result of such investigation, both parties to the transaction should **record** an appropriate entry which will remove the item from future reconciliations.

5B.10 Possible Reasons For Reconciliation Differences

When a discrepancy is revealed by a reconciliation, the nature of the problem must be determined, and adjusting entries must be recorded to balance the accounts. This is true whether the reconciliation is between a subsidiary ledger and a general ledger or between inter-fund or inter-entity receivable and payable accounts. If the balances being reconciled do not agree, the only effective way to locate the discrepancy is to compare the actual transactions that have been recorded in each account. Following are some common reasons for discrepancies between related ledgers or accounts.

Receivable subsidiary ledger total greater than general ledger control account total:

1. Debits were recorded in a subsidiary account but were not included in the income journal or batch totals posted to the control account.

2. Cash payments were recorded in the control account but were not recorded in any account in the subsidiary ledger.

3. A general journal entry credited the control account, but no corresponding entry or entries were recorded in individual accounts in the subsidiary ledger.

4. As to 1, 2, or 3 above, entries were recorded, but in incorrect amounts.

5. An individual account in the subsidiary ledger or the control account was incorrectly totaled.

General ledger control account total greater than receivable subsidiary ledger total:

1. Debits were recorded in the control account from journal or batch totals but were not recorded in any subsidiary accounts.

2. Cash credits were recorded in subsidiary accounts in excess of amounts recorded in the control account from the cash receipts journal.

3. An entry was recorded in an individual account in the subsidiary ledger, but no corresponding entry was recorded in the control account.

4. As to 1, 2 or 3 above, entries were recorded, but in incorrect amounts.

5. An individual account in the subsidiary ledger or the control account was incorrectly totaled.

Inter-fund or Inter-organization receivable different from corresponding payable balance:

A loan or advance from one entity to another is recorded as a receivable by the provider, but is recorded as an appropriation or subsidy rather than as a payable by the recipient.

Payment of an expense by one fund or entity on behalf of another fund or entity is recorded as a receivable by the paying fund or entity, but is not recorded at all by the benefitting fund or entity.

A transfer of resources from one fund to another is recorded as expense in the sending fund, but is recorded as a transfer and a payable by the receiving fund.

Subsidy revenue is recorded as a receivable in one accounting period by the intended recipient, but is not recorded as a payable by the provider, but only as expense when paid in a subsequent accounting period.

Appendix 5C - Checklist For End-of-Period Closing Procedures

The following suggested procedures can be used to help ensure that all potential non-routine matters are considered in the process of closing the accounting records at the end of each accounting period. The CFO of each entity should be alert to other matters that may not be listed here.

- ❏ **Accrued Interest Payable** - Adjust the interest payable and interest expense accounts so that the liability account includes interest payable on long-term debt from the date of last payment to the end of the current accounting period.

- ❏ **Accrued Interest Receivable** - Adjust the interest receivable and interest income accounts so that the asset account includes interest receivable on investment securities and on loans receivable from the date of last receipt to the end of the current accounting period.

- ❏ **Accrued Payroll and Related Expense** - Adjust the accrued payroll and payroll expense accounts so that the liability account equals employee earnings from the end of the last pay period to the end of the current accounting period.

- ❏ **Accrued Vacation Time** - Adjust the accrued vacation and expense accounts so that the liability account includes all employee vacation time that has been earned or approved but not yet taken.

- ❏ **Allowance for Uncollectible Receivables** - Adjust the allowance and expense accounts, if necessary, so that net accounts receivable do not exceed the amount likely to be collected.

- ❏ **Bank Reconciliations** - Reconcile every bank account to the corresponding bank statement.

- ❏ **Deferred Revenue** - If rent or other income was received in advance for future periods, adjust the deferred revenue and income accounts so that the liability account includes the unearned portion.

- ❏ **Fair Value of Investments** - Adjust the investment valuation and unrealized gain or loss accounts so that the carrying value of marketable investments as a group (actual cost for the group combined with the valuation account) equals their fair value at the end of the current accounting period.

- ❏ **Imprest/Petty Cash** - Adjust the petty cash and expense accounts so that the asset account equals only the actual cash on hand at the end of the current accounting period.

- ❏ **Inventory** - Adjust the inventory and expense (or cost of goods sold) accounts so that the asset account includes only the items that are still owned at the end of the current accounting period.

- ❏ **Maintenance Contracts** - Adjust the prepaid expense and general expense accounts so that the asset account includes the unexpired portion of equipment maintenance contract payments.

- ❏ **Plant Asset Records and Depreciation Expense** - Review the plant asset records to ensure that all acquisitions, additions, disposals, and deletions during the year have been recorded in the general ledger, and in the plant asset subsidiary ledger if there is one. If a plant asset subsidiary ledger is used, reconcile it to the corresponding general ledger control accounts. Adjust the accumulated depreciation and depreciation expense accounts so that the contra-asset and expense accounts agree with the plant asset detail records.

- ❏ **Prepaid Insurance** - Adjust the prepaid insurance and insurance expense accounts so that the asset account includes only the unexpired portion of paid premiums.

- ❏ **Reconciliation of Control Account to Subsidiary** - If a subsidiary ledger is used for accounts receivable, reconcile it to the general ledger control account.

- ❏ **Reconciliation of Receivable From / Payable To Other SDA Entities** - Reconcile every account receivable from and payable to other SDA entities with the records of the other entity.

Section 601 - Introduction

601.01 Required Financial Statements - Section 202 introduced the required financial statements, and distinguished between general-use statements on which the auditor expresses an opinion and reports for individual funds prepared by management for internal use. International GAAP requires the following to be included in any general-use financial statements, which are intended to focus on the organization as a whole:

Statement of Financial Position
Statement of Financial Activity
Statement of Changes in Net Assets
Statement of Cash Flows
Notes to the Financial Statements

601.02 Application to Complex Entities - For conference-type entities in the global environment, general-use statements are usually identified as "combined" statements, because they reflect multiple funds, such as one or more operating funds and one or more plant funds. These statements could also include multiple commonly-controlled entities, such as a conference/mission and its related property-holding corporation. See Section 607 for further discussion about consolidating the financial statements with those of other affiliated entities. In addition to these general-use statements, organizations using fund accounting will prepare supplementary statements for each fund for management purposes, and will include relevant detailed schedules.

There is an exception to the concept of combining the various funds into general-use financial statements; that is for retirement funds. Typically, the retirement funds are administered by the GC divisions, or in some cases by union conferences. Historically, some divisions included the retirement fund along with the operating and plant funds in their combined financial statements. However, because retirement funds represent resources that have been set aside for the future benefit of specified groups of employees (which implies a trust or fiduciary relationship), GAAP requires separate financial statements and unique reporting standards for retirement plans. See Chapter 19 for further guidance on financial statements for retirement plans.

601.03 Comparative Statements - International GAAP requires general-use financial statements to include comparative data. The statement of financial position will include the year-end balances for both the current and prior year-end. Similarly, the statements of financial activity and changes in net assets will include amounts for both the current and previous years. GAAP also requires comparative information in the notes wherever such data will make the note disclosures more informative. When comparative statements are presented, it is not necessary to provide an additional statement for the current year alone.

601.04 Notes and Supporting Schedules - Financial statements, on their face, do not present all the desired information and must be supplemented by notes. For example, consider long-term liabilities. The statement of financial position indicates the amount, but does not disclose the terms of repayment, interest rate, security for the liability, or a schedule of maturities. Additional data must be presented in notes to the financial statements to make them more informative. It is essential that each note be cross-referenced by number in the statement to which it relates. Notes are to be considered an integral part of the financial statements.

An Organization Description and a Summary of Significant Accounting Policies should always precede the notes or be presented as Note 1. Remaining notes embody the disclosures necessary to make the statements informative and understandable. Summarized notes are presented with the general-use statements, while detailed schedules are submitted in support of any individual fund statements, as illustrated in Appendix 17B. Obviously, there will be some duplication between the notes to the financial statements and the data presented in supporting schedules, but the schedules are in greater detail than the notes.

601.05 Interim Statements - The required notes to the financial statements apply primarily to the year-end statements. Frequently, management may exclude from interim statements some of the data about significant accounting policies or some of the narrative details from the notes. As directed by the governing committee or designated sub-committee, management decides how much data to place in interim statements to ensure that adequate information is available to the readers of those statements to help them make sound financial decisions.

601.06 Readiness for Preparation - Before the financial statements are prepared, the checklist outlined in Appendix 5C should be used to ensure that all necessary adjustments have been made and that the completed trial balance contains valid information for the preparation of the statements.

601.07 Internal Consistency - The financial statements combine to form a unit. Each one presents an aspect of a complete story of operations and financial position. Special caution must be exercised to ensure that the statements tie together. If the statement of financial position shows a given total for net assets, the statement of changes in net assets should show the same totals. The statement of cash flows should show the same net change in cash and cash equivalents as is reported in the comparative statement of financial position. And of course, supporting schedules should **support**; the total of each of these schedules must agree with the related figure shown in the basic financial statement.

601.08 Illustrative Specimen Statements - The remainder of this chapter will explain general-use financial statements in greater detail. Illustrative financial statements are presented in Appendices for each major type of entity, and may represent combinations of various fund groupings. Statements and supporting schedules of individual funds will be discussed in Chapter 7. In this chapter and the next, the reader should combine the discussion with reference to the illustrative financial statements in the Appendices for each type of entity.

Section 602 -**Statement of Financial Position**

602.01 The Heading - The statement of financial position presents a picture of the assets, liabilities, and net assets at a particular point in time. As an example, look at Appendix 17A.01. The heading includes (a) name of the organization, (b) title of the statement, and (c) the dates. For the statement of financial position, the dates are specific: 31 December 20X1 and 20X0. Because this is a comparative statement, the dates of both years must be shown. It would be wrong to show the date line as "Years ended 31 December 20X1 and 20X0," which refers to a period of time rather than a specific date.

602.02 Body of the Statement - The statement of financial position is presented in the "report form." Assets are listed first (classified as current and other) with a sub-total for current and a total for all assets. Liabilities are listed next (classified as current and other) with sub-totals for current and for total liabilities. Net assets are listed last (classified as unallocated, allocated, and restricted) with a sub-total of all net assets. A total of liabilities and net assets combined is presented last. Total assets must equal total liabilities plus net assets.

602.03 Total Columns - Note that the "Total" columns at the extreme right of the statement represent, in most cases, the cross-total of each line. The asterisks in the total columns are explained by a note at the foot of the statement indicating that inter-fund borrowing amounts have been eliminated.

602.04 Reference to Notes - In all cases where one of the notes to financial statements presents additional data or clarifying explanations, the line item in the statement of financial position is referenced to that note. Each of the statements should include a sentence at the bottom to say, "Notes to the Financial Statements are an integral part of this statement." This is to put the reader on notice that the financial statements are not complete unless they are read in conjunction with the notes.

602.05 Note Disclosures - Section 606 discusses the disclosures embodied in the notes. To make the financial statements understandable, it is essential that the related notes disclose appropriate detail. Examples would include an analysis of investments including cost, fair value, and unrealized appreciation or decline; the various types of accounts receivable and related allowances; details of terms and maturities of long-term liabilities; and details of receivables and payables from related parties.

602.06 Sequence of Preparation - The discussion of the financial statements in this chapter assumes that organizations that use fund accounting will transfer amounts from individual fund financial statements to appropriate columns in the statements for the whole organization. The individual statements for each fund (discussed in Chapter 7) must be prepared first so that essential data from them may be transferred to the columnar arrangement in the combined statements.

602.07 Fund Group Statements - As noted in Section 601.07, a general-use statement of financial position with amounts from all funds is supplemented by groupings of similar funds in separate statements. The groupings are largely self-explanatory. Operating Funds include all those funds which are available for normal operating purposes; other Funds are those which must be held for specific purposes. Tracing items from any of these group statements to the combined amounts in the general-use statement will demonstrate that individual items are transferred intact from the group statement to the general-use statement.

Section 603 - Financial Activity

603.01 General Observations - Financial activity is reported in two complementary formats.

The Statement of Financial Activity focuses on types of activity, and for entities that use fund accounting, presents total activity within each fund (see Appendix 17A.02). This statement presents separate columns for each fund, a total column for the current year's activity, and a total column for the previous year, and lines for each type of activity (revenue, expense, transfers, etc.).

The Statement of Changes in Net Assets focuses on the activity within each unallocated or allocated function (see Appendix 17A.03). This statement presents separate columns for each type of activity (revenue, expense, transfers, balance), and lines for each unallocated and allocated function.

Note that the date line of the heading is not the same as for the statement of financial position. Because these statements present activity over a period of time, the proper wording is "Years Ended 31 December 20X1 and 20X0." For interim period statements, it is not correct for the date line to read "For the Period Ended. . ." The length of the reporting period must be defined; for example, "For the Six Months Ended . . ."

603.02 Statement of Financial Activity - This statement, designed particularly for not-for-profit organizations, includes not only the operating revenues and operating expenses, but also nonoperating revenues and expenses, and transfers between funds and between functions, if applicable. The statement concludes by combining the previous year-end net assets for each fund group with the net increase or decrease in the individual fund for the current period, resulting in the final net assets at the end of the reporting period. Briefly, the statement embodies **all** activities of a financial nature, for all funds of the organization. See Section 702.05 for further discussion about grouping activity.

603.03 Fund Group Statements - As in the case of the statement of financial position, the statement of financial activity is presented first for all funds, then when applicable for specific fund groupings, such as Operating Funds, Plant Funds, or All Funds Other than Operating and Plant Funds. In each case, the statements for the whole organization represent a combination of all the line item amounts from each of the individual fund statements. See Chapter 7 for discussion of individual fund statements.

603.04 Reference to Notes - When line items in the statement of financial activity are explained in more detail in notes to financial statements, it is important that the face of the statement carry a cross-reference to the particular note involved. Also, the statement should include a sentence at its close, as in the statement of financial position to say, "Notes to the Financial Statements are an integral part of this statement."

603.05 Internal Consistency - The data reported in the individual fund statements must be consistent with data reported in the statements of the whole organization. The combining process involves simply transferring line items from each of the individual funds to the columnar arrangement of the whole organization's statement. Also, it is essential that the final net assets (shown as the last line of the statement of financial activity) agree with the "Total Net Assets" line of the statement of financial position.

603.06 Statement of Changes in Net Assets - This statement is designed to present summarized activity for each unallocated and allocated function of the organization. The revenue, expense, transfers, and balances are displayed in columns, and there is a line for each unallocated function, such as tithe or non-tithe, and each allocated and/or restricted function, such as evangelism, contingency, exchange fluctuation, etc. The net increase or decrease for the year, and the ending net assets, for the organization as a whole should be the same in this statement as in the statement of financial activity. The ending balances in total unallocated and total allocated and/or restricted functions should agree with the same amounts in the statement of financial position.

Section 604 - Statement of Cash Flows

604.01 Introduction - The statement of cash flows focuses on gross "inflows" and "outflows" of cash. It classifies these inflows and outflows as either operating, investing, or financing activity. The statement concludes by showing the beginning and ending balances of cash and cash equivalents. Refer to Section 901.02 for a definition of cash and cash equivalents. Illustrative statements of cash flows can be found in the appendices for each type of organization.

604.02 Operating Activity - Cash flows from operating activity consist of all receipts and payments that relate to the regular, ongoing operations of the organization. Operating cash flows include any activity that does not meet the definition of investing or financing activity. The definition of operating activity, for cash flows, is not the same as the definition of operating income and expense used on the statement of changes in net assets.

Following are examples of cash flows from operating activities.

- Receipts for sales of goods or services
- Interest and dividends received (not restricted to long-term purposes)
- Most cash contributions received (those not restricted to long-term purposes)
- Receipts for settlement of lawsuits
- Proceeds of insurance settlements (for claims such as theft or liability) other than those related to investing or financing activity (such as claims for building damage)
- Refunds from regular suppliers
- Payments to suppliers and vendors, taxes, duties, fines, fees, penalties, refunds
- Contributions to other not-for-profit organizations
- Payments to employees
- Interest paid on all indebtedness
- Student financial aid payments
- Payments to settle lawsuits

604.03 Investing Activity - Cash flows from investing activity consist of receipts and payments that relate to investment in debt or equity securities, loans receivable, and purchase or sale of land, buildings, and equipment.

Following are examples of cash flows from investing activities.

- Receipts from sale of marketable debt or equity securities
- Receipts from liquidating dividends or other returns of investment on marketable securities
- Receipts from sale of land, buildings, and equipment
- Receipts from insurance on losses to land, buildings, and equipment
- Collections on loans receivable, including employee loans
- Receipts from sale of works of art or historical treasures
- Payments to acquire marketable debt or equity securities
- Payments to acquire land, buildings, and equipment
- Payments for loans to other organizations or individuals, including employee loans
- Purchases of works of art or historical treasures

604.04 Financing Activity - Cash flows from financing activity consist of receipts and payments that relate to borrowing money and repaying principal, and contributions that are restricted to use for long-term purposes.

Following are examples of cash flows from financing activities.

- Contributions received that are restricted for long-term purposes, such as permanent or term endowments, purchases of land, buildings, and equipment, or revolving student loan funds
- Interest, dividends, and other investment income that by donor stipulation must be re-invested in endowments
- Investment income that by agreement must be held to make payments to beneficiaries of life income funds
- Interest income that must be re-invested in revolving loan funds
- Proceeds from issuing notes, mortgages, or other short- or long-term borrowing
- Repayments of principal on debt
- Payments to beneficiaries under life income agreements
- Refunds to donors of gifts that were limited to long-term purposes

604.05 Noncash Activities - The following kinds of activity do not represent inflows or outflows of cash, but must be disclosed either on the face of the financial statements or in the notes.

- Gifts of securities that are held for long-term investment
- Donated services that create long-term assets (such as donated labor on construction of buildings)
- Gifts of long-lived assets, whether for use or for ultimate sale
- Acquisition of assets by assuming liabilities, such as through capital leases
- Refinancing or renegotiation of long-term debt

604.06 Preparation of Statement of Cash Flows - The Statement of Cash Flows must be prepared through calculation, rather than just printing selected accounts from the ledger. Appendices 6A and 6B are step-by-step worksheets to guide in preparation of the statement of cash flows. Appendix 6A uses amounts from the financial statements at Appendix 17A, and Appendix 6B uses amounts from the financial statements at Appendix 17D.

Section 605 - Schedule of Working Capital and Liquidity

605.01 Nature of the Schedule - A schedule of working capital and liquidity is not required for adequate disclosure by generally accepted accounting standards. However, denominational working policy recommends that organizations maintain certain minimum amounts of working capital. Therefore, this Manual requires all denominational organizations to include such a schedule as part of the notes to the financial statements. Appendix 17A.05, Note 20 illustrates a working capital and liquidity schedule that conforms to the intent of the working policy. Notice that the schedule reflects totals for the organization as a whole, not just for an operating fund. These totals are then used for comparison with the previous year and for evaluation of the financial position of the organization.

605.02 Working Capital Schedule - Working capital equals current assets minus current liabilities. By
Unless otherwise required by local Accounting Standards.
definition, current assets and current liabilities include only accounts that are held for operating purposes. The minimum recommended by policy varies by type of organization. The working capital schedule has three parts:

1. Computation of the amount of actual working capital,
2. Computation of the minimum amount recommended by policy, and
3. Comparison of the actual amount with the recommended amount.
   The results of this comparison are reported two ways:
   A. The amount of difference between actual and recommended working capital, and
   B. The ratio of actual to recommended working capital, stated as a percentage.

605.03 Liquidity Schedule - Liquid assets, for purposes of this schedule, are defined as cash, certain investments, church remittance receivables collected within one month after year end, and accounts receivable from senior organizations. In the case of a local conference/mission/field, this would include amounts due from the union conference/mission or the General Conference/Division. Commitments, for purposes of this schedule, are defined as current liabilities plus all allocated net assets that are not offset by specifically identified cash or investments. The liquidity schedule has three parts:

1. Computation of the amount of liquid assets,
2. Computation of the amount of commitments, and
3. Comparison of the amount of liquid assets to the amount of commitments.
   The results of the comparison are reported two ways:
   A. The amount of difference between liquid assets and commitments, and
   B. The ratio of liquid assets to commitments, stated as a percentage.

Section 606 - Notes to Financial Statements

606.01 The Purpose of Notes - The data on the face of the financial statements tells only a part of the story of the operations and financial condition of the organization. Questions are naturally raised as individuals read those statements. What are the basic accounting and reporting procedures used? What non-monetary details may help to explain the reported amounts? The first assumption is that the general-use financial statements are prepared and distributed to communicate information to a broad spectrum of interested readers. Therefore, all data and facts necessary to make the information useful and understandable must be included.

606.02 Adequate Disclosure - GAAP requires certain minimum disclosures, and then leaves it to management judgment to decide what additional information needs to be included for the notes to be reasonably adequate. Generally, it can be said that no questions of **material significance** should be left without an answer, either in the statements or in the notes which are an integral part of the financial statements.

606.03 Required Notes - Sections 202.01 and 601.04 mentioned that the financial reports must include an organization description and summary of significant accounting policies, usually as Note 1. Every entity is confronted with various options in the application of GAAP: methods of depreciation, valuation of certain assets, methods of consolidation or combination, etc. To help the reader understand the significance of the data, it is necessary to disclose the choices the organization has made and the accounting policies it has followed.

Note 1 discloses general information, identifies types of related parties, and describes basic accounting principles. For denominational entities whose activity involves transactions in multiple currencies, these disclosures should include identification of the reporting currency of the financial statements and the exchange rate used between that currency and the US Dollar. Detailed information supporting specific amounts in the financial statements should be held for presentation in subsequent notes after Note 1.

GAAP requires disclosure of the following information:

For all organizations:

♦ **Organization Description** - This identifies the entity, describes its principal programs and major sources of revenue, and briefly describes the types of related parties the entity is associated with. [It is usually the first part of Note 1: see Appendix 17A.05, Note 1 as an example.]

- **Accounting Policies** - This describes the significant principles used and how they are applied. [It is usually either the last part of Note 1 or the first part of Note 2: see Appendix 17A.05, Note 2.]

- **Financial Statement Issue Date** (disclosure of the date the financial statements were authorized to be issued, which individuals or group authorized their issuance, and whether that body has authority to amend the financial statements at any later date. [see Appendix 17A.05, note 2)]

- **Compensation of Administrative Employees** - This discloses a total for all compensation paid to executive officers, vice-presidents, and governing committee members who are employees, as a group, separate from compensation paid to all other employees. [See Appendix 17A.05, Note 19.]

- **Retirement Plan** - This is a brief description of retirement plan(s) the organization contributes to, the total contributions made to the plan(s) during the reporting period, and disclosure about minimum funding required for future obligations. [See Appendix 17A.05, Note 20.]

For organizations that have balances in the following types of accounts:

- **Investments - other than cash and cash equivalents** - This discloses the cost, fair value, and unrealized appreciation or decline by type of instrument. [See Appendix 17A.05, Note 4.]

- **Accounts and Loans Receivable and Payable with Related Parties** - This includes the balances at the reporting date for each type of related party, whether the balances are secured, the terms of repayment, and the amounts of significant transactions with those parties. [See Appendix 17A.05, Notes 5, 6, 10, 12.]

- **Land, Buildings, and Equipment** - This includes cost, accumulated depreciation, and current period changes and depreciation expense by type of asset. [See Appendix 17A.05, Note 8.]

- **Notes and Loans Payable** - This discloses current and long-term portions, total balance, and payment terms for each account, and the amount of principal due in each of the next 5 years. [Appendix 17A.05, Note 12.]

- **Contingent Liabilities** - This is a brief description of the organization's exposure to certain types of potential liability. [See Appendix 17A.05, Note 13.]

606.04 Other Note Disclosures - This Manual differentiates between notes to the financial statements which are an integral part of the general-use financial statements and supporting schedules which accompany the individual fund statements. It is not necessary that information contained in the supporting schedules be repeated in full detail in the notes, but required data may be summarized in the notes.

606.05 Specimen Notes to Financial Statements - Specific examples of the notes for accounting policies and other matters are given in the Appendices for each type of organization. Except as noted earlier, the specimen notes are generally not obligatory, nor are they intended to be complete. Each organization should use the illustrated notes as a guide, and tailor them to fit the needs of their governing committee.

Section 607 - Consolidation of Organizations (International Standard)

607.01 Professional Guidance - International GAAP classifies certain affiliated entities as either "subsidiaries" or "associates," based on the degree of control or influence the reporting entity has over the other organization. International GAAP defines these and related terms as follows.

Control - the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Control can be achieved by either:

(1) ownership of a majority portion of the other entity's net assets,
(2) the power to appoint or remove a majority of the other entity's governing body, or
(3) the power to cast a majority of the votes at meetings of the other entity's governing body.

Subsidiary - an enterprise that is controlled by another entity (known as the parent), using the preceding definition of control.

Significant Influence - the power to participate in the financial and operating policy decisions of an investee but not control over those policies. Significant influence can be achieved by either financial investment or by representation on the other entity's governing committee.

Associate - an enterprise in which an investor has significant influence, but which is not a subsidiary. An organization may exercise significant influence because it has representation on another entity's committee, but unless it also has a financial investment in that other entity, the other entity is not an "associate" for purposes of this standard.

Equity Method of Accounting - The investment in another entity is initially recorded at cost in the financial statements of the investor. The carrying amount is then increased or decreased in each subsequent period to recognize the investor's share of increases or decreases in the other entity's net assets.

607.02 Accounting for Investments in Subsidiaries - Generally, a parent entity is required to issue consolidated financial statements that include all subsidiaries that it controls. Uniform accounting policies should be used for each entity that is included in a consolidated financial statement. Any balances and transactions between entities in the group should be eliminated in the consolidated totals. There are two exceptions.

The first exception is a subsidiary for which control is only temporary because the parent intends to dispose of the subsidiary in the near future. The parent should account for such a subsidiary using the general principles of accounting for investments (an asset at fair value), as discussed in Chapter 10.

The second exception is a parent whose debt or equity instruments are not traded on an open market (such as a not-for-profit entity). Such a parent may choose whether to issue consolidated statements or unconsolidated parent-only statements. When a parent entity issues separate unconsolidated financial statements, those statements are to include any investment in subsidiaries, but the parent may choose to account for them using either cost, the equity method of accounting, or as "available for sale" assets.

Further, GAAP neither prescribes nor prohibits a separate statement for a subsidiary by itself.

607.03 Accounting for Investments in Associates - If an entity has control over one or more subsidiaries as well as financial investment in one or more associates, and the investor entity also issues consolidated financial statements, the consolidated financial statements are to use the equity method of accounting to report any investment in the associates. Whether an entity has subsidiaries or not, if it issues separate (unconsolidated) financial statements for itself, those separate financial statements are to include any investment in associates, but may choose to account for them using either cost, the equity method, or as “available for sale” assets.

607.04 Examples of Application - It is apparent that the requirement to consolidate will rest heavily on the circumstances of each case. It will be vital to examine the constitution and by-laws of both the reporting entity and the affiliated enterprise to see how they compare to the definitions of control and influence. Appendix 6E is a flowchart that may help in analyzing the relationships between entities.

Control by financial investment. If one entity purchases the assets of another, or appropriates funds to acquire the assets or set up the operations of another, that would be evidence of control by investment.

Control by voting majority. If an organization’s constitution or bylaws grant authority for another entity to appoint a majority of the members of the organization’s governing committee, that would be evidence of control, regardless of whether the other entity made any financial investment in the organization.

Secondary schools. Although school facilities are typically owned by a local conference or field, control of a school can come from a conference/field, a union, or a local church congregation or group of congregations. Schools whose governing committees are appointed by a union or conference should be consolidated in general-use financial statements of the parent entity. However, schools whose governing committees are appointed by one or more local congregations would not be consolidated with either the local church or the conference.

Colleges and universities. Most colleges and universities are established by GC divisions, but are operated by governing committees whose members are appointed by a number of entities, such as the division and union territories that are served by the school. As a result, most colleges and universities would not be controlled by a single other entity, and would not have to be consolidated with any other entity.

Retail Book Centers. Most book centers are operated so closely by conferences/fields that they are more like departments of the larger entity. Unless they have a separate governance structure, they should be included in the financial statements of the larger entity, as just one of its departments or segments.

Clinics and health care facilities other than hospitals. Many forms of clinics and other health care facilities are operated by both hospitals and unions or conferences. Health care facilities other than hospitals are rarely operated as separate entities. A health care facility other than a hospital should usually be consolidated with the union, conference, or hospital that controls that facility, if majority control comes from a single other entity.

Industry enterprises. Industry enterprises can be operated by a variety of other denominational organizations. If there is majority control by one other entity, the industry should be consolidated with it, but if the industry is operated under shared oversight from two or more other entities, it would most likely not be consolidated.

Appendix 6A - How To Prepare A Statement Of Cash Flows (International Model)

6A.01 Step by Step Process - *For illustration, this appendix uses financial data from Appendix 17A.*

Step 1: Gather Information

To prepare a statement of cash flows for the organization as a whole, first gather the following sources of information for each fund (that is, operating fund, plant fund, other fund, if any, etc.):

- ♦ Comparative statements of financial position,
- ♦ Statement of financial activity,
- ♦ Transaction data from the general ledger, and
- ♦ Detail records for investments, property, loans, appropriations, and exchange gains and losses.

Step 2: Calculate change in cash and cash equivalents

- ♦ Compute the increase or decrease in the cash balance from last year to the current year.
  - • The statement of cash flows will reconcile to this amount after all operating, investing, and financing transactions have been identified.

Step 3: Prepare a cash flows worksheet:

A worksheet format similar to that illustrated in Appendices 6A.03 and 6A.04 can be used to identify the amounts that should be reported in the statement of cash flows and supplemental data.

- ♦ To make it easier to identify the various necessary components and amounts, prepare these worksheets for each fund individually, and then combine the results.
- ♦ List all balances from the statement of financial positions for the current and prior years.
- ♦ Calculate the changes in the balances from prior year to current year.
- ♦ Identify the gross cash flows, and any non-cash transactions, for all of the noncurrent assets and liabilities.
  - • The identified components should explain the entire change in each of the balances.
  - • For example, the net increase in plant assets of 1,470,420 consists of several components:
    - ▸ Addition of equipment purchased 1,700,429,
    - ▸ Removal of assets sold: Cost 100,674; Accumulated depreciation 50,674, and
    - ▸ Noncash items: Depreciation expense 180,009.
- ♦ Identify the transaction as either operating, investing, or financing activities.

Step 4: Reconcile the total change in net assets to cash flows from operating activities

- ♦ Use the net increase (decrease) for the year from the statement of activity as the starting point.
- ♦ Make appropriate adjustments to reconcile the change in net assets to the net cash used or provided by operating activities. Use the data generated from the worksheets, as illustrated on pages 4 and 5.
- ♦ Look at those items on the cash flows worksheet marked operating, and incorporate those transactions.
  - • Add or deduct those items that are noncash transactions.
    - ▸ Depreciation and amortization
  - • If there were any contributions or investment income that were restricted by donor stipulations to long-term purposes, they are to be reported as cash flows from financing activities.
    - ▸ These items would be included in the net increase (decrease); so they must be subtracted from the operating activity section to reconcile cash flows from operating activities.
    - ▸ Contribution and investment records will probably be the best source for identifying these transactions.
  - • Add or deduct items that are related to investing or financing activities, or to exchange gain or loss.
    - ▸ One of these adjustments will be the net depreciated value of plant assets sold, if any.

Appendix 6A - How To Prepare A Statement Of Cash Flows (International Model)

6A.01 Step by Step Process - (continued)

Step 4: Reconcile the change in net assets to cash flows from operating activities (continued)

- Add or deduct the changes in balances of current asset and current liability items.
  - Increases of current asset items represent an outflow of cash.
    - Accounts receivable increased for transactions for which no payment has been received yet.
  - Decreases in current asset accounts provide cash.
    - Inventory or prepaid expense was used up during the current year.
  - Decreases of current liability items represent outflows of cash.
    - More accounts payable were paid than were accrued.
  - Increases in current liabilities represent inflows or conservation of cash.
    - More accounts payable were accrued than were paid.

Step 5: Determine the cash flows from investing and financing activities

- Review items in the cash flows worksheet that are marked as investing and financing activities.
- Investing activities are usually the result of changes in noncurrent assets, other than operating items.
  - Purchases and sales of investments
  - Purchases and sales of land, buildings, and equipment
  - Giving loans to individuals or other entities, and
  - Receiving payments on loans receivable.
- Financing activities are usually the result of changes in liabilities, other than operating items.
  - Proceeds from borrowing on long-term debt
  - Proceeds from inter-fund borrowing
  - Payments made to lenders on long-term debt
  - Cash received for creation of endowment funds
- Exchange gain or loss: International accounting principles require the exchange gain or loss on foreign currency transactions to be reported on a separate line apart from the cash flows of operating, investing, or financing activity.

Step 6: Reconcile the change in balances of cash and cash equivalents for the period to the cash provided or used by operating activities, investing activities, and financing activities

- Calculate the sum of cash flows provided or used by operating activities, investing activities, financing activities, and exchange gain or loss, if any.
- The net total of these four sums should agree to the change in cash and cash equivalents for the period.
- Reconcile cash at the beginning of the period to cash at the end of the period on the face of the statement of cash flows.

Step 7: Disclose supplemental data

- Disclose data about noncash investing and financing activities along with the statement of cash flows. This includes such items as donated equipment, or donated labor on construction of assets.
- Disclose cash payments, if any, for interest expense and income taxes paid and refunded during the period.
  - Do not include interest on borrowing between funds within the Organization.

Appendix 6A - How To Prepare A Statement Of Cash Flows (International Model)

6A.02 Reconciling Items for Computing Operating Cash Flow

These are examples of items that are either added back to or deducted from the change in net assets in order to reconcile to the net cash provided or used by operating activities.

Additions	**Deductions**
Items That Do Not Result from Cash Receipts and Disbursements	
Depreciation expense	
Items That Are Related to Investing or Financing Activities	
Loss on sale of plant assets	Gain on sale of plant assets
Net realized and unrealized loss on investments	Net realized and unrealized gain on investments
Purchase of works of art, historical treasures, and similar assets if not capitalized	Contributions restricted to long-term investment or purchase of long-lived assets
Changes in Current Assets and Liabilities	
Decrease in receivables	Increase in receivables
Decrease in inventories and prepaid	Increase in inventories and prepaid
Decreases in other current assets	Increase in other current assets
Increase in accounts payable	Decrease in accounts payable
Increase in refundable advances	Decrease in refundable advances
Increases in other current liabilities	Decreases in other current liabilities

Reminders

- The starting point of the reconciliation from change in net assets to cash flows from operating activities is the "net increase (decrease) for the year" from the statement of financial activity.
- Unique to the cash flows of not-for-profit organizations are cash flows from contributions. Cash flows that result from gifts restricted by the donor for long-term purposes are financing cash flows. Other contributions are operating cash flows.
- Also unique to not-for-profit organizations are noncash contributions such as gifts of long-lived assets, consumable assets, and donated services that create nonfinancial assets. These transactions need to be evaluated to determine if they require disclosure or result in adjustments to changes in net assets.
- Avoid mis-classification within the three types of cash flows. Cash flows from operating may not necessarily correspond to a particular organization's definition of "operations."
- Investment income is not an "investing" activity, but rather part of operations. This includes interest earned on loans receivable.
- Generally, cash flows should be reflected at their gross amount instead of netting related inflows and outflows. For example, do not combine loans given with payments received, which would then report only the net increase or decrease in the ending balance of loans receivable. Instead, loans given to others should be listed separately from payments received on loans receivable.
- The change in accounts receivable is computed using the amount net of the allowance for uncollectible accounts when reconciling between change in net assets and operating cash flows.
- Losses on sales of assets are added back to (and gains are subtracted from) the increase (decrease) for the year to arrive at cash flows from operations. The proceeds of such sales are reported as cash flows from investing activities.

Appendix 6A - How To Prepare A Statement Of Cash Flows (International Model)

6A.03 Worksheet for Analysis of Changes in Account Balances (all funds combined)
Year Ended 31 December 20X1 (using balances from Appendix 17A)

Assets	Current Year	Prior Year	Net Change	Inflow	Outflow	Type of Activity
Cash and Equivalents	1,702,642	1,599,670	102,972	102,972 (1p)		
Investments	8,458,661	5,840,869	2,617,792	316,179 (1b)	2,800,000 (1c)	I
					133,971 (1d)	NC
Accounts Receivable	12,182,294	11,042,572	1,139,722		1,139,722 (1f)	O
Cash Held for Agency	546,956	672,581	-125,625		125,625 (1i)	
Notes Receivable, Current	886,033	750,000	136,033	-136,033 (1j)		I
Inventory and Prepaid	241,995	337,914	-95,919	95,919 (1g)		O
Inter-fund Receivable	2,000	20,000	-18,000	18,000 (1n)		NC/O
(eliminated in totals)						
Plant Assets	3,975,856	2,505,436	1,470,420	50,000 (2f)	1,700,429 (2g)	I
				180,009 (2b)		NC
Notes Rec. - Long-term	4,276,542	5,803,827	-1,527,285	1,777,285 (1j)	250,000 (1k)	I
Nonoperating Investments	1,245,890	41,235	1,204,655		1,158,765 (2e)	I
					45,890 (2c)	NC/O
Total Assets	33,516,869	28,594,104	4,922,765			
Liabilities						
Accounts Payable	955,057	820,057	-135,000	135,000 (1h)		O
Notes Payable, Current	697,450	435,456	-261,994	261,994 (1l)		F
Offering & Agency Funds	7,200,452	4,526,233	-2,674,219	2,674,219 (1i)		O
Notes Payable, Long-term	5,140,744	5,375,000	234,256	238,006 (1l)	472,262 (1m)	F
Inter-fund Payable	2,000	20,000	-18,000		18,000 (2h)	NC/O
(eliminated in totals)						
Total Liabilities	13,993,703	11,156,746	-2,836,957			
Net Assets						
Unallocated Tithe	3,041,556	3,280,762	-239,206			
Unallocated Non-tithe	3,462,935	3,067,025	395,910			
Allocated Funds	7,798,929	8,522,900	-723,971			
Unexpended Plant	1,243,890	61,235	1,182,655			
Net Invested In Plant	3,975,856	2,505,436	1,470,420			
Total Net Assets	19,523,166	17,437,358	-2,085,808			
Total Liab. and Net Assets	33,516,869	28,594,104	-4,922,765			

LEGEND: TYPES OF ACTIVITIES
O - Operating
I - Investing
F - Financing
NC - Non-cash

Appendix 6A - How To Prepare A Statement Of Cash Flows (International Model)

6A.04 Illustrated Transactions, by Fund (using balances from Appendix 17A)
Year Ended 31 December 20X1

1. Operating Fund:
   a. Net decrease for the year: Starting point for cash flow statement. 567,267
   b. Cash received from maturity of investments. 316,179
   c. Cash used to purchase new investments. 2,800,000
   d. Unrealized gain in market value of investments. 133,971
   e. Donations restricted to long-term operating purposes, if any.
   f. Increase in accounts receivable. 1,139,722
   g. Decrease in inventories and prepaid expense. 95,919
   h. Increase in accounts payable. 135,000
   i. Increase in offering and agency funds (net effect; 2,799,844):
      Change in agency cash (546,956 - 672,581) = Decrease 125,625
      Change in agency liability (7,200,452 - 4,526,233) = Increase 2,674,219
   j. Cash received in payments on operating notes receivable. 1,641,252
   k. Cash used to issue new notes receivable. 250,000
   l. Cash received from new operating borrowing. 500,000
   m. Cash used to make payments on operating debt. Principal 472,262; Interest 305,595
   n. Net cash paid on inter-fund borrowing. 18,000
   o. Total exchange gain in operating fund. 30,072
   p. Increase in cash and cash equivalents: Ending point for cash flow statement. 102,972

2. Plant Fund:
   a. Increase in net assets: Starting point for cash flow statement. 2,653,075
   b. Non-cash transaction; depreciation expense. 180,009
   c. Unrealized gain in market value of plant fund investments. 45,890
   d. Cash received as donations or appropriations that are restricted to plant fund acquisitions. Such items would be subtracted from operating activity and inserted into financing activity. 2,535,441
   e. Cash used to purchase non-operating investments. 1,158,765
   f. Sale of assets. Proceeds 50,000; Cost 100,674; Accum. Depr. 50,674; Net Gain -0-
   g. Cash used to purchase land, buildings, and equipment. 1,700,429
   h. Net cash received on inter-fund borrowing. 18,000
   i. Total exchange gain in plant fund. 11,489
   j. Net increase from cash flows other than rollover of investments. 45,890

Appendix 6A - How To Prepare A Statement Of Cash Flows (International Model)

6A.05 Illustrated Statement of Cash Flows
Year Ended 31 December 20X1 (using balances from Appendix 17A)

Cash flows from operating activities:	Operating Fund	Plant Fund	Total 20X1	Illustrated Transaction
Net Increase (Decrease) from Financial Activity	(567,267)	2,653,075	2,085,808	1a + 2a
Adjustments to eliminate non-cash items:				
Depreciation expense		180,009	180,009	2b
(Gain) Loss on sale of assets		0	0	2f
Unrealized (gain) loss in value of investments	(133,971)	(45,890)	(179,861)	1d + 2c
Adjustments to re-classify non-operating items:				
Appropriations and donations for plant fund		(2,535,441)	(2,535,441)	2d
Total exchange (gain) or loss	(30,072)	(11,489)	(41,561)	1o +2i
Increase in accounts receivable (net)	(1,139,722)		(1,139,722)	1f
Decrease in inventories and prepaid expenses	95,919		95,919	1g
Increase in accounts payable	135,000		135,000	1h
Increase in offering and agency funds (net)	2,799,844		2,799,844	1i
Cash provided (used) by operating activities	1,159,731	240,264	1,399,995	
Cash flows from investing activities:				
Proceeds from maturity of investments	316,179		316,179	1b
Purchase of investments	(2,800,000)	(1,158,765)	(3,958,765)	1c + 2e
Principal payments received on notes receivable	1,641,252		1,641,252	1j
New notes receivable issued	(250,000)		(250,000)	1k
Proceeds from sale of plant assets		50,000	50,000	2f
Purchase of plant assets		(1,700,429)	(1,700,429)	2g
Cash provided (used) by investing activities	(1,092,569)	(2,809,194)	(3,901,763)	
Cash flows from financing activities:				
Proceeds from external borrowing	500,000		500,000	1l
Principal payments made on long-term debt	(472,262)		(472,262)	1m
Proceeds (payments) from internal borrowing	(22,000)	22,000	0	1n + 2h
Appropriations and donations for plant fund		2,535,441	2,535,441	2d
Cash provided (used) by financing activities	5,738	2,557,441	2,563,179	
Exchange Gain or (Loss) on Foreign Currency	30,072	11,489	41,561	1o + 2i
Net increase (decrease) in cash and equivalents	102,972	0	102,972	1
Cash and equivalents at beginning of the year	1,599,670	0	1,599,670	
Cash and equivalents at end of the year	1,702,642	0	1,702,642	
Supplemental data: Interest paid on long-term debt	305,595	0	305,595	1m

Appendix 6B - How To Prepare A Statement Of Cash Flows (USA Model)

6B.01 Step by Step Process - *For illustration, this appendix uses financial data from Appendix 17D.*

Step 1: Gather Information

To prepare a statement of cash flows for the organization as a whole, first gather the following sources of information for each fund (that is, operating, plant, etc.):

- Comparative statements of financial position,
- Statement of changes in net assets,
- Transaction data from the general ledger, and
- Detail records for contributions, investments, and property.

Step 2: Calculate change in cash and cash equivalents

- Compute the increase or decrease in the cash balance from last year to the current year.
  - The statement of cash flows will reconcile to this amount after all operating, investing, and financing transactions have been identified.

Step 3: Prepare a cash flows worksheet:

A worksheet format similar to that illustrated in Appendices 6B.03 and 6B.04 can be used to identify the amounts that should be reported in the statement of cash flows and supplemental data.

- To make it easier to identify the various necessary components and amounts, prepare these worksheets for each fund individually, and then combine the results.
- List all balances from the statements of financial position for the current and prior years.
- Calculate the changes in the balances from prior year to current year.
- Identify the gross cash flows, and any non-cash transactions, that caused the increases and decreases for all of the noncurrent assets and liabilities.
  - The identified components should explain the entire change in each of the balances.
  - For example, the net increase in plant assets of $1,289,475 consists of several components:
    - Addition of equipment purchased $473,907,
    - Removal of assets sold: Cost $39,854; Accumulated depreciation $16,402, and
    - Noncash items: Depreciation expense $365,980; Donated plant assets $1,205,000.
- Identify the transaction as either operating, investing, or financing activities.

Step 4: Reconcile the total change in net assets to cash flows from operating activities

- Use the total change in net assets from the statement of activities as a starting point.
- Make the appropriate adjustments to reconcile the change in the net assets to net cash used or provided by operating activities. Use the data generated from the worksheets, as illustrated on pages 4 and 5.
- Look at those items on the cash flows worksheet marked operating, and incorporate those transactions.
  - Add or deduct those items that are noncash transactions.
    - Depreciation and amortization
  - Contributions and investment income that are restricted by donor stipulations to long-term purposes are to be reported as cash flows from financing activities.
    - These items are included in the change in net assets; so they must be subtracted from the operating activity section to reconcile cash flows from operating activities.
    - Contributions and investment records will probably be the best source for identifying the cash and noncash flows from these transactions.
  - Add or deduct items that are adjustments related to investing or financing activities.
    - One of these adjustments will be the net increase (decrease) to net assets of the annuity fund. The components of this net amount will usually include cash as well as non-cash transactions.

Appendix 6B - How To Prepare A Statement Of Cash Flows (USA Model)

6B.01 Step by Step Process - (continued)

Step 4: Reconcile the change in net assets to cash flows from operating activities (continued)

- Add or deduct the changes in balances of current asset and current liability items.
  - Increases of current asset items represent an outflow of cash.
    - Purchase of inventory or prepayment of insurance
  - Decreases in current asset accounts provide cash.
    - Maturity of investments
  - Decreases of current liability items represent outflows of cash.
    - More accounts payable were paid
  - Increases in current liabilities represent inflows or conservation of cash.

Step 5: Determine the cash flows from investing and financing activities

- ♦ Review items in the cash flows worksheet that are marked as investing and financing activities.
- ♦ Investing activities--usually the result of changes in noncurrent assets, other than operating flows.
  - Purchases and sales of investments and land, buildings, and equipment are examples of cash flows from investing activities.
- ♦ Financing activities--usually the result of changes in liabilities, other than operating items.
  - Proceeds from borrowing on long-term debt
  - Cash received for creation of endowment funds
  - In Step 3, contributions and investment income were subtracted from the change in net assets in the operating activities section so they could be reclassified as cash flows from financing activities.
    - Report the cash portion of those transactions as financing inflows.
    - In this example, to arrive at net cash used by operating activities, $434,000 of cash contributions restricted for long-term purposes ($354,000 plant fund and $80,000 endowment fund) was subtracted from the operating activities section and added to the financing activities section.
    - Another rule for cash flows from financing is that amounts received from new gift annuity and split-interest agreements are to be reported at the gross cash received, not the contribution or net gift portion. This example illustrates $126,901 cash received, $217,644 marketable securities received, $218,695 related liabilities incurred, and $125,850 in contribution revenue.

Step 6: Reconcile the change in balances of cash and cash equivalents for the period to the cash provided or used by operating activities, investing activities, and financing activities

- ♦ Calculate the sum of cash flows provided or used by operating activities, investing activities, and financing activities.
- ♦ The net total of these three sums should agree to the change in cash and cash equivalents for the period.
- ♦ Reconcile cash at the beginning of the period to cash at the end of the period on the face of the statement of cash flows.

Step 7: Disclose supplemental data

- ♦ Disclose data about noncash investing and financing activities along with the statement of cash flows. This includes such items as donated equipment, or donated labor on construction of assets.
- ♦ Disclose cash payments, if any, for interest expense and income taxes paid and refunded during the period.
  - Do not include interest on borrowing between funds within the Organization.

Appendix 6B - How To Prepare A Statement Of Cash Flows (USA Model)

6B.02 Reconciling Items for Computing Operating Cash Flow

These are examples of items that are either added back to or deducted from the change in net assets in order to reconcile to net cash provided or used by operating activities.

Additions	Deductions
Items That Do Not Result from Cash Receipts and Disbursements	
Depreciation expense	
Actuarial adjustment on annuities	
Items That Are Related to Investing or Financing Activities	
Loss on sale of plant assets	Gain on sale of plant assets
Net realized and unrealized loss on investments	Net realized and unrealized gains on investments
Purchase of works of art, historical treasures, and similar assets if not capitalized	Contributions restricted to long-term investment or purchase of long-lived assets
Changes in Current Assets and Liabilities	
Decrease in receivables	Increase in receivables
Decrease in inventories and prepaid	Increase in inventories and prepaid
Decreases in other current assets	Increase in other current assets
Increase in accounts payable	Decrease in accounts payable
Increase in refundable advances	Decrease in refundable advances
Increases in other current liabilities	Decreases in other current liabilities

Reminders

- The starting point of the reconciliation from change in net assets to cash flows from operating activities is the “change in total net assets” from the statement of activities.
- Unique to the cash flows of not-for-profit organizations are cash flows from contributions. Cash flows that result from gifts restricted by the donor for long-term purposes are financing cash flows. Other contributions are operating cash flows.
- Also unique to not-for-profit organizations are noncash contributions such as gifts of long-lived assets, consumable assets, and donated services that create nonfinancial assets. These transactions need to be evaluated to determine if they require disclosure or result in adjustments to changes in net assets.
- Avoid mis-classification within the three types of cash flows. Cash flows from operations may not necessarily correspond to a particular organization's definition of “operations.”
- Investment income is not an “investing” activity, but rather part of operations. This includes interest earned on loans receivable.
- Generally, cash flows should be reflected gross instead of net.
- The change in accounts and contributions receivable is computed using the amount net of the allowance for uncollectible accounts when reconciling between change in net assets and operating cash flows.
- Losses on sales of assets are added back to the change in net assets to arrive at cash flows from operations. Any gains on sales of assets must be used as reductions. The proceeds of the sale are reported as investing cash flows.

Appendix 6B - How To Prepare A Statement Of Cash Flows (USA Model)

6B.03 Worksheet for Analysis of Changes in Account Balances (all funds combined)
Year Ended December 31, 20X1 (amounts in thousands - using balances from Appendix 17D)

Assets	Current Year	Prior Year	Net Change	Inflow	Outflow	Type of Activity
Cash and Equivalents	1,179	579	600	600 (1m)		
Investments	526	541	(15)	15 (1b)		NC/O
Accounts Receivable	426	414	12		12 (1d)	O
Cash Held for Agency	57	50	7	7 (1g)		
Notes Receivable, Current	18	16	2		2 (1l)	I
Inventory and Prepaid	16	17	(1)	1 (1e)		O
Plant Assets	12,287	10,998	1,289	366 (2b)	1,205 (2d)	NC/O
				40 (2f)	16 (2f)	NC/O
					474 (2g)	F
Notes Rec. - Long-term	86	51	35	9 (1h)	44 (1l)	I
Nonoperating Investments	671	255	416	292 (2e)		I
(Plant, Endow., Agency)				125 (3d,g)		F
Split-interest Agreements	1,526	1,674	(148)	60 (3e)	165 (3f)	I
(Annuity, Trust)				18 (3h,i)		I
				217 (3j)	225 (3m,n)	F
					53 (3c)	NC
Total Assets	16,792	14,595	2,197			
Liabilities						
Accounts Payable	261	356	(95)		95 (1f)	O
Notes Payable, Current	60	16	44	44 (1i)		F
Oper. Fd. Agency Accts.	57	50	7	7 (1g)		O
Notes Payable, Long-term	258	18	240	256 (1i)	16 (1k)	F
Non-oper. Notes Payable	80	0	80	80 (2i)		F
Split-Interest Liabilities	1,275	1,470	(195)	219 (3j)	118 (3b)	NC
					296 (3o)	NC
Agency Fund Liability	77	32	45	45 (3g)		F
Total Liabilities	2,068	1,942	126			
Net Assets						
Unrestricted Unallocated	290	308	(18)			
Unrestricted Allocated	1,736	1,119	617			
Unrestricted in Plant	12,099	10,997	1,102			
Temporarily Restricted	499	209	290			
Permanently Restricted	100	20	80			
Total Net Assets	14,724	12,653	2,071			
Total Liab. and Net Assets	16,792	14,595	2,197			

LEGEND: TYPES OF ACTIVITIES
O - Operating
I - Investing
F - Financing
NC - Non-cash

Appendix 6B - How To Prepare A Statement Of Cash Flows (USA Model)

6B.04 Illustrated Transactions, by Fund (using balances from Appendix 17D)
Year Ended December 31, 20X1

1. Operating Fund:
   a. Increase in net assets: Starting point for cash flow statement. $541,014.
   b. Unrealized loss in market value of investments. $15,272.
   c. Donations restricted to long-term purposes reclassified as non-operating. $434,000.
   d. Increase in accounts receivable. $11,754.
   e. Decrease in inventories and prepaid expense. $747.
   f. Decrease in accounts payable. $95,503.
   g. Increase in trust/agency accounts (cash and liability). $7,199.
   h. Cash received in payments on operating notes receivable. $9,293.
   i. Cash received from new operating borrowing. $300,000.
   j. Net cash paid on inter-fund borrowing. $97,143.
   k. Cash used to make payments on operating debt. Principal $15,909; Interest $2,862.
   l. Cash used to issue new notes receivable. $46,000.
   m. Increase in cash and cash equivalents: Ending point for cash flow statement. $607,216.

2. Plant Fund:
   a. Increase in net assets: Starting point for cash flow statement. $1,341,006.
   b. Non-cash transaction; depreciation expense. $365,980.
   c. Cash received as donations restricted to plant acquisition. $354,000.
   d. Cost of church and school properties added. $1,205,000.
   e. Cash used to purchase non-operating investments. $292,367.
   f. Sale of assets. Proceeds $41,865; Cost $39,854; Accum. Depr. $16,402; Net Gain $18,413.
   g. Cash used to purchase plant assets. $473,907.
   h. Increase in non-operating accounts payable. $1,903.
   i. Cash received from new plant borrowing. $80,000.
   j. Net cash received on inter-fund borrowing. $158,933.

3. Other Funds:
   a. Increase in net assets: Starting point for cash flow statement. Annuity, $83,864; Trust, $25,000; Endowment, $80,000; Total, $188,864.
   b. Actuarial adjustments to decrease present value liability of split-interest agreements. $119,407.
   c. Unrealized loss in market value of investments held for split-interest agreements. $52,853.
   d. Cash received as donations restricted to endowment. $80,000.
   e. Cash received from maturity of non-operating (annuity) investments. $60,000.
   f. Cash used to purchase new non-operating investments. $164,571.
   g. Increase in Agency Fund liability to depositors. $45,000.
   h. Cash received in payments on non-operating accrued interest receivable. $3,189.
   i. Cash received in payments on non-operating notes receivable. $14,850.
   j. Gross amounts from new split-interest agreements. Cash $126,901; Marketable Securities $217,644; NPV Liability $218,695; Contribution or Gift Portion $125,850.
   k. Net cash paid on inter-fund borrowing. $61,790.
   l. Investment income on assets held for split-interest agreements. $123,059, all received in cash.
   m. Payments to income beneficiaries: Annuity, $18,722; Trust $59,916.
   n. Distributions from matured agreements: total $144,811; all paid in cash.
      Annuity: To Operating, $36,345; To Other Beneficiaries, $35,000
      Trust: To Operating, $58,466, To Other Beneficiaries, $15,000
   o. Non-cash decrease in conditional split-interest agreements. $296,263.

Appendix 6B - How To Prepare A Statement Of Cash Flows (USA Model)

6B.05 Illustrated Statement of Cash Flows
Year Ended December 31, 20X1 (using balances from Appendix 17D)

	Total 20X1	Illustrated Transaction
Cash flows from operating activities:		
Increase (Decrease) in net assets	2,070,884	1a+2a+3a
Adjustments to eliminate non-cash items:		
Depreciation expense	365,980	2b
(Gain) Loss on sale of assets	(18,413)	2f
Cost of church and school properties added	(1,205,000)	2 d
Unrealized (gain) loss in fair value of investments	15,272	1b
Adjustments to reclassify non-operating items:		
Annuity Fund net (increase) decrease to net assets	(83,864)	3a
Trust Acctng Fd net (increase) decrease to net assets	(25,000)	3a
Contributions restricted for non-operating purposes	(434,000)	1c
Increase in accounts receivable (net)	(11,754)	1d
Increase in agency cash	(7,199)	1g
Decrease in inventories and prepaid expenses	747	1
Decrease in accounts payable	(95,503)	1f
Increase in trust and agency accounts	7,199	1g
Net cash provided (used) by operating activities	579,349	
Cash flows from investing activities:		
Proceeds from maturity of investments	60,000	3 e
Purchase of investments	(456,938)	2e+3f
Proceeds from sale of plant assets	41,865	2f
Purchase of plant assets	(473,907)	2g
New notes receivable issued	(46,000)	1l
Principal payments received on notes receivable	24,143	1h+3i
Net cash provided (used) by investing activities	(850,837)	
Cash flows from financing activities:		
Proceeds from external borrowing	380,000	1i+2i
Proceeds (payments) from internal borrowing	0	1j+2j+3k
Increase (decrease) non-operating accounts payable	1,903	2h
Total cash received from new split-interest agreements	126,901	3j
Non-operating restricted investment income	123,059	3l
Payments to annuitants	(18,722)	3m
Payments to income beneficiaries	(59,916)	3m
Distributions from matured split-interest agreements	(144,811)	3n
Donations restricted for long-term purposes	434,000	2c+3d
Principal payments made on long-term debt	(15,909)	1k
Increase (decrease) Agency Fund liability to depositors	45,000	3g
Net cash provided (used) by financing activities	871,505	
Net increase (decrease) in cash and cash equivalents	600,017	1m
Cash and cash equivalents at beginning of the year	579,417	
Cash and cash equivalents at end of the year	1,179,343	
Supplemental data: Interest paid on long-term debt	2,862	1k

Appendix 6C - Country-specific Report Format (USA Standard)

6C.01 Required Financial Statements - Generally, the guidance in Chapter 6 applies to all entities world-wide. USA GAAP requires not-for-profit entities to separate net assets further into three classes: unrestricted, temporarily restricted, or permanently restricted, based on the absence or presence of donor restrictions. USA GAAP requires the financial statements to report expenses according to functional classifications, such as identified programs and supporting services, rather than by their natural object. **Appendix 17C illustrates the most basic GAAP requirements, in the context of a two-fund conference. Appendix 17D illustrates a recommended expansion of fund accounting for a complex, multi-fund conference.**

General-use financial statements in the USA, illustrated in Appendices 17C and 17D, are to include the following:

Statement of Financial Position
Statement of Changes in Net Assets
Statement of Cash Flows
Notes to the Financial Statements

The statements may be “combined” that is, a combination of two or more commonly controlled entities, such as a conference and its related corporation, or an academy and its related independent operation (if both are controlled by the same entity). See Appendix 6D for further discussion about consolidations. Voluntary health and welfare organizations are required to prepare an additional statement that reports expenses by their functional and natural classifications in a matrix format. An example of this kind of statement can be found at Appendix 17E.07. In addition, organizations that use fund accounting will prepare supplementary statements for each fund for management purposes, and will include relevant detailed schedules.

6C.02 Additional Note Disclosures - USA GAAP includes the required note disclosures discussed in Sections 606.03 and 606.04. USA GAAP also requires note disclosures for the following types of accounts:

- **Temporarily Restricted Net Assets** (brief description of restricted purposes and balances held for each one, if any) [see Appendix 17D.13, note 17]

- **Permanently Restricted Net Assets** (brief description of restricted purposes and balances held for each one, if any) [see Appendix 17D.13, note 18]

- **Fair Value Inputs for Assets and Liabilities** (for all assets and liabilities recognized at fair value, on either a recurring or non-recurring basis, disclosure of the sources of information used to determine fair value, separated between “level 1, level 2, and level 3” inputs) [see Appendix 17D, note 4]

- **Endowment Agreements** (included in Note 1: the organization’s interpretation of state law regarding classification of permanently restricted net assets and preservation of endowment principal; and included either in Note 1 or elsewhere in the notes: the composition of endowment net assets, the beginning and ending net assets, and the related activity) [see Appendix 17D, notes 1m to 1p and 19]

- **Split-interest Agreements** (summary of accounting principles for such agreements, changes in value of investments, gift portion of new agreements, gain or loss on investments, changes in liabilities during the year, and balances of liabilities) [see Appendix 17D, notes 1j, 14, 15, & 16]

- **Subsequent Event Evaluation Date** (disclosure of the date through which management has evaluated subsequent events for inclusion in the financial statements or notes, and identification of whether that date is the date the statements were issued or were available to be issued) [see Appendix 17D, note 1(a)]

- **Contingent Liabilities and Concentrations of Risk** (brief description of exposure to certain types of risks) [see Appendix 17D, note 23]

6C.03 Schedule of Working Capital and Liquidity - The discussion about the schedule of working capital and liquidity in Section 605 applies to entities in the USA, except for the following changes.

(A) For entities that use fund accounting with multiple funds, the schedule can include separate columns for the operating funds, before the comparative columns for the organization as a whole.

B) For the schedule of liquidity, commitments are defined as current liabilities, plus net assets allocated for capital purposes, plus temporarily restricted net assets that are not covered by specifically identified noncurrent assets.

6C.04 Statement Format for Colleges and Universities - This Manual does not include illustrated financial statements for colleges and universities within the USA. The North American Division has chosen to follow the existing guidance in the manual prepared by the National Association of College and University Business Officers (NACUBO). All denominational colleges and universities in the USA should follow the NACUBO manual for accounting and financial reporting.

Appendix 6D - Consolidation of Organizations (USA Standard)

6D.01 Professional Guidance - Standards for consolidation of not-for-profit organizations in the United States are contained in SOP 94-3. Following is the basic text of SOP 94-3, including paragraph reference. In addition, to make it easier to follow, Appendix 6F presents this guidance in a flowchart.

Conclusions

3. This SOP provides guidance for reporting (a) investments in for-profit majority-owned subsidiaries, (b) investments in common stock of for-profit entities wherein the not-for-profit organization has a 50 percent or less voting interest, and (c) financially inter-related not-for-profit organizations.

4. Whether the financial statements of a reporting not-for-profit organization and those of one or more other entities should be consolidated, whether those other entities should be reported using the equity method, and the extent of the disclosure that should be required, if any, should be based on the nature of the relationships between the entities.

Investments in For-Profit Majority-Owned Subsidiaries

5. Not-for-profit organizations with a controlling financial interest in a for-profit entity through direct or indirect ownership of a majority voting interest in that entity should follow the guidance in FASB Statement 94, in determining whether the financial position, results of operations, and cash flows of the for-profit entity should be included in the not-for-profit organization's financial statements.

Investments in Common Stock - 50 Percent or Less Voting Interest

6. Investments in common stock of for-profit entities wherein the not-for-profit organization has 50 percent or less of the voting stock in the investee should be reported under the equity method, subject to the exception in paragraph 7 of this SOP.

7. Some AICPA audit guides applicable to some not-for-profit organizations permit investment portfolios to be reported at market value. Not-for-profit organizations that choose to report investment portfolios at market value in conformity with the AICPA audit guides may do so instead of applying the equity method to investments covered by paragraph 6 of this SOP.

Financially Interrelated Not-For-Profit Organizations

8. Not-for-profit organizations may be related to one or more other not-for-profit organizations in numerous ways, including ownership, control, and economic interest.

9. As discussed in paragraphs 10-13, the various kinds and combinations of control and economic interest result in various financial reporting.

10. Not-for-profit organizations with a controlling financial interest in another not-for-profit organization through direct or indirect ownership of a majority voting interest in that other not-for-profit organization should consolidate that other organization, unless control is likely to be temporary or does not rest with the majority owner, in which case consolidation is prohibited.

11. In the case of control through a majority ownership interest by other than ownership of a majority voting interest, as discussed in paragraph 10, or control through a majority voting interest in the board of the other entity, combined with an economic interest in other such organizations, consolidation is required, unless control is likely to be temporary or does not rest with the majority owner, in which case consolidation is prohibited.

12. Control of a separate not-for-profit organization in which the reporting organization has an economic interest may take forms other than majority ownership or voting interest. For example, control may be through contract or affiliation agreement. In circumstances such as these, consolidation is permitted but not required, unless control is likely to be temporary, in which case consolidation is prohibited.

6D.01 - Professional Guidance (USA Standard) (continued)

12. (continued) If the reporting organization controls a separate not-for-profit organization through a form other than majority ownership or voting interest and has an economic interest in that other organization, and consolidated financial statements are not presented, notes to the financial statements should include the following disclosures:

    * Identification of the other organization and the nature of its relationship with the reporting organization that results in control
    * Summarized financial data of the other organization, including:
        - Total assets, liabilities, net assets, revenue, and expenses
        - Resources that are held for the benefit of the reporting organization or that are under its control
    * The disclosures set forth in FASB Statement No. 57, Related Party Disclosures

13. In the case of control and an economic interest, the presentation of consolidated financial statements, as discussed in paragraph 11, or the disclosures, as discussed in paragraph 12, are required. The existence of control or an economic interest, but not both, precludes consolidation, except as stated in the next sentence, but requires the disclosures set forth in FASB Statement No. 57. Entities that otherwise would be prohibited from presenting consolidated financial statements under the provisions of this SOP, but that currently present consolidated financial statements in conformity with the guidance in SOP 78-10, may continue to do so.

14. If consolidated financial statements are presented, they should disclose any restrictions made by entities outside of the reporting entity on distributions from the controlled not-for-profit organization to the reporting organization and any resulting unavailability of the net assets of the controlled not-for-profit organization for use by the reporting organization.

Glossary

Control. The direct or indirect ability to determine the direction of management and policies through ownership, contract, or otherwise.

Economic Interest. An interest in another entity that exists if (a) the other entity holds or utilizes significant resources that must be used for the unrestricted or restricted purposes of the not-for-profit organization, either directly or indirectly by producing income or providing services, or (b) the reporting organization is responsible for liabilities of the other entity. Following are examples of economic interests:

* Other entities solicit funds in the name of and with the expressed or implied approval of the reporting organization, and substantially all of the funds solicited are intended by the contributor or are otherwise required to be transferred to the reporting organization or used at its discretion or direction.

* A reporting organization transfers significant resources to another entity whose resources are held for the benefit of the reporting organization.

* A reporting organization assigns certain significant functions to another entity.

* A reporting organization provides or is committed to provide funds for another entity or guarantees significant debt of another entity.

Majority voting interest in the board of another entity. For purposes of this SOP, a majority voting interest in the board of another entity is illustrated by the following example. Entity B has a five-member board, and a simple voting majority is required to approve board actions. Entity A will have a majority voting interest in the board of entity B if three or more entity A board members, officers, or employees serve on or may be appointed at entity A's discretion to the board of entity B. However, if three of entity A's board members serve on the board of entity B but entity A does not have the ability to require that those members serve on the entity B board, entity A does not have a majority voting interest in the board of entity B.

6D.02 Definition Examples - Control: If a conference committee has authority to direct that a separately organized book center will not carry certain types of merchandise, that is likely to be considered control. If the conference committee has authority to close the book center, control exists.

Economic Interest: Academies serve to advance the religious education of the youth of the conference and to evangelize youth who are not yet church members. Most academies and some separately organized book centers receive significant operating and/or capital appropriations from conferences. Many conferences have significant receivables from academies and/or book centers. These are indicators of economic interest.

Majority voting interest in the board: If the conference committee has authority to appoint the majority of academy board members, the conference has majority voting interest in the board of the academy. In contrast, if the constituency of the conference appoints a majority of the academy board, the conference does not have majority voting interest in the board of the academy (even if the same individuals are also members of the conference committee). If the same constituency elects both the conference committee and the academy board, both organizations are commonly controlled and exempt from the requirement to consolidate.

6D.03 Application - It is apparent that the requirement to consolidate will rest heavily on the circumstances of each case. It will be vital to examine the constitution and by-laws of both the reporting entity and the related entity to see how they compare to the definitions of control, economic interest, and majority voting interest in the board. The following paragraphs discuss how these rules may apply to denominational organizations. The accompanying flowchart, Appendix 6F, taken from SOP 94-3, should also help in this analysis.

6D.04 Adventist Book Centers - It should be recognized that book centers vary in size and operating structure. Some book centers do not have any separate organizational structure, but are just a department of a conference. Those that have a separate structure must be analyzed individually to decide whether to consolidate with the conference. If all three conditions are met (control, economic interest, and board membership) the book center must be consolidated on the conference financial statement. If control and economic interest exist, but not majority board membership, consolidation is permitted but not required. In this case, if not consolidated, extensive disclosures are required in the notes to the conference financial statement.

6D.05 Academies - Historically, conferences have provided substantial financial support for academies. This alone, however, does not mean that consolidation is required. Academies exhibit a greater variety of size and structure than book centers do. Many academies receive economic support and management input from constituent churches in addition to influence from the conference. It is possible that in these cases, the conference does not have the degree of control or economic interest that would require consolidation. As with book centers, each academy will have to be analyzed individually to determine if consolidation is required.

6D.06 Literature Evangelism Organizations - Like book centers, some literature evangelism organizations vary in size and organizational structure. The current structure of each of these entities will have to be analyzed. If a union, publishing house, or conference has a relationship with a literature evangelism organization that satisfies the criteria of control, economic interest, and board membership, they will have to be consolidated with the controlling organization.

6D.07 College Industries - Some colleges operate commercial industries through wholly-owned for-profit corporations. As quoted earlier, SOP 94-3 indicates that not-for-profit organizations in this situation are subject to FASB Statement 94. Each college will have to analyze its situation to determine if its industry should be consolidated with the college financial statement. The following are excerpts from Statement 94.

> 101. There is a presumption that consolidated statements are more meaningful than separate statements and that they are usually necessary for a fair presentation when one of the enterprises in the group directly or indirectly has a controlling financial interest in the other enterprises.
>
> 102. The usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one enterprise, directly or indirectly, of over fifty percent of the outstanding voting shares of another enterprise is a condition pointing toward consolidation. . . A majority-owned subsidiary shall not be consolidated if control is likely to be temporary or if it does not rest with the majority owner (legal reorganization or. . . governmentally imposed uncertainties).
>
> 103. All majority-owned subsidiaries--all companies in which a parent has a controlling financial interest through direct or indirect ownership of a majority voting interest--shall be consolidated, except those described in the last sentence of paragraph 102.

6D.08 Retirement and Nursing Centers - Some denominational organizations are affiliated in one way or another with retirement or nursing centers. In each of these cases, the constitutions and bylaws of these organizations will have to be analyzed to determine if they meet the criteria for consolidation. In this type of entity, there may also be need for legal counsel to clarify relationships between organizations.

6D.09 Colleges and Universities - Union Conferences and/or the General Conference have historically exercised varying degrees of control over colleges and universities. Each of these relationships will have to be analyzed in light of SOP 94-3, to determine whether consolidation will be required.

6D.10 Included, Combined, or Consolidated? - Most of the questions about grouping financial statements of related organizations will involve entities within a conference territory. Most entities or activities will conform to one of the following three scenarios:

A department or function that should be included within the overall financial statements of an entity;
A separately organized or managed entity that is controlled by another, and should be consolidated with it; or
Two separate entities that are commonly controlled, and may elect to combine their financial statements.

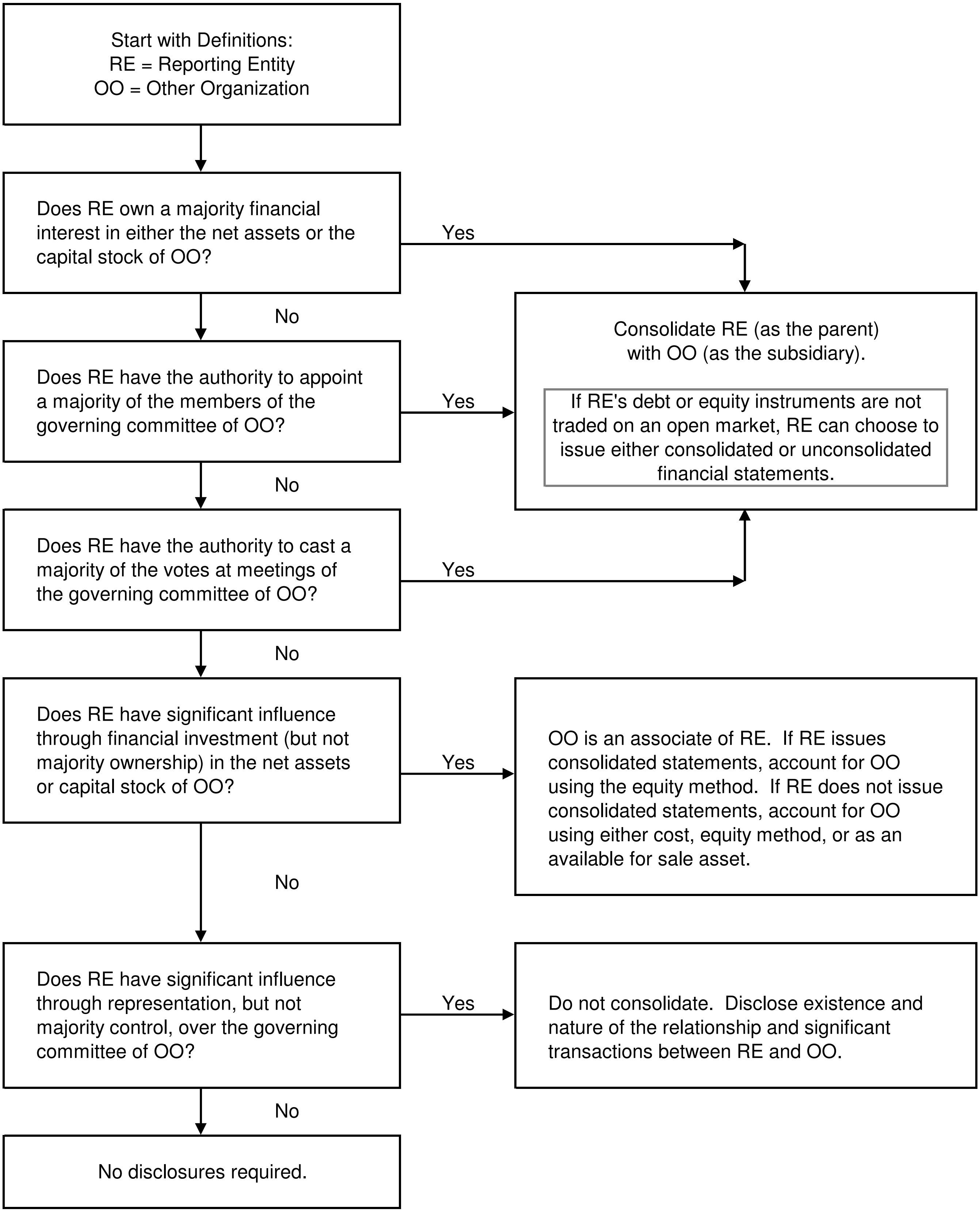
To simplify the following illustrations, we will use the terms ABC and XYZ, but be aware that various types of entities could be organized in a way to fit each of the three scenarios.

Department or Function - If ABC has no separate organizational structure, and is closely managed or directed by the governing body of XYZ, it would be defined as just a department or function of XYZ. Such a conclusion would be indicated if, for example, ABC's manager reported to and received direction from XYZ's committee, or if decisions related to ABC were discussed and acted upon during specified periods of XYZ's committee meeting. If this were the case, the accounts and activity of ABC should be included within the financial statements of XYZ as just another fund or operating segment. This would comply with the principles of FAS 117 for reporting on the organization as a whole. Inclusion of ABC in XYZ's financial statements would not in itself result in the statements being referred to as either "combined" or "consolidated."

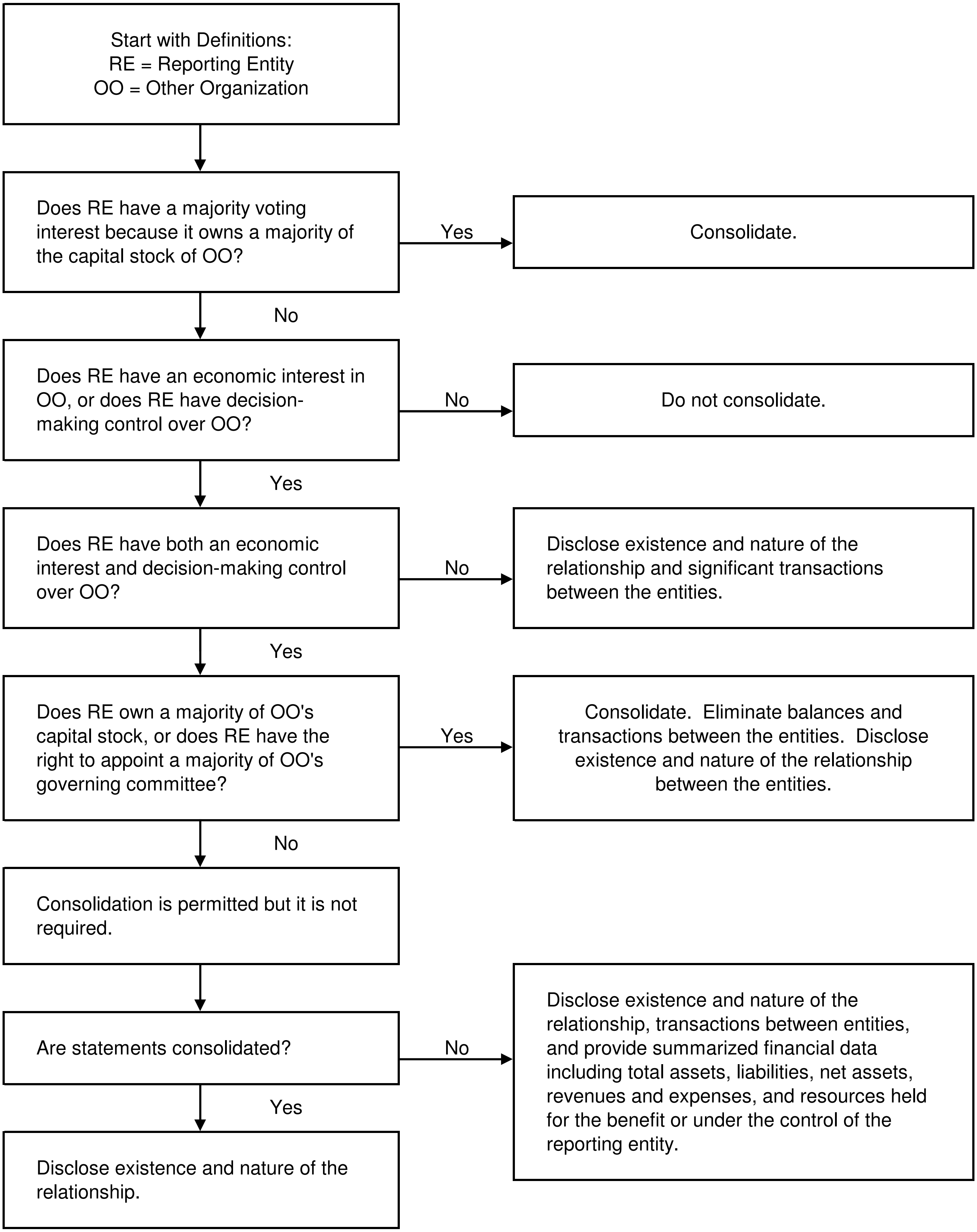
Directly Controlled - If ABC has a separate organizational structure that is actively managed by a separate committee, but a majority of the members of that committee are appointed by XYZ's committee, ABC would be defined as a related organization that is controlled by XYZ. If in addition to this control, XYZ has an economic interest in ABC, the accounts and activity of ABC should be consolidated with XYZ to get general-use financial statements of XYZ. This would comply with the principles of SOP 94-3 for related organizations. As an alternative, if XYZ did not need general-use financial statements, and did not wish to consolidate the accounts and activity of ABC, it could issue unconsolidated parent-only financial statements that would be limited to distribution within the denomination. At the same time, separate financial statements could be issued for ABC, identifying it as a subsidiary of XYZ.

Commonly Controlled - If ABC and XYZ are separate entities, but their separate controlling committees are elected by the same constituent body, then ABC and XYZ would be defined as commonly controlled entities. In this case, ABC and XYZ would not be required to consolidate under SOP 94-3, but would be permitted to be combined under other accounting principles. Combined financial statements are permitted if they are likely to be more meaningful than separate statements. Putting two or more commonly controlled entities together would result in combined financial statements.

Appendix 6E - Consolidation Decision Tree for Related Not-for-Profit Organizations (International Model)



Appendix 6F - Consolidation Decision Tree for Related Not-for-Profit Organizations (USA Model)



Section 701 - Introduction

Section 702 - Operating Fund

Section 703 - Plant Fund

Appendix 7A - Balances and Activity Reported by Program or Function (USA Model)

Appendix 7B - Agency Fund (USA Model)

Appendix 7C - Endowment Fund (USA Model)

Appendix 7D - Gift Annuities Fund (USA Model)

Appendix 7E - Trust Accounting Fund (USA Model)

Section 701 - Introduction

701.01 Individual Funds Involved - As mentioned in Section 205.01, conferences and missions, colleges and universities, and some academies use fund accounting. (For organizations that do not use fund accounting, refer to the general guidance in Chapter 6, and the illustrated financial statements in Chapters 20 to 23.) For entities that use fund accounting, as mentioned in Sections 202.01, 602.07, and 603.03, their general-use financial statements represent the accumulation of data from the financial reports of all their individual funds. This chapter addresses the format and content of individual fund financial reports prepared for management use in multi-fund entities.

701.02 Statements Presented - For each fund, this chapter will focus on the basic financial reports: report of financial position, report of financial activity, and report of cash flows. Funds that are complex, like a conference operating fund, with numerous allocated sub-funds, will also use a report of changes in net assets. **For every set of single fund financial reports, there will be supporting schedules with additional detail.**

Obviously, there will be some duplication between the single fund reports and the general-use statements. For example, the Operating Fund Report of Financial Activity will look much like the Operating Fund detail note included in the general-use financial statements (compare Appendix 17B.02 with 17A.05, Note 18). Similarly, the Operating Fund Report of Changes in Net Assets will repeat the Operating Fund detail from the general-use statement of changes in net assets (compare Appendix 17B.03 with 17A.03).

701.03 Supporting Schedules - Sections 601.03 and 601.04 discuss the distinction between notes which are part of general-use financial statements, and supporting schedules which are in more detail and accompany the individual fund reports prepared for use by management. This chapter includes guidance about the supporting schedules related to individual fund reports. Line items in the financial reports of each fund are cross-referenced by number to the supporting schedules that contain the related detailed information. This cross-referencing is essential to enable the readers to find their way through what is unavoidably a large amount of detail.

701.04 Need for Grouping of Funds - A comprehensive picture of the organization as a whole requires a general-use financial statement that includes all the funds in use by the entity. However, management may find it useful to prepare financial reports that combine certain closely related funds. The compilation of such group reports must come after the preparation of the individual reports for each fund. It would involve simply arranging data from the individual fund reports in columnar form, and cross-adding each line to arrive at totals for all funds presented in the particular group report. As is customary in combinations, inter-fund receivables and payables are eliminated in stating the totals. Only those inter-fund items relating to the funds **in the particular grouping** are eliminated.

Section 702 - Operating Fund

702.01 Scope of the Fund - The operating fund, as the title indicates, receives and administers all operating income of the organization. It retains, invests, and disburses the funds in accordance with the financial plan of the organization in compliance with denominational working policy. It handles the transfer of funds to senior organizations according to policy, and disburses funds required for operating functions. One part of the administration of this fund involves **transfer** of resources between funds. The following explanations of reports and schedules will apply to the operating funds of each type of organization. For illustration, the following sections refer to the sample financial reports for a conference operating fund (Appendix 17B).

702.02 Report of Financial Position - Each operating fund that presents separate financial reports will include a report of financial position. Although presented for a single fund, the general content of the report of financial position will be the same as described at Sections 602.01 to 602.03 for general-use financial statements. As discussed in Chapter 15, the report of financial position displays net assets according to their character as either unallocated tithe, unallocated non-tithe, or allocated. Line items in the report of financial position are identified with a cross-reference to the respective supporting schedules.

702.03 Supporting Schedules - The supporting schedules to the report of financial position consist of expanded detail listing each individual account within certain summarized groups of accounts. Supporting schedules should be prepared for only those line items that are complex enough to need more detail, or which are of interest to the organization's governing committee. The following observations are made to illustrate certain possible schedules, and are not intended to illustrate all the schedules that an entity's governing committee may desire.

S-1 Cash and Equivalents - A schedule for cash and equivalents would include a detailed listing of all individual accounts held at banks and other financial institutions. If applicable, the schedule should include maturity dates and rate of return on time deposits.

S-3 Accounts Receivable - The primary detail in this schedule is a series of listings of amounts receivable from affiliated entities and individuals. In contrast to the general-use financial statement notes, which only summarize receivables by category, this operating fund schedule for management purposes contains disclosure by name of each entity and individual with a receivable balance.

S-2 Investments - A listing of investments by type of instrument makes it possible to compare actual experience and current position with counsel from advisors and with denominational policy. If the investments include time deposits, the schedule should disclose their respective maturity dates and rates of return. Note that the valuation account for unrealized appreciation or decline in fair value is listed separately from the historical cost for each type of instrument, and that the summary of investment return shows gains and losses apart from interest and dividends.

S-4 Loans Receivable - The schedule for loans receivable lists each borrower, and groups them by type of loan. For each loan, it also indicates whether it is secured, what the interest rate is, and how frequent the required payments are supposed to be. For the group as a whole, the schedule indicates the allowance for uncollectible accounts and the current portion.

S-8 Offering Funds and Agency Accounts - If there are relatively few offering and agency accounts, this schedule will be essentially just a copy of the data that is displayed as a note in the general-use statements (see Appendix 17A.05, Note 11). However, if there are a large number of accounts, and the general-use note lists only summarized sub-totals, then this schedule would list each account within those totals.

S-9 Loans Payable - The schedule for loans payable is arranged in the same manner as the schedule for loans receivable (details by name, type, and terms). In addition, it indicates the total amount due in principal payments over each of the next five years.

S-11 Working Capital and Liquidity - If desired, a schedule can be included to report denominational working capital and liquidity for the operating fund. As with the general-use financial statement notes, even when presenting this information for the operating fund alone, inter-fund receivable and payable balances should be eliminated before calculating actual working capital.

702.04 Reports of Financial Activity - Similar to the general-use financial statements, the Operating Fund reports are presented in two formats. The Operating Fund Report of Financial Activity displays sub-fund data in columnar array. The Operating Fund Report of Changes in Net assets displays sub-fund data in rows. (See Appendix 17B.02 and 17B.03)

702.05 Reporting Details - The Operating Fund Report of Financial Activity presents data in the same sequence as in the general-use statement of financial activity: earned income (from regular operations), operating expenses, operating appropriations, capital activity, transfers, and increase (decrease) to net assets. Also note the columns presented: tithe fund, non-tithe fund, allocated funds, current period actual, current period budget, and prior period actual. As with the statement of financial position, certain items are cross-referenced to supporting schedules. The Operating Fund Report of Changes in Net Assets displays a separate line for each unallocated and allocated sub-fund, with columns presenting revenue, expense, and transfers.

702.06 Budget Comparison - In accordance with denominational working policy and with good management practice, this Manual requires the unaudited annual financial statements of the organization as a whole to include a budget comparison. Further, whenever financial reports are presented for one fund, or a group of funds less than the whole entity, this Manual requires the budget comparison to be included. (See Appendix 17B.) This Manual does allow the audited annual financial statements to omit the budget column. Chapter 8 discusses the responsibility of management to prepare and operate under a budget approved by the governing committee, and offers guidance on how to develop a budget.

702.07 Supporting Schedules - As with the report of financial position, supporting schedules for the report of financial activity should be presented for complex or significant areas. The following observations are made to illustrate certain possible schedules, and are not intended to illustrate all the schedules that an entity's governing committee may desire. All of the schedules for financial activity display the same data columns as the overall report; but the line items are separated and grouped by type of activity.

<u>S-15 Tithe Income</u> - Typically, this schedule reports the amount of tithe revenue received from each affiliated organization within the reporting entity's territory. It could also include as a separate sub-section any special tithe-sharing or direct tithe revenues.

<u>S-17 Other Operating Income</u> - This schedule would be used to explain any significant items of revenue other than the primary source of revenue, such as income from fees or sales.

<u>S-18 Employee-related Expense</u> - The schedule for employee-related expense should include sub-totals for each major component; beginning with salaries and wages, and listing every major type of employee-related allowances and benefits. It should include a separate line for any contributions made to defined contribution retirement plans, or to government-mandated retirement plans, if any. It should also include a separate line for any payroll-related taxes levied on the employer by government agencies.

<u>S-19 Administrative & General Expense</u> - This schedule reports sub-totals of significant groupings of general expense. It would also include a separate line for any contributions made to denominational defined benefit retirement funds. The amount of detail and the level of grouping is flexible, and should be prepared in a manner

that meets the needs of the governing committee.

S-20 Departmental Expense - As with the other categories, this schedule should include the level of detail desired by management and the governing committee, to be able to analyze the activity of major departments.

S-21 Other Operating Expense - The schedule of other operating expense would include items related to the entity's physical facilities, as well as expenses charged directly to allocated sub-funds.

S-22 Tithe Appropriations Received - Tithe appropriations received would be listed according to their nature as either regular or special appropriations, and according to their source as either the next higher denominational entity or an other denominational entity.

S-23 Tithe Appropriations Disbursed - Tithe appropriations disbursed would be listed according to the affiliated entities that were the recipients of the appropriations.

S-24 Non-tithe Appropriations Received - As with tithe appropriations received, this schedule would list non-tithe appropriations received according to their nature and source.

S-25 Non-tithe Appropriations Disbursed - As with tithe appropriations disbursed, this schedule would list non-tithe appropriations disbursed according to the recipients.

702.08 Report of Cash Flows - Guidance on how to prepare a statement of cash flows is presented in Appendix 6A. The operating fund report of cash flows is illustrated in Appendix 17B.04.

Section 703 - Plant Fund

703.01 Preliminary Observations - For all entities, whether they use fund accounting or not, the basic concepts of accounting for land, buildings, and equipment are discussed in Chapter 13. Appendices 13B, 13C, and 13D contain illustrated accounting entries for various transactions under single fund and multiple-fund accounting formats. The Plant Fund uses distinct accounts to allow separate accounting for resources that are available for future acquisitions and resources that have been spent to acquire plant assets. For reporting purposes, when fund accounting is used, these accounts are usually combined into one Plant Fund column in an organization's general-use financial statements, as illustrated in Appendix 17A, but the assets, liabilities, and net assets of each sub-fund, if used, may be reported in separate columns in any single report for just the Plant Fund.

703.02 Scope of the Fund - The unexpended plant fund assets typically consist of cash, investments, accounts receivable, and amounts due from other funds. Its revenue will consist of direct donations for plant fund purposes, revenue from investments, and transfers from other funds for depreciation funding and future plant asset acquisition. Its disbursements generally will be for acquisition of plant assets and for repayment of debt attributable to plant assets. The net invested in plant fund assets consist of the long-lived assets owned by the entity, depreciation and disposition of those assets, and any related debt.

703.03 Report of Financial Position - Because all resources of the Plant Fund are held for long-lived purposes, the unexpended plant fund report of financial position lists all its cash, investments, and other assets as noncurrent. Similarly, any accounts payable for transactions in process will be listed as noncurrent liabilities. The unexpended plant net assets consist of one or more possible components. Any unspent resources that have been allocated and transferred from operating funds will be reported as unrestricted allocated net assets. Any unspent donations that have been restricted to plant fund use will be reported as restricted net assets.

The assets of the net invested in plant fund are reported on the face of the report of financial position as a single line representing the total net depreciated value of the various categories of long-lived assets. Supporting schedules provide additional detail by each class of asset. The net invested in plant sub-fund reports all debt related to plant assets. A portion of the total is due within the next year, but as it will be paid from unexpended plant funds, not from operating funds, it is not divided as to current and long-term on the face of the report of financial position. The net assets of the net invested in plant sub-fund will be the organization's equity in its plant assets.

703.04 Reports of Financial Activity - As with operating fund activity, the plant fund activity is presented in two reports. The report of financial activity presents activity with an emphasis on the type of activity (see Appendix 17A.02). The report of changes in net assets presents data with an emphasis on the activity of each fund, sub-fund, and account (see Appendix 17A.03). Donations, appropriations, and investment-related activity are reported as revenue, and depreciation is reported as expense. Any gain or loss on the sale of plant assets is reported as a separate item of activity.

703.05 Transfers - There are two types of transfers in the Plant Fund. First, all payments to acquire plant assets are recorded as transfers between the unexpended and the net invested funds. This is because they represent use of resources already on hand, merely converting them from liquid assets to long-lived assets. Second, all committee allocated resources from the operating fund, for depreciation funding, future asset acquisitions, and debt service, are recorded as transfers from the operating fund to the plant fund.

703.06 Net Assets - In order to preserve the identity of the net assets of the two sub-funds, separate computations are made to arrive at the year-end balance of net assets for unexpended plant and for net invested in plant. These individual components of net assets are reported in the report of changes in net assets, and the totals agree with the amounts in the report of financial position.

703.07 Schedule of Activity by Asset Class - As discussed in Section 1304.01, the balances for cost, accumulated depreciation, additions, and deletions for each plant asset are typically accumulated in a subsidiary ledger. As illustrated in Note 8 in Appendix 17A.05, this information is greatly condensed for presentation in the general-use financial statements. That note reports sub-totals for cost, accumulated depreciation, current depreciation expense, additions, and deletions, for each general category of plant assets. That note represents the minimum level of detail required by international GAAP. For management purposes, whenever a separate financial report is desired for the plant fund, a supporting schedule should be prepared to display whatever degree of detail the governing committee wants. Such a schedule would typically contain more detail than the general-use note, but less detail than the entire plant asset subsidiary.

703.08 Schedule of Net Assets by Source - If the unexpended plant net assets consist of a significant number of either committee-allocated or donor-restricted sub-funds, a schedule may be prepared to show the related detail for management purposes. This schedule would use the same format as the statement of changes in net assets, but would simply expand the number of lines to include each sub-fund and account rather than group totals as presented in the general-use statement.

Appendix 7A - Balances and Activity Reported by Program or Function (USA Model)

7A.01 Operating Fund Report of Financial Position - A complete statement of financial position in conformity with USA GAAP would include all funds of the entity. However, for management purposes, it is usually helpful to prepare a separate financial report for each fund. Appendix 17E.01 illustrates an Operating Fund Report of Financial Position. The concepts illustrated in that appendix apply not only to an operating fund but to each fund for which a single fund financial report is presented.

Although presented for a single fund, the general content of this report will be the same as described at Section 602 and Appendix 6C for general-use financial statements. As discussed in Appendices 6C and 15A, the statement of financial position displays net assets according to their character as either unrestricted, temporarily restricted, or permanently restricted. Unrestricted net assets are further classified as unallocated or allocated.

Line items in the single fund report are identified with a cross-reference to respective supporting schedules. Supporting schedules for the report of financial position are essentially the same as described in Section 702.03. For the USA Model, one additional schedule is illustrated in Appendix 17E.04, page 3, as S-12 Temporarily Restricted Net Assets. This schedule is essentially a repeat of Note 17 in Appendix 17D.

7A.02 Operating Fund Report of Changes in Net Assets - A complete statement of changes in net assets in conformity with USA GAAP would include all funds of the entity. However, for management purposes, it is usually helpful to prepare a separate report for each fund. Appendix 17E.02 illustrates an Operating Fund Report of Changes in Net Assets. As introduced in Appendix 6C, USA GAAP requires the financial statements to report expenses according to functional classifications, such as identified programs and supporting services, rather than by natural object. It also requires the statements to report activity in groups according to the three classes of net assets; unrestricted, temporarily restricted, and permanently restricted. These concepts apply to single fund reports as well as general-use statements. (See related discussion at Appendix 15A.)

7A.03 Operating Fund Reporting Details - The sample statement in Appendix 17E.02 illustrates a number of points. Note that revenue is displayed according to the three classes of net assets, and reflects the amount “released from restrictions” as part of unrestricted support. Also note that expenses are displayed only within unrestricted net assets. Expenses are reported, not by object or category (such as payroll or office supplies), but by **function** (such as Pastors or School Operating).

For a conference, which typically uses many functions, the functions would be grouped into categories of similar types, such as Church Ministries, Educational, Publishing, Supporting Services (which would include an administration function), and any other appropriate categories. For an academy, the functions would include Instructional, Student Services, Student Financial Aid, Institutional Support, Auxiliaries, and if applicable, Independent Operations. Under GAAP, "operation and maintenance of plant" is not to be considered a separate "function." All plant-related operating and upkeep expenses are to be distributed to the functions or departments that are benefitted by those expenses. For all entities, the functions are further separated into two categories; Program Functions and Supporting Services Functions.

For any organization that incurs fund-raising expense, that expense must be reported as a separate function, either on the face of the statement or in the notes. Fund-raising expense may consist of payroll-related expense, materials and supplies, or services obtained. If an activity or project involves fund-raising and other programs or services (defined as "joint costs"), those costs must be distributed between the functions in a systematic and rational manner. If it is not practical to distribute joint costs among the affected functions, the entire amount must be reported as fund-raising. To be classified as distributable joint costs, the following criteria must be met:

- The **purpose** of the activity must be to help accomplish the entity's program or management and general functions. It must include a call for action other than educating about causes or asking for donations.
- The **audience** must be selected for reasons other than their likelihood of becoming donors.
- The **content** of the message must either include a call to action or offer a way for the audience to obtain the subject service or participate in the subject program.

The report shows a sub-total of net increase or decrease in net assets attributable to operations. The non-operating revenue and expense and gains/losses are shown for those organizations with capital functions held in the operating fund. This is followed by inter-fund transfers. After presenting the changes in unrestricted net assets, the changes in temporarily and permanently restricted net assets are shown. The report closes by combining the net change this year with beginning net assets to yield net assets at end of the year. Note again that certain items are cross-referenced to supporting schedules. The references to expenses are to Schedule 15, which will be discussed in considerable detail in the following Sections.

7A.04 Operating Fund Budget Comparison - In accordance with denominational working policy and good management practice, this Manual requires the unaudited annual financial statements of the organization as a whole to include a budget comparison. Further, whenever financial reports are presented for one fund, or a group of funds less than the whole entity, this Manual requires the budget comparison to be included. (For application to the operating fund, see Appendix 17E.02 and 17E.06.) This Manual allows audited annual financial statements to omit the budget column. Chapter 8 discusses the responsibility of management to prepare and operate under a budget approved by the governing committee, and offers guidance on how to develop a budget.

7A.05 Operating Fund Supporting Schedules - As with the report of financial position, supporting schedules for the report of changes in net assets should be presented for complex or significant areas. Some of the possible schedules are described below and are illustrated in Appendices 17E.05 and 17E.06.

S-15 Summary of Financial Activity by Function - This schedule displays a summary of the operation of each function in the fund (see 17E.05). It starts with beginning balances, indicates unrestricted and restricted revenue, total expense of each function, net transfers between functions, net transfers from (to) other funds, and concludes with the ending balance of each function. The columnar arrangement of this schedule follows the sequence of presentation of line items in the basic report of changes in net assets (see 17E.02). The column showing transfers between **functions** totals to zero, because these items are transfers **within** the same fund and do not affect other funds. The companion column showing transfers between funds involves movement of resources in or out of the operating fund to other funds. The total of these transfers, $10,959, shows on the basic report as a decrease in net assets of the operating fund. The final net assets amount agrees with the balance at the close of the report of changes in net assets and the total net assets line in the report of financial position.

S-15-12 View of Elementary School Operating Line Item - Each line item in Schedule 15 should be supported by a detailed sub-schedule. Because each line item represents a particular function or activity of the organization, it is in these sub-schedules that the activity of a particular function is reported. For illustration, consider the line for Elementary School Operating to see how supporting schedule S-15-12 explains the data shown in Schedule 15. (See Appendix 17E.06, page 4).

The sub-schedule shows the source of restricted revenue: church offering, miscellaneous donations, and GC K-12 reversion subsidy. The total of $62,121 is classified as temporarily restricted revenue. Unrestricted revenue of $373,386 represents the amount received from the elementary schools as their allotted portion of support for the total program. Expenses are itemized, with a total of $592,753 agreeing with that in Schedule 15. This gives a net decrease from operations (excess of expense over revenue) of $157,246. The transfers section shows $12,000 was allocated to the Elementary School operation from the Unallocated Non-tithe function and that transfers were made from the Unallocated Tithe function of $167,000 to assist with the payment of salaries and allowances in elementary school operations. (The maximum amount of tithe allowable for this purpose is 30 percent of the total salaries and allowances; the $167,000 round figure is slightly less than 30 percent.) The remainder of Schedule 15-12 concludes with Net Increase (Decrease) after Transfers and the ending balance in Unrestricted Net Assets. Since the total expense exceeds the amount of restricted revenue in this function, the entire amount of restricted income, $62,121 is released from restrictions, and there is no ending balance in Temporarily Restricted Net Assets.

<u>S-15-33 View of Ingathering Reversion Line Item</u> - So much has been said about recording restricted revenue that this Manual illustrates the Ingathering Reversion statement (Schedule 15-33) as an example. (See Appendix 17E.06, page 7). It is seen from the sub-schedule that a total $142,038 of restricted funds was received and credited to the temporarily restricted revenue account. There was no unrestricted revenue. At the close of the year, actual expenses totaled $51,632, and transfers to other functions, where funds were expended for the restricted purpose, totaled $35,000. This means that only $86,632 can be released from restrictions, to cover the expenses and transfers. The difference between restricted revenue received and the amount released from restrictions, $55,406, is shown as the increase in temporarily restricted net assets for the year.

7A.06 Disclosures Limited by HIPAA - For organizations in the USA, which are required to present expenses by program or functional category, the organization's process for distributing healthcare expenses among programs and functions should be done in a manner that complies with the privacy rules of the Health Insurance Portability and Accountability Act (HIPAA).

The denomination has interpreted HIPAA to prohibit organizations from distributing healthcare expenses among departments or functions strictly on the basis of healthcare benefits paid for the employees in each department or function. That is because any department or function that employs only one individual, and reports the total healthcare expense of that individual as the expense for that department or function, will by default make it obvious to at least some readers what the healthcare expenses of that particular individual happened to be. Such a disclosure without a valid HIPAA authorization from the employee would violate the provisions of HIPAA.

To respond to this privacy law, and yet comply materially with the requirements of GAAP, the denomination has adopted the following strategy. Each organization should first accumulate all healthcare benefits expense into one general ledger account. Then the organization should distribute the total of those expenses among its program and support functions on some consistent reasonable basis, such as the number of employees in each function, or the relative size of the expense budget for each function, etc. The result will be distribution of total healthcare expense among the various functions on a reasonable but generic basis, while avoiding disclosure of actual healthcare expense of any particular employee. (See Appendix 17E.07)

Compliance with the privacy rule of HIPAA should also be extended to the annual remuneration report viewed by the governing committee in accordance with NADWP. This report is presented to the governing committee solely to assist them in monitoring compliance with denominational policy, and should be kept strictly confidential. This report is **not** part of the employer's financial statements, and should not be included or presented with the financial statements. As long as the employer implements procedures to guard against unauthorized use of the data, especially against use of the data for employment purposes, HIPAA does not prohibit an employer's governing committee from viewing, for legitimate plan administration purposes, information about the amounts of healthcare benefits paid for each of its own employees. Instead of a separate column disclosing healthcare expense for each employee, there could be just one column that combines all benefits and allowances for each employee (insurance, housing, healthcare, tuition assistance, etc.). (See Appendix 17E.08)

7A.07 Plant Fund Report of Financial Position - Because all resources of the Plant Fund are held for long-lived purposes, the unexpended plant report of financial position lists all its cash, investments, and other assets as noncurrent. Similarly, any accounts payable for transactions in process will be listed as noncurrent liabilities. Any unspent resources that have been allocated and transferred from operating funds will be reported as unrestricted allocated net assets. Any unspent donations that have been restricted to plant fund use will be reported as temporarily restricted net assets.

The assets of the net invested in plant fund are reported on the face of the report of financial position as a single line representing the total net depreciated value of the various categories of long-lived assets. Supporting schedules provide additional detail by each class of asset. The net invested in plant sub-fund reports all debt related to plant assets. A portion of the total is due within the next year, but as it will be paid from unexpended plant funds, not from operating funds, it is not divided as to current and long-term on the face of the report. The net assets of the net invested in plant sub-fund will be the organization's equity in its plant assets.

7A.08 Plant Fund Report of Financial Activity - The illustrated general-use statement of the organization (Appendix 17D.02) indicates that neither of the Plant Fund sub-funds had any operating revenue. The Plant Fund report is divided into two sections: Depreciation Expense, which is an operating expense and affects only the net invested in plant sub-fund; and non-operating revenue, expense, and gains/losses, which involve both sections of the plant fund. The illustrated Note 19 in Appendix 17D.14 displays how the transactions are recorded. This note shows Proceeds from Sale of Plant Assets, which is an inflow of cash recorded in the unexpended plant fund; and Net Value of Assets Sold, representing removal of the depreciated value of the assets disposed of, which is a decrease in the amount invested in plant.

The purchase of assets also affects both sub-funds. If activity detail were presented for unexpended plant, it would show cash disbursed ($283,907) for acquisition of new plant assets. Similarly, if activity detail were presented for net invested in plant, it would show total value of assets acquired, $473,907, with an offsetting loan of ($190,000), resulting in a net addition to the invested in plant fund of $283,907. The total value is recorded as a long-lived asset, but since a portion of that was borrowed, only the net amount representing investment of the entity's own funds will increase net invested in plant net assets. Since the cash spent from the unexpended fund is offset by the new asset added in the net invested fund, nothing is reported in Note 19 for this item.

7A.09 Transfers - All inflows to the plant fund other than those already considered in the Nonoperating Revenue and Expenses and Gains/Losses section comprise transfers from other funds. These are identified as depreciation funding and plant asset acquisition funding from operating funds.

7A.10 Plant Fund Net Assets - To preserve the identity of the net assets of the two sub-funds, separate computations are used to arrive at the year-end balance of net assets for unexpended plant and net invested in plant. These individual net asset balances agree with the related amounts in the statement of financial position.

7A.11 Schedule of Plant Fund Activity by Asset Class - As discussed in Section 703.07, amounts for cost, accumulated depreciation, additions, and deletions for each plant asset are typically accumulated in a subsidiary ledger, and are condensed for presentation in the general-use financial statements (see 17D.09, Note 9). The general-use note represents the minimum detail required by GAAP. For management purposes, whenever a separate financial report is desired for the plant fund, a supporting schedule should be prepared to display the degree of detail desired by the governing committee. Such a schedule would typically contain more detail than the general-use note, but less detail than the entire plant asset subsidiary.

7A.12 Schedule of Plant Fund Net Assets by Function - If the unexpended plant net assets consist of a significant number of allocated or temporarily restricted components, a schedule may be prepared for management purposes to show the related detail. This summary would use separate columns to display types of activity within each of the net asset classes: restricted and unrestricted income, "deductions" (not "expenses"), transfers from other funds, net increase or decrease, beginning function balance, and the ending function balance. This schedule would use the same format as described for the operating funds as Schedule 15.

Appendix 7B - Agency Fund (USA Model)

7B.01 Nature of the Fund - This fund represents a program of investment of funds entrusted to the organization by depositors. The liability to the depositors may be evidenced by formal notes or other written instructions. These liabilities are owed directly to depositors, not to other funds of the organization. All interest income is distributed to the depositors; there is no revenue to the organization itself. These two factors--all money provided by depositors and invested, and all income from investments distributed to depositors--mean that there is no net asset balance.

7B.02 Interest Arrangements -Interest on deposits is paid based on one of two plans.

(a) Certain depositors receive interest at a stated rate on the principle amount of their deposits as specifically stated in the agreement itself.

(b) Other depositors agree to accept interest based on each depositor's pro rata share of interest income from pooled investment of their money by the agency fund.

7B.03 Report of Financial Position - The report of financial position will reflect the above-mentioned characteristics. There will be cash and investments that in total will equal all liabilities to depositors. There will be a liability total representing the sum of all accounts due to depositors. There will always be a zero balance in the net asset account.

7B.04 Report of Changes in Net Assets - The supporting schedules to the report of financial position afford data which also supports the line items in the report of changes in net assets. The report indicates interest income on funds invested and distribution of interest to the depositors. As previously noted, all revenue is distributed; there is no excess or deficiency of income versus expense.

Appendix 7C - Endowment Fund (USA Model)

7C.01 Endowment Funds Definition - **True endowment funds** are established by donors who make a gift with the stipulation that the principal is to be maintained inviolate and in perpetuity and be invested for the purpose of producing revenue for a specific function or for the general operation of the organization. **Term endowment funds** are the same as true endowment funds with the exception that upon the passage of a certain amount of time or of a particular event, all or part of the principal may be expended. **Quasi-endowment funds** (funds functioning like an endowment) are funds which the controlling committee, rather than a donor, has determined are to be invested similarly to an endowment. Since these funds are allocated by the committee, the principal can be expended at any time by action of the committee. In the case of true endowment or term endowment funds, it is mandatory that the principal be maintained intact in accordance with the terms of the agreement.

7C.02 Endowment Accounting Principles - For true and term endowments, each endowment agreement should be accounted for as a separate function within the endowment fund. The principal amount of true endowments will be recorded as permanently restricted net assets and term endowment's principal amount will be recorded as temporarily restricted net assets. The financial activity will be recorded as illustrated in Appendix 7C.04. Each endowment function will have its own accounts for cash and investments unless the investments are pooled. Endowment funds must be separately invested if the gift instrument requires it. Also, the type of investment and the use of investment revenue, including realized capital gains and losses, must be in accordance with the terms of the gift instrument. Further, the accounting for unrealized gains and losses in market value must follow any terms that may be specified in the gift instrument.

For quasi-endowments only, the principal will be recorded as unrestricted allocated net assets. The financial activity and net assets may be recorded in either the operating fund or the endowment fund. It is suggested that quasi-endowments be recorded in an endowment fund if the organization also holds true or term endowments, but be recorded in the operating fund if the organization holds no other endowments.

7C.03 Endowment Revenue and Gains and Losses - The endowment gift instrument should clearly state the donor's desire about the use of investment revenue earned on the endowment principal, as well as about gains and losses from sale of investments and gains and losses in fair value. If investment earning is unrestricted, it will be credited as unrestricted revenue of the operating fund. If investment revenue is restricted by the donor, it will be credited as restricted endowment income in the temporarily restricted activity section of the appropriate function and fund. Realized and unrealized gains are to be given the same unrestricted or temporarily restricted classification as the corresponding investment income on each endowment, unless donor stipulations or state law require such gains to be permanently restricted. It is presumed that investment earnings will be used before net realized gains are used.

Net gains (including unrealized market value appreciation) on the investment of donor-restricted endowments should be accounted for as additions to temporarily or permanently restricted net assets. Net losses on the investment of donor-restricted endowments should first reduce temporarily restricted net assets, to the extent of any unspent appreciation gains. Any remaining loss should be accounted for as a decrease in unrestricted net assets. Subsequent gains, that restore the value of the endowment portfolio, should be classified as additions to unrestricted net assets until the donor stipulated level is again achieved. Sections 7C.04 and 7C.05 illustrate selected journal entries and financial statement presentation to comply with these accounting principles.

7C.04 Illustrated Endowment Journal Entries	Debit	Credit
Year 1 - Operating Fund		
Cash	50,000	
Temporarily Restricted Investment Revenue		50,000
To record investment earnings.		
Unrestricted Program Expense	32,000	
Cash		32,000
Temporarily Restricted - Restrictions Released	32,000	
Unrestricted - Restrictions Released		32,000
To record the use of restricted resources.		
Year 1 - Endowment Fund		
Investment Securities	1,000,000	
Permanently Restricted Contributions		1,000,000
To record new endowment donation.		
Unrealized Appreciation (Decline) in Value [*contra-asset account*]	47,000	
Temporarily Restricted - Unrealized Gain in Fair Value		47,000
To adjust the carrying value to fair value at year end.		
Year 2 - Operating Fund		
Cash	55,000	
Temporarily Restricted Investment Revenue		55,000
To record investment earnings.		
Unrestricted Program Expense	75,000	
Cash		75,000
Temporarily Restricted - Restrictions Released	75,000	
Unrestricted - Restrictions Released		75,000
Cash	2,000	
Transfer From EF Temporarily Restricted Fund		2,000
To record the use of restricted resources		

To illustrate the use of investment earnings first, then realized gains if allowed; and all disbursements recorded as unrestricted activity:

Investment income in year 1	50,000	
Disbursements in year 1	(32,000)	
Investment income in year 2	55,000	
Investment income available	73,000	
Disbursements in year 2	(75,000)	
Used from gains in year 2	2,000	(5,000 available)

	Debit	Credit
Year 2 - Endowment Fund		
Cash	30,000	
Investment Securities		25,000
Temporarily Restricted Realized Gain on Sale of Investments		5,000
To record sale of investment securities.		
Investment Securities	27,000	
Cash		27,000
To record purchase of investment securities.		
Transfer To OF Temporarily Restricted Fund	2,000	
Cash		2,000
To record the use of restricted resources. (See corresponding entry in operating fund.)		

7C.04 Illustrated Endowment Journal Entries	Debit	Credit
Year 2 - Endowment Fund (continued)		
Temporarily Restricted Unrealized Loss in Fair Value	50,000	
Unrestricted Unrealized Loss in Fair Value	10,000	
Unrealized Appreciation (Decline) in Value [*contra-asset*]		60,000
To adjust the carrying value to fair value at year end.		

To illustrate a loss greater than the balance of unspent previous gains in Temporarily Restricted Net Assets. This unspent amount should equal total temporarily restricted net assets in the endowment fund just prior to this journal entry.

Gain from year 1	47,000
Gain from year 2	5,000
Gain used in year 2	(2,000)
Cumulative unspent gains	50,000
Unrealized loss in year 2	(60,000)
Portion to be recorded as unrestricted	10,000

	Debit	Credit
Year 3 - Operating Fund		
Cash	56,000	
Temporarily Restricted Investment Revenue		56,000
To record investment earnings.		
Unrestricted Program Expense	50,000	
Cash		50,000
Temporarily Restricted Restrictions Released	50,000	
Unrestricted Restrictions Released		50,000
To record the use of restricted resources.		
Year 3 - Endowment Fund		
Cash	38,000	
Investment Securities		31,000
Temporarily Restricted Realized Gain on Sale of Securities		7,000
To record the sale of investment securities.		
Investment Securities	35,000	
Cash		35,000
To record the purchase of investment securities.		
Unrealized Appreciation (Decline) in Value [*contra-asset account*]	18,000	
Unrestricted Unrealized Gain in Fair Value		10,000
Temporarily Restricted Unrealized Gain in Fair Value		8,000
To adjust the carrying value to fair value at year end.		

To illustrate recovery of the previous loss that had exceeded the unspent gains in temporarily restricted net assets. The recovery classified as unrestricted should not exceed any negative balance of total unrestricted net assets in the endowment fund.

Total gain in year 3	25,000
Prior losses held in unrestricted; To be recovered as unrestricted gain	(10,000)
Balance to be recorded as temporarily restricted gain	15,000

7C.05 Sample Financial Statement Presentation

	Operating Fund	Endowment Fund	Organization Totals
Year 1			
Endowment Donation Received	0	1,000,000	1,000,000
Temporarily Restricted Investment Revenue	50,000	0	50,000
Temporarily Restricted Unrealized Gain in Fair Value	0	47,000	47,000
Restrictions Released - Program Expense	(32,000)	0	(32,000)
Net Increase (Decrease), Year 1	18,000	1,047,000	1,065,000
Restricted Cash	18,000	0	18,000
Investments, at Fair Value	0	1,047,000	1,047,000
Total Assets, End of Year 1	18,000	1,047,000	1,065,000
Temporarily Restricted Net Assets	18,000	47,000	65,000
Permanently Restricted Net Assets	0	1,000,000	1,000,000
Net Assets, End of Year 1	18,000	1,047,000	1,065,000
Year 2			
Temporarily Restricted Investment Revenue	55,000	0	55,000
Realized Gains on Sale of Investments	0	5,000	5,000
Transfer Between Temporarily Restricted Funds	2,000	(2,000)	0
Restrictions Released - Program Expense	(75,000)	0	(75,000)
Unrestricted - Unrealized Loss in Fair Value	0	(10,000)	(10,000)
Temporarily Restricted - Unrealized Loss in Fair Value	0	(50,000)	(50,000)
Net Increase (Decrease), Year 2	(18,000)	(57,000)	(75,000)
Restricted Cash	0	1,000	1,000
Investments, at Fair Value	0	989,000	989,000
Total Assets, End of Year 2	0	990,000	990,000
Unrestricted Net Assets	0	(10,000)	(10,000)
Temporarily Restricted Net Assets	0	0	0
Permanently Restricted Net Assets	0	1,000,000	1,000,000
Net Assets, End of Year 2	0	990,000	990,000
Year 3			
Temporarily Restricted Investment Revenue	56,000	0	56,000
Realized Gains on Sale of Investments	0	7,000	7,000
Restrictions Released - Program Expense	(50,000)	0	(50,000)
Unrestricted - Unrealized Gain in Fair Value	0	10,000	10,000
Temporarily Restricted - Unrealized Gain in Fair Value	0	8,000	8,000
Net Increase (Decrease), Year 3	6,000	25,000	31,000
Restricted Cash	6,000	4,000	10,000
Investments, at Fair Value	0	1,011,000	1,011,000
Total Assets, End of Year 3	6,000	1,015,000	1,021,000
Unrestricted Net Assets	0	0	0
Temporarily Restricted Net Assets	6,000	15,000	21,000
Permanently Restricted Net Assets	0	1,000,000	1,000,000
Net Assets, End of Year 3	6,000	1,015,000	1,021,000

Appendix 7D - Gift Annuities Fund (USA Model)

7D.01 Gift Annuities Definition - Gift annuities are funds received from a donor subject to an agreement whereby certain assets are made available to the organization on condition that the organization obligates itself to pay certain stated amounts at specific times in the future to designated individuals. These payments are to terminate at the time or event specified in the agreement.

7D.02 Gift Annuities Accounting - Because of the complex nature of gift annuities, they contain elements of both contribution and exchange. Also, the contribution portion can be restricted or unrestricted. Further, the unrestricted portion may be subject to state laws about when it can be withdrawn and spent, and investment and management of annuity assets may also be subject to state laws.

At the date of gift, two or more amounts should be recorded:

(1) The asset(s) received should be recorded at fair value as of the date of the gift.

(2) The net present value of the actuarially determined liability payable to the annuitant should be recorded as a liability.

(3) If the gift is unrestricted, the difference between (1) and (2) should be recorded as an increase in unrestricted allocated net assets.

(4) If the gift is restricted, the difference between (1) and (2) should be recorded as an increase in temporarily restricted net assets.

No attempt will be made in this Manual to discuss the writing of a gift annuity agreement. This is covered in detail in the denomination's Trust Services Manual. However, this Manual is concerned with the recording of gift annuities in the financial records of the organization. The denomination requires the original gift factor to be maintained until the annuity liability has been fully paid (see NADWP P 25 10). This Manual recommends that organizations that administer a significant number of annuity agreements establish a separate Annuity Fund apart from their Operating Fund, to help account for these agreements.

Increases in annuity net assets consist of the gift factor of new annuity agreements, investment earnings, and net gains in excess of annuity payments made. Decreases include transfers to other funds upon maturity of annuity funds. Additional changes in the net assets occur annually when adjustments are made between the liability and the net assets for changes due to revised life expectancy. Appendix 17D.12 illustrates the above accounting principles in Note 15. The accounting records should be organized to provide this kind of activity detail for each annuity agreement.

7D.03 Gift Annuity Payments - Gift annuity payments are set at the time of the writing of the agreement.

These payments are not made subject to the earnings generated by annuity investments. In fact, should the annuity payments exceed the earnings and eventually deplete the annuity assets, the organization must continue to make the agreed-upon payments until the annuity matures.

7D.04 Gift Annuity Investments - Administrative officers must be familiar with state laws or any other governmental regulations concerning the writing or investing of gift annuities. A copy of the state law should be on file and understood clearly, not only by those who write the agreements, but also by those who must account for them once they have been written.

Appendix 7E - Trust Accounting Fund (USA Model)

7E.01 Nature of Trust Accounting - In addition to charitable gift annuities, many conferences and colleges serve as trustees or administrators of various types of split-interest agreements, such as charitable remainder trusts, unitrusts, other unconditional irrevocable trusts, and revocable trusts. The organizations typically hold various types of assets, liabilities, and net assets related to these agreements. There are specific accounting and financial reporting requirements related to such specialized agreements.

First, because trust agreements are based on legal documents and legally-enforceable responsibilities, the entity has a duty to keep account of the assets, liabilities, and net assets related to each individual agreement. This includes the concept of keeping the accounts of each agreement separately identifiable from those of other agreements. Further, the entity must be able to produce reports of the balances and activity of each agreement, and deliver those reports to the respective trustors and other appropriate entities.

Second, because the organization has a stewardship duty over the assets, an obligation represented by the related liabilities, and an ownership interest in any net assets, the respective balances must be reported in the financial statements of the organization as a whole. To help accomplish that, this Manual recommends the use of a separate self-balancing trust accounting fund, at least for organizations that administer a significant amount of such agreements. In addition, for management purposes, separate financial reports should be prepared for the trust accounting fund. (For organizations that administer a relatively small number of trust agreements, the general-ledger accounting may be performed within the corporation/association operating fund, rather than a separate trust accounting fund.)

To help entities administer their fiduciary responsibility to individual trustors, a set of trust administration guidelines has been issued by the NAD Trust Services Certification and Accreditation Committee. While this Manual does not intend to duplicate that guidance, it recognizes that certain information reported in the trust accounting fund of the entity's financial statements will represent the accumulation of information that is reported to individual trustors through the fiduciary accounting system.

7E.02 Report of Financial Position and Supporting Schedules - Because the trust-related assets are not held for operating purposes, the trust accounting report of financial position will list all its cash, investments, and other assets as noncurrent. Similarly, the liabilities to income beneficiaries and other remainder beneficiaries will be listed as noncurrent. The net assets related to the trusts will be reported according to their nature as either unrestricted, temporarily restricted, or permanently restricted.

The supporting schedules will give summarized detail about the cash and investment accounts similar to the supporting schedules for the operating fund, but would not necessarily list each bank or investment account, because they can be quite numerous. The schedule should summarize the cash and investment accounts in the manner desired by the governing committee. For example, it could summarize the totals by each type of account, such as time certificates, bond funds, government bonds, equity mutual funds, etc., or it could list the total cash and investments held for each trust agreement. The supporting schedules will also give summarized details about the liabilities to income beneficiaries and to other remainder beneficiaries. To the extent that the remainder beneficiaries include affiliated organizations of the reporting entity, the schedule should list them and the respective amounts.

7E.03 Report of Changes in Net Assets and Supporting Schedules - The trust accounting fund report of changes in net assets will display the same trust-related activity totals as in the general-use statement: total new irrevocable split-interest agreements and total change in irrevocable split-interest agreements. These totals will be reported in each of the net asset activity sections (unrestricted, temporarily restricted, and permanently restricted), where applicable. The supporting schedules will include details of the total change amount, in total and in a sub-schedule with respective amounts for each trust agreement: investment income, actuarial adjustments to present value of liabilities, required payments to income beneficiaries, gift portion of new agreements added, realized gain or loss from sale of investments, unrealized gain or loss in value of investments, liability portion of new agreements added, and changes in liabilities due to other remainder beneficiaries.

Section 801 - Introduction

801.01 Accounting, a Tool of Management - So far, this Manual has focused on accounting and financial reporting standards and procedures. To be complete, it will now discuss what management and governing committees should do with the resulting financial data.

801.02 Comparative Information - A set of financial reports for a current period is valuable, of course, but that value is enhanced when comparative information is presented. GAAP requires general-use financial statements to include comparative data, unless unusual circumstances make it impractical or misleading. Also useful to management is a summarized statistical review of critical amounts and relationships from the financial statements of at least three or four years. The organization is a going concern; activity along all lines is experienced from year to year. One of the ways for administration to make projections about what might happen next year or the year after is to review what has happened in the past few years.

801.03 Planning and Decision-Making - When administrators have current, relevant information about what has happened, they are better able to plan for the future of the organization and make decisions about how to use available resources most wisely. Plans for future action based solely on hopeful expectations do not reflect wise stewardship of denominational resources. When we speak of financial reports as tools of management for planning and decision-making, the concept goes deeper than a superficial review of the bare facts. It involves thoughtful analysis and prayerful submission to the will of God.

801.04 A Note of Encouragement - Administrators frequently face the challenge of matching resources with desired programs and services. The following counsel should be a source of encouragement:

> In our work for God there is danger of relying too largely upon what man with his talents and ability can do. Thus we lose sight of the one Master Worker. . . The means in our possession may not seem to be sufficient for the work; but if we all move forward in faith, believing in the all-sufficient power of God, abundant resources will open before us. If the work be of God, He Himself will provide the means for its accomplishment. He will reward honest, simple reliance upon Him. The little that is wisely and economically used in the service of the Lord of heaven will increase in the very act of imparting. In the hand of Christ the small supply of food remained undiminished until the famished multitude were satisfied. If we go to the Source of all strength, with our hands of faith outstretched to receive, we shall be sustained in our work, even under the most forbidding circumstances, and shall be enabled to give to others the bread of life. Desire of Ages, pp. 370-371

Section 802 - Financial Statement Analysis

802.01 The Need for Analysis - Before the budgeting process begins, administrators need to analyze current and prior financial conditions and performance. The subject of financial analysis is broad and cannot be covered in depth in this Manual, but some suggestions are discussed in the following paragraphs. Analysis will vary with the individual organization, its financial condition, and its needs. **Analysis** has to do not only with the computation of ratios, percentages, and relationships, but with the **interpretation** of those amounts. To interpret the significance of the data, the analyst must have a good working knowledge of the organization.

802.02 Which Data To Measure - A vast array of data may be available for analysis, and a large number of ratios and trends can be calculated. Here are a few criteria to help management determine which ratios and trends are the most meaningful to the governing committee, appropriate sub-committee, or other members of management.

Measure only those accounts, balances, or activities for which:

- The results of analysis would trigger the need for a management decision.
- The decision is not obvious but would be of consequence to the entity.
- The results can have significant repercussions for constituents, affiliated entities, or financial performance.
- Key management or committee members have expressed a desire to know.

802.03 Financial Position Ratios - Listed below are several financial indicators which can be used to evaluate the financial condition of the organization. It is recommended that these items be computed for each year and compared for at least three or four years. Such a time-span will allow observation of trends which may be expected to continue during the coming years. Accompanying each of the items is a formula for its computation.

Ratio of Liquid Assets to Commitments	=	(Unallocated Cash + Investments + Current Remittances Receivable + Receivable from Higher Entities) divided by (Current Liabilities)
Ratio of Recommended Working Capital	=	Actual Working Capital divided by Recommended Working Capital
(The two preceding items are reported in a note to the financial statements. See Appendix 17A.05, Note 20.)		
Ratio of Receivables to Operating Net Assets	=	Net Current Accounts and Loans Receivable divided by Operating Net Assets
Ratio of Plant Assets to Net Assets	=	Land, Buildings, and Equipment (net book value) divided by Total Net Assets
Current Ratio	=	Total Current Assets divided by Total Current Liabilities
Debt Percentage	=	Total Operating Liabilities divided by Total Operating Net Assets
Equity (Net Asset) Percentage	=	Total Net Assets divided by Total Assets

802.04 Operating Activity Ratios - The ratios and percentages in the previous section relate to financial position at any particular point in time. Administrators are also interested in analytical data about the financial activity over a period of time. For that type of analysis, the following additional ratios can be used.

Ratio of Self-Support	=	Earned Income (without subsidies) divided by Total Income (including subsidies)
Ratio of Net Income to Net Sales (or Total Earned Income)	=	Net Income divided by Net Sales (or Total Earned Income)
Ratio of Cost of Goods Sold to Sales	=	Cost of Goods Sold divided by Net Sales
Ratio of Gross Profit on Sales	=	Gross Profit divided by Net Sales
Ratio of Operating Expense to Net Sales	=	Total Operating Expense divided by Net Sales
Ratio of Payroll-related Expense to Tithe	=	Total Payroll-related Expense divided by Gross Tithe Income
Collection Percentage (Student Receivables)	=	Net Collections (A/R beginning + student charges - Write-offs - A/R ending) divided by Student Charges
Accounts Receivable Turnover	=	Total Credit Sales or Total Student Charges divided by Average Accounts Receivable (A/R beginning + A/R ending divided by 2)
Inventory Turnover	=	Cost of Goods Sold divided by Average Inventory (Inventory beginning + ending divided by 2)

802.05 Significance of Analytical Data - As mentioned in Section 801.02, the significance of any analytical data is enhanced by comparing trends over a period of time. For that reason, this Manual recommends a three or four year trend summary of these and other items which the administration feels are significant. It rests with management, of course, to decide whether the trends revealed can or should be corrected. It must be remembered that the ratios themselves are simply arithmetic. The trend of performance, the underlying reasons for the trend, and the advisability of slowing, halting, or reversing the trend, are all matters for management decision.

802.06 Additional Data - The ratios described in the preceding paragraphs are not all-inclusive. Some of them may be relevant in only certain situations. Financial administrators may want to study other trends unique to their type of entity. Do certain departments, programs, or functions reveal more fluctuation than others? Are some departments, programs, or functions using up a constantly-increasing percentage of available income? What is the trend of expenditure for general administration or other supporting services? This illustration is intended only as a suggestion to prompt deeper analysis of all pertinent financial data, so that management can make wise plans for future operations or correct trends which might indicate potential for future financial embarrassment.

Management typically assembles and analyzes the data, and then prepares it for presentation to the governing committee or appropriate sub-committee. Such presentations can be difficult to comprehend if they contain a large amount of numerical data. Management should consider presenting the various data with the use of charts and graphs. If prepared carefully, such visual aids will make the significant data easier to understand. Appendix 8B illustrates the visual difference between a numerical report and a graphic report.

Section 803 - Use of Budgets

803.01 The Budget Plan - Based on management's analysis of financial condition, operating results, and management's plans for the future, various sorts of budgets are prepared as a blueprint for day-to-day operations for the coming year. This is required by the following denominational policies:

> All denominational organizations shall follow the budget plan of financial operating. The annual operating budget shall be approved by the controlling committee. It shall be the responsibility of the officers of each level of organization to require subsidiary organizations in their territory to follow the budget plan. GCWP S 05 15
>
> The budget is to serve as the primary instrument of financial authorization and control for every organization. The treasurer is to provide timely financial information to his/her fellow officers and the controlling committee, comparing actual operating results with budgeted projections. GCWP S 25 20

If the GC Division in which the reporting entity is located has additional guidelines, they also should be followed.

803.02 Types of Budgets - The preceding references deal with an operating budget—a prediction of income by source for the coming year and an outline of how that income will be used for the normal functioning of the organization. While the operating budget is basic to any organization's financial operation, two other types of budget will be discussed later. The capital budget provides, sometimes on a one-year basis and sometimes for an extended period of time, allocations of available funds for the acquisition of land, buildings, and equipment. The cash budget represents a prediction of cash flow month by month, with an indication of those periods during which temporarily excess cash may be on hand and other occasions when the cash requirements are expected to exceed cash available. All three of these budgets (operating, capital, and cash flow) are essential elements of financial planning.

Section 804 - The Operating Budget

804.01 Nature of the Operating Budget - Basic to the entire budgeting process is the preparation of the annual operating budget. It is based on anticipated income for the ensuing year and allocates all such expected income to the various programs and supporting services of the organization. Any funds which the organization will have available to spend must come from anticipated income, and the scope and pattern of the activity overall will depend in every respect on these expectations and allocations. All organizations are bound by the same constraints of matching projected expenditures against anticipated income.

804.02 Preparation of the Budget - Because the budget, after approval by the governing committee, becomes the authorization to the officers for carrying forward the work of the organization, it is important that it be prepared and approved by the governing committee before the beginning of the year which it is intended to govern. Keeping in mind the mechanics of compilation of the original budget, the negotiations and trade-offs which are necessary before it takes its final form, and the presentation to the governing committee for approval, actual work should be started on the budget no later than the beginning of the third month preceding the new year.

804.03 Estimating Donor-Based Income - Most conference and mission organizations usually expect to show an increase in tithe or donation income over the previous year, due to: (1) increases in membership in the constituent churches and (2) an inflationary trend which means that, on the average, the earnings and thus the tithes and offerings per capita, will increase each year. It is human nature to conclude that income can be budgeted for the ensuing year at an amount representing a percentage increase over the current year's total income.

However, if budget preparation begins three months before year-end, management does not have an accurate amount of total income from tithes and other funds for the full year. They must either project the total based on actual nine months' income in the current year plus an estimate of the fourth quarter's income, or use as a total the actual amounts for the last four complete quarters (fourth quarter of previous year plus three quarters of current year). The second of these two methods is the more dependable, as it takes into consideration, on an actual basis, the increased level of donations which usually reach an organization in the fourth quarter of the year. A conservative approach dictates that budgeted income for the new year should not exceed estimated actual income for the current year.

804.04 Estimating Student-Based Income - Most schools usually expect an increase in expense over the previous year. Expansion of programs, aggressive recruiting, and economic inflation all combine to bring this about. Necessarily, if expenses are to be met, income will have to increase. The estimate of income for the coming year should be made on an extremely objective basis. How many students can reasonably be expected to enroll? What are the commitments from the conference and constituent churches for operating subsidies? Based on these preliminary figures, what will the charge for student tuition have to be, and can the patrons be expected to accept this charge? If initial estimates of income fall short, it is obviously not a solution to simply raise the estimate of the number of students expected to enroll for the new year in order to “balance” the budget. Every factor affecting the final estimate of income should be supported by experience and defensible assumptions.

804.05 Estimating Sales Income - An analysis of prior years' sales, including the historical trend and the reasons for it, is a good place to start. A preliminary sales projection should be adjusted for anticipated changes in the economy, the customer mix, the product mix, and any other factors which might impact the sales forecast. This process should be done as objectively as possible. There should be no deliberate effort to either understate or overstate expected sales, but if any amount within a range is equally probable of achieving, the more conservative amount should be used.

804.06 Estimating Operating Expense - The easiest approach to budgeting expense in the various objects, departments, or functions is to use the current year's expenses, and if they total less than the budgeted income, add an across-the-board percentage increase to bring the total budgeted expense up to total budgeted income. The easy way is not usually the effective way, however. Because of plans for the new year, ordinarily some functions will require increases greater than the overall percentage increase would warrant. In other cases it will be appropriate to leave the new budget unchanged from the current year's actual or to reduce the budget for the new year. Setting the expense budget for the various objects, departments, or functions must never be a matter of simple arithmetic. In every case, goals and plans should be balanced against available funds, and the new budget should be built, within the limitations of available income, on those goals and plans.

804.07 Wage Scale Adjustment - At the time the budget is prepared, the annual adjustment in the wage scale, as voted by Annual Council and Division year-end meetings, is usually known to administration. This anticipated increase in wage and salary expense must be recognized in preparing the new year's budget. If income is budgeted at no more than the current year's actual amount and there is a voted increase in wage and salary levels, the result will be obvious pressure on the budget. There is no simple solution, so required increases in expenses in one category will frequently require reductions in other categories in order for the budget as a whole to be balanced.

804.08 Budgeting for Departments or Functions - The operating activity centers in the various objects, departments, or functions. Income may include restricted funds which come in as specifically-identified donations or appropriations, unrestricted income, and transfers between the various unallocated and allocated funds. All of these incomes must be included in the budget, and budgeted outlays must be set off against them. Within each object, department, or function, a separate budget will be formulated identifying all the enumerated sources of income, detailing the budgeted expenses, and determining any applicable transfers.

804.09 Budgeting for Direct and Indirect Expenses - Budgeting and accounting for direct expenses is relatively easy; it is usually clear that basic salaries and supplies, etc., can be charged to specific departments or functions. Indirect expenses, however, apply to the whole organization, and are usually not controllable at the department or function level. The budget and actual indirect expenses can usually be distributed among departments or functions on several different bases or philosophies. Especially for items like health care expense and other employee benefits, it may be most reasonable to accumulate the total actual expense in a clearing account, and then distribute it to the departments or functions on a simple per capita basis. This would eliminate the likelihood that a particular department would exceed its budget just because an employee experienced an unpredictable major medical expense.

804.10 Interaction and Negotiation - It is a serious mistake for management to develop the budget without conferring with the responsible individuals who are expected to live within the budget in the discharge of their duties. Appropriate discussion and negotiation with all these individuals must be carried on continuously during development of the budget. A budget which is imposed from above stands little chance of being accepted by those who are expected to be governed by it. Before the budget is submitted to the governing committee, it must be supported by broad general agreement of all individuals involved.

804.11 Approval of the Budget - After the budget is prepared, it must be presented to the governing committee for approval. Broad agreement by the management team and all others involved in implementation of the budget will minimize unpleasant crises. The budget, regardless of how much work has been put into it, is not an official instrument of control until it has been approved by the governing committee.

Section 805 - The Capital Budget

805.01 Recurring and Non-Recurring Expenditures - Many organizations provide funding for capital functions as part of their operating budget. However, these are two separate budgets, the operating portion to provide for recurring expenses of operating functions and the capital portion to provide for one-time outlays for purchase of land, buildings, and equipment. Obviously, both categories of expenditure must come from whatever funds are available. Recurring expenses are usually provided for first, and non-recurring items are provided from whatever funds remain. This is not to say that there will not be trade-offs between the two types of budget commitments. Budgets for operating functions and appropriations sometimes have to be pared down to make funds available for capital functions.

Section 806 - Monitoring Actual Results

806.01 Monthly Budgets - Only rarely do incomes flow in or expenditures occur on a uniform basis through the year. The more typical situation sees income varying from month to month and expenditures for various activities arising on a seasonal or cyclical basis through the year. An annual budget which is simply broken down into twelve equal increments is therefore usually misleading, and one-month budget comparisons with actual inflows and outflows of funds can be meaningless. Where this is a real problem, a solution can be reached by breaking down the annual budget into twelve separate monthly budgets to reflect actual operational expectations. Such a breakdown would show budget for January, for February and total for two months, for March and total for three months, and so on for the entire year. Then, when the monthly statement of financial activity and budget comparison is prepared, it will relate expectations for the year-to-date with actual performance. Monthly comparisons can then be balanced with year-to-date comparisons for better interpretation of the financial data.

806.02 Budget Comparison Statements - As indicated earlier, denominational policy requires monthly statements of financial activity, including a comparison with the budget, to be submitted to the governing committee. Budget comparisons are optional for the annual audited combined financial statements, but are required for any unaudited combined, single fund, or fund group financial statements. Appendices 17B and 17E contain illustrated financial statements which display detailed budgets for the operating fund of a conference. The minutes of the governing committee should disclose that the statements, with budget comparison, have been submitted by the CFO and approved by the committee.

806.03 Corrections and Adjustments - These monthly budget comparison statements should be analyzed closely by the financial administrators, and wherever important variations in either income or expenses are disclosed, prompt corrective action should be taken. It is an error to conclude that variations from the budget are inevitable and uncontrollable. The monthly comparisons provide check-points for evaluation of the operation and should be used as a tool to guide the administrators in tailoring the actual operation to coincide as closely as possible, not with the budget solely, but also with the actual realized data. If expenses are consistently exceeding actual income regardless of the budgeted expectations, timely action must be taken during the year to bring the expenses into line. Of course, if developing circumstances indicate that revisions must be made in the budget previously approved, a revised budget should be submitted to the governing committee for its approval.

806.04 Cost Accounting - Many organizations attempt to identify all areas of cost with particular departments or functions. Occasionally salaries and allowances of a department or function are not included in the budget of that department or function. Other incidental expenses are at times included in general administration, rather than being distributed to the benefitting department or other function. The account structure explained in Chapter 4 makes it possible to distribute **all** expenses to departments or functions. This Manual recommends that this feature be used fully so that the total cost of each activity is disclosed in the accounting records. As this process is developed, it should ultimately include distribution of such costs as equipment maintenance, use of buildings, and other operating expenses, using some reasonable methodology. Some of these distributed costs are not controllable by the departments that benefit from them, but they are controllable at some level of administration, so a reasonable distribution should make it possible to evaluate the cost-effectiveness of every segment of the organization.

806.05 Statistical Form F-49 - To assist the denomination in assembling and analyzing financial data for similar types of organizations, GCWP T 15 10 requires all denominational entities to furnish a statistical report, known as Form F-49, to the General Conference Office of Archives and Statistics each year. Administrators of any denominational entity can obtain copies of the statistical comparisons generated from these reports, and can use them as one source of information to help them analyze how their particular entity is doing. An illustrated copy of Form F-49 is included as Appendix 8A.

806.06 Annual Payroll Summary Report - GCWP E 70 35 indicates that an annual report should be given to the governing committee with payroll and related expense data itemized for each employee of the organization. Because of the confidential nature of this data, this schedule is not a component part of the organization's general-use financial statements or of any individual fund reports or schedules. It should be submitted to the governing committee as a separate report. Illustrative examples are shown in Appendices 17B.06 and 17E.08.

Section 807 - Cash Budget and Cash Management

807.01 Cash Flow Budget - In most cases, the budgeted revenue of a conference or book center is realized immediately in cash—remittances from churches, tithe funds exchanged, appropriations, sales, etc. In contrast, the budgeted revenue of an academy or a college does not flow in immediately as cash. Except for registration and graduation periods, school revenue is based on billings to patrons, which cycle through accounts receivable with a time lag in the realization of cash. On the basis of experience, and starting from the monthly breakdown of the budgeted income and expenses, it is possible to predict with some accuracy the availability of cash and the requirements for cash expenditures for each month of the year. This cash flow budget can be only a fair approximation, however, and will have to be revised month by month as actual performance figures become available.

807.02 Cash Management - Preparation of a cash flow budget will in all cases indicate whether the cash inflow for the given month is sufficient to cover expected outlays for that month. For example, at the close of February, will we have a sizeable surplus of cash, or will there be a short-fall? These monthly results will be a guide to the CFO in making advance provision or short-term borrowing to cover any expected deficiencies in cash, or conversely, in planning for short-term investment of temporarily idle funds. Cash in the bank in a non-interest-bearing account is an unproductive asset and should be kept to a reasonable minimum. Even when banks pay a small percentage of interest on checking account balances, it is more profitable to plan to put temporarily idle cash into other acceptable investments which will bring in a larger return. Section 1002 of this Manual discusses the denominational standards for the investment of funds; these standards should be adhered to consistently. The whole objective is to put to work every possible unit of denominational funds. The wise implementation of this general plan can result in a significant addition to the earned income of the organization. See Section 907 for more discussion about cash management.

Section 808 - Impairment of Assets

808.01 Applicability - International standards (effective for years beginning after 31 March 2004) require organizations to be more alert to potential declines in the value of intangible assets and certain other assets. This standard applies to goodwill and other intangible assets (for example, a copyright or patent that was donated to the reporting entity). This standard also applies to land, buildings, and equipment. This standard does not apply to the following assets because other standards already apply to them.

- Financial Instruments: see Section 1004 about calculation of fair value. For financial instruments, any loss that might otherwise be classified as an impairment loss would already be accounted for in the process of adjusting carrying value to fair value.
- Accounts and Loans Receivable: see Section 1103.09 about allowance for uncollectible receivables.
- Inventory: see Section 1201.09 about obsolescence and net realizable value.
- Assets Held for Sale: to be carried at the lower of cost or fair value less expected costs to sell it.

808.02 Analysis of Circumstances - International standards do not require organizations to automatically review every asset every year to determine whether there has been an impairment in value. However, they do require organizations to perform general analysis, as follows.

- Every year, estimate the recoverable amount for those intangible assets that are either not yet available for use or have an indefinite useful life, and compare that amount with the carrying amount.

- Every year, generally assess whether situations or circumstances have occurred which would indicate that some applicable asset may have been impaired.
- For any particular asset for which circumstances indicate impairment may have occurred, estimate the recoverable amount and compare it to the carrying amount.

808.03 Triggering Events - Following are some types of situations and circumstances that may indicate that a particular asset may be impaired.

- An asset's market value has declined significantly more than would be expected from normal use.
- Changes have occurred in technology, economic conditions, or the legal environment in which the entity operates or the asset is used.
- Changes have occurred in interest rates that affect the discount rate used to estimate the value in use of an asset for which there is outstanding debt.
- There is evidence that an asset has become obsolete or physically damaged.
- The organization has decided to change or eliminate the use of a particular asset.
- There is evidence that an asset is performing significantly worse than expected.

808.04 Determining the Recoverable Amount - The recoverable amount of an asset is the higher of its fair value less costs to sell, and its value in use.

If an asset is an integral part of a group of assets, its fair value is to be determined as the fair value of the group of assets (classified by the standards as a "cash-generating unit"). Fair value is to be determined for the smallest asset unit that produces cash flow independently of other assets or groups of assets.

An asset's value in use is to be determined by estimating its future cash flows from regular operation, combined with the time value of money, using a market risk-free rate of return. Estimates and projections of cash flows must be based upon reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions likely to exist over the remaining useful life of the asset.

808.05 Recording Impairment Loss - An impairment loss is to be recorded if, and only if, the estimated recoverable amount of an asset is less than the asset's carrying amount. If that is the case, the carrying amount is to be reduced to its recoverable amount, and the reduction is to be recorded as an impairment loss. The loss is to be recorded as part of the organization's current period financial activity.

1. FINANCIAL SUMMARY OF ______________________ ________ ________

(name of organization) *Code #* **Union**

For Year Ended ______________________ Currency: ________

(Prepare this form in local currency. Round to whole units. See additional instructions on reverse side.)

CURRENT ASSETS			
2.	Cash	________	
3.	Securities and Investments	________	
4.	Accounts Receivable - Net	________	
5.	Notes and Loans Receivable - Net	________	
6.	Supplies Inventories and Prepaid Expense	________	
A	Total Current Assets		________
FIXED ASSETS			
B	Total Fixed Assets - Net		________
OTHER ASSETS			
7.	Total Other Assets - Operating	________	
8.	Cash, Bank and Investments Other Than Operating	________	
9.	Miscellaneous Assets Other than Operating	________	
C	Total Other Assets		________
D	Total Assets		________
CURRENT LIABILITIES			
10.	Accounts Payable and Accrued Expense	________	
11.	Notes and Loans Payable	________	
12.	Agency (Trust) Funds	________	
13.	Deferred Income	________	
E	Total Current Liabilities		________
OTHER LIABILITIES			
14.	Other Liabilities - Operating	________	
15.	Miscellaneous Liabilities Other Than Operating	________	
16.	Investment in Plant - Payables	________	
F	Total Other Liabilities		________
G	Total Liabilities		________
NET WORTH/FUND BALANCES			
17.	Unallocated & Allocated Operating Net Worth/Fund Balances	________	
18.	Allocated Capital Net Worth/Fund Balance (17+18=A+7-E-14)	________	
19.	Non-expendable Net Worth/Fund Balances (8+9-15)	________	
20.	Net Investment in Plant Fund Balance (B-16)	________	
H*	Total Net Worth/Fund Balances		________
I	Total Liabilities and Net Worth/Fund Balances		________

The above figures include duplications of assets and liabilities resulting from inter-fund borrowing, which is not eliminated between operating, plant, and other funds, as follows: (Lines 21+22 = 23+24)

		Operating	**Plant**	**Other**	**Cross Totals**
21.	Current Assets		XXX	0	
22.	Other Assets				
23.	Current Liabilities		XXX	0	
24.	Other Liabilities				

SUMMARY OF CHANGES IN NET WORTH/FUND BALANCES

CHANGES DUE TO OPERATING ACTIVITY:

J	Earned Operating Income (Not Appropriations)	______	
K	Operating Expense	______	
L	Increase (Decrease) From Operating (Excluding Appropriations)	______	
M	Net Operating Appropriations Received & Retained	______	
25.	NET INCREASE (DECREASE) FROM OPERATIONS		______

CHANGES DUE TO ACTIVITY OTHER THAN OPERATING:

N	Net Increase (Decrease) From Other Than Operating	______	
O	Exchange Adjustment (Not applicable when local currency used)	______	
26.	NET INCREASE (DECREASE) OTHER THAN OPERATING		______

TOTAL CHANGE IN NET WORTH/FUND BALANCE FOR THE YEAR:

27.	Net Increase (Decrease) in Total Net Worth/Fund Balance this year	______
P	PREVIOUS TOTAL NET WORTH/FUND BAL reported on last F-49	______
Q*	PRESENT TO DATE TOTAL NET WORTH/FUND BALANCE	______

MISCELLANEOUS INFORMATION

28.	Working Capital (Deficit) (Line A - E)	______
29.	Recommended Working Capital Per Policy	______
30.	A/R: Higher ______ Church Remit ______	______
31.	Net Assets of Funds held as Trustee	______

*Lines H & Q Must Agree

Instructions for Reporting Organizations:

Please use typewriter in completing this summary. It is to be prepared in TRIPLICATE immediately after completing the statement before the audit. The ORIGINAL is to be kept for the Auditor with the unaudited financial statement. The DUPLICATE copy is to be sent to the Assistant Treasurer of the General Conference of Seventh-day Adventists, 12501 Old Columbia Pike, Silver Spring, MD 20904, USA. The TRIPLICATE is for the Reporting Organization's file.

Date ______ Prepared By: Position: ______ Name ______

Date ______ Approved By: Chief Financial Officer's Signature ______

Instructions for Auditors:

Please make TWO copies of the F-49. ONE copy of the financial statement including the auditor's report, and ONE copy of the F-49 are to be forwarded to the Director of Archives and Statistics, General Conference of Seventh-day Adventists, 12501 Old Columbia Pike, Silver Spring, MD 20904, USA. The second copy of the F-49 is for the auditor's file. (Note: If the changes are few and can be made in a clear manner on the original F-49 prepared by the Reporting Organization, simply photocopy the corrected F-49; otherwise it must be retyped.)

Audited By ______ For Year Ended ______ Exchange Rate ______

Date ______ Auditor's Signature ______

Form F-49 (Revised 1984)

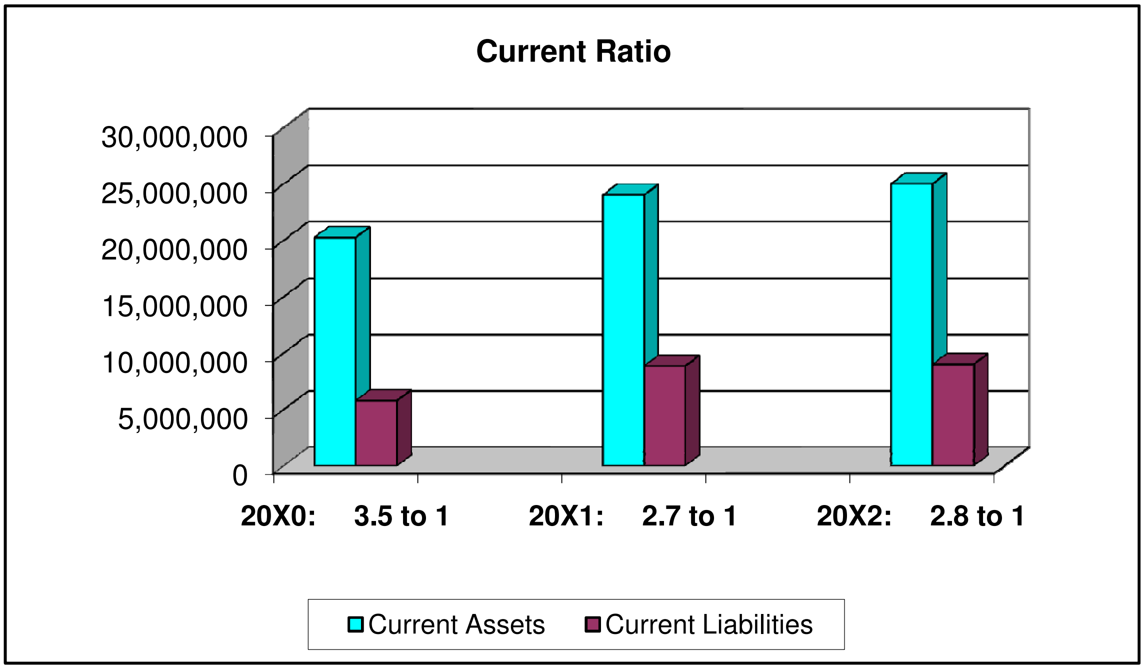
Appendix 8B.01 - Illustrated Performance Reports in Table Format

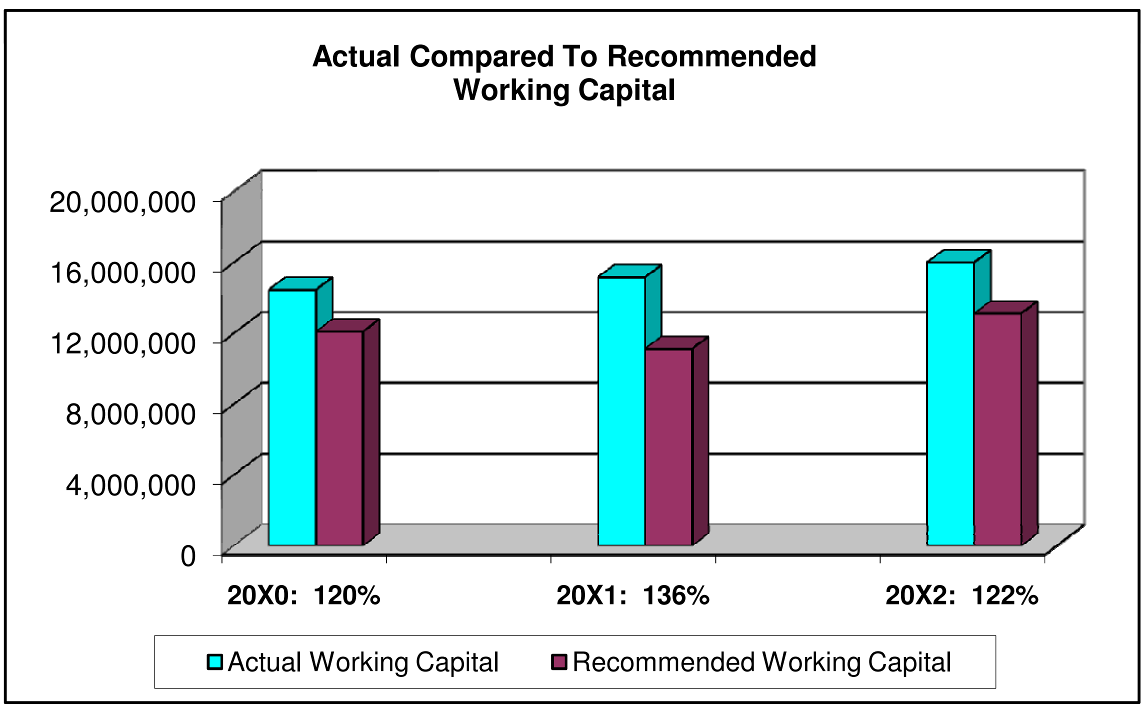
Sample Union Conference of Seventh-day Adventists
Analytical Schedules Using Data From Appendix 17A

	20X0	20X1	20X2
Current Assets	20,243,606	24,018,581	25,009,383
Current Liabilities	5,781,764	8,852,959	9,003,526
Current Ratio	3.5 to 1	2.7 to 1	2.8 to 1
Actual Working Capital	14,461,860	15,165,622	16,005,857
Recommended Working Capital	12,094,910	11,128,537	13,119,505
Percent of Recommended Working Capital	120%	136%	122%
Tithe by Territory			
Conference/Mission (Name 1)	1,334,436	1,409,948	1,424,047
Conference/Mission (Name 2)	1,056,429	1,116,209	1,093,885
Conference/Mission (Name 3)	834,024	881,218	916,467
Conference/Mission (Name 4)	1,223,233	1,292,453	1,279,528
Conference/Mission (Name 5)	1,112,030	1,174,957	1,245,049
Total Tithe Revenue	5,560,152	5,874,785	5,958,976
Total Revenue Before Subsidies	6,841,564	7,012,701	7,398,312
Total Subsidies & Appropriations	5,450,160	3,698,733	4,498,281
Total Revenue After Subsidies	12,291,724	10,711,434	11,896,593
Percent of Self-Support	56%	66%	62%
Total Operating Expense	11,906,701	11,098,692	11,542,640
Total Earned Operating Income	6,841,564	7,012,701	7,398,312
Percent of Expense to Income	174%	158%	156%
Total Employee-related Expense	6,867,214	6,409,558	6,794,132
Total Tithe Revenue	5,560,152	5,874,785	5,958,976
Percent of Payroll to Tithe	124%	110%	115%

Appendix 8B.02 - Illustrated Performance Reports in Chart Format - Liquidity Ratios

Sample Union Conference of Seventh-day Adventists Using Data From Appendix 17A

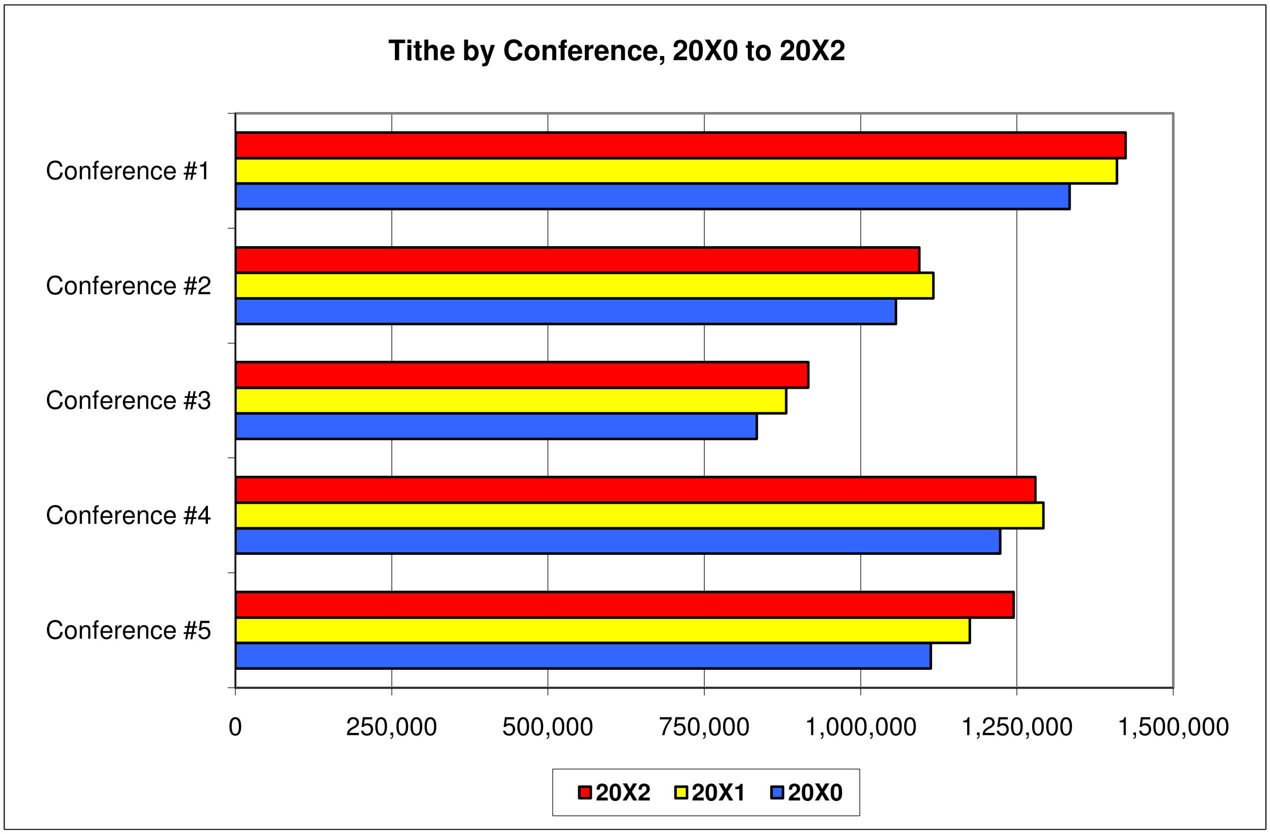


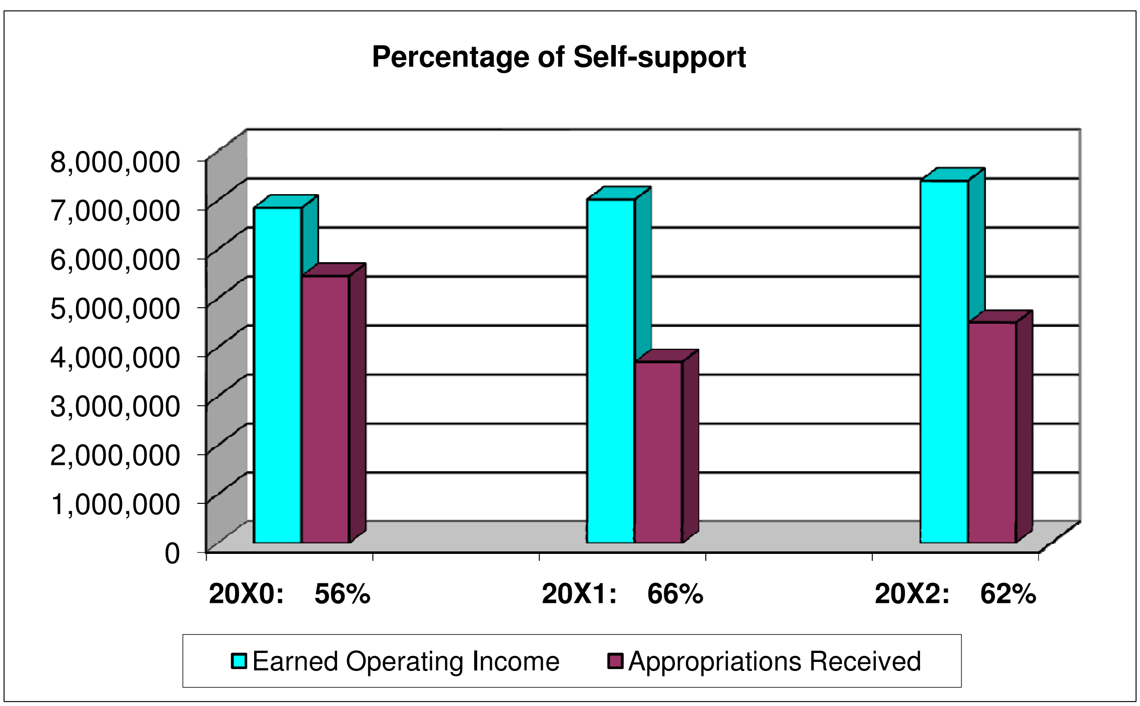


Appendix 8B.03 - Illustrated Performance Reports in Chart Format - Revenue

Sample Union Conference of Seventh-day Adventists

Charts Using Data From Appendix 17A

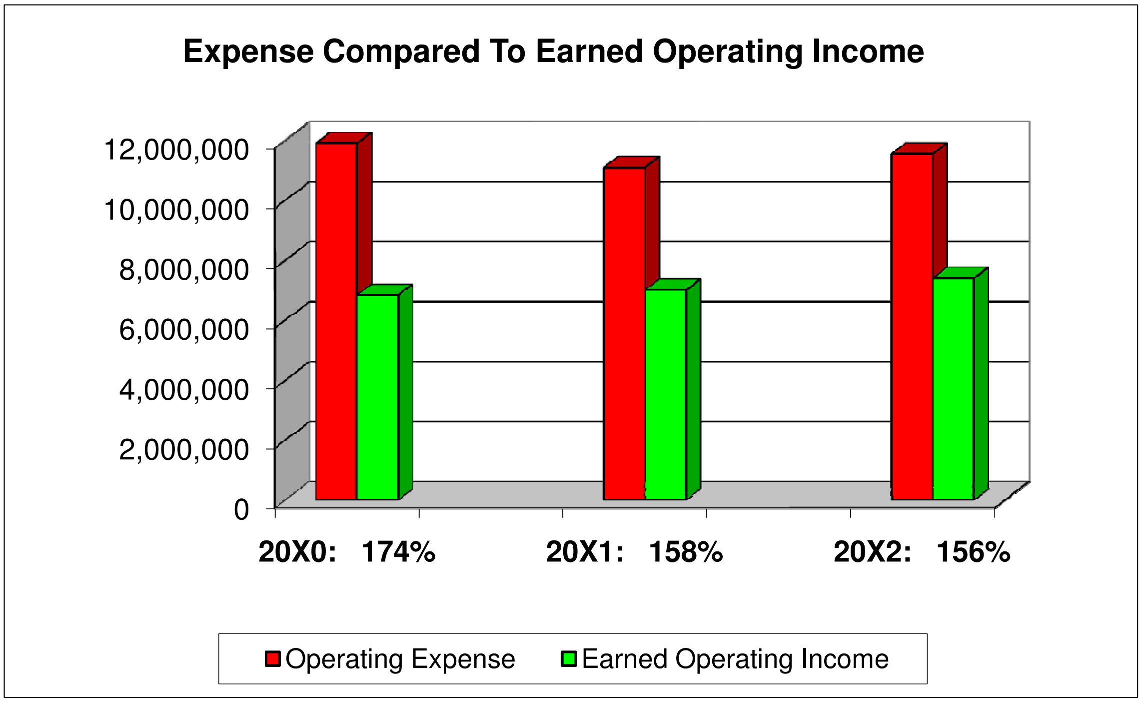


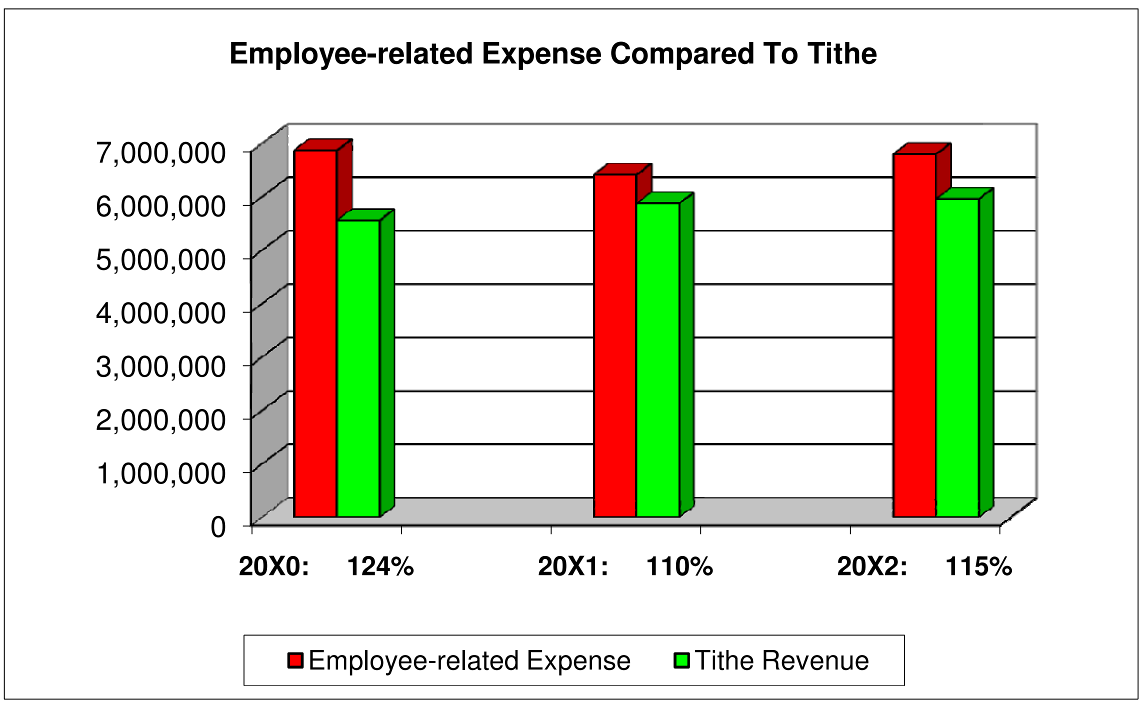


Appendix 8B.04 - Illustrated Performance Reports in Chart Format - Expenses

Sample Union Conference of Seventh-day Adventists

Charts Using Data From Appendix 17A





Section 901 - General Concepts

901.01 Definition of Cash and Cash Equivalents - "Cash" includes currency and coin, bank checks and drafts, and all such instruments which can be routinely negotiated by deposit in a commercial bank. "Cash" also refers to balances in bank checking and saving accounts, and deposits in financial institutions under arrangements similar to those with commercial banks.

"Cash equivalents" are short-term, highly liquid investments that are readily convertible to known amounts of cash and so near maturity that there is an insignificant risk of change in value due to changes in interest rates. Generally, only investments which have a maturity of three months or less from the date of acquisition meet this definition. Money market funds are a typical example. As a further example, a 3-year instrument acquired in a trading market when it has only three months remaining to maturity would meet the definition of a cash equivalent. In contrast, a 3-year instrument obtained at its original issue would not become a cash equivalent simply by the passage of time when there was only three months left to its maturity.

If an investment does not meet the preceding definitions, it must be classified as investments, not cash and cash equivalents. Also, cash and cash equivalents do not include accounts that are designated for non-operating purposes, for purchase of noncurrent assets, or for payment of long-term debt.

901.02 Accounting Options - Investments that qualify to be treated as cash and cash equivalents are not necessarily required to be treated as such. For example, an organization may choose to classify all money market mutual funds as investments, even if they qualify to be treated as cash and cash equivalents. Each organization should establish a policy to indicate which highly liquid investments that qualify to be treated as cash and cash equivalents will be chosen for presentation as such. The notes to the financial statements should disclose the organization's policy. That policy should be followed consistently from year to year, and any change in that policy should result in restatement of prior year's data when presented in comparative statements.

901.03 Internal Control - As discussed in Section 302.09, good internal control involves appropriate segregation of duties. This means that, as far as possible consistent with the number of personnel available, the same person should **not** be assigned responsibility for receipting incoming cash, writing or signing checks, and maintaining accounting records related to incoming cash (accounts receivable, for example).

901.04 Control Over Blank Receipts and Checks - A common internal control procedure involves the use of pre-printed pre-numbered receipt and disbursement forms. Those who use these forms should not have access to the entire stock of unused forms. The bulk stock should be kept in locked storage in the custody of an individual who does not have responsibility for their use. Issues of smaller blocks of such forms should be made from this bulk stock, and the user should be required to sign and be responsible for the numbers issued.

901.05 Control Over Computer-generated Documents - Some accounting software products are designed to print original receipts and checks directly onto plain paper, which eliminates the need for pre-printed pre-numbered stock of such forms. Such computerized software develops sequential receipt and check numbers internally. While this obviously saves paper and printing costs, it raises certain internal control issues. Access to the receipt and check writing programs should be restricted by job description and by passwords to only authorized individuals. Someone other than those individuals should periodically review the cash receipt reports, comparing them to bank deposits, and the disbursement reports, reviewing them for reasonableness, number sequence, valid vendors, and credit to the appropriate bank account(s).

901.06 Cash for Other Than Operating - This chapter illustrates principles with reference to operating funds. Although cash held in other funds is not classified as cash and cash equivalents, the principles of documentation and control should be just as complete and careful whether it is held in any other fund. Each fund that holds cash will have ledger accounts within that fund for those cash accounts. There may also be instances in which a single bank account will be used for two or more funds. This is permissible if the activity in the separate funds is not significant. However, it is very important that the cash transactions pertaining to each fund be recorded in the ledger for that fund. In addition, within an operating fund, it is important to separately classify enough cash to cover any agency liabilities of the operating fund (see Appendix 9A for illustration).

Section 902 - Petty Cash Funds

902.01 The Imprest Principle - Most entities find it helpful to operate with a small cash fund to care for minor expenditures. The best process is to set up a separate petty cash fund as follows:

1. Establish a fixed balance for the fund and maintain the fund at that level at all times.
2. The amount of actual cash on hand plus vouchers for expenditures which have been made should always add up to the total of the fund.
3. When the actual cash balance runs low because of accumulating expenditures, the vouchers should be tabulated and totaled, and a check should be drawn by the cashier for the amount of the expenditures, payable to the custodian of the petty cash fund.
4. The custodian of the petty cash fund should cash this check and put the money in the fund, which would then have in actual cash the established amount of the petty cash fund.

902.02 Avoid Commingling - **Incoming receipted cash should never be mixed with a petty cash fund.** Receipted cash (see Section 903) should be kept entirely separate in the possession of its custodian until it is deposited. Ideally the individual receipting incoming cash should not also be the custodian of a petty cash fund.

Even in an organization with a limited number of personnel, where the general cashier handles both a petty cash fund and incoming receipted cash, the two types of cash should be kept separate at all times.

902.03 Petty Cash Balances - The balance in any petty cash fund should be enough to care for the disbursement needs, but no more. If the balance is too large, there is little incentive to reimburse the fund frequently. If the fixed balance of the fund is excessive, there is a temptation to use it for unauthorized purposes, such as acceptance of employee IOUs, cashing of post-dated checks, etc.

902.04 Disbursements - It is essential for disbursements from petty cash to be properly authorized. The organization should have a written policy specifying the purposes for which disbursements can be made, the maximum amount allowable for individual disbursements, and the individuals designated to authorize such disbursements. The best document in support of a disbursement is an invoice or memo from the entity or individual receiving the cash. In the absence of an externally-originated form, disbursement can be made on a printed voucher form, either printed, typed, or written in ink, and signed by the individual receiving the money. In either case the voucher should indicate clearly the reason for the expenditure.

902.05 Reimbursement - Expenditures from petty cash do not become part of the accounting record until the fund is reimbursed. Therefore, reimbursement should take place at fairly frequent intervals, and in all cases at the end of each fiscal period. One method of filing the supporting information is to use an envelope with an appropriate form printed or attached on the face as a master voucher. The individual vouchers are tabulated on the front of the envelope; the vouchers are placed inside, and the envelope plus vouchers becomes the supporting document for the reimbursement check. Before the check is prepared, the disbursement should be authorized. The check should be payable to "*(name of individual)*, Custodian" for the total amount of the disbursement vouchers.

902.06 Custody of Cash Box - Regardless of the nature or size of the petty cash fund, it should be assigned to one and only one person for custody. If the organization employs more than one cashier, each one should be responsible for a separate cash box. The account structure assigns numbers for petty cash funds, and should include a separate sub-account for each one, with the position of the custodian included in the account title. As a fund is opened for a person, that person should sign a receipt for the amount of the fund. The disbursement voucher to release cash to the person should trigger an accounting entry to open a new ledger sub-account.

If a custodian turns over the cash box to another person for a short period of time, such as a lunch break or a day off, the fund should be counted over to the temporary custodian who should give a receipt to the registered custodian. When the temporary custodian returns the fund to the regular custodian, the receipt should be given back after the regular custodian has determined that the fund is intact. Under no circumstances should more than one person be allowed control over a petty cash fund without this documentation.

902.07 Termination of Custodian - When the designated custodian is relieved of the petty cash duty or leaves the organization, the following steps should be followed:

1. The fund should be reimbursed for any accumulated disbursement vouchers held in the box.
2. The terminating petty cashier should return the replenished petty cash box to the general cashier.
3. The general cashier should issue a receipt to the terminating petty cashier for the amount returned.
4. The receipt to the terminating petty cashier should trigger an accounting entry to close the ledger account for that petty cash fund.

902.08 Other Applications - Principles like those discussed above are frequently applied to fixed-balance bank accounts, such as a payroll bank account, where a large number of similar transactions are processed. It is efficient to combine the approval and reconciliation controls to the batch of transactions as a whole. A fixed balance for the bank account is established; a group of checks (an entire payroll list, for example) is drawn on the fixed-balance bank account, and a single check for the total amount of the list is drawn on the general bank account and deposited into the fixed-balance bank account when the individual checks are released. The same requirements must be applied as for other bank accounts, such as authorization of the accounts, authorization and changes of signatories, and authorization for closing the accounts.

Section 903 - Cash Inflows

903.01 Control of Cash Received in the Mail - In most organizations, a designated individual sorts and opens all incoming mail. This individual, who should have no other responsibility for handling of cash, should segregate all checks in the incoming mail and make a list or an adding machine tape of them. A similar list should be prepared by all organizations that receive donations on pledge cards or internet web site responses, on which donors authorize charges to their credit cards. These lists should be given to a responsible individual who is not directly involved in the handling or depositing of cash, while the checks and credit card documents should be given to the cashier for receipting. It is then possible for the listings to be compared with the cash receipt records and the bank deposits to ensure that all checks and credit card documents have been promptly and properly recorded and deposited.

903.02 Over-the-Counter Cash - Cash sales and other cash received by the cashier should be subject to specific controls. Checks and credit card receipts should have sufficient data to identify the maker in case the check or credit card receipt is later returned by the bank. All checks received should be restrictively endorsed immediately, the authorization codes should be written or printed on all credit card sales slips, and a receipt should be prepared and given to the payer/provider immediately.

903.03 The Receipting Function - One person should be designated as the general cashier, and should have responsibility for the receipting of all incoming cash. Certain specific-project cash may be delegated to some other individual or office. Sometimes one of the departments promotes a project which involves numerous small remittances, and with proper controls, such incoming funds can be receipted by that department. Similarly, a school may have an independent operation that generates separately-identifiable cash revenue.

Even in such cases, though, the department should use pre-numbered receipts, should write an individual receipt for each amount received, and should turn over these cash collections with the receipt book to the general cashier every day for receipting. The cashier should issue a receipt to the departmental employee for the total cash received and should record the departmental receipt numbers so that a continuous record of departmental receipts covered by general cash receipts can be maintained. If the departmental employee happens to also be custodian of a petty cash fund, the receipted funds should not be commingled with it.

903.04 Non-Routine Receipts - In addition to the normal inflow of cash from accounts receivable, monthly remittances, cash sales, etc., there can be a few non-routine items such as checks for appropriations from senior organizations, interest and principal payments on loans receivable, and so on, which may not come directly to the cashier through the mail or over the counter. The individual who receives such funds must turn them in promptly and personally to the cashier who should prepare a receipt for them. Direct credits to bank accounts for interest earned on investments or for other money channeled directly to the bank without going through the cashier may be covered by a journal voucher with the copy of the bank credit voucher attached. Such items must be properly documented so that they can be traced to the bank statement and to the proper revenue or asset account.

903.05 Bank Deposits - All cash recorded by the cashier should be deposited daily (or at some other reasonably frequent interval) in the same form in which it is received. The cashier should not be permitted to cash checks from general cash on hand that is being held for deposit. If the record shows that currency has been receipted, that amount of currency should appear on the bank deposit for the day. There should be no reason for delaying the deposit of any check received and recorded. If a post-dated check is received, it should not be receipted until the specified date, for strictly speaking it is not cash until that date.

Depositing cash intact every day has two objectives. First and most obvious, the total of all receipts written for the day will correspond exactly with the total of the bank deposit for that day. Second, the **composition** of the deposit, in individual checks listed and in total currency and coin, can be traced back to the individual receipts written. This is a control that minimizes the possibility of someone holding out a check received on a particular day and substituting cash or other checks for it so as to make the total deposit and total receipts agree.

903.06 Cash Clearing Account - In addition to providing for petty cash accounts in the ledger, the account structure also provides for the use of an optional clearing account for receipted cash by large or complex entities. This account is provided so that the daily total of cash receipts can be posted as a debit, and the daily deposit as a credit. Under this plan, if deposits are made daily, each day will conclude with a debit balance in this account of the amount of cash received that day. The balance in the account should always equal the amount of the current day's receipts held over for deposit the next day.

Some organizations prefer to treat all cash received as automatically deposited with the accounting entry simply a debit to the bank account for the total receipts. For entities that process large amounts of cash, the use of a cash clearing account affords a cross-check to reveal any possible discrepancy between the amount of the receipts and the amount of the deposit. Regardless of which process is used, the accounting records for receipts and deposits should carry a cross-reference to the range of receipt numbers that make up each deposit.

903.07 Cash Receipt Cutoff - For the financial statements to be factual, the record of cash received should be cut off at the close of business on the last day of the fiscal period to reflect actual cash received up to that time and no later. If an organization continues to use the financial statement date for receipts written a day or a week later, it is evident that the cash amount shown on the statement of financial position is not that of the stated date, but of a later date. If cash received in the mail after the year end represents old year business, it should be recorded as accounts receivable, not cash, at the financial statement date. This principle should be followed at the end of each month as well as the end of each year.

Section 904 - Custody of Cash

904.01 Responsibility - Individuals entrusted with funds of the entity should understand they are personally responsible for the amount they hold. This is true whether that person is the general cashier having custody of a petty cash fund, or, for example, the manager of a youth camp located some distance from conference/mission headquarters. When the fund is turned over to the custodian, it should be recorded with reference to the responsible individual, and the individual should sign a receipt for the money. The same principle applies to receipted cash in the possession of the general cashier. The writing of a receipt charges the cashier with the specified amount of money. The total of all such receipts is the responsibility of the cashier until the money is deposited in the bank; a validated copy of the bank deposit discharges the cashier from this responsibility.

This principle should govern all handling of cash and other assets that are susceptible to misappropriation. The individual entrusted with the asset, whatever it may be, acknowledges responsibility, and bears that responsibility until relieved of it by proper documentation indicating the asset has been returned. Each custodian of petty cash, or general cash, should have a locking cash box or tray. When the individual custodian is not on duty, that box should be locked and kept in a safe or vault. Similarly, the supply of rolled coin available to cash register custodians should never be unattended, but should be kept under lock and key.

904.02 Bank and Saving Accounts - Denominational policy and model constitutions and bylaws require accounts with banks and other financial institutions to be opened only on specific authorization of the governing committee, or other duly-established committee. It follows that closing out or discontinuing accounts with financial institutions should be accomplished only by action of the appropriate committee. Account passbooks and certificates should be kept under lock and key in a vault, or in a safety deposit box. Under no circumstances should unauthorized individuals have access to such documents.

904.03 Changing Signatories - The appropriate committee should approve additions and removals of individuals who are authorized to sign on any bank account. This action should be updated by the committee any time the authorized individual changes, whether as a result of job reassignment or employment termination. Terminated employees should be required to immediately surrender keys and other security devices. When employees are terminated, the organization should consider whether to change keys, passwords, or other security measures.

904.04 Special Accounts - Committee authorization is just as necessary for temporary, special, or small accounts as for primary accounts. For example, a temporary bank account may be opened for a special one-time project, such as the annual camp meeting or a conference/mission-sponsored general evangelistic rally. Each of these accounts should be authorized by specific committee action. Also, authorization should be secured for the opening of **each** separate bank or savings account, even though the governing committee may have voted blanket authorization for the transfer of temporarily idle funds from operating accounts to savings accounts.

Section 905 - Cash Disbursements

905.01 Routine Disbursements - Any active entity will make frequent payments for the purchase of supplies and services, and payments to employees, constituent churches and schools, vendors, and others. Authorization procedures for such transactions should be specific. The individual charged with the responsibility of writing checks should know who is authorized to approve disbursements in varying circumstances. The written guidelines should also specify the maximum amount that can be authorized for various purposes. Typically, one individual has authority to execute purchase orders for routine items while another is charged with final approval for the payment of such invoices. All of these policies should be adopted by appropriate authority and should be in writing. Each employee governed by these policies should have a copy of the policies.

905.02 Non-Routine Disbursements - In addition to normal daily transactions, there will be disbursements of major amounts or for specific non-routine purposes. Examples include transmittal of funds on a monthly tithe and offering report to the senior organization, checks for capital appropriations of funds, purchases of property for organizational use, and similar one-time or major items. Generally the CFO will specifically authorize such items (printed authorization forms are commonly used in such instances). Before making such authorization, the CFO will ensure that if the item requires specific committee action, such action has been taken, is properly recorded in the minutes, and is properly indicated on the documentation authorizing the issuance of the check.

905.03 Standing Order Payments - In many cases arrangements must be made to issue a check each month in a fixed amount for a stated purpose. A “standing order” file may be established as authorization to the disbursing cashier to write such checks on certain dates and at certain intervals. Unless the “standing order” file is reviewed regularly by an individual in a position to judge the validity of the payments, and unless the checks themselves are scrutinized with care during signing and mailing, it is possible for standing orders to remain in the active list after their validity has expired. Each standing order should specify the name of payee, the amount of periodic payment, the reason for the payment, the necessary accounting information, and a definite expiration date. Such orders should not be drawn with instructions to be effective “until cancelled.” Even though the payment is to continue for an indefinite period, a standing order should generally be made for no more than six months, and at its expiration a new authorization should be given, if needed, to continue the disbursement.

905.04 Transfers Between Funds and Accounts - It is often necessary to transfer cash between funds or accounts. It is very important that transfers be authorized by an appropriate individual with reference to the committee action covering the transfer. The basis of a fund accounting system is the existence of separate self-balancing ledgers for each fund; therefore, if cash is to be transferred, it must be recorded as a disbursement in one fund with a debit to the appropriate “Transfers Out” account. A corresponding entry to a “Transfers In” account must be made in the receiving fund, evidenced by a formal cash receipt which becomes the basis for a debit-and-credit entry. If one fund records a "Transfer" and the other fund records a "Revenue" or "Expense," then the transfers section of the combined financial statement of the organization will be out of balance. Transfers between all funds must net to zero.

905.05 Documentation - For each check written, documents must be included with the file copy of the check which will establish the validity of the disbursement. For payments to outside vendors, this documentation will normally include a copy of the purchase order, a receiving report or other evidence to indicate that the material ordered has been received and placed in stock, and in all cases the original invoice from the vendor. If receiving reports are not used, the invoice should bear evidence that the material or services have been received, by whom, the date received, and indication that the pricing, extensions, and totals are correct. These documents should also include initials or signature of the individual who authorizes payments to be made. **Every disbursement must be authorized by an appropriate individual.** It is always preferable that disbursements be supported by documentation originating outside the organization, such as a vendor invoice. In the case of such non-routine disbursements as were discussed in sections 905.02 and 905.03, this may not be possible. Every disbursement, though, should have sufficient explanation, support, and authorization, if not from an external source, then from appropriate individuals, or a committee, within the entity, to establish its validity.

905.06 Cancellation of Documents - When a check is written for an authorized disbursement, all supporting documents should be conspicuously stamped "Paid" with the date of payment. This step is necessary to eliminate the risk of a particular invoice or authorization finding its way back into the payment system and being paid a second time. This applies to all disbursements, including the reimbursement of petty cash items to the petty cash custodians. All individual petty cash vouchers enclosed in the voucher jacket or envelope should be stamped "Paid" as well.

905.07 Check Payees - No checks are to be drawn payable to "cash" or to "Bearer," and no checks are to be released with the payee's name omitted. State the name of the payee in such a way that individuals to whom checks are given will have to sign their name in endorsement in order to receive the money. Checks drawn to employees for organization business, such as custodian of a petty cash fund or establishment of an evangelism account, should include the employee's name and the name of the function for which the check is intended. Only when a check is given to an employee in discharge of the organization's obligation to the employee (for salary, allowances, reimbursement of expenses, etc.) should it be made payable simply to the individual with no other designation.

905.08 Check Signing - In regard to the signing of checks, several controls should be in place.

Checks should be signed only after they have been written and the check amount imprinted. It is never proper to sign a check in blank or in advance of specifying the date, payee, and amount.
Checks should be prepared and signed on the office premises. Only on rare and special occasions should personnel take checks away from the office, and write and sign them somewhere out in the field. On those rare occasions when this may be necessary, these personnel should be particularly diligent in returning to the general ledger accountant the file copies of the check and **all necessary documentation**. The accountant has the authority to insist that this information be submitted promptly.
If a check-signing machine is used, certain control features should be employed.

a. The signature plate should be kept in the personal custody of the signatory (not entrusted to an administrative assistant, accountant, or cashier),
b. The signature plate should be released only for the signing of a specific number of checks.
c. The number of checks to be signed should be tallied by the signatory, and that number should be seen to agree with the reading taken from the counter on the machine itself.

If a computer-generated signature is produced by accounting software, control features are critical.
Access to the software should be password-restricted to only appropriate individuals.
Management personnel should periodically review the computer-generated disbursements.

905.09 Cash Disbursements Cutoff - The cutoff principles discussed in Section 903.07 about cash receipts apply equally to cash disbursements. Checks written on the last day of the fiscal period should be recorded as withdrawals from the bank in that period. Checks written on the first day of the next period should **not** be recorded in the old period, nor should checks written after the end of the period be back-dated so as to be recorded in the previous period. The record of cash in the bank should reflect all checks drawn on the bank for the period indicated in the financial statements, and no others. It is not appropriate to write checks in a given period, record them as disbursements in that period, and then hold them to be released at a later date. Checks should be written only when there are funds in the bank to cover them and when the entity intends to turn them over promptly to the payee. Checks written after year end for old year business should be recorded in accounts payable at year end.

Section 906 - Cash Management

906.01 Bank Reconciliations - The preparation of bank reconciliations is an important control activity (see Sections 302.09 and 505.03.) If possible, bank reconciliations should be performed by someone who does not handle bank deposits, check disbursements, or the general ledger accounts. **All bank accounts should be reconciled promptly each month, and the reconciliations should be presented to a responsible individual for review and approval.** The reviewer should determine whether adjustments from the previous month's reconciliations have been cleared so that they do not need to be carried forward to the current month's reconciliation. Bank reconciliations prepared promptly and consistently are one of the primary defenses against potential misuse of funds. Appendix 5A illustrates a bank reconciliation checklist and form.

906.02 Cash Status Report - The CFO and other officers need to know the balance of cash available for the organization's needs. A report of cash and bank transactions should be submitted to the CFO no less often than weekly; in large organizations, twice-weekly or even daily reports may be desirable. The information presented should include, at a minimum, the beginning balance in the operating bank account from the previous report, a summary of cash received and deposited, a summary of disbursements (including itemization of major items), and the new bank balance. If several bank accounts are in use, this information should be presented for each one. Also included should be a report of inactive accounts, savings accounts, and other cash items.

906.03 Cash Cycles - CFO's should be well acquainted with the cyclical nature of cash flow for their organizations. Typically, organizations have high points and low points that repeat their sequence year after year. There are exceptions and modifications to this pattern, but a CFO can, by charting weekly cash status reports or month-end balances of bank checking and savings accounts, determine in fairly specific terms just what the pattern is in the organization. In addition to the yearly cycle of fluctuating balances, there is ordinarily a monthly cycle as well, which can be charted on the basis of weekly or daily cash status reports.

906.04 Utilization of Funds - Analysis of the cash-flow cycle can sometimes prompt actions that will result in additional earnings. Unless it is properly managed, cash itself is an unproductive asset. Consistently large balances in checking accounts may indicate poor planning and stewardship, and may indicate lost opportunity for maximizing income. In an organization with complex resources, where individual funds may each have fairly substantial amounts on deposit, the CFO should find the best balance of combined resources for non-interest-bearing deposits, as well as combined resources which can be put to work for the benefit of the organization as a whole. The CFO must also be familiar with the provisions of applicable working policy, and the organization's voted investment policy, for acceptable investment vehicles.

Appendix 9A - Operating versus Agency Cash

Cash and cash equivalents are defined by the denomination as only the portion of cash that is available for operating purposes. Cash equivalents should not include unrestricted cash necessary to offset agency liabilities or fiduciary obligations. This is illustrated in the following table. (Fund accounting has no impact on this concept.)

- ♦ All cash specifically identified as agency-related should be reported as cash held for agency. This is still a current asset, but it is not included with "cash equivalents" available for operating purposes.
- ♦ If agency-specific cash is less than the agency liability, and the net amount of all unrestricted cash is **positive**, then cash is reclassified to the extent necessary to cover the agency liability.
- ♦ If agency-specific cash is less than the agency liability, and the net amount of all unrestricted cash is **negative**, then the net unrestricted cash amount should be reported as overdrawn cash, a liability.

Assumptions:	Example 1	Example 2	Example 3	Example 4	Example 5
Operating Petty Cash	500	1,000	1,000	500	750
Operating Bank Account #1	5,000	16,500	6,500	(3,000)	(18,500)
Operating Bank Account #2	6,000	20,000	20,000	9,500	3,250
Net Unrestricted Cash Available	11,500	37,500	27,500	7,000	(14,500)
Agency-specific Bank Account	33,500	0	0	25,000	17,500
Plant-specific Bank Account	15,000	15,000	15,000	15,000	15,000
Total Agency Liability	33,500	33,500	33,500	33,500	33,500
Statement of Financial Position					
Assets					
Cash Held for Operating	11,500	4,000	0	0	0
Accounts Receivable	116,300	116,300	116,300	116,300	116,300
Cash Held for Agency	33,500	33,500	27,500	32,000	17,500
Current Assets	161,300	153,800	143,800	148,300	133,800
Land, Buildings, & Equipment, Net	750,900	750,900	750,900	750,900	750,900
Cash Held for Unexpended Plant	15,000	15,000	15,000	15,000	15,000
Total Assets	927,200	919,700	909,700	914,200	899,700
Liabilities					
Overdrawn Cash	0	0	0	0	14,500
Accounts Payable	18,950	18,950	18,950	18,950	18,950
Agency Liability	33,500	33,500	33,500	33,500	33,500
Long-term Debt, Current Portion	10,000	10,000	10,000	10,000	10,000
Current Liabilities	62,450	62,450	62,450	62,450	76,950
Long-term Debt, Noncurrent Portion	65,000	65,000	65,000	65,000	65,000
Total Liabilities	127,450	127,450	127,450	127,450	141,950
Net Assets					
Unallocated Operating	23,850	16,350	6,350	10,850	(8,150)
Allocated Operating	10,000	10,000	10,000	10,000	0
Unexpended Plant	15,000	15,000	15,000	15,000	15,000
Invested in Plant	750,900	750,900	750,900	750,900	750,900
Total Net Assets	799,750	792,250	782,250	786,750	757,750
Total Liabilities and Net Assets	927,200	919,700	909,700	914,200	899,700

Section 1001 - Nature of Investments

1001.01 Types of Investments - Most organizations have resources they do not need immediately but which they want to have available as soon as needed or which they want to hold for producing investment income. These resources are invested in a variety of financial instruments, including medium and long-term time deposits, debt securities issued by financial institutions, corporations, and government entities, equity securities issued by corporations, and mutual funds that invest in debt and equity securities. This Manual will refer to these resources collectively as "investments" rather than as "securities and investments." The only financial instruments that are not included in this category are those that fit the definition of cash equivalents (Section 901.01).

1001.02 Investment Strategy - Choosing which financial instruments to acquire is a decision that must be made by the governing committee (or an appropriate sub-committee). It should be based on the investment strategy and portfolio management objectives for each fund, function, or department. Organizations can acquire financial instruments directly, by purchasing a single specific instrument issued by an entity, or indirectly, by purchasing units or shares in a mutual fund. One objective of an investment strategy involves selecting an appropriate balance between the goals of income production, appreciation in value, and protection of principal. The organization's investment strategy should be documented in the minutes of the committee that was authorized to establish it.

1001.03 Accounting Follows Investment Strategy - Investments and related income, gains, and losses are classified for accounting purposes according to the investment strategies established by the governing committee. The more complex the entity, the more likely it will have different investment strategies for different funds and programs. The investment strategy will guide the accounting process to classify each financial instrument as either a current or noncurrent asset. It will also guide the process to accumulate investments into defined classes in preparation for determining their value for financial statement presentation. All investments will be recorded at their cost at the date acquired, or fair value if donated, but will then be valued at each subsequent reporting date according to the valuation method applicable to the class into which they have been placed (Section 1004).

1001.04 Segregation by Funds - As noted in Chapters 6 and 7, many denominational entities use fund accounting. In those entities, each fund can hold various types of investments, to the extent allowed by denominational policies. The basic principles of accounting, custody, and valuation discussed in this chapter are the same, however, no matter which fund holds the investments.

1001.05 Current and Noncurrent Classifications - Some investments are noncurrent by their nature (time deposits or debt instruments that mature after more than 12 months, for example), but other types of investments may be either current assets or noncurrent assets, depending on specific criteria. GAAP defines current assets as cash and other assets that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the entity (normally one fiscal year). Thus, current assets include investments which mature in 12 months or less ***and*** are available for current operations. If investments are available to be used when needed for operating purposes, regardless of their maturity date, they should be classified as current assets. That would exclude from current assets any investments that are committee-allocated or donor-restricted for future plant acquisition, liquidation of noncurrent debt, or any non-operating purpose, even if they mature in 12 months or less.

For financial statement presentation, this Manual makes the following distinctions. Overall, assets are classified as either "current" assets; land, buildings, and equipment; or "other" assets. Cash and cash equivalents are to be included in current assets. Loans receivable are classified as either "current" loans receivable (to be included in current assets) or "noncurrent" loans receivable (to be included in other assets). All other financial instruments are identified as investments and are classified as either "current" (to be included in current assets) or "other" (to be included in other assets).

Section 1002 - Investment Policies

1002.01 General Guidelines - GCWP encourages each Division to establish policies for the selection and management of investments for all organizations within their territory, in conformity with a number of general guidelines. Also, if a Division does not establish such policies, then all organizations within that territory are limited to investing their resources in GC Unitized Funds and other specified short-term financial instruments.

1002.02 Specific Default Policies - GCWP S 85 15 requires application of at least the following minimum practices and procedures.

1. Governing committees must act as prudent investors to seek reasonable income, preserve principal, and avoid speculative investments.
2. All investments must be in harmony with laws and regulations of the applicable jurisdiction.
3. Governing committees must determine the appropriate level of risk and return for each asset pool or portfolio the organization holds.
4. The choices of investment instruments must conform to the level of risk assigned to each portfolio.
5. Governing committees must diversify the portfolios of intermediate and long-term asset pools.
6. Asset pools must be managed solely to achieve the stated purpose for which they were established.
7. Governing committees should limit administrative costs to appropriate and reasonable amounts.
8. Governing committees must perform or obtain an asset allocation study before investing any asset pool.
9. Equity securities selected should be only those of good quality and which are actively traded.

10. Governing committees shall adopt an investment policy statement for each asset pool the entity holds.
11. Convertible bonds, convertible stock, preferred stock, and real estate investment trusts are not allowed as fixed income investments.
12. All members of governing committees must have current signed conflict of interest statements.
13. Governing committees are encouraged to select reputable custodians to hold securities and settle transactions. Self-custody of securities is discouraged.
14. Governing committees that make investment decisions should retain professional advisors whose compensation is not commission driven.

Section 1003 - Custody of Securities

1003.01 Transaction Authorizations - Section 904 discussed principles regarding custody of cash and cash equivalents. In general, similar internal controls should apply to transactions for the purchase and sale of investments and for custody of the evidence of investment. Each purchase and sale, whether of a specific security or of a mutual fund interest, must be authorized by the governing committee or a duly-designated investment sub-committee. No transaction should be entered into unless the authorization of the committee is made a matter of record **prior** to the transaction.

1003.02 Identification of Securities - To comply with these principles, each purchase transaction should include a record of the identity of the investment, such as serial numbers of the bonds or stock certificates, or name and unit numbers of mutual fund shares. All records related to investments are maintained on the basis of specific identification, so each instrument must be identified so it can be tracked throughout the processes of purchase, custody, and sale.

1003.03 Broker or Manager Custodial Accounts - It is a best practice and a policy recommendation to use the services of a broker or manager as the custodian of the investments the entity holds. For organizations that use the services of a licensed broker or manager, the periodic statements of the broker's custodial account must be retained as support for the related accounting entries. Although there may be no change in the units or quantity of a specific investment held by the custodian over a period of time, the fact that they are held by a third party makes documentation critical. All custodial statements should be retained in a secure file in a similar manner as the support for other transactions.

1003.04 Use of Safety Deposit Boxes - For entities that hold specific securities directly rather than through broker or manager custodians, safety deposit boxes may be used to minimize the risk of loss by theft. Best practice, as well as some divisions' working policies, requires that at least two authorized persons be present to access safety-deposit boxes and their contents. (Some may authorize access for any two of three or four named individuals.) Instructions to the financial institution that maintains the safety deposit facility should require that access to the box not be granted except when at least two of the authorized individuals are present. All authorized individuals present should be actively involved in adding or withdrawing documents to or from the box. The control objective is not achieved if one simply stands by while the other does all the document handling.

The financial institution maintains a log of dates and times when access to a safety deposit box is granted and to whom. The box holder also should keep a record, preferably in the safety deposit box itself. It is usually sufficient for this record to include a columnar list of each document or group of documents, with serial numbers where applicable; the date deposited and signatures or initials of individuals present; the date(s) inventoried and initials of person inventorying; and the date withdrawn and signatures or initials of individuals present. If desired, the box holder can keep a duplicate of this record in a locked file in their office.

1003.05 Temporary Withdrawals - It is sometimes necessary to temporarily withdraw a document from the safety deposit box for use in the organization's office. It must be emphasized that such withdrawals should be recorded just as though they were permanent and that the document be reentered in the inventory list when it is replaced. While the document is out of the safety deposit box, it should be passed from one individual to another only on the exchange of a signed receipt for the document. This helps to prevent important documents from being lost or stolen while in an organization's office.

Section 1004 - Valuation of Investments

1004.01 Groups of Investments - At the end of each reporting period, each organization must determine the carrying value of its investments. (Refer to Section 1004.07 about accounting for investments at the lower of cost or market.) The account structure should have already been used to separate the investments by type of instrument, by fund, and by current or noncurrent nature. Within each of these accounting groups, to help determine their value, international GAAP requires the investments to be separated further into one or more of the following four valuation classes. The organization must then determine the proper value for each of the investments in each of those classes, and the total value of all investments in each class and each portfolio.

Class 1. Subject to Accounting at Fair Value

Held for Trading - Investments acquired and held specifically for active short-term trading.
Selected for Fair Value - Any investment the organization acquired and chose to carry at fair value. Such a choice must be applied uniformly to all investments of a similar type or purpose.

Class 2. Held To Maturity

Investments (other than loans) acquired for the express purpose of holding to maturity, *and* for which the entity has the financial ability to hold for that full period of time. Note that if the entity has an intent to hold the instrument for only an indefinite period, or generally would be willing to sell the instrument in response to changing economic conditions, the instrument cannot be classified as held to maturity.

Class 3. Loans Receivable

Loans originated by the reporting entity without any intent that they be sold or traded in the short term.

Class 4. Available For Sale

All financial instruments that have not been separated into classes 1, 2, or 3. This class will include only those financial instruments for which the organization has not identified an intent or purpose.

1004.02 Valuation Methods - International GAAP requires the carrying value of investments to be determined according to the following rules, based on the respective valuation classes.

Class 1. Subject to Accounting at Fair Value

Held for Trading *or* Selected for Fair Value - For either of these sub-classes, the carrying value of these investments is to be stated at fair value. The change in fair value from one reporting period to the next is to be recorded as gain or loss in the current period.

Class 2. Held To Maturity

The carrying value of these investments is to be stated at amortized cost, reduced whenever applicable for impairment loss. Impairment loss, if any, is to be recorded in the year in which it occurs.

Class 3. Loans Receivable

The carrying value of these investments is to be stated at amortized cost, reduced whenever applicable for impairment loss. Impairment loss, if any, is to be recorded in the year in which it occurs.

Class 4. Available For Sale

The carrying value of these investments is to be stated at fair value if a quoted market price is available or fair value can be reasonably estimated by other means. The carrying value of these investments is to be stated at amortized cost only if a quoted market price is not available and fair value cannot be reasonably estimated.
Any unrealized change in fair value of these investments from one reporting period to the next is to be recorded as an increase or decrease directly to net assets (using a distinct account within the net asset group, similar to a prior period adjustment). Unrealized gain or loss in value of these investments is not to be recorded as an increase or decrease from financial activity of the current period. When investments in this class are sold, the cumulative unrealized gain or loss is to be reversed out of net assets, and the total "realized" gain or loss is to be recorded as gain or loss in the current period.

Because of the obvious complexity of recording gains and losses under class #4, this Manual urges all organizations to clearly and formally identify the holding purpose for each investment acquired, so that the investments will fall under class #1, 2, or 3. The sample financial statements illustrated in Appendix 17A and 17C presume that all investments have been identified as class #1, 2, or 3.

1004.03 Calculating Fair Value - After the investments have been separated by valuation class, then the value is computed separately for each portfolio. For investments that are carried at fair value, it is often helpful to prepare a schedule for each group, listing each item with its cost in one column and its current fair value in a second column. Fair value should be obtained from published securities price quotations or from data furnished by the custodial broker or manager. The carrying value of the whole portfolio is the total of the fair value column. The difference between total cost and total fair value for each portfolio is recorded in a valuation account.

GAAP requires disclosure of the net carrying amount of investments grouped by type of instrument; for example, government securities, corporate bonds, and stock mutual funds. This Manual illustrates such disclosure in the notes to the financial statements (Appendix 17A and 17B). Although GAAP requires further analysis and grouping for the process of calculating fair values, as discussed in the two preceding sections, it does not require disclosure of these additional groupings in the financial statements or notes thereto.

1004.04 Separate Valuation Account - For any portfolio that must be carried at fair value, when aggregate fair value differs from cost at the end of a reporting period, the unrealized gain or loss that has occurred must be recorded. (The term "unrealized" signifies that while a gain or loss has been sustained in the carrying value of the aggregate portfolio, it has not been reduced to a cash inflow or outflow because the investment is still owned. This becomes a "realized" gain or loss if and when the investment is sold.) An accounting entry must be made of this change in value; a gain or loss is actually recognized, and the carrying value of the portfolio is adjusted accordingly.

Rather than change the asset cost account, a separate contra-account is used (similar to the "Allowance for Uncollectible Accounts" that is used with receivables). This is a "valuation" account; it is a companion account to the asset cost accounts and is never found separated from the asset account group. Because the valuation account can be either positive or negative, it is titled Unrealized Appreciation or (Decline). The change in this account from one reporting period to the next is recorded as Unrealized Gain or (Loss) in Value. This is illustrated in Appendix 10A.

1004.05 Presentation of Gains and Losses - International GAAP requires all investment gains and losses to be combined for financial statement presentation into an overall "net" gain or loss for the reporting period. That does not prevent denominational entities from disclosing separate sub-totals for realized gain or loss and unrealized gain or loss. GAAP requires disclosure in the notes about the net gain or loss within each portfolio or fund, and disclosure of the net gain or loss apart from regular investment income (interest and dividends). Whether the "net" amount is a gain or a loss, it should be reported on the same line in the revenue section of the statement of activity. (For illustration, see Appendix 17A.02 and 17A.05 (3) Note 4.)

1004.06 Unrealized Gains to be Allocated - The denomination voted to make the following policy part of this Manual. When the aggregate fair value of an investment portfolio exceeds its historical cost, organizations are required to transfer unrealized gains in fair value to an allocated function within unrestricted net assets. That is why it is important to record the cost of each investment in a separate account from the valuation account for changes in fair value. The balance in the allocated function should always be equal to any positive balance in the valuation account that accompanies the investment assets. If the valuation account balance is negative, the allocated function balance should be zero. The purpose of this allocated function is to hold unrealized gains apart from net assets that are available for operating use until the gains become realized. The accounting entries to increase or decrease the allocated function are only transfers, not revenue or expense.

1004.07 Valuation at Lower of Cost or Fair Value (country-specific Standard) - Some countries require investments to be carried at the **lower** of cost or market. Under this method, the organization may disclose market or fair value in the notes to the financial statements, but the investments will be reported only at the **lower** of cost or fair value on the face of the statement of financial position. See Appendix 18B.

The organization should still track the cost of investments and determine their respective fair values, as discussed in Sections 1004.03 and 1004.04. However, since the carrying value is the lower of cost or fair value, the balance in the valuation account will never be greater than zero. (The valuation account would be "Unrealized Decline in Value" rather than "Unrealized Appreciation or Decline.") Also, any unrealized gains will be recognized and reported only to the extent they are necessary to recover previously-recorded unrealized losses.

Section 1005 - Investment Income and Sales

1005.01 Ordinary Income - Unrestricted investment income (interest and dividends) from all funds should be reported as revenue in the statement of financial activity for the period in which it is earned. On the face of the statement or in the notes, investment income should be disclosed apart from gains and losses. As discussed in Chapter 13, restricted investment income should be reported as restricted revenue. If the income on an investment of restricted funds is available for unrestricted purposes by direction of the donor, the amount of such income should be recognized as unrestricted revenue in an operating fund. An example of this would be an endowment fund, when the earnings are unrestricted by the donor. In this case the endowment fund earnings would appear as unrestricted endowment revenue of the operating fund.

1005.02 Control of Income - An adequate record must be kept to show that all earned income for each security has been either received in cash or accrued as a receivable in the year in which it is earned. Dividends on equity securities are recognized as of the date the dividend is declared. Even though the issuing company has a history of payment of regular dividends in fixed amounts, the expected dividend is not income to the shareholder until the issuing company's board of directors has taken formal action to declare it. Interest on debt securities should be recognized as revenue in the year in which it is earned. Even though the payment date falls within the following fiscal year, an accrual entry should be made (debiting a receivable and crediting the revenue account) to recognize interest earned up to the last day of the fiscal year.

1005.03 Interest on Doubtful Investments - Accounting for accrued interest on investments of doubtful collectability are similar to those for loans of doubtful collectability, which are discussed in Section 1104.

1005.04 Sale of Investments - In general, gains and losses on sale of investments are classified similarly to earned income on investments. Unrestricted and restricted gains and losses on sale of investments should be reported in the statement of financial activity in the revenue section. If restricted, such gains and losses would also be reported in the appropriate allocated or restricted function line in the statement of changes in net assets.

Because most investments in equity and debt securities are carried at fair value, the realized gain on sale of an investment is not simply the sale price minus the original cost. The total gain or loss on an investment reflects all fluctuations in value from date of acquisition to date of sale. Some of that gain or loss is recognized at the end of each accounting period, in the form of “unrealized” gain or loss in value. The remainder of that total gain or loss is recognized at the time of sale of the investment, in the form of “realized” gain or loss. The realized gain or loss is the sale price minus the carrying value (fair value) from the most recent preceding financial statement date. “Realized” gain or loss is based on the sale of a specific investment at the time the sale occurs. “Unrealized” gain or loss is based on the fair value of a whole portfolio at the end of an accounting period.

1005.05 Assignment of Cost - Where it is possible to identify the specific asset sold, cost should be assigned on the specific identification method. When this is not possible, the accepted method for a group of specific investments is to use the first-in first-out assumption in determining the cost of a particular item. For investments in mutual funds, the accepted method is to use a weighted average unit cost, also with a first-in, first-out assumption.

Appendix 10A - Illustrative Journal Entries

10A.01 Data for Entries - The following illustration contains sample data as of January 1, 20X1, and sample activity and balances for years 20X1, 20X2, and 20X3. The entries related to this data, including recognition of realized and unrealized gains and losses for each of the years, and corresponding transfers to or from allocated net assets, are in Section 10A.02. Entries for sale of unitized investments are in Section 10A.05. Each entry includes an explanation, and where necessary, further details about how the gains and losses are calculated.

Investment Portfolios by Type of Instrument	Cost 20X1, 20X2	Fair Value 20X1	Fair Value 20X2	Cost 20X3	Fair Value 20X3
Government Bond	30,000	33,300	32,700	30,000	30,200
Corporate Note	25,000	23,000	24,000	0	0
Bond Mutual Fund	0	0	0	24,600	25,000
Stock Mutual Fund	13,900	15,750	14,100	13,900	12,900
Aggregate Totals	68,900	72,050	70,800	68,500	68,100
Unrealized Appreciation (Decline) [*valuation account*]		3,150	1,900		(400)
Unrealized Gain (Loss) [*current year activity account*]		3,150	(1,250)		(3,300)
Realized Gain (Loss) [*current year activity account*]		0	0		600

10A.02 Sample Journal Entries

	Debit	Credit
<u>Journal Entries, December 31, 20X1</u>		
Unrealized Appreciation (Decline) [*valuation account*]	3,150	
Unrealized Gain (Loss) in Value [*current year activity account*]		3,150
To record unrealized gain in fair value as of 12/31/20X1.		
Transfer To Allocated Security Fluctuation Account	3,150	
Transfer From Unallocated Function		3,150
To make allocated function equal to positive valuation account.		
<u>Journal Entries, December 31, 20X2</u>		
Unrealized Gain (Loss) in Value [*current year activity account*]	1,250	
Unrealized Appreciation (Decline) [*valuation account*]		1,250
To record unrealized loss in fair value as of 12/31/20X2.		
Transfer To Unallocated Function	1,250	
Transfer From Allocated Security Fluctuation Account		1,250
To make allocated function equal to positive valuation account.		
<u>Journal Entries, June 30, 20X3</u>		
Cash	24,600	
Unrealized Appreciation (Decline) [*valuation account*]	1,000	
Corporate Note		25,000
Realized Gain on Sale [*current year activity account*]		600
To record sale of investment at 6/30/20X3.		

10A.02 Sample Journal Entries (continued)

	Debit	Credit
Journal Entries, June 30, 20X3 (continued)		
(In the preceding entry, the result of the sale is a realized gain of 600 [sale price minus carrying value], not a realized loss of 400, because a net unrealized loss of 1,000 had already been previously recorded. At 12/31/20X2, this investment had a cost of 25,000 and fair value of 24,000; so (1,000) must be removed from the valuation account.)		
Transfer To Allocated Security Fluctuation Account	1,000	
Transfer From Unallocated Function		1,000
To make allocated function equal to valuation account after sale.		
Bond Mutual Fund	24,600	
Cash		24,600
To record purchase of new investment at 6/30/20X3.		
Journal Entries, December 31, 20X3		
Unrealized Gain (Loss) in Value [*current year activity account*]	3,300	
Unrealized Appreciation (Decline) [*valuation account*]		3,300
To record unrealized loss in fair value as of 12/31/20X3.		
(The valuation account at 12/31/20X3 should be (400) [fair value of 68,100 minus cost of 68,500]. The unrealized (loss) for the year is the difference between what the valuation account should be and what it was after the entries related to the sale at 6/30/20X3.)		
Transfer To Unallocated Function	2,900	
Transfer From Allocated Security Fluctuation Account		2,900
To make allocated function equal zero, since valuation account is negative.		

10A.03 Illustrated Effect of Entries on Valuation Account

Balance at 1/1/20X1 was zero.	Debit	Credit
Unrealized Gain recorded at 12/31/20X1	3,150	
Unrealized Loss recorded at 12/31/20X2		1,250
Balance in Valuation Account at 12/31/20X2	1,900	
Remove the effect of negative valuation related to the investment sold, 6/30/20X3.	1,000	
Balance in Valuation Account at 6/30/20X3	2,900	
Unrealized Loss recorded at 12/31/20X3		3,300
Balance in Valuation Account at 12/31/20X3		400

10A.04 Illustrated Effect of Entries on Allocated Security Fluctuation Account

Balance at 1/1/20X1 was zero.	Debit	Credit
Unrealized Gain recorded at 12/31/20X1		3,150
Unrealized Loss recorded at 12/31/20X2	1,250	
Balance in Allocated Account at 12/31/20X2		1,900
Remove the effect of negative valuation related to the investment sold, 6/30/20X3.		1,000
Balance in Allocated Account at 6/30/20X3		2,900
Portion of unrealized loss at 12/31/20X3 to bring allocated balance to zero.	2,900	
Balance in Allocated Account at 12/31/20X3		0

10A.05 Sample Entries for Sale of Unitized Investments – The sale of units in a unitized investment account will be recorded in the same manner as in the preceding illustration. However, because of the nature of a unitized account, calculation of the cost of units sold will involve a mathematical calculation of average cost.

Sample Data: GC Unitized Income Fund	
Total Units Held 31 December 20X0	4399.4797
Per Unit Value 31 December 20X0	146.6403
Fair Value 31 December 20X0	645,141.02
Total Cost 31 December 20X0	592,803.35
Unrealized Appreciation (Decline) 31 December 20X0	52,337.67
Per Unit Value 31 March 20X1	147.9906
Proceeds from Sale 15 April 20X1	35,000.00
Units Sold 15 April 20X1 (see explanation (b) below)	236.5015
Cost of Units Sold (see explanation (b) below)	31,867.15

Sample Entry - Sale at 15 April 20X1		**Debit**	**Credit**
GC Money Fund Account	**(a)**	35,000.00	
GC Income Fund Account	**(b)**		31,867.15
Unrealized Appreciation (Decline)	**(c)**		2,813.50
Realized (Gain) or Loss	**(d)**		319.35
To record sale of a portion of unitized units held.			
Transfer To Unallocated Function Account		2,813.50	
Transfer From Allocated Security Fluctuation Function Account			2,813.50
To make allocated function equal to valuation account after sale.			

(a) Debit the appropriate bank account for the proceeds from the sale.

(b) To determine the number of units sold, the investor must refer to the sale confirmation document received from the GC Investment office. (It is necessary to refer to the sale confirmation, because the per-unit value is recalculated each day, and is not published in any other manner.)

After the number of units sold is determined, then determine the cost of that number of units, by using the following formula. Credit the asset account for that calculated cost amount.

Cost of units sold = (Total cost / Total units) x (Number of units sold)

(b) For this illustration: (592,803.35 / 4,399.4797) * 236.5015 = 31,867.15

(c) Calculate the portion of the allowance for unrealized appreciation (decline) that is associated with the number of units sold. Enter this amount in the allowance account to remove it from that balance. If the allowance is a debit balance, enter this amount as a credit. If the allowance is a credit balance, enter this amount as a debit.

Allowance for units sold = (Total allowance / Total units) x (Number of units sold)

(c) For this illustration: (52,337.67 / 4,399.4797) * 236.5015 = 2,813.50

(d) Calculate the gain or loss on the sale by combining the three amounts from (a), (b), and (c). If the result is positive, credit as a gain to the Realized Gain/Loss account. If the result is negative, debit as a loss to the Realized Gain/Loss account.

(d) For this illustration, Realized Gain/Loss = (35,000 - 31,867.15 - 2,813.50) = 319.35

Appendix 10B - Interaction Between Currency Exchange and Unrealized Gains/Losses

10B.01 General Accounting and Reporting Principles - Organizations that hold investments which are denominated in a currency other than the reporting currency should account for them as follows.

1. Interest and dividend income, and purchases and sales of investments, are to be recorded using either the current exchange rate at the date of the transaction, or a reasonably recent average exchange rate.

2. For sales of investments, the realized gain or loss is to be recorded separately from any exchange gain or loss. The realized gain or loss in terms of the base (or functional) currency should be the difference between the sale price and the most recent revalued cost (using the latest exchange rate). The realized gain in terms of the base (functional) currency is not simply the difference between sale price and original cost in the base currency.

3. Interest and dividends are to be reported separately from gains and losses. Realized gains and losses from sales may be reported separately or may be combined with unrealized gains and losses from fluctuations in value.

4. At the end of each reporting period (at least quarterly), assets and liabilities held in currencies other than the base (functional) currency are to be revalued using the exchange rate in effect at the statement of financial position date. The change in the revalued balances is to be recorded as exchange gain or loss for the period. This would be in addition to any exchange gains or losses recorded during the period on specific transactions.

5. At the end of each reporting period (at least quarterly), the fair value of investments is to be compared to their cost or carrying value, and the difference is to be recorded in a valuation account (unrealized appreciation or decline). The change in the valuation account is to be recorded as unrealized gain or loss for the period.

Because the revalued balances (in the base/functional currency) depend on use of the current exchange rate, while calculation of the unrealized appreciation or decline is merely the result of subtracting revalued cost from fair market value, Step #4 should be performed before Step #5.

As information only, GAAP requires the notes to the financial statements to include disclosure about how much of the total exchange gain or loss for the period is attributable to investments held in foreign currencies and how much is attributable to all other balances and transactions.

The application of these principles is illustrated in sample transactions on the following pages.
The illustrated transactions are based on the following sample data, reporting by calendar quarters.

	Invest. #1	Invest. #2	Invest. #3	Invest. #4
Amounts in Source (Foreign) Currency				
Original Cost of Investment	250,000	500,000	270,000	540,000
Proceeds From Sale of Investment	275,000	532,000		
Fair Value at 31 March	258,500	520,300	284,000	
Fair Value at 30 June			263,000	529,000
Exchange Rate at 31 March = 1.059				
Exchange Rate at 30 June = 1.018				
Amounts in Base (Functional) Currency				
Fair Value at 31 March	244,098	491,313	268,178	
Fair Value at 30 June			258,350	519,646
(Source amount / Exch. Rate = Base amount)				

10B.02 Illustrated Transactions, in Journal Form

Date	Exch. Rate	Account	Source (Foreign) Debit	Source (Foreign) Credit	Base (Functional) Debit	Base (Functional) Credit
5 Jan	1.037	Investment #1	250,000		241,080	
	1.037	Cash		250,000		241,080
		To purchase investment #1.				
27 Jan	1.037	Investment #2	500,000		482,160	
	1.037	Cash		500,000		482,160
		To purchase investment #2.				
16 Feb	1.051	Investment #3	270,000		256,898	
	1.051	Cash		270,000		256,898
		To purchase investment #3.				
31 Mar	1.059	Investment #1		n/a		5,008
	1.059	Investment #2		n/a		10,017
	1.059	Investment #3		n/a		1,941
	1.059	Exchange (Gain) or Loss	n/a		16,966	
		To revalue accounts.				
31 Mar	1.059	Unrealized Appr. (Dec.) Invest. #1	8,500		8,026	
	1.059	Unrealized Appr. (Dec.) Invest. #2	20,300		19,169	
	1.059	Unrealized Appr. (Dec.) Invest. #3	14,000		13,220	
	1.059	Unrealized (Gain) or Loss		42,800		40,415
		To record gain in fair value.				
14 Apr	1.053	Cash	275,000		261,159	
	n/a	Investment #1		250,000		236,072
	n/a	Unreal. Appr. (Dec.) Invest. #1		8,500		8,026
	n/a	Realized (Gain) or Loss		16,500		17,061
		To record sale of Invest. #1.				
12 May	1.046	Cash	532,000		508,604	
	n/a	Investment #2		500,000		472,143
	n/a	Unreal. Appr. (Dec.) Invest. #2		20,300		19,169
	n/a	Realized (Gain) or Loss		11,700		17,292
		To record sale of Invest. #2.				

10B.02 Illustrated Transactions, in Journal Form (continued)

Date	Exch. Rate	Account	Source (Foreign) Debit	Source (Foreign) Credit	Base (Functional) Debit	Base (Functional) Credit
16 May	1.046	Investment #4	540,000		516,252	
	1.046	Cash		540,000		516,252
		To purchase Investment #4.				
30 Jun	1.018	Investment #3	n/a		10,269	
	1.018	Investment #4	n/a		14,199	
	1.018	Exchange (Gain) or Loss		n/a		24,468
		To revalue accounts.				
30 Jun	1.018	Unrealized (Gain) or Loss	32,000		30,902	
	1.018	Unreal. Appr. (Dec.) Invest. #3		21,000		20,096
	1.018	Unreal. Appr. (Dec.) Invest. #4		11,000		10,806
		To record loss in fair value.				

10B.03 Illustrated Results of Transactions, by Account

Date	Exch. Rate	Account and Activity	Source (Foreign) Debit	Source (Foreign) Credit	Base (Functional) Debit	Base (Functional) Credit
		Investment #1				
5 Jan	1.037	Purchase	250,000		241,080	
31 Mar	1.059	Revalue		n/a		5,008
		Balance 31 March	250,000		236,072	
14 Apr	n/a	Sale		250,000		236,072
		Balance 30 June	0	0	0	0
		Unreal. Appr. (Dec.) Invest. #1				
31 Mar	1.059	Appreciation in Fair Value	8,500		8,026	
14 Apr	n/a	Sale		8,500		8,026
		Balance 30 June	0	0	0	0
		Investment #2				
27 Jan	1.037	Purchase	500,000		482,160	
31 Mar	1.059	Revalue		n/a		10,017
		Balance 31 March	500,000		472,143	
12 May	n/a	Sale		500,000		472,143
		Balance 30 June	0	0	0	0

10B.03 Illustrated Results of Transactions, by Account (continued)

Date	Exch. Rate	Account and Activity	Source (Foreign) Debit	Source (Foreign) Credit	Base (Functional) Debit	Base (Functional) Credit
		Unreal. Appr. (Dec.) Invest. #2				
31 Mar	1.059	Appreciation in Fair Value	20,300		19,169	
12 May	n/a	Sale		20,300		19,169
		Balance 30 June	0	0	0	0
		Investment #3				
16 Feb	1.051	Purchase	270,000		256,898	
31 Mar	1.059	Revalue		n/a		1,941
		Balance 31 March	270,000		254,957	
30 Jun	1.018	Revalue	n/a		10,269	
		Balance 30 June	270,000		265,226	
		Unreal. Appr. (Dec.) Invest. #3				
31 Mar	1.059	Appreciation in Fair Value	14,000		13,220	
30 Jun	1.018	Decline in Fair Value		21,000		20,096
		Balance 30 June		7,000		6,876
		Investment #4				
16 May	1.046	Purchase	540,000		516,252	
30 Jun	1.018	Revalue	n/a		14,199	
		Balance 30 June	540,000		530,451	
		Unreal. Appr. (Dec.) Invest. #4				
30 Jun	1.018	Decline in Fair Value		11,000		10,806
		Realized (Gain) or Loss				
14 Apr	n/a	Sale of Investment #1		16,500		17,061
12 May	n/a	Sale of Investment #2		11,700		17,292
		Balance 30 June (net)		28,200		34,353
		Unrealized (Gain) or Loss				
31 Mar	1.059	Appreciation in Fair Value		42,800		40,415
30 Jun	1.018	Decline in Fair Value	32,000		30,902	
		Balance 30 June (net)		10,800		9,513
		Exchange (Gain) or Loss				
31 Mar	1.059	Revalue	n/a		16,966	
30 Jun	1.018	Revalue		n/a		24,468
		Balance 30 June (net)		n/a		7,502

Appendix 10C - Additional Valuation Concepts (USA Standard)

10C.01 US GAAP - US GAAP approximates international GAAP as far as accounting procedures for investments that are subject to fair value. However, US GAAP has a different definition for determining which investments are subject to fair value accounting. FASC specifically requires all not-for-profit organizations in the US to account for equity securities with readily determinable fair values and all debt securities at fair value. Fair value is defined as the amount at which the asset could be bought or sold in a current transaction between willing parties. (US GAAP has no provision like the "held to maturity" class of international GAAP.)

10C.02 Provisions of NADWP - NADWP S 85 contains the investment policies for North American Division, and was extensively revised in November 2005. The revised policy applies to local and union conferences, and restricts investments available to academies and other affiliated entities unless they follow specified authorization procedures. The revised policy focuses on investment strategies adopted by each entity, and places investments into three categories based on maturity period and strategic purpose. It lists allowable investments for each of these time categories. It requires the governing body of each entity to manage their investments with attention to a number of listed principles, and requires each governing body to adopt an explicit strategy for each group or pool of investment assets.

10C.03 Investments Not Subject to Fair Value - The only investments that can be valued at cost are equity securities for which fair value cannot be readily determined. In addition, however, FAS 124 excludes loans receivable from the definition of debt securities, and leaves valuation of such receivables to other sections of GAAP. Many denominational organizations hold loans receivable from affiliated entities and individuals. GAAP requires these investments to be recorded at the lower of cost or net realizable value. The portfolio of these loans should be reviewed frequently and critically to determine their collectability and their fair value. Provision for losses on such investments can be made by applying similar accounting procedures and evaluation criteria as are typically employed in establishing an allowance for uncollectible accounts receivable (Section 1103.10).

10C.04 Marketable Investments - Equity or debt securities that can readily be bought or sold on an open market may be held for operating or non-operating purposes, but in either case are subject to fair value accounting. Investments that are held in denominational unitized funds will be considered to be marketable equity and debt securities, because that is the nature of the mutual funds' investments. To the unit-holding organization, units in the unitized fund are simply "marketable securities" one stage removed. Accounts receivable and loans receivable do not meet the definition of marketable debt securities. After an organization determines which of its investments are subject to fair value accounting, then it should follow the guidance in Sections 1004.03 and 1004.04 to determine fair values and to record changes in the valuation account.

10C.05 Unrealized Gains and Losses - When fair value changes at the end of a reporting period, an increase or decrease to net assets must be recorded. FASC requires changes in either current or noncurrent investments to be recognized as gains or losses in determining the total increase or decrease to net assets. FASC further requires total realized and unrealized gains and losses to be netted together for overall disclosure, but allows components of net gain or loss to be disclosed by fund or by type of activity as well. The NAD has decided that changes in the fair value of current investments will be classified as operating activity and changes in the fair value of noncurrent investments will be classified as non-operating activity. Whether the net amount is a gain or a loss, it will be reported in the revenue sections (operating or non-operating) of the statement of changes in net assets. These distinctions are illustrated in the sample financial statements at Appendix 17C and 17D.

10C.06 Sale of Marketable Investments - Realized gains and losses on sale of investments are accounted for similarly to earned income on investments. Unrestricted and temporarily restricted gains and losses on sale of investments should be reported in the statement of changes in unrestricted and temporarily restricted net assets, respectively, after the net increase (decrease) from operations. Gains and losses on endowment funds are accounted for in accordance with special rules which are discussed in Section 7C.03.

Because most investments in equity and debt securities are carried at fair value, the realized gain on sale of an investment is not simply the sale price minus the original cost. The total gain or loss on an investment reflects all fluctuations in value from the date of acquisition to date of sale. Some of that gain or loss is recognized at the end of each accounting period during which the investment is held, in the form of "unrealized" gain or loss in value. The remainder of that total gain or loss is recognized at the time of sale of the investment, in the form of "realized" gain or loss. Consequently, the realized gain or loss is the sale price minus the carrying value (fair value) from the most recent preceding financial statement date. "Realized" gain or loss is based on the sale of a specific investment at the time the sale occurs. "Unrealized" gain or loss is based on the fair value of a whole portfolio at the end of an accounting period.

Section 1101 - Nature of Receivables

Section 1102 - Accounts Receivable, Current

Section 1103 - Accounting and Reporting Procedures

Section 1104 - Loans Receivable

Section 1105 - Inter-Fund Transactions

Section 1101 - Nature of Receivables

1101.01 Classification Necessary - Denominational organizations are accustomed to handling a large number of receivable accounts of various types. The purpose of this chapter is to describe the nature of receivables, the procedures necessary to account for them in varied circumstances, and the adequate disclosure of their distinctive characteristics in the financial statements.

1101.02 Routine Current Receivables - The most familiar assets in this category are those routine accounts representing money receivable from students, customers, employees, and affiliated organizations, for current transactions. These accounts are due and payable on a recurring monthly basis, and the assets are properly classified as current assets. For adequate disclosure in the financial statements, they should be assembled into groups by type of entity. GAAP requires disclosure of balances due from affiliated entities and key management employees apart from all other receivables.

1101.03 Noncurrent Advances - Distinct from current accounts receivable are accounts which represent funds advanced, usually to affiliated entities, with an understanding that the advances need not be repaid on the usual current basis. Sometimes these advances are represented by promissory notes, issued by the recipients, and are payable on demand. Sometimes there is no written evidence of indebtedness. A number of factors need to be considered when classifying such advances as current or noncurrent. What are the intentions of the creditor and the debtor? Is the advance for the purchase of equipment or other noncurrent assets, or perhaps to provide working capital? Even though the advance may be payable on demand, does the debtor have the ability to repay if demand is made? A creditor may be lulled into a false sense of security by classifying demand advances as current assets, and thus part of working capital, when there is little or no ability on the part of the debtor to meet the obligation.

1101.04 Loans Receivable - The organization may hold loans receivable for which promissory notes specify the due date(s) of the obligation, interest rates, security, and other essential details. It is important to look beyond the form of the agreement to its substance. Such notes commonly provide for payment of the principal in installments. In such cases only those installments due within one year after the date of the financial statements can be classified as current assets; the remainder of the principal amount is considered a noncurrent asset. If the note is seriously in default, however, installments past due and coming due within the next year may not be current assets. Depending on the circumstances, such assets should either be written down by providing an allowance for uncollectible loans, or be reclassified as noncurrent assets.

1101.05 Classifying Receivables into Groups - Accounts receivable should be gathered into a hierarchy of two sets of groups for disclosure. The first set consists of a group for current status and a group for noncurrent status. Within each current and noncurrent group is a second set, consisting of groups by type of debtor, whether affiliated entity, employee, or unrelated third party.

Loans receivable should be gathered into a hierarchy of three sets of groups for disclosure. The first set consists of a group for current status and a group for noncurrent status. Within each current and noncurrent group is a second set, consisting of groups by type of debtor, whether affiliated entity, employee, or unrelated third party. Within each type of entity group is a third set, consisting of groups by type of loan, whether secured or unsecured, and whether for housing, automobile, or other purpose.

The account structure should be established so that each account or loan receivable is placed into the proper groups within the ledger. Then ledger-generated sub-totals can be easily placed into the notes to the financial statements for disclosure. For illustration of such disclosures, see Appendix 17A, Notes 5 and 6.

Section 1102 - Accounts Receivable, Current

1102.01 Sources of Charges - For conferences and missions, most accounts receivable are from charges to employees for payroll advances, amounts due from schools for salaries and related expenses, amounts due from churches for monthly tithe and offering reports, and amounts due from churches and schools for insurance premiums and other charges. For schools, a significant portion of accounts receivable are from students, but they may also have accounts receivable from churches or from the related conference or mission for subsidies. For retail book centers, essentially all accounts receivable are from customers, such as churches, schools, and individuals.

1102.02 Receivables and Fund Accounting - Large or complex organizations may have accounts receivable in more than one fund. They may have routine accounts receivable in one fund and loans receivable in another fund. They may have some accounts receivable for sales and services and other accounts receivable from the same entities for tithe and offering remittances. Each organization should consider the impact of such complexity on the preparation of monthly statements. One individual should be assigned responsibility to review the month-end balances for all accounts from all funds together. Such analytical review can highlight accounts that may be increasing in the aggregate for a given debtor, but not be noticeable in any one fund.

1102.03 Receivables versus Appropriations - Transactions are sometimes recorded as accounts receivable even though it is understood that the amount will not be repaid, but will rather be “covered” by later appropriations or other credits. Any account listed as a receivable should, in the normal course of time, be received in cash from the debtor. If that is not the case, it is incorrect to report the amount as a receivable. For example, if an organization advances funds to an affiliated entity but has no intention to ask for repayment, it should be recorded as an appropriation expense from the start.

Section 1103 - Accounting and Reporting Procedures

1103.01 Church Remittance Accounts - Sections 903.07 and 1709 discuss proper procedures to close the cash receipt record at the end of each month to make a clear distinction between cash received and remittances receivable from constituent churches at the statement of financial position date. As described in Section 1709, the details of each church report should be recorded as a receivable with appropriate credits to the respective revenue and offering fund agency accounts at the end of the month or year. Cash received should then be recorded as of the date of actual receipt as a debit to cash and a credit to the account receivable.

1103.02 Student Accounts - For educational organizations, student charges are the primary source of revenue. Consequently, management of student receivables to generate maximum cash flow is a vital function. The accounting system should be structured to accommodate receivables from a large number of individuals, as well as to separate the related charges into categories, such as tuition, dormitory, cafeteria, supplies, and fees, etc. Refer to Chapter 20 for further discussion about school accounting.

1103.03 Customer Accounts - Frequently organizations allow customers to obtain goods or receive services immediately, and then collect money from them later. Some organizations, such as publishing houses or book centers, have many recurring transactions with the same customers. Other organizations, particularly those employing literature evangelists, may have credit sales which are collected over a number of months. In all of these situations, there should be a written credit policy to help ensure that credit is granted appropriately. Managing the extension of credit and collection of receivables is critical to continued existence of these types of organizations.

1103.04 Employee Accounts - Applying the principle that "form follows function," the nature of the accounting record for employee accounts receivable will vary according to the circumstances. Some organizations limit financial transactions with employees to monthly payroll settlement and the monthly expense report. In other cases employees have the privilege of securing cash advances against payroll and purchasing fuel, food products, and other items on credit. Naturally, the scope of the accounting will vary depending on these circumstances.

The general rule must be that when a transaction involving an employee is consummated, it must at that time be recorded as a charge to the employee in an account receivable. The practice of holding cash advances to employees unrecorded until the monthly payroll is prepared should not be permitted. This is not to say that transactions such as purchases of merchandise cannot be accumulated throughout the month in subsidiary records and entered in total at the close of the month, in coordination with the preparation of the monthly payroll. Such charges should be recorded as debits to the employee receivable accounts at the time, and not "short-circuited" simply as direct deductions through the payroll journal.

1103.05 Accounts with Elementary and Secondary Schools - Transactions with constituent elementary and secondary schools of a conference or mission are usually recorded in an allocated function in the conference or mission operating fund. (In some jurisdictions, the conference or mission educational operation must be handled through an entirely separate fund. If so, the account structure should be modified accordingly.) Some conferences or missions bill the schools for all or a specific portion of the total expense of the school-related payroll. Some add an amount for other expenses paid for the benefit of the school. In some cases, a flat agreed-upon amount per month is billed to the school. Credits are passed to the individual schools for regular operating appropriations and for special appropriations or subsidies. These various types of transactions are best recorded in a journal designed to meet the needs of the individual organization. The exact nature of every charge and credit to the individual school should be evident in this journal.

1103.06 Accounts with Other SDA Entities - In the denominational environment there are a large number of transactions between entities for remittances received and appropriations sent, especially at the division and union level. Each reporting entity should have a receivable account for each of the respective junior and senior entities with which it has routine transactions. Because of the volume of such transactions, it is imperative that the statements of account with the affiliated entities be reconciled routinely on a monthly basis. Undocumented or disputed transactions are much easier to resolve if they are discovered close to the date they first occurred rather than waiting until year-end. Refer to Appendix 5B for an illustrated checklist of how to perform such reconciliations.

1103.07 Billing and Monthly Statements - Every individual and entity carried in the current accounts receivable categories is entitled to a monthly statement of account. If entries to a particular account are numerous or if the accounts receivable in general are active, it is helpful to the organization and to the debtor to prepare an invoice for each charge. The monthly statement should either itemize the nature of the charges or be accompanied by copies of invoices which include such detail. The statements should be sent to the debtors promptly after the close of each month.

The balance on each statement should agree with the balance in the ledger. The statements should be compared with the ledger accounts and mailed to the debtors by an individual who is not involved in either maintenance of the accounting records or the receipting of incoming cash. For those accounts which are not paid routinely each month, the CFO should consider asking the debtors to confirm the correctness of the balance shown in their statements. This could be done at least once a year; the confirmation procedure, including all responses received to confirmation requests, should be under the direct control of the CFO or designee, who should be an individual not involved in either the accounting or cash receipting procedures.

1103.08 Subsidiary Ledgers - As mentioned in Chapter 4, the SunPlus accounting software developed by the GC contains an expanded structure that provides for a record of individual receivable accounts in the general ledger without having to use a separate subsidiary ledger. For entities that use other software, they will have to study the features of the software to determine whether it is best to use just the general ledger or to continue the traditional practice of using a subsidiary ledger for specific groups of accounts. If it uses a subsidiary ledger, the account number in the general ledger would represent a control over a particular category of receivables in the subsidiary ledger. The balance in the control account should always agree with the total of all balances in the subsidiary ledgers. No transaction should be recorded in one ledger without a corresponding entry in the other.

In large organizations, there may be some advantages to maintaining subsidiary ledgers. It is possible for one individual to operate a subsidiary ledger or ledgers, while another is responsible for the general ledger and the control accounts. Locating errors in a group of homogeneous accounts in a subsidiary ledger may be easier than locating the same error when it is "buried" in the general ledger. Separation of functions for purposes of satisfactory internal control is more easily accomplished with subsidiary ledgers separate from the general accounting routine. It is possible for the individual assigned to a subsidiary ledger or ledgers to become highly knowledgeable in that particular field, thus leading to greater efficiency.

1103.09 Losses from Uncollectible Accounts - Most entities have some risk of loss from uncollectible receivables, and should provide for it. There are two methods of recognizing losses on uncollectible accounts.

(1) The "allowance" method charges expense each period as it establishes an allowance for future losses based on a percentage of sales or charges in a given period. When an account is recognized as uncollectible, it

is charged against the allowance. Using this method requires a detailed analysis of the receivable accounts, together with an analysis of past history. An aged trial balance of the accounts receivable is an invaluable tool in this analysis.

(2) The “direct write-off” method charges expense when an account is recognized as uncollectible, in the period in which the loss is recognized. The journal entry recording the transaction should be supported by some form of documentation about the nature of the account and why it is being written off.

1103.10 The Allowance Method - This method is generally used when the principal activity in the accounts receivable arises from a significant volume of sales of goods or services:

For illustration, assume student charges of 1,000,000 in year 20X1, with estimated losses, based on past experience, of about 2% of total charges. In year 20X2, ten families declare bankruptcy, and their accounts, totaling 5,250 are deemed uncollectible.

Journal Entry, June 30, 20X1	Debit	Credit
Uncollectible Accounts Expense	20,000	
Allowance for Uncollectible Accounts		20,000
To record estimated loss on uncollectible accounts for 20X1, based on historical average of 2% of total charges.		

Journal Entry, June 30, 20X2	Debit	Credit
Allowance for Uncollectible Accounts	5,250	
Accounts Receivable, Former Students		5,250
To record uncollectible status of accounts of ten former students whose families declared bankruptcy during 20X2.		

1103.11 The Direct Write-Off Method - This method is generally more applicable to situations other than sales of goods or charges for services, where losses from uncollectible accounts are usually isolated cases rather than routine risks.

For illustration, assume certain charges totaling 1,390 against the Local Church School, which the school disputed because it did not authorize the charges, are deemed uncollectible and written off as a loss.

Journal Entry, June 30, 20X2	Debit	Credit
Uncollectible Accounts Expense	1,390	
Accounts Receivable, Church School		1,390
To record adjustment on Local Church School of disputed amount, as authorized by conference Executive Committee action X2-47, April 28, 20X2.		

1103.12 Authorization for Write-Offs - Every time an uncollectible account is written off, specific approval must be granted by the governing committee or its designated sub-committee. It is not permissible for write-offs to be authorized either by a member of the accounting department or unilaterally by the CFO or another officer.

Section 1104 - Loans Receivable

1104.01 Account Classifications - Generally, "loans receivable" is a broad category and "notes receivable" is a segment within it for particular kinds of loans. For all types of loans receivable, it is important to distinguish between (a) current and noncurrent, (b) secured and unsecured, and (c) category of debtor. The account structure provides for all of these distinctions, and no loan receivable should be established in the accounts until a responsible individual is satisfied that it is properly identified as to all three of these characteristics.

1104.02 Loans versus Notes - A formal promissory note as evidence of indebtedness is preferable to an open-account or unsecured advance. Without written evidence of the terms of the loan, there is a constant risk that with the passage of time and changes in personnel, misunderstandings may arise as to the terms. If loans have been authorized by the governing committees of both the lender and the borrower, it is reasonable to expect the transaction to be evidenced by a promissory note. Authorizations for these transactions should specify the amount involved, the arrangements for payment including specific due dates, the interest rate and provisions for payment of interest or its addition to principal, understandings as to renewal on maturity, conditions and contingencies, and a clear statement as to security or collateral offered and accepted, if any. Most division working policies contain procedures which must be followed for certain types of loans.

1104.03 Current and Noncurrent Portions - The account structure includes sub-groups for current loans, unsecured and secured. A loan which will be fully collected within the next year will be carried in these sub-groups. The **current** portion of long-term loans is also recorded in these sub-groups. These sub-groups correspond with other sub-groups for the long-term portion of loans, unsecured and secured. The usual procedure is to carry the total amount of the obligation in the long-term category during the year and to transfer that portion of the total which is due for collection during the next year to the proper current group account at the end of the year.

1104.04 Interest Income on Loans - Interest payment dates seldom correspond with year-end closing dates. This means that at the end of a year, interest earnings may have accumulated since the last interest payment date on both current and long-term receivables. Such accrued interest income should be recognized as revenue in the period in which it is earned, and the amount should be recorded as a receivable. The receivable will be recorded in the appropriate fund as a debit to accrued interest receivable. The balancing credit will be recorded as interest income or as miscellaneous revenue. To simplify the later recording of the receipt of the interest payment, this entry may be reversed on the first day of the new year. Actual payments of interest may then be credited directly to the interest revenue account.

1104.05 Uncollectible Principle and Interest - It is generally recognized that accrual of interest on uncollectible receivables, and the recognition of such interest as current revenue, is not acceptable. While the decision about collectibility is frequently difficult, it is important to take an objective view of this evaluation, and to report the condition accordingly. The usual practice, when an interest-bearing receivable is deemed uncollectible, or when payments of principal and/or interest have ceased, is to (1) stop accruing interest as of the date of the decision; (2) reverse entries for interest accrual for the current year; and (3) as to interest accrued and unpaid from previous years, either (a) write them off against a previously-established allowance for uncollectible, or (b) set up such an allowance in the full amount of the accrued interest receivable. At the same time, the allowance for uncollectible should be analyzed, to ensure it is adequate to cover the principal balance of the account currently in question.

1104.06 Disclosure of Terms - To prepare the financial statements, it is not sufficient simply to compile a schedule showing names of debtors and amounts due. Additional details as to type of borrower, terms of payment, interest rates, and security, if any, are required to be disclosed for these assets. Disclosure is also required of amounts due from officers, employees, and affiliated entities apart from other debtors. The amount of allowance for uncollectible accounts should also be disclosed. If this information cannot be easily displayed in the statement of financial position, it should be included in the notes to the financial statements.

1104.07 Disclosure of Loans in Default - Adequate disclosure must be made in the financial statements of loans and notes or accrued interest thereon which are significantly past due. It is not correct to show as a current asset the portion of a long-term indebtedness which may be due within the next year (or may have come due in the past year) unless the amount can reasonably and objectively be expected to be collected during the coming year. The same applies to accrued interest receivable. It is misleading to report as "current" assets accrued interest on loans and notes which represents an accumulation of unpaid interest over a long period of time. Not only should both the principal and interest be classified as noncurrent, there should also be specific disclosure as to which items are in default, the principal balance, and the amount of any related allowance.

Section 1105 - Inter-Fund Transactions

1105.01 Current Transactions - Most denominational entities that use fund accounting will have numerous transactions between funds in the ordinary course of business. Two principles must be employed.

(1) Any inter-fund transaction recorded in a given fund, whether “due from” or “due to,” should be supported by a corresponding entry in the other fund. For example, there is something wrong if the accounting system reports in an operating fund a “Due from Plant Fund, 2,380" while the plant fund shows a “Due to Operating Fund, 1,591.” In a computerized accounting system, controls should be built into the program to ensure that corresponding entries are made for every transaction that affects more than one fund.

(2) Entries in inter-fund receivable and payable accounts should be strictly on a current basis and should not involve formal borrowing between funds. This means that either the normal debit and credit entries in the two funds will approximately balance out to zero from one period to another, or there will be a cash settlement at least at the end of each month. Also, in the combined financial statements for the organization as a whole, inter-fund receivables and payables should be eliminated or netted to zero. To help ensure that these accounts net to zero, they should be reconciled each month. Appropriate entries should be recorded to clear all outstanding items on a timely basis.

1105.02 Inter-Fund Borrowing - There are occasions when the governing committee feels a need for and authorizes a loan from one fund to another on a long-term basis. In making such a decision, the committee should be aware of any legal restrictions against loaning the resources of a particular fund. Such transfers of funds should not be recorded in the same accounts with the ordinary due to/from accounts, but should be separately identified and recorded in distinct accounts. This formal borrowing between funds should be subject to the same requirements for repayment terms and documentation as loans from conventional lenders. If it becomes apparent that the borrowing fund will not likely repay the amount, it should be removed from the loan to/from accounts, and recorded as a transfer, reducing net assets in the “lending” fund and increasing net assets in the “borrowing” fund.

Section 1201 - Inventories

Section 1202 - Custody and Recording of Inventories

Section 1203 - Year-End Inventory Count

Section 1204 - Prepaid Expenses

Section 1201 - Inventories

1201.01 Definitions - To promote uniform application of GAAP, and to avoid burdensome accounting, this Manual reinforces the following distinctions. **Inventory** is defined as goods and materials that have been purchased, developed, or manufactured for the express purpose of being sold or otherwise transferred to other entities and individuals. **Prepaid expense** is defined as products or services that have been purchased, developed, or manufactured specifically for consumption or benefit in the organization's own operations over a period extending beyond the current statement of financial position date.

Inventory may appear to be a significant asset to only such entities as book centers, literature evangelism organizations, and publishing houses. However, some conferences and other organizations also may have assets that meet the definition of inventory. For further guidance about textbooks and library books at schools, see Section 2002.11. For further guidance about biological assets (plants and animals), see Section 2304.

1201.02 Materiality - The following guidance should be applied only if inventories are material or significant to the organization. If the inventory of a given category of materials is low in value and if it tends to remain relatively unchanged from year to year, it may be permissible to omit recognition of the inventory as an asset. Such items would be charged to expense as they are acquired. On the other hand, if the value is significant in relation to other operating assets of the organization, or if there are significant fluctuations in quantity or value from year to year, the organization should recognize the amount that remains on hand at year-end as inventory. The organization would record as cost of goods sold or as expense only the portion actually sold or consumed each period.

1201.03 Timing of Inventory Adjustments - For those items of inventory that are material and need to be recognized, a uniform procedure should be used to account for their purchase and resale. The best procedure is to charge all purchases in those inventory categories to an asset account and to record monthly reductions in the inventory as credits to the inventory account and charges to an appropriate cost of goods sold or expense account. If the monthly decreases are small or if the total inventory in a particular category is small at any given time, it may be permissible to charge purchases to expense as they are made and to record only an annual adjustment to credit the expense account and debit the asset account with the inventory value on hand at the close of the year. The procedure is not required to be the same for all categories of inventory. Large or very active accounts should be adjusted on a monthly basis.

1201.04 Purchasing Procedures - Management should establish procedures for the purchase of materials. Purchase order forms should be used, and authority to execute purchase orders for various types of inventory should be explained in writing. If the amounts are significant, it may be advisable to prescribe procedures for securing bids for sizeable purchases and to establish a review committee to oversee the bid-and-purchase process. Purchase orders should be prepared at least in triplicate, with the original going to the vendor, a copy to be retained by the employee who originates the order, and a third copy to go to the CFO for review and then to a designated person in the accounting department who will later process the vendor invoice. Purchase orders should clearly indicate quantities and description of materials ordered, unit prices, terms of payment, and discounts.

1201.05 Payment of Invoices - Vendor invoices will ordinarily be routed to a designated person in the accounting department for review. This review should include matching the invoice with the related purchase order to determine that all aspects of the transaction as billed agree with the authorization in the purchase order. The individual or department originating the order should certify that the material has been received and accepted, either by forwarding a receiving document to the accounting department or by indication on the invoice itself. After these steps have been completed, the invoice should be transmitted to the CFO or a delegated assistant for final approval prior to payment. When the invoice is paid, all the supporting documents (vendor invoice, purchase order copy, and receiving document if any) should be attached to the check voucher and be clearly marked “paid.”

1201.06 Inventory Custody in General - One objective of internal control is to safeguard the assets. Sometimes all the supplies of an organization are kept together in one room or warehouse, and any individuals who require access to any particular item are by default permitted access to all inventories. Each inventory category should be under the specific custody of a designated individual who is held responsible for materials drawn from that category. Multiple access simply means that no one person can be held responsible for custody of the asset.

For example, if the Sabbath School department maintains an inventory of Child Evangelism supplies, only the personnel of that department should have custody of those supplies, and no others should be permitted to withdraw them without their knowledge and approval. As another example, if an academy has a book and supply store for student use, it should not be so accessible that individuals can pass through unattended.

1201.07 Record of Withdrawals - An accurate record should be kept of withdrawals from each inventory category. Depending on the activity in a particular area, this may be done by having the individual requiring the material fill out a requisition for the items needed and sign it when the items are received. Then all requisitions for the month are priced and totaled as documentation for the month-end entry to transfer the value from the inventory account to the expense account. In some cases, rather than using individual requisitions, a log may be kept listing all withdrawals, with each item identified as to date withdrawn, description, value, and initials of the person receiving the material. Activity in the various inventory categories varies so widely that a system should be devised which is complete and adequate without being unduly burdensome.

1201.08 Physical Inventory Concept - The CFO should arrange with each inventory custodian to take a physical count of the inventory on hand at the end of the fiscal year. It is best if someone other than the custodian, such as someone from the accounting department, counts the inventory. Inventory counting instructions should be in writing, and the individuals who will be doing the counting should receive appropriate orientation or training.

The inventory listing should be in writing and should include a description of each item, including shelf location, quantity on hand, unit price, and extension. If the quantity of inventory is extensive, the inventory count sheets should be pre-numbered, and all sheets should be accounted for at the conclusion of counting. As the count of each section or group of inventory is completed, some form of tags or labels should be affixed to the shelves or display structures to ensure that all items are counted once, and no items are counted more than once.

The cost per unit and the multiplication of that amount by the number of units on hand should be verified in the accounting department. The total inventory value as determined from the physical count then becomes the asset value in the year-end statement of financial position. Any discrepancy between the computed inventory cost and the balance in the general ledger should be adjusted by an appropriate entry to the related cost of goods sold or expense account.

1201.09 Excessive or Obsolete Stock - Any material which is, for any reason, unusable or of no value should be removed from the inventory account. For example, goods purchased for sale in a particular program or event should be written off if they are still on hand when the program stops. Material which has deteriorated to the point where it cannot be used, and any items of inventory that likely will not be used before they become obsolete, should be written down to their net realizable market value.

Section 1202 - Custody and Recording of Inventories

1202.01 Physical Layout of Salesroom - For retail sales entities, serious consideration should be given to the physical layout and arrangement of the retail sales room. The number of entrances to the sales room available to the public (and this includes anyone who is not an employee of the store) should be limited as far as possible, consistent with the desire to make the salesroom readily available to prospective customers. Wherever possible, the salesroom should be limited to two entrances. Further, the store manager can often arrange the displays in the salesroom so that even though there may be two or three entrances and exits, all customers are required to go past a checkout counter, where the cash register is located, and where one salesperson is constantly on duty.

1202.02 Checkout Counter - In larger entities, the following procedures can help strengthen internal control, and minimize the risk of merchandise being stolen. One person can be assigned to the cash register while others are assigned to assist customers. Sales staff on the floor are available to assist customers, but need not ring up the sales. Thus it is not necessary for every salesperson to have a cash or change fund in their custody.

1202.03 Sole Custody of Merchandise - The typical store has, or should have, an individual who is assigned the responsibility of custody of all resale materials in the stockroom. (This is a location where bulk goods are stored until quantities are needed to replenish display sections in the sales area.) Often this person combines the duties of receiving, shipping, and custody, and it is only reasonable that, similar to custodians of cash, this person alone be afforded access to the assets entrusted to him/her.

1202.04 Limited Access to Stockroom - If the stock clerk is charged with responsibility for the bulk inventory carried in the stockroom, it is not unreasonable to limit access to the stock room to store employees. No individual, by virtue of their position, has automatic unrestricted access to the stockroom. Conference or Mission employees should not be permitted into the stockroom unless they have business with the stock clerk. It should be evident that proper safeguards must be instituted to preclude customers from entering the stockroom. It might be well to have the door between salesroom and stockroom locked, and equipped with an electrical lock release to be operated by the stock clerk. This at least permits the stock clerk to know who is entering the stockroom and for what purpose.

1202.05 Replenishing Salesroom Stock - Ideally, the salesroom should be replenished according to a written list from designated salesroom personnel, which is handed to the stock clerk and filled. Internal controls must be blended with practicality, however; the business must operate, and sometimes there are so few personnel that a complete division of function is not practical. Wherever possible, salesroom personnel should not share the responsibility for replenishing salesroom stock. In times of peak loads of shipping work, it may be necessary that everyone help to get mail orders out. These other individuals should recognize they are temporarily working under the direction of the stock clerk, and that the clerk is still solely responsible for the stockroom and its contents.

1202.06 Authorization for Purchases - The authority to purchase goods and services is both a privilege and a responsibility. The individual who has this authority not only makes decisions as to what types of merchandise are needed, and in what quantities, but also commits the organization to the payment of money. As mentioned in Chapter 3, job descriptions should specify who is authorized to originate purchase orders, and for what types of goods and services. These details should be written out, and should be understood by the individuals involved. As indicated in Section 1201.04, it is preferable that formal purchase orders be issued for all goods ordered from outside vendors, including orders made by telephone or e-mail, in which case a confirming purchase order should be issued.

1202.07 Receiving Function - A copy of the purchase order should be forwarded to the receiving clerk as soon as the original is released. In most stores, this receiving function is combined with the duties of the shipping clerk. These two areas of responsibility should be kept conceptually separate, even though they are served by one person. All purchase order copies received by the receiving clerk from the individual originating them should be kept in an open file until the material is received. The receiving clerk should actually count to confirm the quantity of merchandise received, and not simply accept the quantity indicated on the vendor's packing list. Then the purchase order is compared with the packing list and the actual quantities received; if they agree, the order and the packing list are stapled together, the receiving clerk marks the packing list "Received" with the date, and signs the form. It is then forwarded to the accounting department, to the one who has already received a copy of the purchase order.

1202.08 Non-routine Deliveries - There are necessarily some exceptions. Occasionally office supplies and other small items may be picked up personally by someone other than the receiving clerk. In such cases, a copy will be held by the individual handling the pickup until the material arrives at the store, at which time this individual will sign the copy of the purchase order, or the packing list, and give it to the accounting department.

1202.09 Categories of Purchases - Section 2102.01 discusses breaking down sales at book stores into separate categories such as SDA materials, periodicals, other publisher materials, and foods. In order for such a sales breakdown to be significant, it is necessary that purchases and all related costs be similarly categorized. The account structure has the flexibility to do this. The identification of accounts to be charged for purchases may be handled either by the person originating the purchase order, or by the accountant who matches the documents prior to entry. In either case, the individual charged with this responsibility should be adequately instructed as to what account numbers are available and the significance of each number. It is essential that the revenues and the costs related to those revenues be consistently identified.

1202.10 Shipping Costs on Purchases - Part of the process of acquiring merchandise is the transportation from the vendor's point of shipment to the store. The cost of merchandise includes *all costs* required to put it in place and in condition for sale. Obviously, the merchandise is not available for sale by the store until it is delivered to the store premises; therefore the cost of freight or other transportation is a part of the merchandise cost. Freight on incoming merchandise, then, should be accumulated in accounts related to the categories of merchandise, in the cost of goods sold section of the accounts.

1202.11 Manager's Approval - All purchase invoices, before being entered in the records, should be reviewed and approved by the manager or a designated representative. Some organizations delay this step until the due date for payment; then the checks are made out, and checks plus invoices are placed on the manager's desk for review and signature. Such a delay does not represent good internal control.

Most bills are paid at one time, usually around the first to the tenth of the month. This means the manager is confronted with a sizeable number of checks and an even larger number of invoices to be reviewed. With such a quantity of paperwork all at one time, it is the natural tendency to examine the documentation rather lightly, instead of carefully, as the importance of the operation warrants. Channeling these invoices to the manager without delay, throughout the month, gives the manager more of an opportunity to examine the invoices carefully.

The manager's approval on the invoices is an authorization to record the invoices as liabilities, which commits the organization to the payment of money at a future time. This being the case, the authorization should be given before the invoices are entered as liabilities, not at some time subsequent to entry.

1202.12 Perpetual Inventory Records - Some organizations with large quantities of frequently changing inventory use computerized systems to monitor those assets and update the inventory records as frequently as purchases, sales, increases, or decreases occur. Such a system is called a perpetual inventory system. It is easy for users of perpetual inventory systems to think that they do not need to take physical counts of the inventory at any particular end-of-period date, because the inventory value is “continually” kept up-to-date. However, a physical count of the inventory is a valuable tool for testing the accuracy of the perpetual inventory system, and should be taken at least at the end of each fiscal year.

Section 1203 - Year-End Inventory Count

1203.01 Planning for Inventory Count - A physical inventory of all stock on hand is necessary at the close of the fiscal year. Although the inventory counting process is time-consuming, it can be made easier if proper plans are made in advance. Generally, all employees are called on to help with the task; this means that some of the individuals involved may not be well acquainted with the items in stock, and will require instruction if they are to do their part in an acceptable manner. It is wise to put inventory instructions in writing in advance of the inventory date, to survey the premises to identify specific areas to be covered by each inventory team, to review the written instructions with the team before the count begins, and to answer any questions they may have.

1203.02 Survey of Premises - It is essential that **all** goods be included. After the count is thought to be complete and the records are adjusted, a discovery that goods stored in an out-of-the way place, or items which may not have been readily visible, were not counted would require additional unplanned work. The manager and/or stock clerk should survey the entire premises before the inventory date, including storage areas in outlying warehouses or other locations not immediately connected with the stockroom or salesroom, to pinpoint areas that might otherwise be overlooked. A fresh look at the entire inventory may discover some items that may have been forgotten.

1203.03 Arranging Stock by Categories - For convenience in later analysis of the total inventory, it is most helpful if the stockroom can be arranged so that various categories of merchandise are arranged in separate sections, such as SDA books, other-publisher books, multi-media products, food products, and whatever other categories have been indicated for sales categories. If inventory count sheets are used, as much as possible, no sheet should contain items of more than one category.

1203.04 Closing for Inventory - The manager should consider closing the store for normal business while the inventory is counted to minimize any distracting duties and movement of inventory. It is nearly impossible to achieve a proper cutoff on the physical inventory in relation to sales, shipments, and receipts of goods if the store is open for business. If sufficient advance notice of the closing for inventory is publicized, the inconvenience to customers should be minimized.

1203.05 Cutoff of Receipts and Shipments - One of the advantages of closing the salesroom on inventory day is to simplify the cutoff of sales and receipts of goods and to coordinate these inflows and outflows with the inventory count itself. Obviously, incorrect amounts of inventory, sales, and/or cost of goods sold will result if, for example, billing to a customer has been entered as a sale while the goods are still on the premises and are included in inventory. The same thing applies to incoming merchandise. If it is included in inventory, it must have already been recorded as a purchase and a liability. Individuals who are responsible for receiving, shipping, and salesroom activity should be informed about this. If goods have been set aside for a customer, it is imperative that they either be recorded as sales and excluded from inventory, or be included in inventory and not yet recorded as a sale.

1203.06 Goods in Transit - Should inventory include goods in transit from the supplier on the day inventory is being counted? If the billing point of the purchase is the seller's (that is, if the store pays the freight or other delivery charge, whether it is paid separately to the common carrier, or added to the vendor's invoice as a separate item), the goods belong to the buyer when the vendor makes shipment. This means that, even though the goods are not physically present on the store premises on inventory day, the transaction must be recorded as a liability, and the invoice cost of the goods must be included in inventory. If, on the other hand, the price of goods includes transportation to the store address (the billing point is the store, not the vendor's location) the transaction is not complete and the buyer does not own the goods until they are delivered to the store by the common carrier.

1203.07 Pricing the Inventory - At the completion of the counting and tabulation of goods on hand, the inventory cards or count sheets will be assembled in preparation for pricing the inventory. All cards or count sheets should have been pre-numbered, and all numbers will now be accounted for, to ensure that nothing has been omitted. In pricing the inventory, items are commonly arranged as to the discount allowed from list price by the supplier; individual items are then extended at full list price, and the appropriate discount is taken on the whole category. This saves a great deal of effort and the possibility of errors in computing extensions on individual items. Also, as mentioned in Section 1201.09, provision must also be made for reducing the inventory value of those items which are obsolete or overstocked, and which will probably have to be sold at a reduction from the regular price.

There is a caution when applying one discount rate to the entire quantity of an item. While the discount on a particular product may regularly be a certain percentage, it is possible that a special deal offered by the publishing house resulted either in certain titles in that category being sold to the store at a higher discount, or in the list price itself being changed. A common example is the granting of an additional discount at camp meeting or holiday time. It is not correct to list an item in the regular discount group if the item was purchased at one of these additional discount arrangements. Neither is it correct to list the entire inventory of a given title at one single list price when a portion of the merchandise may have been purchased at one list price and the remainder at another price. The pricing of the inventory must reflect an amount no higher than that which was actually paid for the specific goods, not what would normally be paid, or what might have been paid if conditions had been different.

1203.08 Contracted Counting Services - To save time and expense, a number of stores use commercial inventory counting services to perform the physical count of the retail sales areas, and sometimes portions of the stockrooms as well. Using such a service does not remove the responsibility from the store manager to oversee all inventory counting procedures, to ensure that the count is properly performed. The areas to be counted by store staff and counting service personnel, respectively, should be defined in writing and communicated to all involved, so that there will be no confusion during the process.

1203.09 Completed Inventory Total - When all inventory items have been priced and extended, the inventory sheets should be individually footed and adequate summaries prepared, to arrive at the value of the entire inventory. Again it must be emphasized that, whatever categories have been set up in the accounting system for sales and purchases, the same categories must be used for the inventory, so that the cost of goods sold will be matched with corresponding sales.

1203.10 Auditor's Observation of Count - One of the responsibilities of the organization's auditor is to personally observe the inventory process. The store personnel should understand that the auditor does not expect to take any active part in the inventory counting, nor is the auditor acting as a police officer to detect inefficiency or carelessness. It would be well for the store manager to review with the auditor the written inventory instructions referred to earlier; the auditor will then devote attention to observing the way in which these instructions are carried out, and the adequacy of the safeguards against either duplication or omission of counts. Subsequently, the auditor will spot-check some of the counts against the inventory cards or count sheets, and will also check, on a sampling basis, the pricing, extensions, and footings.

Section 1204 - Prepaid Expenses

1204.01 Types of Prepaid Expense - As indicated in Section 1201.01, prepaid expense includes products or services that have been purchased, developed, or manufactured specifically for consumption or benefit in the organization's own operations over a period extending beyond the current statement of financial position date. Prepaid products include such things as copier and printer paper, pre-printed stationery and forms, and items that will be given, rather than sold, to affiliated entities. Prepaid services include such things as insurance premiums paid in advance, and equipment maintenance contracts paid in advance, for periods that extend beyond the statement of financial position date.

1204.02 Accounting for Prepaid Expense - The cost of products consumed during the reporting period should be charged to current expense, and the cost of products acquired but not yet consumed should be counted, valued, and reported as prepaid expense at the statement of financial position date. The portion of payments for services rendered within the reporting period should be charged to current expense, and the portion of payments for services that will be rendered in future periods should be reported as prepaid expense at the statement of financial position date.

The accounting is generally applied in two stages. First, as products are acquired, they are either charged to current expense or added to prepaid expense. Similarly, as payments are made for insurance premiums and other services, they are either charged to current expense or added to prepaid expense. Second, at the end of each accounting period, the products on hand are counted and valued, and the prepaid expense account is adjusted to match that amount. Similarly, the insurance and similar accounts are analyzed, the portion of the payments that are for the benefit of future periods is calculated, and the prepaid expense account is adjusted to match that amount. These adjustments would either increase prepaid expense and decrease current expense, or decrease prepaid expense and increase current expense.

Section 1301 - Introduction

Section 1302 - Nature of Land, Buildings, and Equipment

Section 1303 - Depreciation Principles and Policies

Section 1304 - Other Plant Asset Accounting Principles

Section 1305 - Disposition of Capital Assets

Section 1306 - Fund Accounting for a Plant Fund

Section 1301 - Introduction

1301.01 Framework - Accounting principles require each reporting entity to include in its financial statements all assets that it owns or has control over. That, of course, includes long-lived assets, which this Manual places in a group under the term “land, buildings, and equipment” (see Section 205.04). All such assets should be recorded in specific groups of accounts, apart from current assets or other operating assets. All assets and liabilities related to land, buildings, and equipment should correspond to specific non-operating net asset accounts. This will be true whether the organization uses fund accounting or not.

For land and buildings (also referred to as real property), determining who the “owner” is, who “controls” the assets, and which entity should include those assets in its financial statements can be determined by research and legal counsel. Appendix 13A contains further discussion about legal considerations. However, once it is determined which assets should be included in the reporting entity’s financial statements, the guidance in the following sections will apply to all those assets.

1301.02 Types of Accounts - The accounting records should include separate distinct groups of accounts to record the following: (1) the historical cost of land, land improvements, buildings, and equipment and furnishings that are used in the normal operations of the entity, including property acquired to generate rental income, (2) the respective accumulated depreciation on those assets, and (3) the long-term debt or liabilities, if any, that are related to those assets. Where applicable, the accounting records should also include a separate group of accounts for investment assets that either have been received with donor restrictions or have been allocated by governing committee action, for future use to acquire long-lived assets or liquidate debt related to such assets. Any long-lived assets that are held only for investment (appreciation in value or unspecified future use), or are available for sale, should be recorded in a group with other noncurrent non-operating assets.

1301.03 Fund Accounting - Conferences/Missions/Fields and other organizations that have complex groupings of long-lived assets, and corresponding investments, if any, will use fund accounting to record and report on these asset balances and related financial activity. Section 1306 contains further guidance on this topic.

Section 1302 - Nature of Land, Buildings, and Equipment

1302.01 Land - Land is considered a non-depreciable asset. Its usability does not diminish with the passage of time, and it remains on the records at its historical cost. The cost of land includes the cash paid or an objectively-determined fair value at date of acquisition, plus other incidental costs of acquisition, such as fees and taxes. Cost includes all direct costs involved in securing title to the property. In those cases where a “package” price is paid for land and buildings, any fair and reasonable method may be used to divide the total cost between the non-depreciable land and the depreciable building and improvements. The cost portions thus determined should be recorded in the respective asset accounts for Land, Land Improvements, and Buildings.

1302.02 Land Improvements - While land itself is not a depreciable asset, the physical improvements attached to the land are depreciable. This applies to such things as roadways, parking lots, sidewalks, curbs and gutters, exterior lighting, irrigation systems, and permanent landscaping. Such items by their nature deteriorate over time, so it is necessary to record them separately, to maintain a record of the individual items involved, and to depreciate them at an appropriate rate.

1302.03 Buildings - Each identifiable building or structure should be assigned a separate value, a separate estimated useful life and depreciation rate, and if there is no subsidiary ledger for buildings, an individual general ledger account. The total cost of a structure includes all additions and modifications necessary to bring the structure to a condition in which it can perform its expected function. After a building's total cost is determined, that amount is then reduced by an estimate of the eventual salvage value of the structure (net of the cost of removal), if any, to arrive at the depreciation base. Then the estimated useful life of the building and its depreciation rate are determined.

For example, a building's cost would include repairs or improvements necessary at the time of its acquisition to put it into usable condition. Interest paid or accrued on construction loans during the period of construction becomes a part of the building cost, while interest paid or accrued on loans after the building is occupied and in use is an operating expense reported in the statement of financial activity.

As another example, a building might be completed in stages. A building shell might be completed, but only some of the rooms made ready to use, while space for other rooms might be left unfinished for a future period. A building might be completed with a certain number of floors, with provision for adding more floors at a later date. For such projects, the portion of the building that is completed and approved for occupancy should be capitalized and begin depreciation at the date it is placed in service. Then in future periods, when additional rooms, floors, or attached structural elements are completed, those components would be capitalized and depreciated. The later building improvements would be identified as separate components of the building structure, and would be depreciated over the remaining useful life of the original underlying building structure.

1302.04 Equipment and Furnishings - In general, the same rules which apply to land improvements and buildings also apply to equipment and furnishings. Individual records should be maintained for each item of equipment and furnishings, including motor vehicles and equipment acquired under capital leases. The cost of equipment includes amounts for installation and testing prior to beginning actual use. For example, it may be necessary to build a concrete base upon which to mount a piece of equipment, or to install special high-voltage wiring to run the equipment. (Such preparation is rarely necessary for ordinary office equipment, but it can be typical of equipment for publishing houses or other institutions.) Such installation costs and the cost of testing and adjusting the equipment prior to its first use in operation should not be charged to expense, but should be added to equipment cost.

1302.05 Leased Equipment - If the organization is leasing equipment, it must determine whether the lease is a capital lease or an operating lease. Equipment acquired under a capital lease must be accounted for like an installment purchase, while payments on an operating lease are charged to expense as they are incurred.

Any lease that meets any one of the following criteria is a capital lease:
(1) Title transfers automatically at the end of the lease term,
(2) there is a bargain purchase option,
(3) the lease term is 75% or more of the equipment's useful life, or
(4) the net present value of all lease payments is 90% or more of the current market value of the equipment.

1302.06 Leasehold Improvements - Occasionally an organization will find it more practical or less expensive to lease a building or a part of a building on a contract extending over a period of years, rather than to purchase or construct a building. Such premises usually are not configured as the entity needs, so it is common to make improvements or alterations to adapt the property to its needs. Usually, lease agreements provide that any such improvements will transfer to the owner of the property at the termination of the lease period.

Expenditures of this kind, called leasehold improvements, represent the purchase of a long-lived asset, and should be depreciated like other buildings and improvements. If the cost is minor or insignificant, there is an exception that allows it to be charged to expense when incurred. However, if the amount involved is significant, and an immediate write-off would distort the operating results of the year in which the expenditure is made, the depreciation process should be followed. There is no “salvage” value, because when the lease expires, the lessee has no further property rights in the improvements. Therefore, the total amount of the investment would be subject to depreciation.

Two time elements must be kept in mind in computing the deprecation: the period of the lease, and the expected actual life of the improvements. The asset value must be depreciated over the shorter of these two time periods. For example, if a building is leased for ten years, and improvements are added which have a normal life of twenty years, the improvements will be depreciated over ten years - the term of the lease. Conversely, if the lease runs twenty years, and the improvements are expected to last for only ten years, the improvements should be depreciated over the period of their expected life, ten years, not over the twenty-year lease term.

1302.07 **Donated Assets** - Any land, buildings, or equipment donated to the organization are recorded in appropriate accounts at their fair market value at the date of acquisition, and are depreciated in the same manner as assets acquired by purchase. This includes the fair value of labor donated to construct plant assets. The entry for donated assets is to debit the appropriate asset account and credit a non-cash contribution revenue account. This account will appear in the capital activity or non-operating activity section of the statement of financial activity. The revenue account used will be identified as either restricted or unrestricted, depending on whether or not the donor specified any restriction on the purpose or use of the donated asset.

1302.08 **Minimum Cost Policy** - Administrators frequently wonder how small an equipment purchase should be in order to avoid the effort involved to capitalize and depreciate it. Each organization should have a written policy indicating the minimum cost and the minimum expected life of an item to qualify it for capitalization in the equipment asset account. For example, such a policy could stipulate a minimum life of three years and a minimum cost of 500. Any item with a shorter life or a lower cost would be charged to expense when acquired.

1302.09 **Authorization For Acquisitions** - GCWP requires each Division to establish policies for the approval of acquisitions of land and buildings, with appropriate thresholds for local, union, and division approval. Administrators should apply these policies when acquiring any major asset. Also, the reporting entity's governing committee should approve such acquisitions, using one or more of the following processes:

(a) Funds may be set aside for the acquisition and/or replacement of long-lived assets **in general**. This allows funds to be available if and when the need arises for any type of asset. This is often provided in the annual operating budget which is approved by the governing committee. Where this procedure is followed, the committee should also authorize specific purchases out of this fund, since the initial approval was merely to set funds aside for capital purchases in total.

(b) Funds may be set aside for the acquisition and/or replacement of **specific** long-lived assets. In such a case the governing committee is approving the setting aside of funds, and at the same time is authorizing the acquisition and/or replacement of the specific long-lived assets.

(c) The governing committee can authorize the CFO to approve the purchase of any equipment asset costing up to a certain amount without reference to the committee. This is a pragmatic approach to ensure that operations are not hindered while waiting for committee authorization, and not to burden committees with relatively insignificant business. For example, if the minimum capitalization amount is 500, the CFO may be authorized to approve purchases of up to 1,500 or 2,000.

Section 1303 - Depreciation Principles and Policies

1303.01 **Nature of Depreciation** - Accounting principles require expenses and costs to be matched with revenues of each accounting period. Because land improvements, buildings, and equipment benefit a number of periods, accounting principles require the respective cost to be recognized by using depreciation. Depreciation methods calculate a pro-rata share of the cost of each asset, based on the estimated useful life of the asset, and apply such pro-rata costs to each accounting period in a systematic manner. Generally, the denomination prefers to use the straight-line depreciation method, but other methods may be applicable in unique situations.

1303.02 **Distribution of Expense** - Whether an organization uses fund accounting or not, if it is required to report activity by department or function, then depreciation expense should be distributed among the departments or functions that use the underlying assets. For equipment and furnishings, this distribution is typically calculated in the subsidiary ledger by arranging the assets according to department or function. For land improvements and buildings, the distribution is typically calculated from the general ledger accounts using supporting schedules that distribute buildings or floor space according to the departments that use them. When depreciation is posted to the control accounts, the appropriate portions are recorded in expense accounts for each affected department or function.

1303.03 **Accumulated Depreciation** - Each depreciable asset control account (land improvements, buildings, equipment and furnishings, etc.) will have a valuation account related to it for accumulated depreciation. These valuation accounts will contain the accumulated depreciation expense that has been taken to date on the assets in each respective category.

1303.04 **Expense vs. Funding** - It is important to distinguish between two terms that can be confused.

(1) Depreciation **Expense** is the systematic recognition in each accounting period of a pro-rata share of the cost of land improvements, buildings, and equipment over their useful lives. As an expense, this results in a decrease to the net assets of the whole entity. Recognition of depreciation expense is required for all entities.

(2) Depreciation **Funding** is a denominational policy that encourages organizations to set aside cash and/or investments to be used in future periods for acquisition or replacement of plant assets. This Manual requires all entities to establish an allocated net asset account equal to the resources, if any, that have been set aside for depreciation funding. As an allocation or transfer, this results in only a reclassification, not a decrease, to the net assets of the organization as a whole. The purpose of setting cash aside is to have resources available when necessary to acquire plant assets. The purpose of using an allocated net asset account is to help the entity monitor the use of the resources and minimize the risk that they may be used for unintended purposes.

Generally, the goal is to allocate or “fund” an amount equal to the annual depreciation expense. In practice, the amounts vary, depending on budgetary decisions of each organization's governing committee. These allocations of resources represent reclassifications from unrestricted unallocated or allocated operating net assets into unrestricted allocated plant net assets. As explained in Chapter 6 and illustrated in Appendices 13C and 13D, for entities that use fund accounting, these allocations also involve transfers from one or more funds into the plant fund. They may also involve payment of "rent" from conferences to conference corporations, which then transfer funding to plant funds. All movements of resources for depreciation "funding" should be recorded as transfers between funds, and never as revenue and expense.

1303.05 Depreciation Rates - The recording of depreciation on long lived assets is described as the "systematic, rational allocation" of the cost of the asset over its estimated useful life. The following rates on building, furnishings, and equipment are published primarily as guidelines; in unique circumstances rates somewhat different may be appropriate. These guidelines provide a range of possible life rates. Organizations should analyze the characteristics of each asset, and select an appropriate rate.

Buildings	Life	Rate
Well-constructed brick, stone, or reinforced cement buildings	75 yrs	1 1/3%
Brick veneer or thin-wall cement	50 yrs	2%
Frame stucco buildings on good foundation	40 yrs	2 1/2%
All other buildings	20 - 30 yrs	3 - 5%
Furnishings and Equipment		
Durable office furnishings	10 - 20 yrs	5 - 10%
Light office furnishings	10 - 15 yrs	7 - 10%
Durable heavy institutional furnishings	15 - 20 yrs	5 - 7%
Light school and institutional furnishings	8 - 12 yrs	8 - 12%
Carpets, whole-room rugs, etc.	5 - 10 yrs	10 - 20%
Office Equipment	5 - 10 yrs	10 - 20%
Dormitory Furnishings	5 - 10 yrs	10 - 20%
Engines & Boilers	5 - 20 yrs	5 - 20%
Desktop & Laptop/Notebook Computer Systems	3 - 5 yrs	20 - 33%
Large Central Computer Systems & File Servers	5 - 7 yrs	14 - 20%
Audio-Visual Equipment	3 - 5 yrs	20 - 33%

1303.06 Fractional Years - Each entity should have a policy about how much depreciation to take in the year an asset is acquired. For example, if an asset is purchased on November 1, is depreciation recorded for half a year, for two months, or not at all in the year of acquisition? Accounting standards allow depreciation for either a portion of a year or not at all in the year of acquisition, as long as the practice chosen is applied consistently to all assets in a similar class or category. Many organizations charge depreciation from the beginning of the month of acquisition. Others charge a full year for all assets acquired during the first half, and nothing for assets purchased during the second half of the year. The same question arises upon the disposition of assets. Is depreciation recorded up to the exact date of disposition, or up to the first of that month, or not at all in the year in which the asset is disposed of? As long as the practice chosen is applied uniformly, either method is allowed.

1303.07 Annual and Monthly Depreciation - The discussion so far has focused on the amount of depreciation for a fiscal year. In actual practice, depreciation should be recorded each month for all depreciable assets. However, the amounts recorded for the first eleven months can be an estimate.

At the beginning of the year, the estimated amount is determined for the whole year, and then one-twelfth of that is recorded each of the first eleven months of the year. Then, during the last month of the year, the exact amount is calculated for the entire year, including fractional year's depreciation on items purchased during the year, in accordance with the predetermined policy on this point, and correcting the annual depreciation on those items which may have been disposed of during the year. From this exact total of depreciation for the entire year, deduct the amount that has been recorded for the first eleven months, to arrive at the amount to be recorded for the last month of the year. In this way, the total of the twelve monthly entries will agree exactly with the adjusted amounts recorded in the individual accounts in the subsidiary ledger or detail schedule.

Section 1304 - Other Plant Asset Accounting Principles

1304.01 Subsidiary Records - Each of the major asset accounts (land, land improvements, buildings, and equipment) and their related accumulated depreciation accounts represent control accounts in the general ledger. The individual assets in each of these categories should be carried as separate accounts in a subsidiary ledger. The individual subsidiary records should agree at all times with the parent accounts in the general ledger, for both original cost and accumulated depreciation. If the entity has only a few accounts related to land improvements and buildings, these may be kept in separate general ledger accounts rather than in a subsidiary.

Each individual asset record should include:

- the name, serial number if applicable, and asset inventory number,
- an adequate description of the purpose and location of the asset,
- sufficient other detail to distinguish that particular item from other similar items,
- total cost, source document, and date reflecting the original purchase,
- estimated useful life and annual depreciation rate (in either percentage or years), and
- carrying value at the beginning and end of each year, and amount of depreciation recorded each year.

1304.02 Liabilities for Plant Assets - In many cases, purchases of equipment will be made without immediate cash payment; that is, an account payable will be charged. The liabilities representing such accounts will be grouped with the plant-related liability accounts, rather than with operating accounts. When property is purchased on a long-term loan or contract, the liability is carried in the plant liability group. The total cost of the property acquired is recorded in the Land and Buildings accounts; the loan is recorded by crediting a loan payable account; and only the difference is recorded as an addition to net assets invested in plant.

For entities that use fund accounting, this may involve multiple sub-funds (see Section 1306.01), as follows.

(a) Receipt of funds from the lending organization will be recorded in the Unexpended Plant Fund, with a debit to cash and a credit to proceeds from borrowing.

(b) When the asset is purchased, the usual entries for the purchase of an asset will be made in both funds (See Appendix 13C). There will be a debit to assets, a credit to a liability, and the net difference as a credit to assets acquired (an increase to the Invested in Plant Fund).

(c) As the long-term liability is repaid, the payments (principal and interest) will be recorded in the Unexpended Plant Fund, and at the same time the liability (principal) must be reduced in the Invested in Plant Fund. The cost of the asset will have been capitalized under Step (b) above. During the life of the loan an offsetting liability is also reflected in the Invested in Plant Fund. As the note is repaid (out of available funds in the Unexpended Plant Fund) the liability is reduced and net assets of the Invested in Plant Fund are increased. Any interest paid is recorded as expense in the Plant Fund; it is not considered part of the asset cost.

1304.03 Net Asset Components - As discussed further in Chapter 15, resources may be designated by the governing committee at various times for various capital functions. Allocated capital functions accounts will be used to separate these accounts from unallocated functions and operating allocated functions.

1304.04 Accountability for Existence of Assets - Because land, buildings, and equipment represent important and valuable assets of the organization, the actual physical presence of such assets, especially equipment and furnishings, should be compared periodically with the accounting records. In other words, there should be a physical count of these items at reasonable intervals. This Manual recommends that such a reconciliation be completed at least every three years. This can be accomplished by a complete count every third year or by counting one-third of the total record each year.

Section 1305 - Disposition of Capital Assets

1305.01 Scope of the Section - Often an asset is not retained in use until the end of its expected life, or until it becomes completely unusable. Articles are sold, traded in on new items, lost or abandoned, or must be discarded because they cannot be used any longer. It is necessary to record such events and remove the asset from the records. The following discussion applies to equipment, but the same principles apply to the disposition of other depreciable assets.

1305.02 Authorization - If the item is a minor one, its disposition may be authorized by an individual; usually the CFO has this responsibility. Where the transaction is complicated, as in the disposition of a major asset such as land and one or more buildings, or where the amounts involved are considerable, an appropriate committee should authorize the transaction, with the details made a matter of record. In either case, the accountant should be instructed in writing as to the action to be taken, and this written authorization should be filed with the accounting voucher. The basic accounting is to debit cash and credit revenue for any proceeds of sale, debit accumulated depreciation, credit the asset account, and debit cost of assets sold for any net depreciated book value.

1305.03 Accounting for Equipment Traded-ins - When a disposition involves a trade-in of an existing asset for a newer similar asset, the accounting is more complex. The organization must determine the fair market value of the new equipment, because that is the amount at which the new asset must be recorded. This is not necessarily the same as the stated or published price as if it were all paid in cash. The fair market value of the new asset equals the sum of the cash amount actually paid plus the amount of trade-in value allowed or given for the old asset. (Sometimes only two of these three elements are given; but if we know any two of them, the third can be calculated.) In many cases, the trade-in value allowed by the seller of the new asset is different from the net depreciated value of the old asset. GAAP requires this difference to be recorded as a gain or loss at the date of the trade-in transaction.

Section 1306 - Fund Accounting for a Plant Fund

1306.01 Number of Funds - For those entities that use fund accounting, this Manual offers two alternatives, depending on the degree of detail the entity's governing committee desires. Sample accounting entries for each alternative are presented in Appendices 13B, 13C, and 13D.

For most entities that use fund accounting, this Manual envisions the use of a single undivided plant fund, although as discussed later, it will have at least two separate net asset accounts. This undivided single plant fund is illustrated in the sample union conference financial statements in Appendix 17A. The illustrated financial statements in Appendix 17A are also used as a reference in some of the discussion in the following paragraphs.

For entities that have allocated significant resources for future projects or have received restricted donations for future projects, this Manual offers the choice of either an undivided plant fund or a plant fund that is divided further into an unexpended plant fund and an invested in plant fund. Entities that have borrowed long-term debt for the acquisition of plant assets and have a specific plan to accumulate funds for repayment of the debt may also use a third sub-fund for retirement of indebtedness. These two (or three) sub-funds comprise one plant fund, but each sub-fund's assets, liabilities, and net assets are separately identified and self-balancing.

1306.02 Unexpended Plant - Every entity will have a group of accounts identified as unexpended plant. If the entity does not use fund accounting, or if the entity uses a single undivided plant fund, this group of accounts will be associated with a function or component of net assets, but will not represent a separate self-balancing fund. If the entity uses a multiple-sub-fund plant fund, this group of accounts will represent a separate self-balancing sub-fund. In either case, the purpose for the unexpended plant group of accounts is the same: to record resources that are available for future use in acquiring land, buildings, and equipment.

The unexpended plant resources typically consist of cash, investments, amounts due from other funds of the entity, and occasionally, accounts receivable. All of these assets are reported as "noncurrent" assets in the entity's statement of financial position. The unexpended plant group of accounts may occasionally include a liability for an account payable on an asset purchased on open account, or amounts due to other funds of the entity. These liabilities are reported as "noncurrent" in the entity's statement of financial position.

Increases to unexpended plant resources consist of transfers of committee-allocated operating resources for unexpended plant purposes, receipt of donations that are restricted by the donor to unexpended plant purposes, investment income on unexpended plant cash and investments, proceeds from sale of plant assets, and exchange gains on appropriations from other denominational entities. Decreases to unexpended plant resources consist of disbursements to acquire plant assets, payments on plant-related long-term liabilities, and exchange losses on appropriations from other denominational entities.

Repairs and maintenance of buildings and equipment are usually classified as operating expenses, and are reported as expense in the operating fund statement of financial activity in the period incurred. However, under certain conditions, major repairs and renovations may be capitalized as depreciable plant assets. See Appendix 13E for a guide on how to determine whether to capitalize a major repair expenditure.

The unexpended plant net asset balance can consist of unallocated amounts (resources that are available for the acquisition of plant assets in general) and allocated or restricted amounts (resources that have been set aside by committee action or have been received from donors for the purchase of specific capital assets). Appendix 17A.03 illustrates this grouping of accounts within the unexpended plant function.

1306.03 **Invested in Plant** - Every entity will have a group of accounts identified as invested in plant. If the entity does not use fund accounting, or if the entity uses a single undivided plant fund, this group of accounts will be associated with a function or component of net assets, but will not represent a separate self-balancing fund. If the entity uses a multiple-sub-fund plant fund, this group of accounts will represent a separate self-balancing sub-fund. In either case, the purpose for the invested in plant group of accounts is the same: to record the cost and accumulated depreciation of land, land improvements, buildings, and equipment, as well as any long-term liabilities related to those assets. These assets are reported on a separate line of the statement of financial position, between current assets and other assets. Any liabilities in this group of accounts will be reported in the section of the statement of financial position that contains noncurrent liabilities.

Increases to the net amount invested in plant come from the acquisition of new plant assets and from the liquidation of plant-related debt. Decreases to the net amount invested in plant come from depreciation expense and from sales or disposals of existing plant assets. The net amount invested in plant would also be decreased if new loans were obtained, using existing plant assets as collateral, but not acquiring any new plant assets.

1306.04 **Statement of Financial Position** - The assets, liabilities, and net assets of the plant fund are reported in a separate column in the statement of financial position. The total of cash, investments, and other assets held for unexpended plant purposes are reported on a separate line in the other assets group. This total, minus any short-term liabilities, will equal the net asset balance identified as unexpended plant. The total net depreciated value of land, land improvements, buildings, and equipment is reported on another line. A note to the financial statements presents summarized details of this total (see Note 8 in Appendix 17A.05). This total, minus any plant-related long-term liabilities, will equal the net asset balance identified as invested in plant. Although a portion of any plant-related liabilities will normally be due within the next operating period, it is related to plant asset activity, not operating activity, and so it is not divided between current and long-term portions on the face of the statement of financial position.

1306.05 **Statement of Financial Activity** - Financial activity of the plant fund is reported by object in a plant fund column in the statement of financial activity. Total depreciation expense for the period is reported on a line in the operating expense section, because it is considered to be a normal and required element of routine operations. Transfers between operating and plant funds are reported in the last section of the statement, before net increase or decrease for the year. All other plant-related activity is reported in a capital activity section. (See Appendix 17A.02) Capital activity would typically include appropriations received for plant-related purposes, appropriations disbursed for plant-related purposes, investment income on unexpended plant resources, donations received for plant-related purposes, realized and unrealized gains and losses on unexpended plant investments, gains and losses on sale or disposal of plant assets, and exchange gains and losses on appropriations. As with the rest of the statement of financial activity, the plant fund column concludes with the increase or decrease for the year and then the ending balance of net assets in the entire plant fund.

1306.06 **Statement of Changes in Net Assets** - The statement of changes in net assets presents a summary of income, expense, transfers, and beginning and ending balances in columns, with amounts for those items on separate lines for each function or designated purpose within the unexpended and invested in plant functions. At a minimum, there will be at least one line for unexpended plant (if depreciation has been funded or there are unspent donations restricted for plant acquisition) and one line for invested in plant. Most organizations typically will have two or more specific functions within the unexpended group. The statement concludes with totals of this information for the operating fund, the plant fund, and the whole entity. (See Appendix 17A.03)

Appropriations and donations for plant purposes, and investment income, will be reported in the income column and on the lines for unexpended plant functions. Depreciation expense will be reported in the expense column and on the line for invested in plant function. Resources allocated from the operating fund will be reported in the transfers column and on a line in the unexpended plant function. Disbursements to acquire plant assets will be reported as transfers out of the unexpended plant functions and transfers in to the invested in plant function.

1306.07 Transfers - As discussed earlier, the flow of allocated resources from the operating fund to the plant fund is classified as "transfers," not as revenue or expense. In addition, because these transactions reflect movement of resources within the organization, not inflows or outflows with third parties, they do not increase or decrease the total resources held by the organization as a whole. Each fund reflects its own net asset balance, which is changed by such transfers, but the combined balances of all the funds remain the whole entity's net asset balance. Obviously then, **the total transfers out of one fund must be equal to the total transfers into the other fund**. As a result, the final total of transfers for the whole entity will be reported as zero; on the transfers line in the statement of financial activity and in the transfers column in the statement of changes in net assets. If a trial balance for the entity reveals transfer totals that do not equal, it means an error has been made, which should be investigated and resolved before preparing the financial statements.

1306.08 Balances and Activity by Asset Class - To comply with GAAP, the notes to the financial statements must include a note with supporting detail for the plant-related balances and activity reported on the face of the financial statements. This note will report summarized totals for cost, accumulated depreciation, net value, current period depreciation expense, current period additions, and current period deletions for each major class of plant assets. The supporting detail for these summarized amounts will be found in the plant asset subsidiary ledger (or in specific general ledger accounts if a subsidiary is not used). (See illustrated Note 8 in Appendix 17A.05.)

Appendix 13A - Legal Considerations

13A.01 Property Laws - There are strong legal connotations to the acquisition of, holding title to, and accounting for land and buildings. There are few universally applicable rules - every country has its own legal statutes governing these matters. Therefore, every administrator should be familiar with the pertinent laws and regulations of the countries in which land is held by or for the organization. This is vital to ensure compliance with local laws and to safeguard denominational investment in land and buildings. Compliance with GAAP will usually conform to most legal frameworks regarding land and buildings. However, this Manual recognizes there are instances in which laws may dictate particular accounting and reporting practices.

13A.02 Title to Real Property - To protect denominational assets, several procedures should be followed.

- Where applicable, a title search must be performed by an attorney or other appropriate professional to ensure that the purchasing entity obtains clear title to the acquired property.
- Under no circumstances should the purchase price be paid to the seller or seller's representative before the property has been registered in the new owner's name. The safest procedure is to deposit the purchase price with the entity's own attorney, or with a reputable professional title-transferring entity, pending registration.
- Whenever land, land improvements, and buildings are acquired, the title deed must be recorded promptly in the name of the respective denominational association, corporation, or similar legal entity.
- Title documents should be filed in secure, fireproof storage. Access to such documents should be available only to responsible financial or administrative personnel. A record should be kept of every occasion on which they are withdrawn from the file, with the date, name of individual, and reason for withdrawal.
- If the entity that accounts for the cost and accumulated depreciation for a particular property is different from, or located in a different area than, the entity that holds legal title to the property, the entity that accounts for the property should retain a copy of the title deed (either a photocopy, facsimile, or electronic image).

13A.03 Whose Financial Statements Should Include the Assets? -International GAAP, effective 1 January 2005, includes the following principles regarding the accounting for land, buildings, and equipment.

> IAS 16.7 - The cost of an item of property, plant, and equipment shall be recorded as an asset if and only if:
> (a) it is probable that future economic benefits associated with the item will flow to the entity; and
> (b) the cost of the item can be measured reliably.
>
> IAS Framework, paragraph 57 - Many assets, for example, receivables and property, are associated with legal rights, including the right of ownership. In determining the existence of an asset, the right of ownership is not essential; for example, property held on a lease is an asset if the entity controls the benefits which are expected to flow from the property. Although the capacity of an entity to control benefits is usually the result of legal rights, an item may nonetheless satisfy the definition of an asset even when there is no legal control.

Because the accounting is dependent on the relationship between entities, it is not practical for this Manual to develop one universal rule about which entity should account for land and buildings. Part of the challenge (especially for properties other than local churches and elementary schools) is that historically the denomination has allowed one entity to hold legal title while another entity uses and accounts for the property, but rarely have entities placed that understanding into a written document. Also, when one entity is determined to be the one that should include property in its financial statements, while another entity uses that property, the two entities may be so closely affiliated that their respective financial statements will be required to be combined or consolidated for general-use financial presentation. Section 13A.09 illustrates many, but not all, possible property relationships, with this Manual's interpretation about the most appropriate accounting for each illustrated situation.

13A.04 Application to Lease Agreements - The following international GAAP is for land and buildings that are titled in the name of one entity but are used by another entity under terms of a written agreement.

> IAS 17.8 - A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.
>
> IAS 17.20 & 17.33 - Lessees shall recognise finance leases as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.
>
> IAS 17.14 - Leases of land and of buildings are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership, in which case the lease of land will be an operating lease.
>
> IAS 17.15 - The land and buildings elements of a lease of land and buildings are considered separately for the purpose of lease classification. If title to both elements is expected to pass to the lessee by the end of the lease term, both elements are classified as a finance lease, unless it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership of one or both elements. When the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term, in accordance with paragraph 17.14. The buildings element is classified as a finance or operating lease in accordance with paragraph 17.8.

13A.05 Denominational Policy - *GCWP* S 55 (S 60 prior to 2008), "Holding Properties," says:

> **S 55 05 Property Ownership** - Church properties and other assets shall be held in the name of an appropriate denominational corporate entity, not by individuals, trustees, or local congregations. Where this is not legally possible, divisions shall make alternative arrangements in consultation with the General Conference Office of General Counsel.
>
> **S 55 10 Property Valuations** - All church properties and other properties owned by conference associations that are not used for association operating purposes shall be listed in the association books of account at their cost, and a reserve shall be set up leaving US$1 (or the equivalent) net valuation on each property as listed; this policy to apply in overseas fields as conditions and legal requirements may permit.
>
> **S 55 15 Special Provisions** - In situations where it is not possible or feasible to register a property-holding organization in a country or where the expense of transferring properties would be prohibitive, properties may continue to be titled in the name of the General Conference Corporation of Seventh-day Adventists or other existing corporations. However, where possible the assets shall be recorded in the books of the division or the subsidiary organization in whose territory the property is located.

13A.06 Legal Entities - The policy quoted above refers to "corporations" and "associations." These terms represent forms of legal entities: local legal requirements determine what form the entity will take. Where a Division, Union, or Local Conference, Mission, or Field comprises more than one country, it may be required to register a legal entity in each of the component countries, to hold title to property. As a result, it may be that to comply with laws and regulations the land, and possibly buildings, that are used by one entity will be *registered* in the name of another denominational legal entity. In any case, *wherever possible*, all land and buildings should be included in the financial statements of the entity that has the right to use them. In this way, the reporting entity's financial statements will reveal its total financial standing. In such a situation, the reporting entity's financial statements must include an explanatory note to disclose that the other entity holds legal title to the property.

13A.07 Agreements Between Affiliated Entities - GAAP focuses on which entity has the right to realize economic benefit from the use of property, rather than which entity holds legal title. Therefore, any agreement between the legal title holder and the user of the property is critically important, and would be less susceptible to misinterpretation if it were in writing. This Manual strongly recommends that some form of written document be prepared to describe the terms of the relationship between every entity that holds legal title to land, and related buildings, that are used by affiliated entities. As a starting point, and only a guide, Appendix 13F offers two examples of some of the terms that could be considered for such documents. *Whenever a written agreement is prepared, it should always be prepared or at least reviewed by legal counsel, to ensure that it complies with applicable laws and regulations and expresses the true intent of the parties.*

13A.08 Properties Used By Local Congregations - These properties are unique because they are paid for and operated by local congregations. Because accounting and reporting at the local congregation level reflects only operating activities, it is imperative that organizations follow GCWP as quoted earlier. Because the use of these local properties is under the direction and control of a local conference, mission, or field, this Manual considers GCWP to be an appropriate application of IAS 16.7 (outside the USA) for these kinds of properties.

This preserves a record of the original cost of the property and at the same time, with a contra account, does not inflate the total asset value of the reporting entity. In its responsibility for the "sisterhood" of churches, the reporting entity is holding these properties for use by the local congregations. It must be emphasized that this special depreciation or contra account is limited to properties used by local congregations. Properties used directly for the operating activities of the reporting entity (office buildings, youth camps, housing for employees, etc.) must be depreciated in the normal way as described in Section 1303.

13A.09 Guidance for Various Situations - The following illustrations are based on the assumption that no laws or regulations dictate a different accounting or reporting procedure for the territory in which the property is located. If there are legal requirements that differ from GAAP, then they must be followed.

1. Land and Buildings Used by Local Church Congregation or Elementary (Primary) School

   a. Legal Title Held in Name of Local Conference/Mission/Field

      i. Local Church or School financial statements. Include only operating activity: do not include cost or accumulated depreciation of land, land improvements, and buildings. Include explanatory note that the affiliated conference, mission, or field is the owner of the property that is used by the local entity.

      ii. Local Conference/Mission/Field financial statements. Include total cost of land, land improvements, and buildings used by local churches and schools. Outside the USA, include accumulated depreciation (contra account) in an amount such that the net carrying amount of the properties are just one currency unit for each property. In the USA, include accumulated depreciation corresponding to the expired portion of the asset's estimated useful life.

   b. Legal Title Held in Name of Union Conference/Mission or Division

      i. Local Church or School financial statements. Include only operating activity: do not include cost or accumulated depreciation of land, land improvements, and buildings. Include explanatory note that the respective union conference/mission, or division, holds title to the property that is used by the local entity.

      ii. Local Conference/Mission/Field financial statements. Do not include cost or accumulated depreciation of properties that are used by local churches and schools. Include explanatory note that the respective union conference/mission, or division, holds title to the property that is used by the local entities.

      iii. Union Conference/Mission or Division financial statements. Include total cost of land, land improvements, and buildings used by local churches and schools. Include accumulated depreciation in an amount such that the net carrying amount of the properties are just one currency unit for each property. Include explanatory note that entity holds title to these properties only to satisfy national legal requirements.

2. Land and Buildings Used by Local Conference/Mission/Field for Office, Youth Camp, or Other Ministries

   a. Legal Title Held in Name of Affiliated Local Conference-level Legal Entity

      i. Local Conference/Mission/Field financial statements. Do not include land, land improvements, and buildings in the single-fund financial statements of the operating entity. Include the cost and accumulated depreciation of land, land improvements, and buildings in the separate financial statements of the legal title-holding entity. Combine or consolidate the financial statements of both entities, so that general-purpose financial statements of the entity as a whole will include the properties they use.

   b. Legal Title Held in Name of Union Conference/Mission or Division

      i. Local Conference/Mission/Field financial statements. Include the cost and accumulated depreciation of land improvements and buildings. In addition, include an explanatory note that the respective union conference or mission, or division, holds legal title to the land, land improvements, and buildings that are used by the entity. [If there is a written use agreement between the parties, the explanatory note refers only to land. The statements identify land improvements and buildings as leasehold improvements.]

ii. Union Conference/Mission or Division financial statements. Include total cost of land that is used by local conferences/missions/fields. Do not include cost or accumulated depreciation of land improvements and buildings that are used by local conferences/missions/fields. Include explanatory note that the union conference/mission or division holds title to these properties only to satisfy national legal requirements.

3. Land and Buildings Used by Academy (Secondary School)

   a. Legal Title Held in Name of School

      i. Academy financial statements. Include the cost and accumulated depreciation of land, land improvements, and buildings.

   b. Legal Title Held in Name of Local Conference/Mission/Field

      i. Academy financial statements. Include the cost and accumulated depreciation of land improvements and buildings. In addition, include an explanatory note that the respective local conference/mission/field holds legal title to the land, land improvements, and buildings that are used by the entity. [If there is a written lease or similar agreement between the parties, the explanatory note refers only to land. Then the financial statements identify the land improvements and buildings as leasehold improvements.]

      ii. Local Conference/Mission/Field financial statements. Include total cost of land that is used by academies. Do not include cost or accumulated depreciation of land improvements and buildings that are used by academies. Include explanatory note that the local conference/mission/field holds title to these properties only to satisfy national legal requirements.

   c. Legal Title Held in Name of Union Conference/Mission or Division

      i. Academy financial statements. Include the cost and accumulated depreciation of land improvements and buildings. In addition, include an explanatory note that the respective union conference/mission or division holds legal title to the land, land improvements, and buildings that are used by the entity. [If there is a written lease or similar agreement between the parties, the explanatory note refers only to land. The statements identify the land improvements and buildings as leasehold improvements.]

      ii. Union Conference/Mission or Division financial statements. Include total cost of land that is used by academies. Do not include cost or accumulated depreciation of land improvements and buildings that are used by academies. Include explanatory note that the union conference/mission or division holds title to these properties only to satisfy national legal requirements.

4. Land and Buildings Used by College, University, Publishing House, Food Factory, or Health Care Facility

   a. Legal Title Held in Name of Reporting Entity

      i. Reporting Entity financial statements. Include the cost and accumulated depreciation of land, land improvements, and buildings.

   b. Legal Title Held in Name of Union Conference/Mission or Division

      i. Reporting Entity financial statements. Include the cost and accumulated depreciation of land improvements and buildings. In addition, include an explanatory note that the respective union conference/mission or division holds legal title to the land, land improvements, and buildings that are used by the entity. [If there is a written lease or similar agreement between the parties, and the reporting entity paid for the land improvements and/or buildings, the explanatory note will refer only to land. Then the financial statements will identify the land improvements and buildings as leasehold improvements.]

ii. Union Conference/Mission or Division financial statements. Include total cost of land that is used by other reporting entities. Do not include cost or accumulated depreciation of land improvements and buildings that are used by the other reporting entities. Include explanatory note that the union conference/mission or division holds title to these properties only to satisfy national legal requirements.

c. Exception When It Is Not Probable That The Reporting Entity Will Receive Future Economic Benefit

Reporting Entity financial statements. Do not include land, land improvements, or buildings. Include explanatory note that other entity holds title to land, land improvements, and buildings that are used by the reporting entity. As part of that note, disclose uncertainty about whether the reporting entity will receive economic benefit from use of the property in the future. [Such uncertainty may result, for example, if there is no written agreement between the parties and there is disagreement about the terms of the relationship between them, or when the title-holding entity has plans to sell or otherwise develop the property, to the exclusion of the reporting entity.]

Title-holding Entity financial statements. Include the cost and accumulated depreciation of land, land improvements, and buildings. Include note that describes present use of the property as well as any plans for different future use of the property.

13A.10 Concerns About Ascending Liability - In some countries, there is concern that following GAAP and including the balances related to plant assets in the financial statements of certain types of entities exposes those assets to potential risk of loss in the event of claims for liability damages. In some Divisions and Unions, there is a desire to establish corporations or similar legal entities to hold legal title to land and buildings, apart from the entities that use that property. In response to the potential liability risk, and based on study and legal counsel, the governing committee of a Division or a Union may decide to report the balances related to such property in the financial statements of the title-holding entity rather than in the financial statements of the entity that uses the property. **It is recognized that this form of reporting would be a departure from International GAAP, and auditors would be required to determine whether to modify their opinions on the respective financial statements.**

13A.11 Additional Legal Concept in USA - USA GAAP requires the cost and accumulated depreciation for real property to be included in the financial statements of the organization that owns it. Who the owner is depends on documentary evidence. A written agreement between an entity that holds title to property and an entity that uses that property can stipulate who the owner is. For example, many conferences and academies have prepared written agreements which state that the user of the property is the owner of any buildings constructed and paid for by the user. If there is no written agreement stating otherwise, then buildings and land improvements are considered to be owned by the legal title holder of the land upon which they are located.

NADWP P 15 80 directs this Manual to offer an alternative to the above principle for land (and related buildings) that is titled in the name of one entity but is used by a related entity. Under this alternative, properties used by churches and elementary schools would be listed only in notes to (not on the face of) the association financial statements, and properties used by academies would be included in the academy (not the association) financial statements. **It is recognized that this alternative presentation is a departure from generally accepted accounting principles, and auditors will be required to determine whether to modify their opinions on the respective financial statements.**

Appendix 13B - Accounting Entries Illustrated - Single Fund Model

13B.01 Introduction - The following paragraphs illustrate some common plant asset accounting entries. These illustrations apply to all organizations that do not use fund accounting.

13B.02 Acquisition of Assets

(1) Assume purchase of land and house for employee housing; total price of 100,000, of which 30,000 is paid in cash from unallocated resources, and the remainder is financed with a long-term note and trust deed. The total cost is divided 20,000 for the land and 80,000 for the building.

Account	Debit	Credit
Employee Housing - Land	20,000	
Employee Housing - Buildings	80,000	
Cash in Bank		30,000
Mortgage Payable - (*name of lender*)		70,000
To record acquisition of house and lot, in exchange for cash down payment and trust deed note for balance.		

(2) Assume the same facts as in (1), except that the cash portion is charged to an allocated fund that was established and funded for this kind of purchase.

Account	Debit	Credit
Employee Housing - Land	20,000	
Employee Housing - Buildings	80,000	
Cash in Bank		30,000
Mortgage Payable - (*name of lender*)		70,000
Allocated Function (*name*) - Transfer To Unallocated	30,000	
Unallocated Function - Transfer From Allocated		30,000
To record acquisition of house and lot, in exchange for cash down payment and trust deed note for balance, and to charge allocated fund for the use of resources.		

(3) Assume the purchase of three office desks at a price of 2,400, from unallocated resources.

Account	Debit	Credit
Office Equipment	2,400	
Cash in Bank		2,400
To record purchase of three desks for cash. To be listed as equipment inventory #xxx, yyy, and zzz.		

(4) Assume the above desks were donated instead of being purchased. For donated assets a fair value must be determined on as objective a basis as possible—usually by comparison with prices available on the open market for equivalent articles. Acceptance of such gifts must be recorded at full fair value, and the asset thereafter should be depreciated exactly as if it had been purchased.

Account	Debit	Credit
Office Equipment	2,400	
Miscellaneous Revenue - Donated Assets		2,400
To record donation of three desks. To be listed as equipment inventory #xxx, yyy, and zzz.		

13B.03 Construction in Progress

Assume expenditure of 150,000 in 20X1 as progress payments to contractors on the construction of an office building. Assume the building is completed in 20X2, and the remaining balance on the full contract price, 275,000, is paid in 20X2. Assume the land value is already in the accounting records.

Account, in 20X1:	Debit	Credit
Office Building in Progress	150,000	
Cash in Bank		150,000
Allocated Function (*name*) - Transfer To Unallocated	150,000	
Unallocated Function - Transfer From Allocated		150,000
To record payments to date on new office building.		

Account, in 20X2:		
Office Building in Progress	275,000	
Cash in Bank		275,000
Allocated Function (*name*) - Transfer To Unallocated	275,000	
Unallocated Function - Transfer From Allocated		275,000
To record payments to date on new office building.		
Office Building	425,000	
Office Building in Progress		425,000
To record completion of office building construction.		

13B.04 Depreciation of Assets - Assume the following depreciation amounts for the period:

Office Building	9,250	Admin. Office Equipment	3,950
Community Service Building	7,200	Community Service Equipment	2,700
Employee Housing Buildings	10,800	Employee Housing Equipment	1,800
Auxiliary Buildings	4,600	Auxiliary Equipment	2,200
Total Depr. on Buildings	31,850	Total Depr. on Equipment	10,650

Depreciation Entries:	Debit	Credit
Depreciation Expense, Office Building	9,250	
Depreciation Expense, Community Service Building	7,200	
Depreciation Expense, Employee Housing Buildings	10,800	
Depreciation Expense, Auxiliary Buildings	4,600	
Accumulated Depreciation, Office Building		9,250
Accumulated Depreciation, Community Service Buildings		7,200
Accumulated Depreciation, Employee Housing Buildings		10,800
Accumulated Depreciation, Auxiliary Buildings		4,600
Depreciation Expense, Office Equipment	3,950	
Depreciation Expense, Community Service Equipment	2,700	
Depreciation Expense, Employee Housing Equipment	1,800	
Depreciation Expense, Auxiliary Equipment	2,200	
Accumulated Depreciation, Office Equipment		3,950
Accumulated Depreciation, Community Service Equipment		2,700
Accumulated Depreciation, Employee Housing Equipment		1,800
Accumulated Depreciation, Auxiliary Equipment		2,200
To record depreciation on plant assets for (*month or year*).		

13B.05 Disposition of Assets

(1) Assume the sale of a desk and chair for 200 cash. Assume cost of the two items was 875; accumulated depreciation to date of sale is 800; so net carrying value is 75. The gain on the sale is therefore 125 (the difference between the 200 cash received and the 75 net carrying value).

Account	Debit	Credit
Cash in Bank	200	
Accumulated Depreciation, Office Equipment	800	
Office Equipment		875
Gain on Sale of Assets		125
To record sale of old desk (equipment inventory #xxx) and chair (equipment inventory #yyy). Cash receipt #zzz dated dd/mm/yy.		

(2) Assume the purchase of a new vehicle, combined with trade-in of an old vehicle. The terms are 18,000 cash and a trade-in allowance of 2,800. The old vehicle is recorded at a cost of 6,500, with accumulated depreciation to date of 4,500, resulting in net carrying value of 2,000. The difference between the trade-in allowance and the net value would be recorded as a gain of 800 on the trade-in. If the trade-in allowance had been less than net carrying value, the difference would be recorded as a loss on the trade-in.

Account	Debit	Credit
Motor Vehicles (*new vehicle*)	20,800	
Accumulated Depreciation, Vehicles (*old vehicle*)	4,500	
Cash in Bank		18,000
Motor Vehicles (*old vehicle*)		6,500
Gain on Sale of Assets		800
To record the acquisition of a new vehicle, removal of an old vehicle that was traded in, and gain on the transaction.		

13B.06 Payment of Long-Term Liabilities

In the example in 13B.02, a long-term obligation was incurred for the purchase of employee housing. Assume that at the end of the year an annual payment of 15,000 is made, which consists of 8,000 principal and 7,000 interest. Because this debt is related to acquisition of plant assets, the interest expense will be recorded as capital activity or non-operating expense.

Account	Debit	Credit
Mortgage Payable - (*name of lender*)	8,000	
Capital Activity - Interest Expense	7,000	
Cash in Bank		15,000
To record annual payment of principal and interest on mortgage related to employee housing assets.		

13B.07 Funding for Future Replacement

Assume the governing committee has voted to allocate 20,000 to fund future replacement of equipment.

Account	Debit	Credit
Unallocated Function - Transfer To Allocated	20,000	
Allocated Function (*name*) - Transfer From Unallocated		20,000
To record allocation of resources for future equipment purchase.		

Appendix 13C - Accounting Entries Illustrated - Undivided Plant Fund Model

13C.01 Introduction - The following paragraphs illustrate some common plant asset accounting entries. These illustrations apply to all organizations that use fund accounting with a single undivided plant fund.

13C.02 Acquisition of Assets

(1) Assume purchase of land and house for employee housing; total price of 100,000, of which 30,000 is paid in cash from unexpended plant resources, and the remainder is financed with a long-term note and trust deed. The total cost is divided 20,000 for the land and 80,000 for the building.

Plant Fund Account	Debit	Credit
Employee Housing - Land	20,000	
Employee Housing - Buildings	80,000	
Cash in Bank - Plant Fund		30,000
Mortgage Payable - (*name of lender*)		70,000
Unexpended Plant Function - Transfer To Invested in Plant	30,000	
Invested in Plant Function - Transfer From Unexpended		30,000
To record acquisition of land and house, for cash and trust deed note, and to charge allocated function for the use of resources.		

(2) Assume the purchase of three office desks at a price of 2,400, from unexpended plant resources.

Plant Fund Account	Debit	Credit
Office Equipment	2,400	
Cash in Bank - Plant Fund		2,400
Unexpended Plant Function - Transfer To Invested in Plant	2,400	
Invested in Plant Function - Transfer From Unexpended		2,400
To record purchase of three desks for cash. To be listed as equipment inventory #xxx, yyy, and zzz.		

(3) Assume the same facts as (2), except the payment came directly from operating resources.

Operating Fund Account	Debit	Credit
Unallocated Non-tithe Function - Transfer To Plant Fund	2,400	
Cash in Bank - Operating Fund		2,400
Plant Fund Account		
Office Equipment	2,400	
Invested in Plant Function - Transfer From Operating Fund		2,400
To record purchase of three desks for cash, paid from operating account. To be listed as equipment inventory #xxx, yyy, & zzz.		

(4) Assume three desks were donated instead of purchased. Donated assets must be recorded at their fair value, and then depreciated as if they had been purchased. Fair value must be determined as objectively as possible—usually by comparison with prices available on the open market for equivalent articles.

Plant Fund Account	Debit	Credit
Office Equipment	2,400	
Invested in Plant Function - Revenue - Donated Assets		2,400
To record donation of three desks. Inventory #xxx, yyy, and zzz.		

13C.03 Construction in Progress

Assume expenditure of 150,000 in 20X1 as progress payments to contractors on the construction of an office building. Assume the building is completed in 20X2, and the remaining balance on the full contract price, 275,000, is paid in 20X2. Assume the land value is already in the accounting records.

Plant Fund Account, in 20X1:	Debit	Credit
Office Building in Progress	150,000	
Cash in Bank		150,000
Unexpended Function (*name*) - Transfer To Invested in Plant	150,000	
Invested in Plant Function - Transfer From Unexpended		150,000
To record payments to date on new office building.		

Plant Fund Account, in 20X2:		
Office Building in Progress	275,000	
Cash in Bank		275,000
Unexpended Function (*name*) - Transfer To Invested in Plant	275,000	
Invested in Plant Function - Transfer From Unexpended		275,000
To record payments to date on new office building.		
Office Building	425,000	
Office Building in Progress		425,000
To record completion of office building construction.		

13C.04 Depreciation of Assets - Assume the following depreciation amounts for the period:

Office Building	9,250	Admin. Office Equipment	3,950
Community Service Building	7,200	Community Service Equipment	2,700
Employee Housing Buildings	10,800	Employee Housing Equipment	1,800
Auxiliary Buildings	4,600	Auxiliary Equipment	2,200
Total Depr. on Buildings	31,850	Total Depr. on Equipment	10,650

Plant Fund Depreciation Entries:	Debit	Credit
Depreciation Expense, Office Building	9,250	
Depreciation Expense, Community Service Building	7,200	
Depreciation Expense, Employee Housing Buildings	10,800	
Depreciation Expense, Auxiliary Buildings	4,600	
Accumulated Depreciation, Office Building		9,250
Accumulated Depreciation, Community Service Buildings		7,200
Accumulated Depreciation, Employee Housing Buildings		10,800
Accumulated Depreciation, Auxiliary Buildings		4,600
Depreciation Expense, Office Equipment	3,950	
Depreciation Expense, Community Service Equipment	2,700	
Depreciation Expense, Employee Housing Equipment	1,800	
Depreciation Expense, Auxiliary Equipment	2,200	
Accumulated Depreciation, Office Equipment		3,950
Accumulated Depreciation, Community Service Equipment		2,700
Accumulated Depreciation, Employee Housing Equipment		1,800
Accumulated Depreciation, Auxiliary Equipment		2,200
To record depreciation on plant assets for (*month or year*).		

13C.05 Disposition of Assets

(1) Assume the sale of a desk and chair for 200 cash. Assume the cost of the two items was 875; and the accumulated depreciation to the date of sale was 800, so the net value is 75.

Plant Fund Account	Debit	Credit
Cash in Bank - Plant Fund	200	
Unexpended Plant Function - Proceeds From Sale of Assets		200
Accumulated Depreciation, Office Equipment	800	
Invested in Plant Function - Net Value of Assets Sold	75	
Office Equipment		875
To record sale of desk (#xxx) and chair (#yyy). Receipt #zzz.		

(2) Assume the purchase of a new vehicle for 18,000 cash and 2,800 as a trade-in allowance on an old vehicle. The old vehicle cost 6,500 and has accumulated depreciation of 4,500, for net value of 2,000. The difference between the trade-in allowance and the net book value is recorded as a gain or loss.

Plant Fund Account	Debit	Credit
Unexpended Plant Function - Transfer To Invested in Plant	18,000	
Cash in Bank - Plant Fund		18,000
Motor Vehicles (*new vehicle*)	20,800	
Accumulated Depreciation, Vehicles (*old vehicle*)	4,500	
Motor Vehicles (*old vehicle*)		6,500
Gain on Sale of Assets		800
Invested in Plant Function - Transfer From Unexpended		18,000
To record acquisition of new vehicle, and trade-in of old vehicle.		

13C.06 Payment of Long-Term Liabilities

Assume a payment of 15,000 on the employee housing mortgage, consisting of 8,000 principal and 7,000 interest. The interest expense will be recorded as capital activity or non-operating expense.

Plant Fund Account	Debit	Credit
Unexpended Plant Function - Interest Expense	7,000	
Unexpended Plant Function - Transfer To Invested in Plant	8,000	
Cash in Bank - Plant Fund		15,000
Mortgage Payable (*name of lender*)	8,000	
Invested in Plant Function - Transfer From Unexpended		8,000
To record annual payment of principal and interest on mortgage.		

13C.07 Funding for Future Replacement

Assume the governing committee has voted to allocate 20,000 to fund future replacement of equipment.

Operating Fund Account	Debit	Credit
Unallocated Non-tithe Function - Transfer To Plant Fund	20,000	
Cash in Bank - Operating Fund		20,000
Plant Fund Account		
Cash in Bank - Plant Fund	20,000	
Unexpended Plant Function - Transfer From Operating Fd.		20,000
To record allocation of resources for future plant fund use.		

Appendix 13D - Accounting Entries Illustrated - Multiple Sub-Fund Model

13D.01 Introduction - The following paragraphs illustrate common plant asset accounting entries. These illustrations apply to all organizations that use fund accounting with unexpended and invested in plant sub-funds.

13D.02 Acquisition of Assets

(1) Assume purchase of land and house for employee housing; total price of 100,000, of which 30,000 is paid in cash from unexpended plant resources, and the remainder is financed with a long-term note and trust deed. The total cost is divided 20,000 for the land and 80,000 for the building.

Unexpended Plant Sub-fund Account:	Debit	Credit
Plant Assets Purchased (*a financial activity account*)	30,000	
Cash in Bank - Unexpended Plant Sub-fund		30,000
Invested in Plant Sub-fund Account:		
Employee Housing - Land	20,000	
Employee Housing - Buildings	80,000	
Plant Assets Acquired (*a financial activity account*)		30,000
Mortgage Payable - (*name of lender*)		70,000
To record acquisition of land and house, for cash and mortgage.		

(2) Assume the purchase of three office desks, at a price of 2,400.

Unexpended Plant Sub-fund Account:	Debit	Credit
Plant Assets Purchased (*a financial activity account*)	2,400	
Cash in Bank - Unexpended Plant Sub-fund		2,400
Invested in Plant Sub-fund Account:		
Office Equipment	2,400	
Plant Assets Acquired (*a financial activity account*)		2,400
To record acquisition of equipment for cash.		

13D.03 Construction in Progress

Assume expenditure of 150,000 in 20X1 as payments on construction of office building, on land already owned. Assume building is completed in 20X2, and the remaining balance of 275,000 is paid in 20X2.

Unexpended Plant Sub-fund Account, in 20X1:	Debit	Credit
Plant Assets Purchased (*a financial activity account*)	150,000	
Cash in Bank - Unexpended Plant Sub-fund		150,000
Invested in Plant Sub-fund Account, in 20X1:		
Office Building in Progress	150,000	
Plant Assets Acquired (*a financial activity account*)		150,000
To record payments to date on new office building.		

Unexpended Plant Sub-fund Account, in 20X2:		
Plant Assets Purchased (*a financial activity account*)	275,000	
Cash in Bank - Unexpended Plant Sub-fund		275,000
Invested in Plant Sub-fund Account, in 20X2:		
Office Building in Progress	275,000	
Plant Assets Acquired (*a financial activity account*)		275,000
To record payments to date on new office building.		

Invested in Plant Sub-fund Account, in 20X2:	Debit	Credit
Office Building	425,000	
Office Building in Progress		425,000
To record completion of office building construction.		

13D.04 Depreciation of Assets - Assume the following depreciation amounts for the period.

Office Building	9,250	Admin. Office Equipment	3,950
Community Service Building	7,200	Community Service Equipment	2,700
Employee Housing Buildings	10,800	Employee Housing Equipment	1,800
Auxiliary Buildings	4,600	Auxiliary Equipment	2,200
Total Depr. on Buildings	31,850	Total Depr. on Equipment	10,650

Invested in Plant Sub-fund Depreciation Entries:	Debit	Credit
Depreciation Expense, Office Building	9,250	
Depreciation Expense, Community Service Building	7,200	
Depreciation Expense, Employee Housing Buildings	10,800	
Depreciation Expense, Auxiliary Buildings	4,600	
Accumulated Depreciation, Office Building		9,250
Accumulated Depreciation, Community Service Buildings		7,200
Accumulated Depreciation, Employee Housing Buildings		10,800
Accumulated Depreciation, Auxiliary Buildings		4,600
To record depreciation on buildings for (*month or year*).		
Depreciation Expense, Office Equipment	3,950	
Depreciation Expense, Community Service Equipment	2,700	
Depreciation Expense, Employee Housing Equipment	1,800	
Depreciation Expense, Auxiliary Equipment	2,200	
Accumulated Depreciation, Office Equipment		3,950
Accumulated Depreciation, Community Service Equipment		2,700
Accumulated Depreciation, Employee Housing Equipment		1,800
Accumulated Depreciation, Auxiliary Equipment		2,200
To record depreciation on equipment for (*month or year*).		

13D.05 Disposition of Assets

(1) Assume the purchase of a new vehicle for 18,000 cash and 2,800 as a trade-in allowance on an old vehicle. The old vehicle cost 6,500 and has accumulated depreciation of 4,500, for net value of 2,000. The difference between the trade-in allowance and the net book value is recorded as a gain or loss.

Unexpended Plant Sub-fund Account:	Debit	Credit
Plant Assets Purchased (*a financial activity account*)	18,000	
Cash in Bank - Unexpended Plant Sub-fund		18,000
Invested in Plant Sub-fund Account:		
Motor Vehicles (*new vehicle*)	20,800	
Accumulated Depreciation, Vehicles (*old vehicle*)	4,500	
Motor Vehicles (*old vehicle*)		6,500
Gain on Sale of Assets		800
Plant Assets Acquired (*a financial activity account*)		18,000
To record acquisition of new vehicle, and trade-in of old vehicle.		

(2) Assume the write-off of old office equipment, thrown away because it was unusable and of no scrap value. Cost was 900, accumulated depreciation was 890, so net value was 10.

Invested in Plant Sub-fund Account:	Debit	Credit
Accumulated Depreciation, Office Equipment	890	
Net Value of Assets Sold	10	
Office Equipment		900
To record write-off of equipment no longer in use.		

13D.06 Payment of Long-Term Liabilities

Assume that at the end of the year an annual payment of 15,000 is made on the employee housing mortgage, which consists of 8,000 principal and 7,000 interest. Because this debt is related to acquisition of plant assets, the interest expense will be recorded as capital activity or non-operating expense. Also, the use of cash will be recorded in either an unexpended plant sub-fund or a retirement of debt sub-fund, whichever the entity has chosen to use for accumulation of resources to make the debt payments.

Unexpended Plant or Retirement of Debt Sub-fund Account:	Debit	Credit
Interest Expense	7,000	
Principal Paid on Debt (*a financial activity account*)	8,000	
Cash in Bank - Unexpended Plant or Retirement of Debt		15,000
Invested in Plant Sub-fund Account:		
Mortgage Payable (*name of lender*)	8,000	
Reduction of Debt Principal (*a financial activity account*)		8,000
To record annual payment of principal and interest on mortgage.		

13D.07 Funding for Future Replacement

Assume the governing committee has voted to allocate 30,000 from unallocated non-tithe resources for future replacement of buildings and 10,000 from unallocated tithe resources for future replacement of equipment.

Operating Fund Account	Debit	Credit
Unallocated Tithe Function - Transfer to Plant Fund	10,000	
Unallocated Non-tithe Function - Transfer To Plant Fund	30,000	
Cash in Bank - Operating Fund		40,000
Unexpended Plant Sub-fund Account		
Cash in Bank - Unexpended Plant Sub-fund	40,000	
Unexpended Function (Equip.) - Transfer From Operating		10,000
Unexpended Function (Buildings) - Transfer From Operating		30,000
To record allocation of resources for future plant fund use.		

13D.08 Local Church and School Properties (USA GAAP)

Invested in Plant Sub-fund Account:	Debit	Credit
Local Property (asset cost account)	750,000	
Non-operating Donation - Property Added (activity account)		750,000
To record acquisition of property purchased or constructed with donations raised by local congregation.		
Non-operating Expense - Depreciation on local-use properties	12,500	
Accumulated Depreciation - local-use properties		12,500
To record depreciation expense on local-use properties.		

Appendix 13E - How To Account For Major And Minor Repairs

Accounting for repairs, improvements, and renovations is based upon the core accounting concept of matching revenues and expenses. For all types of entities, this concept is described in International Accounting Standards, in Framework Statements 94 to 97, and in IAS 16.7, 16.12, and 16.13. (Professional standards in other jurisdictions may have similar provisions, such as FASB Concepts Statement No. 6 in the USA.) This concept is also described in various intermediate accounting textbooks, and can be summarized as follows.

Ordinary repairs and maintenance are recorded entirely as current expense because they do not add to the value nor materially prolong the life of the underlying asset. These types of repairs merely help to ensure that the underlying asset will serve its originally estimated useful life and purpose.

Major repairs and renovations are capitalized, and depreciated over multiple periods, only if they meet one of the following criteria:

(a) they significantly extend the original useful life of the underlying asset,
(b) they increase the efficiency or output of the underlying asset, or
(c) they improve the condition or quality of the asset to be more than it was when first constructed or acquired.

The following chain of questions can be used to apply this accounting concept.

1. Does the expenditure result in a new or additional asset or component, or does the expenditure completely replace a component that was originally capitalized as a separate part of a larger asset?
   If yes, go to number 3.
   If no, go to number 2.

2. Does the expenditure add any significant amount to the originally estimated useful life of the asset, or is the expenditure significantly greater than the original cost of the underlying asset?
   If yes, go to number 3.
   If no, go to number 4.

3. Capitalize the expenditure.

   a. If the expenditure results in a new or additional asset, capitalize it as a new asset apart from the pre-existing asset. Depreciate this new asset according to its own estimated useful life.

   b. If the expenditure replaces a separately capitalized component of a larger asset, capitalize the new expenditure as a new asset apart from the larger asset. Depreciate this new asset according to its own estimated useful life. At the same time, write off as a loss on disposal the remaining depreciated book value, if any, of the component that was replaced by this new expenditure.

   c. If the expenditure prolongs the originally estimated useful life of a pre-existing asset, but does not create a separate new asset, and the current expenditure is less than the accumulated depreciation of the pre-existing asset, debit the current expenditure as a decrease in the accumulated depreciation account for the pre-existing asset. Then depreciate the revised net book value over the revised remaining useful life.

   d. If the expenditure prolongs the originally estimated useful life of a pre-existing asset, but does not create a separate new asset, and the current expenditure is more than the accumulated depreciation of the pre-existing asset, capitalize the current expenditure as a new asset apart from the pre-existing asset.

If you have gotten this far, the expenditure probably has one of the following characteristics.
It merely maintains the operating or functional efficiency of the underlying asset, or
It merely helps to ensure that the asset will last for its originally estimated economic useful life.
In either case, record the expenditure as repair expense of the current period.

Appendix 13F.1 - Illustrative Content for Lease of Land Only

CAUTION: The following items are intended only to illustrate some of the terms typically seen in a lease agreement between a landlord that holds legal title to land and a tenant that has ownership of certain buildings and improvements located on that land. Any actual lease agreement should be drafted in consultation with legal counsel to ensure that the terms conform to applicable laws and regulations and reflect the intentions of the parties to the agreement.

Date: (*date of the agreement*)
Landlord: (*name and address of the entity that holds legal title to the land*)
Tenant: (*name and address of the entity that uses the property*)

Premises: All that land located at (*address, including street, city, state/province*), which is titled in the name of landlord, and upon which are located buildings and improvements used by tenant.

Use: *(Description of the purpose for use of the property, such as to operate a secondary school.)*
Rent: (*Description of amount and frequency of lease payments.*)
Term: (*Some form of restrictive term, such as the following:* For as long as tenant is considered, in the sole opinion of the (*name of governing committee of landlord*), to be operating a Seventh-day Adventist Academy in accordance with the principles of the Seventh-day Adventist Church.)

Tenant Agrees To: (*various terms and conditions, including but not necessarily limited to the following*)
Accept the premises in the present condition.
Obey all laws, regulations, etc. applicable to use and occupancy of the premises, including rules and regulations of the landlord.
Maintain liability insurance for the premises and the conduct of the tenant's business, naming landlord as an additional insured, in amounts required by landlord.
Maintain casualty insurance on all tenant's personal property and all improvements.
Repair, replace, and maintain all parking lots, private roads, and other land improvements located on the premises.

Tenant Agrees Not To: (*various terms and conditions, including but not necessarily limited to the following*)
Use the premises for any purpose other than that stated in the lease.
Construct major improvements without the consent of the landlord.

Landlord Agrees To: (*various terms and conditions, including but not necessarily limited to the following*)
Lease the premises to the tenant for the stated purpose.

Landlord Agrees Not To: (*various terms and conditions, including but not necessarily limited to the following*)
Interfere with tenant's possession of the premises as long as tenant is not in default.

Landlord and Tenant Agree To The Following:
(*various terms and conditions, including but not necessarily limited to the following*)

Any physical additions or improvements to the premises made by the tenant shall require the consent of the landlord. Any buildings, additions, and improvements which have been made and paid for by the tenant in the past or will be made and paid for by the tenant in the future will be owned by the tenant until the lease expires, or is terminated, at which time ownership will transfer to the landlord.

The landlord and tenant agree that this lease conforms to an understanding of the historical relationship between them, and does not create any new responsibilities or change the relationship of the parties.

Appendix 13F.2 - Illustrative Content for Lease of Land, Buildings, and Improvements

CAUTION: The following items are intended only to illustrate some of the terms typically seen in a property use or net lease agreement between a landlord that holds legal title to land and is considered the owner of all buildings and improvements on that land, and a tenant that has been given only the right to use that property. Any actual lease agreement should be drafted in consultation with legal counsel to ensure that the terms conform to applicable laws and regulations and reflect the intentions of the parties to the agreement.

Date: (*date of the agreement*)
Landlord: (*name and address of the entity that holds legal title to the land*)
Tenant: (*name and address of the entity that uses the property*)

Premises: All that land located at (*address, including street, city, state/province*), which is titled in the name of landlord, and upon which are located buildings and improvements used by tenant.

Use: *(Description of the purpose for use of the property, such as to operate a secondary school.)*
Rent: Rent is to consist of two components:
(1) payment of *(indicate some nominal amount, such as $1 or $100*) per year; and
(2) payment by the tenant of all expenses necessary for the maintenance, upkeep, and insurance related to the land, buildings, and improvements, including materials, supplies, labor (whether rendered by adults or students), premiums, and fees charged.

Term: (*Some form of restrictive term, such as the following:* For as long as tenant is considered, in the sole opinion of the (*name of governing committee of landlord*), to be operating a Seventh-day Adventist Academy in accordance with the principles of the Seventh-day Adventist Church.)

Tenant Agrees To: (*various terms and conditions, including but not necessarily limited to the following*)
Accept the premises in the present condition.
Obey all laws, regulations, etc. applicable to use and occupancy of the premises, including rules and regulations of the landlord.
Maintain liability and casualty insurance for the premises and the conduct of the tenant's business, naming landlord as an additional insured, in amounts required by landlord.
Maintain casualty insurance on all tenant's personal property (furnishings and equipment, etc.).
Repair, replace, and maintain all parking lots, private roads, other land improvements, and all buildings located on the premises.

Tenant Agrees Not To: (*various terms and conditions, including but not necessarily limited to the following*)
Use the premises for any purpose other than that stated in the lease.
Construct major improvements without the consent of the landlord.

Landlord Agrees To: (*various terms and conditions, including but not necessarily limited to the following*)
Lease the premises to the tenant for the stated purpose.

Landlord Agrees Not To: (*various terms and conditions, including but not necessarily limited to the following*)
Interfere with tenant's possession of the premises as long as tenant is not in default.

Landlord and Tenant Agree To The Following:
(*various terms and conditions, including but not necessarily limited to the following*)

Any physical additions or improvements to the premises which are made by the tenant shall require the consent of the landlord. Any buildings, additions, and improvements which are made and paid for by the tenant will be considered to be contributed to and owned by the landlord. In the event the tenant ceases operations, any subsequent use and/or disposal of the property will be the exclusive right of the landlord.

Section 1401 - Current and Noncurrent Liabilities

Section 1402 - Routine Accounting

Section 1403 - Accrued Liabilities

Section 1404 - Offering Funds, Agency Accounts, and Depositor Accounts

Section 1405 - Organization Tax Liability

Section 1406 - Provisions and Contingent Liabilities

Appendix 14A - Country-specific Details (USA Standards)

Section 1401 - Current and Noncurrent Liabilities

1401.01 General Observations - The classification concepts for receivables discussed in Sections 1101 and 1104 are generally applicable to liabilities as well. Accounts payable are classified as current liabilities because they represent amounts due and payable within the next fiscal year. Loans payable are separated between current and noncurrent portions in a manner similar to loans receivable. The liabilities section of the account structure, with groupings for accounts payable, loans payable, unsecured and secured, current and noncurrent, will follow the same format as for receivables. To be able to disclose balances in these classifications in the financial statements without time-consuming analysis, each account should be properly identified and placed in its correct category in the accounting records. For proper accounting of inter-fund balances, refer to Section 1105.

1401.02 Accounts Receivable Credit Balances - Sub-classifications of accounts payable for credit balances due to regular customers or affiliated entities, will be similar (with minor exceptions) to those used for accounts receivable. It is not intended that a particular account will be changed from one location to another in the general ledger as the account balance moves from a debit to a credit or vice versa. Accounts with customers and affiliated entities may be located within the receivable or payable section of the ledger depending on whether the balance is usually a debt or credit. For convenience, it is acceptable to carry all accounts with denominational organizations and employees in the asset section of the ledger, subject to the following process.

At the close of each reporting period, the total of all credit balances in receivable accounts should be transferred by journal entry into the liability section so that they can be reported as liabilities in the financial statements. Also, all debit balances in payable accounts should be transferred by journal entry to the receivable section to provide correct presentation in the financial statements. Immediately following the close of the reporting period, the transfer entry should be reversed to move these balances back to the section of the general ledger where they were originally, for recording day-to-day transactions.

1401.03 Overdrawn Bank Balances - Occasionally, organizations issue checks for more than the balance available in their bank accounts, or deposits may be delayed for some reason, with the result that there is a temporary deficit in the bank account. Sometimes disbursements are made from one bank account before funds are transferred from another bank account to cover them. Whenever the net balance from all bank accounts is overdrawn at the end of an accounting period, the net overdrawn bank balance should be reported as a liability.

1401.04 Noncurrent Liabilities - To enable loans payable to be properly classified, each loan must be identified in a manner which indicates whether it is: current or noncurrent, secured or unsecured, and a creditor related or unrelated to the reporting entity.

Many loans payable are long-term obligations, repayable in monthly, quarterly, or annual installments. In such cases, the current portion (the amount due and payable within the next fiscal year) should be reclassified out of the noncurrent category and placed in the current liability section at year-end. The only exception would be liabilities for which specific assets have been set aside, properly classified as noncurrent, to repay the long-term obligation.

1401.05 Authorization - Any liability incurred for other than routine operating purposes must receive specific authorization of the governing committee of the organization. This applies whether the borrowing is from an outside entity (a financial institution), an affiliated denominational entity, or the assumption of an installment or long-term debt for the purchase of plant assets. It is effective whether the obligation is to be paid within the current year, or extends over a longer period of time. The authorization should always include the name of the creditor or lender, amount of the obligation, purpose for which the debt is incurred, terms of payment, interest rate and interest payment dates, and security or collateral, if any.

1401.06 Operating and Plant Activity - Specifying the purpose for which the obligation is incurred is particularly important for organizations that use fund accounting. The purpose will determine which fund will record the liability. Borrowing for the purpose of acquiring plant assets is a plant fund item, and the liability will be reported in the net invested in plant fund. On the other hand, a short-term bank loan to provide working capital for the summer months, for example, will be carried in the operating fund.

1401.07 Installment Purchases - Frequently, major equipment is purchased on the installment plan, with payments extending over a period of months or years. The full amount of the obligation must be recorded at the time the purchase is made, and the full value of the equipment must be recorded as an asset. Periodic payments will then reduce the amount of the outstanding obligation. (The cost of the asset would not be increased every time an installment payment is made.) Also, a portion of each payment represents interest on the unpaid balance, and will be recorded as expense, while the remainder is applied to the principal. Neither the cost of the asset nor the balance of the liability will include the interest factor.

1401.08 General Disclosure - It is not sufficient for notes to the financial statements to simply present a schedule showing the names of creditors and amounts due. Additional details about terms of payment, interest rate, and security, if any, are an essential part of adequate disclosure. For long-term indebtedness, a schedule should show the total amount due at the reporting date, separated into current and noncurrent portions, as well as the amount of principal due in each of the five years following the statement of financial position date. The required information should be embodied in notes to the financial statements if it is not shown on the face of the statements.

1401.09 Capital Leases - If an equipment item is acquired through a lease, it is important to analyze the lease to determine if it qualifies as a capital lease. Equipment acquired under a capital lease must be recorded like an installment purchase of plant assets. A capital lease is a lease that meets any one of the following criteria:

- Title transfers automatically at the end of the lease term,
- there is a bargain purchase option,
- the lease term is 75% or more of the equipment's useful life, or
- the net present value of all lease payments is 90% or more of the current market value of the equipment.

1401.10 Capital Lease Disclosure - GAAP requires the following disclosures about assets and liabilities related to capital leases. (For illustration, see Appendix 21B.07)

- ♦ The total amount of assets recorded under capital leases at each statement of financial position date presented by major asset categories.
- ♦ The total future lease payments at the latest statement of financial position date, the amount due in each of the next five years, and the amount of imputed interest used to reduce total payments to present value.
- ♦ If any of the assets are subleased, the total amount of sublease payments to be received at the latest statement of financial position date.
- ♦ All assets recorded under a capital lease and the related accumulated amortization separately identified in the statement of financial position or in the notes, and the liability separately identified in the statement of financial position.
- ♦ The amount of current amortization of leased assets which is included in the statement of financial activity, unless the amortization is included with depreciation and that fact is disclosed.

Section 1402 - Routine Accounting

1402.01 Recording Accounts Payable - Generally, to comply with accrual accounting, all purchase invoices should be recorded from documentation that indicates an obligation has been incurred. The recommended entry is to credit the liability account (Accounts Payable) and debit appropriate purchase and expense accounts. Then when payment is made, Accounts Payable is debited and Cash is credited.

1402.02 Avoid Cash-basis Recording - Sometimes management prefers to hold purchase invoices without entry until the actual check is written in payment, at which time the entry is made to debit the various purchase and expense accounts and credit Cash in Bank. While such a course eliminates an accounts payable journal and saves some bookkeeping effort, it results in failure to recognize obligations that exist at the time they are incurred. It also increases the amount of work to be done at the end of an accounting period. If the checks are back-dated and recorded as if they had occurred earlier, the purchase and expense balances may then be correct, but the cash and accounts payable balances will still be in error as of the financial statement date. To avoid these situations, all invoices and obligations should be recorded when they are incurred. Also, management should review all payments made after year-end, up to the time the financial statements are prepared, to ensure that any items due before year-end but paid after year-end are included in accounts payable at the financial statement date.

1402.03 Accounts Payable Journal - An effective way of accounting for purchases and expenses is through some form of Accounts Payable journal. Whether maintained manually or on a computer, the journal should contain a listing of vendor name, vendor invoice number, and date; an amount column for the total invoice representing a credit to accounts payable; and one or more columns designated for debits to the various purchase and expense accounts affected. All invoices will be recorded in this journal immediately upon approval. At appropriate intervals, including the end of each month, the journal is totaled, and postings are made to the respective accounts in the general ledger.

1402.04 Unpaid Invoices - Since most invoices are expected to be cleared during the month of purchase or soon thereafter, a subsidiary ledger for accounts payable is generally useful only in larger entities. In smaller entities, it is usually satisfactory to maintain a file of unpaid invoices which virtually becomes the subsidiary ledger. This file contains individual folders for each frequent vendor and a general file under each letter of the alphabet for invoices from vendors used only occasionally.

As invoices are entered in the accounts payable journal, they are filed in this open file. When they are assembled for payment, they are taken from the file, attached to the voucher copy of the check drawn in payment, subjected to a final review by the CFO who also determines that the checks are signed, and the invoices are filed in the check disbursement file. This leaves only unpaid invoices in the open file. If the recording of all invoices in the accounts payable journal and the recording of the debit to accounts payable from the cash disbursements journal have been made properly, the balance in the accounts payable control account will agree with the total of all invoices remaining in the open file. No invoices should be filed or removed without an entry being recorded.

1402.05 Trial Balance of Accounts Payable - A trial balance of the open accounts payable should be prepared at the end of each month, just as with accounts receivable. The accountant should provide the CFO with a copy of this trial balance so that they may know at the end of the month just what demands will be made on cash within the following few days.

Section 1403 - Accrued Liabilities

1403.01 Nature of Accrued Liabilities - An accrued liability is one which recognizes the existence of an obligation for which no billing has been received, or on which payment is not yet due. Common examples would include accrued payroll (for services rendered but not yet paid, or not yet due for payment); accrued taxes (estimated tax liability for a portion of a year, on which no bill has been received); and accrued interest (amount of interest accumulated on an obligation from the last interest-payment date to the end of the accounting period).

1403.02 Liability for Compensated Absences - Denominational policy provides for granting vacations of specified length to employees who have rendered stated numbers of years of service. At the close of a given year, the organization has a liability to its employees for the value of the vacation time accrued up to that point, and this liability must be recognized. The basis for this is that most employees earn the right to a certain amount of vacation time for each period of time they have worked. In other words, the vacation entitlement is a part of the compensation earned during the year. If the earned vacation is not taken, the employer has a liability for it to be carried over at the end of the fiscal year. This liability should be computed and recorded for both salaried and eligible hourly employees. Organizations can minimize this liability by requiring employees to take vacation in the fiscal year in which it is earned, and by specifically approving any exceptions.

1403.03 Accrued Interest Payable - Interest on debt is recognized as an expense in the period during which the funds are in the hands of the borrower. Interest payment dates frequently do not coincide with fiscal period closing dates. Accordingly, at the end of the accounting period, the interest accrued on payables from the last payment date to the closing date must be calculated, and that amount must be recognized as a current liability and as an expense of the current period.

1403.04 Other Accrued Liabilities - Accounting personnel must be alert to other situations which involve unrecorded accrued liabilities. One liability that is often overlooked involves recognition of an obligation at year-end for payments of medical benefits related to employees. When costs are incurred and unpaid before year-end, a liability actually exists at year-end; the fact that employees may not have submitted their reports of claims until after the end of the fiscal year does not mitigate the fact. The amounts to be accrued can be obtained from one or more of the following sources: reports issued by ARM or other benefit administrator for the month or two following year-end, employee reports submitted after year-end, other unpaid invoices on file, and payments made after year-end. This can sometimes be estimated by reviewing prior periods and considering any unique circumstances.

1403.05 Retirement Plan Contributions - Most SDA organizations participate in providing funding for payments to retirees of the denomination according to the provisions of applicable division working policies. Generally, for all defined benefit plans, local and union conferences and missions make contributions based on stated percentages of tithe received each month. In divisions or unions where a defined contribution plan has been established, the conferences and missions make contributions based on stated percentages of payroll. All other types of organizations make contributions based on stated percentages of basic payroll expense. Contributions based on tithe are remitted in the month following receipt of the tithe. Contributions based on payroll are paid monthly. Regardless of the method of calculation, each organization should accrue a liability as incurred each month for its retirement contribution payable.

Some retirement plans send monthly statements to each payroll-based employer, while other plans rely on the employers to send in correct timely payments. Further, some Divisions allow a two-year time lag between the base period and the monthly payment dates. For example, an academy's total basic payroll for fiscal year ended June 30, 20X0, will be the base for its retirement contributions payable each month during calendar year 20X2.

In some divisions, employees also earn the right to a retirement allowance, or severance allowance, if they work for the denomination up to the date of their retirement. This allowance is usually paid to the employee by their last employer. In jurisdictions where this is a vested benefit, the employer should accrue a liability at the end of each year for the estimated amount of the benefit earned by each eligible employee.

1403.06 Obligations Related to Retirement Funding - Most defined benefit retirement plans are under-funded. That means the actuarial present value of the future obligation to the employees and retirees exceeds the fair value of the total assets of the Plan. The participating employers understand that they are obligated to continue funding the Plan into the future. Historically, GAAP did not require participants in "multi-employer" plans to record any liability for any share of the unfunded future obligation. They were required only to disclose certain information about the plan. This was because most actuarial evaluations of multi-employer plans calculate a present value of the benefit liability for the plan as a whole, but no valuation for each participating employer. Effective 1 January 2006, international GAAP requires employers in multi-employer plans to record a liability for their proportionate share of any unfunded benefit plan liability, unless the proportionate share of the liability cannot be reasonably or reliably determined.

Section 1404 - Offering Funds, Agency Accounts, and Deposit Accounts

1404.01 Terminology - Historically, the denomination has used the terms "trust fund" and "agency account" to mean the same thing. However, in some countries, reference to "trust funds" can be confused with "trustee funds." "Trust funds" usually refer to resources held on a temporary basis subject to instructions from the depositor. "Trustee funds," on the other hand, are assets created by a formal legal trust agreement wherein the custodian is legally designated and liable as a trustee. To minimize potential confusion, this Manual uses the terms "Offering Funds" and "Agency Accounts" to refer to resources that are held by one entity but which are subject to the direction of other entities and individuals. This Manual reserves use of the term "trust fund" for only those assets that are subject to a formal legal agreement that designates the reporting entity as a trustee.

1404.02 Funds Passed On - A distinctive part of the flow of resources through a conference or mission is money which simply passes through the entity's records on its way to higher denominational organizations. In the strict sense of the word, GAAP defines these as agency accounts. This Manual uses the term "Offering Funds" for all amounts that are raised at the congregation level and are then passed on to other denominational entities in compliance with denominational working policy.

The accounting procedure is a simple one. The liability accounts identifying the various types of offerings are credited as a part of the journal entry which records the tithe and offering reports from the local churches. When the remittance payment is made to pass the funds on through denominational channels, the respective offering fund accounts are debited. This means that at the close of any fiscal period, if cash transactions have been cut off properly, the various offering fund accounts will carry credit balances representing the amounts reported by local churches as of the end of the period which remain to be passed on to the next higher organization.

1404.03 Agency Accounts - In addition to offering funds, many entities hold resources that have been provided by individuals or entities outside the organization to be used or disbursed as may be directed from time to time by the provider of the funds or to be returned to the provider upon request. The organization holds these funds for and administers them according to instructions of the provider. This includes appropriations received from a higher organization if they include specific instructions to be passed on to other organizations. This Manual uses the term "Agency Accounts" to refer to these resources. Section 1503.04 and Appendix 15D.03 provide guidance on how to distinguish an agency transaction from something else.

1404.04 Deposit Accounts - Some organizations accept cash from employees and others to be carried as personal deposits repayable to the depositor on demand. Temporary deposits may also be received for specific project purposes, such as advance deposits on campmeeting or youth camp facilities or academy room deposits. These deposits are always liabilities and remain such until they are refunded to the depositor or transferred to the organization for its use by request of the depositor, or by performance of related services by the organization.

Section 1405 - Organization Tax Liability

1405.01 Taxes in General - Because laws governing taxation vary with each country, and are subject to change, this section presents only a general discussion about taxes. Tax laws encompass such things as payroll taxes (on both employers and employees), value-added taxes or sales taxes on goods or services, property taxes, etc. Taxes can be administered by a variety of local, regional, and national governing bodies. It is a critical responsibility of the CFO of each entity to be aware of the tax laws that affect the organization, and to maintain records adequate to meet all government requirements, including payment of properly-computed taxes on a timely basis.

1405.02 Exemption from Taxation - In many countries, not-for-profit charitable and religious organizations are afforded some degree of exemption from certain kinds of taxes. Generally, they are exempt from taxation on activities related to their charitable or religious purpose, but are not exempt from taxation on auxiliary or separate activities that are not related to that purpose. Organizations that have non-exempt activities should manage them in a way that minimizes the risk of placing their exempt status in jeopardy.

1405.03 Payroll-related Taxes - Most SDA entities are employers, which in many countries subjects them to various taxes that must be withheld from the earnings of their employees, and which must then be sent on to appropriate government agencies. In many countries, these payroll taxes are levied on both the employer and the employee. The laws may also define which components of the compensation package (basic pay only, or basic pay plus various allowances, etc.) are subject to tax. The payroll accounting process should be designed so that the taxes withheld from employees are recorded as liabilities as an integral part of the process. The taxes withheld from employees plus the taxes assessed on the employer will equal the total liability payable to the government agencies. The CFO should monitor the system to ensure that such taxes are properly calculated, deducted, recorded as expenses and liabilities, and then sent to the designated agencies on a timely basis.

Section 1406 - Provisions and Contingent Liabilities

1406.01 Basic Definitions - International GAAP defines “provisions” and “contingent liabilities” with reference to whether they are **present** obligations (meaning the organization is more likely than not to be held liable for it) or **possible** obligations (meaning the organization is only as likely as not to be held liable).

A provision is a present obligation that is expected to require an outflow of resources to settle, but for which either the timing or the amount, or both, is uncertain. In other words, the entity knows it is obligated to, and probably will, pay something, but it does not know when it will be due or how much it will cost.

A contingent liability is either:

A. a possible obligation whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not under the control of the entity;
B. a present obligation for which it is not probable that an outflow of resources will be required to settle it (in other words, they know it is their obligation, but it probably will not cost them anything); or
C. a present obligation for which the amount can not be measured with sufficient reliability.

1406.02 Accounting Principles - Whether an obligation is recognized and recorded as a liability or is only disclosed in the notes to the financial statements depends on which definition the obligation falls under.

A provision must be recognized and recorded as a liability if it is probable that an outflow of resources will be required to settle it, *and* a reliable estimate can be made of the amount of the obligation. In addition, for each class of provision, the notes to the financial statements must disclose:

- the carrying amount at the beginning and end of the period,
- increases and decreases during the period,
- changes, if any, to the discount rate arising from the passage of time,
- a brief description of the nature of the obligation and the expected timing of outflows of resources, and
- an indication of the uncertainties relating to the amount or timing of the possible outflows, and the amount of any expected reimbursement.

An obligation that meets any one of the three types of contingent liability is not to be recognized or recorded as a liability, but the notes to the financial statements must disclose a brief description of the nature of the contingent liability. Also, where practicable, the notes should disclose an estimate of its financial effect, an indication of the uncertainties relating to the amount or timing of the possible outflow of resources, and the possibility of any reimbursement in the event of an outflow. If the possibility of an outflow of resources to settle a contingent liability is remote, no disclosure is required.

1406.03 Pending or Threatened Litigation - The preceding guidance should be applied to pending or threatened litigation. Each case should be analyzed, with legal counsel, to determine whether an obligation exists, whether it is a “present” or only a “possible” obligation, and the probability that an outflow of resources will be required to settle the matter. Also, if a pending legal issue is resolved after the statement of financial position date, but before the financial statements are issued, such resolution should be disclosed in the notes.

1406.04 Guarantees of Indebtedness of Others - Occasionally, organizations sign as co-makers, endorsers, or guarantors on loans negotiated by affiliated entities, such as academies, constituent churches, etc. Also, on occasion such secondary liability is assumed for individual employee loans. Application of the preceding guidance would generally result in the following accounting and disclosures:

- When the officers of an organization sign a loan document for the entity as borrower, a liability must be recorded in the accounts, and reported in the statement of financial position, and the notes must include disclosure of the nature and terms of the obligation. If the loan proceeds are used by an affiliated entity, and that entity is expected to repay it, the reporting entity should record a receivable from the affiliated entity.

- When the officers of an organization sign a document that guarantees the liability of an affiliated entity, to be enforceable only upon the occurrence of some specified event, the notes to the reporting entity's financial statements must disclose the nature and terms of the contingent liability.

- When the officers of an organization co-sign a loan document with an affiliated entity, so that both the reporting entity and the affiliated entity are equally liable, the obligation must be recorded as a liability of the reporting entity, and the notes must include disclosure of the nature and terms of the obligation. In addition, a receivable from the affiliated entity must be recorded for the same amount.

- When organizations make other types of arrangements for guarantee or secondary liability for loans, the officers should review the particular circumstances with legal counsel, and if desired, with their auditors, to ensure that correct accounting and disclosure is accomplished.

Appendix 14A - Country-specific Details (USA Standards)

14A.01 Payroll Taxes - Most SDA organizations in the USA fit the definition of an employer as defined by the Internal Revenue Service (IRS). Similar to the discussion in Section 1405.03, they have a responsibility to withhold various federal and state payroll taxes on the earnings of individuals considered to be employees, as well as to pay payroll taxes assessed on the employer, and to record such items as liabilities until paid. The following IRS publications contain guidance for compliance with federal payroll tax regulations. These publications may be downloaded free of charge from the IRS website (www.irs.gov.)

Publication 15 - Employer's Tax Guide (Circular E)
Publication 15-B - Employer's Tax Guide to Fringe Benefits

For the purpose of this definition and in the context of SDA terminology, wages would include basic salary or wages plus any allowance granted for which the employee is not required to substantiate that the amount received is actually a reimbursement of an expense incurred in carrying out their assigned responsibilities. From time to time, NAD has published a schedule expressing its understanding as to the taxability of such allowances in the USA. CFO's should contact NAD treasury to obtain a copy of the latest edition of this schedule.

14A.02 Tax Status for Ministers - In the USA ordained ministers and licensed ministers engaged in pastoral or evangelistic work are considered to be self-employed individuals rather than employees, only for purposes of the laws relating to income tax and Social Security tax liability. As such, they are not subject to the withholding provisions of the law as described above. In addition, the law provides that "ministers of the gospel" may have their living accommodations or "parsonage" provided to them by their church. If the actual facilities are not available, an equivalent allowance may be granted in lieu of parsonage. This allowance may be provided in an amount adequate to cover all expenses in connection with providing the minister's living quarters including such items as rent, down payment, mortgage payments, repairs and maintenance, utilities, garbage removal, purchase of furniture and fixtures, interest and taxes, etc.

Prior to the beginning of each year, the employing organization must formally designate the specific amount or percentage of salary which is to be considered as "parsonage allowance" and the individuals who are qualified to receive it for the coming year. It is then the responsibility of the individual to substantiate that the amount so designated has actually been used for the purpose of providing living quarters. If not, any excess allowance over the amount actually expended for this purpose is considered as taxable income and must be reported as such by the individual. The parsonage exclusion reduces the federal income tax liability but not the Social Security tax.

State and local government tax laws may differ from the federal law regarding parsonage allowance.

14A.03 Contingent Liabilities - US GAAP for contingencies is philosophically similar to international GAAP as discussed in Section 1406 above. However, US GAAP uses some different terminology, as discussed below.

A **contingency** is defined as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur.

When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset, or the incurrence of a liability, can range from probable to remote. US GAAP uses the following terms to identify three characteristics within that range:

Probable - The future event or events are likely to occur.

Reasonably possible - The chance of the future event or events occurring is more than remote but less than likely.

Remote - The chance of the future event or events occurring is slight.

An estimated loss from a loss contingency **shall be accrued** as an expense if **both** of the following conditions are met:

(A) Information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the financial statement date.

The amount of the loss can be reasonably estimated.

If no accrual is made for a loss contingency because one or both of the conditions above are not met, the notes to the financial statements should include disclosure of the contingency when there is at least a reasonable possibility that a loss or an additional loss may have been incurred.

The above guidance should be applied to pending or threatened litigation and to guarantees of indebtedness of others in a similar manner as discussed in Sections 1406.03 and 1406.04.

14A.04 Unrelated Business Income Tax - In the USA, tax-exempt charitable entities are required to file a report with the government for each year in which they received gross revenue of more than $1,000 from business or activities which are “unrelated” to their tax-exempt purpose. If there is any “profit” remaining after deducting allowable expenses from such revenue, the entity must pay income tax on it. To be subject to this law, the business or activity must be “regularly” carried on and must be “not substantially related” to the entity’s tax-exempt purpose. An example of such activity would be a school-operated industry that provided services to the general public or other businesses. Because noncompliance with this law can place an organization’s tax-exempt status at risk, there has been much litigation and government enforcement action on this matter. The CFO should consult legal counsel periodically to ensure that the organization classifies, accounts for, and reports properly any unrelated business activity.

Appendix 15C - Split-Interest Agreements (USA Standard)

Appendix 15D - Technical Application Advice (USA Standard)

Appendix 15E - Decision Flowcharts (USA Standard)

Section 1501 - Definition of Net Assets in Not-for-Profit Entities

1501.01 Nature of Net Assets - International GAAP offers significant flexibility in the presentation of financial activity, as long as the activity is presented in ways that are meaningful to the users of the financial statements. Not-for-profit organizations use different terminology than for-profit businesses to identify the amount that remains after subtracting total liabilities from total assets. The concept of stewardship in not-for-profit organizations assumes that this remainder does not "belong" to owners in the same way as "equity" in a business. Instead, it represents resources held for the performance of a mission. Many not-for-profit organizations separate their various assets and liabilities into distinct segments or funds. The remainder or "fund balance" of a segment will be significant to a particular purpose, but may serve a narrower purpose than that of the organization as a whole. To highlight the nature of the remainder as the result of assets minus liabilities, and to apply it whether the reporting entity uses fund accounting or not, this Manual refers to the accounts that represent this remainder as "net assets."

1501.02 Components of Net Assets - Every entity will have an unrestricted unallocated component of net assets, which represents the amount that is available for management to use at its discretion to carry out the entity's programs and services. (As discussed in Chapter 17, conferences separate unallocated net assets further, into tithe and non-tithe funds.) Most entities will also have additional components of net assets to represent resources that have been either restricted by donor instructions or designated by the governing committee for specific programs or purposes. Management should have a clear understanding about which of these functions, by their nature and purpose, can accept restricted gifts from donors or transfers from unallocated tithe or non-tithe funds. All entities that have plant assets will also have at least one component of net assets related to those resources.

As discussed in Sections 702.02 and 702.05, the balances in each of the organization's various net asset components should be reported in appropriate places in the financial statements. These concepts are illustrated in Appendices 17A.01, 17A.03, and 17A.05 Note 18.

1501.03 Plant-related Net Assets - The net depreciated value of land, buildings, and equipment minus any related debt will be represented by a net asset account known as Net Invested in Plant. This will be required whether the organization uses fund accounting or not. In addition, any unspent balance of depreciation funding and acquisition funding from transfers of operating resources should be recorded in one or more allocated functions within a group classified as Unexpended Plant net assets. Any unspent balance of resources from restricted donations for the purchase or replacement of specified or general plant assets should be recorded in separate allocated functions apart from unspent portions of cash transferred from operating funds.

Section 1502 - Allocated Net Assets

1502.01 Definition of Allocated Functions - Previous sections indicated that restricted funds are those bearing a restriction imposed by a donor. It is not possible for management or the governing committee to place a “restriction” on resources, but the committee can “allocate” certain portions of **unrestricted** funds to be used for specific purposes. It is important to keep in mind that such actions simply “allocate” or separate a portion of the unrestricted net assets for the specified function. Since the governing committee can designate an intended use of unrestricted funds, it also has the authority to remove such designation whenever it wishes to do so.

1502.02 How Much Can Be Allocated - The amount of unallocated resources that can be allocated should be carefully considered. GCWP T 15 05 allows **excess** working capital to be set aside for specific purposes. Also, GCWP T 25 25 requires use of an allocated function for currency exchange fluctuations. The governing committee has a responsibility to set aside amounts to meet the organization’s goals for specific programs and services, but management also needs the flexibility of having some amount of unallocated resources to use at its discretion.

As a general rule, resources should be allocated for programs or services that meet the following criteria: they should be attainable and related to the entity’s mission, they should be of a long-term nature, and they should result in relatively significant expenditures. It is not the intent of this process to allocate funds for little reason other than to remove them from the unallocated classification.

1502.03 Recovery of Excess Allocations - Entries to increase or decrease the net assets of various functions by transfers are made at least at the close of each year to reflect allocations made by the governing committee. Transfers from unallocated functions to allocated functions cannot exceed the unallocated amounts that are available. In other words, it is not appropriate to conclude an accounting period with a negative balance in unallocated tithe or non-tithe, but with a positive balance in unrestricted allocated functions.

If the financial activity for the period results in a negative balance in the unallocated function, but positive balances in unrestricted allocated functions, transfers should be made from one or more allocated functions in amounts at least sufficient to eliminate the deficit in the unallocated function. Similarly, if an allocated function ends the period with a negative balance, but there is no unallocated balance available to cover the deficit, such funding, if desired, can come only from some other allocated function.

1502.04 Allocated Working Capital Function - Organizations may choose to allocate a portion of unrestricted net assets to a working capital function. The goal would be for this allocated function to be equal to the minimum amount of working capital recommended by GCWP T 15 05 or a corresponding division working policy. Allocating resources in this manner indicates to the governing committee that this amount is needed to maintain recommended working capital and should not be committed to any other use. During the budgeting process, this allocated function would help identify any need for additional working capital.

1502.05 Appropriations for Allocated Purposes - There are a few programs, such as Global Mission and Thirteenth Sabbath Special Projects, that involve a flow of resources from congregations to the General Conference and then back from the General Conference to other denominational entities for use in designated projects. Which entity (division or union) should record these resources as net assets, rather than as agency funds flowing to or from other entities? At least for Global Mission and Thirteenth Sabbath, the General Conference retains a degree of control, through the Divisions, over the portions of its resources that are used for these programs. It is understood that the Divisions also typically make appropriations from resources at their discretion for the same projects. Because the General Conference has asked the Divisions to monitor and maintain accountability for Global Mission and Thirteenth Sabbath resources appropriated from the General Conference, these resources should be recorded as restricted revenue, and allocated net assets, by the Divisions. Any similar appropriations made from discretionary resources by the Divisions should be recorded as restricted revenue, and allocated net assets, by either the union or local conference or mission, depending on which level of organization the Division authorizes to monitor and maintain accountability for those programs.

Section 1503 - Guidance on Contributions and Other Revenue

1503.01 Definition of Contributions - International GAAP does not have specific standards or definitions about charitable contributions. However, the concept is fairly universal, so this Manual uses the following definition. A contribution is an unconditional and irrevocable transfer of cash or other assets in a voluntary nonreciprocal transfer from a person or entity to a charitable, religious, or educational organization.

1503.02 Value of Contributions - International GAAP does not have specific standards about how and when to recognize revenue from charitable contributions. However, it does require that non-cash assets be recorded at their fair value when acquired. It would be consistent, then, to record all contributions at their fair value (debit an asset and credit a revenue account). If the contribution consists of cash, fair value is its face value. If the contribution consists of marketable securities or some other asset that is traded on an open exchange, the published values from that open exchange should be consulted to determine fair value.

1503.03 Non-cash Contributions - In some parts of the world, the economic or cultural structure makes it difficult for some individuals to convert their own assets into cash. When these individuals choose to give contributions to their church, they give from what they have, whether that may be livestock, farm produce, or some other commodity. Assuming that the organization intends to sell the commodities, and use the cash proceeds for its programs and services, International GAAP requires the following procedures.

Non-cash assets received in such transactions are to be recorded at their estimated fair value minus the estimated costs to take possession, store, and sell the commodities. Unless such commodities are sold immediately, the estimated net realizable value of the assets is to be recorded as “deferred” or “unearned” revenue until the commodities are sold. The organization should accumulate any storage, maintenance, and selling costs in “prepaid expense” accounts until the commodities are sold. At the time of sale, the proceeds and an appropriate portion of the prepaid expenses are to be netted together, and the net realized amount is to be recorded as contribution revenue.

The donor may have specified that the proceeds of the contribution were to be used for tithe or offerings that the recipient would be obligated to send on to higher denominational entities. Because the recipient organization does not recognize income until the commodities are sold, it also would not record any liability to the higher denominational entities until the commodities are sold. Until sold, the items would not appear in any reports to higher entities, except in their character as assets held for sale and deferred revenue.

The following sample entries illustrate the accounting for such non-cash contributions.

Debit: Commodities Held For Sale	1,500	
Credit: Unearned Income		1,500
To record commodities received as a contribution, to be sold.		

Debit: Prepaid Expense to Hold Commodities	450	
Credit: Cash in Bank		450
To record expenses of storage and maintenance of commodities held for sale.		

Debit: Cash in Bank	2,000	
Credit: Prepaid Expense to Hold Commodities		450
Credit: Contribution Revenue - Tithe		1,000
Credit: Contribution Revenue - Local Project		550
Debit: Tithe Percentages (contra-income account)	120	
Credit: Tithe Percentages Payable to Division		120
Debit: Unearned Income	1,500	
Credit: Commodities Held For Sale		1,500
To record contribution resulting from sale of donated commodities.		

1503.04 Contributions Versus Agency Transactions - Sometimes an individual gives money to a charitable entity with instructions to pass the money on to some other charity, or to use it in some other manner, as directed by the individual at a later date. As long as the charity holding the money has little or no discretion in how to use the money, and the provider has the right to ask for return of the money, it can not be recorded as a contribution. It must be recorded as an agency liability. (See Appendix 15D.03.)

1503.05 Contributions Versus Exchange Transactions - If a donor receives something from the organization, the transaction must be analyzed to determine if any of it is an exchange.

(1) If the resource provider receives nothing of value, the transaction is a contribution.

(2) If value is received by the donor indirectly or incidentally, such as reduced crime from a drug-awareness campaign, the transaction is a contribution.

(3) If the donor receives something of value, but it is not in exchange for the assets transferred, the transaction is a contribution. For example, some charities send bookmarks or pre-printed address labels with their solicitation mailings. The potential donors can keep these items whether they make contributions or not. Any donations received are contributions, and the cost of token "gifts" mailed out is fund-raising expense.

(4) If donors receive something of nominal value in exchange for their gifts, the transaction is still a contribution. For example, organizations frequently give hats or shirts imprinted with their logo to donors who give more than a certain amount. Generally, if the fair value of the thank-you object is less than about 2% of the donation, the transaction is a contribution. The full amount received would be a contribution, and the cost of the thank-you items would be fund-raising expense.

(5) If the resource provider receives something of more than token value, the value given must be compared to the value received. If the relative values are approximately equal, it is a normal business transaction, with no contribution. In contrast, there is a contribution element if the resource provider gives something to the organization and receives something of substantially lower value in return.

For example, a person may sell a building to a charity for much less than market value. The transaction is part exchange and part contribution. The organization would record a property asset at full market value, a credit to cash for the price paid, and contribution revenue for the difference. (If fund accounting is used; in the unexpended plant fund, debit assets purchased and credit cash; in the net invested in plant fund, debit the asset at market value, credit assets acquired for the cash portion, and credit contribution revenue for the difference.)

1503.06 Sequence of Using Resources - The basic concept in using or spending contributions for any particular purpose is as follows. Any donor-restricted funds available for that purpose are used first. Any committee-designated funds available for that purpose are used next. Unrestricted unallocated resources are used last.

1503.07 Revenue and Expense Versus Net Gains and Losses - Most of an organization's activity will be normal revenue or expense related to its charitable or religious purpose. Many organizations, however, will occasionally enter into unusual transactions that have elements of both revenue and expense. Can these events be recorded at their net effect, or must the revenue and expense elements be recorded separately? Under certain conditions, discussed below, revenue and expense may be reported at a net amount.

1503.08 Peripheral or Incidental Transactions - Activity that results from peripheral or incidental transactions or from events beyond the control of the organization may be reported at their net effect on the financial statements. Examples include occasional sale of buildings or equipment, gains or losses from settlement of lawsuits, gain or loss after insurance for damage from casualties, and changes in market value of investments. Net gains or losses are reported as increases or decreases to unallocated net assets unless they represent assets that were donor-restricted for specific use. In that case, the net gain or loss would be recorded in the applicable allocated function.

1503.09 Special Events - Events such as banquets and telephone fund-raising need to be analyzed to determine if they are peripheral or incidental, or if they are a major and ongoing activity. A once-a-year telethon, although infrequent, may still be major and ongoing if it typically raises a significant portion of the organization's annual budget. In contrast, a food fair held three or four times a year may still be incidental if it typically draws a small participation or insignificant amounts of donations.

If the event is a peripheral or incidental activity, the organization has a choice of reporting either (a) the net gain or loss or (b) the gross receipts and total costs. If the event is a major and ongoing activity, the organization should report the gross amounts of revenue and expense, but has two alternative methods of presentation. One alternative is to report line items for revenue and expense, with possibly a subtotal for net support provided by the event. The other alternative is to consider the event as part exchange (fair value the participants received) and part contribution (excess of payments received over fair value given), and report the two parts separately. The following illustrates these two alternatives:

Alumni Golf Tournament	Alternative #1	Alternative #2
Green Fees Collected	$ 1,200	$ 600
Golf Course Use Fee	(500)	(500)
Net Tournament Revenue	700	100
Contributions Received		600

Appendix 15A - Characteristics of Net Assets (USA Standard)

15A.01 Definition of Net Assets - To comply with GAAP, not-for-profit organizations in the USA use the term “net assets” to identify the amount that remains after subtracting total liabilities from total assets. The not-for-profit philosophy presumes that this remainder does not “belong” to owners, but represents resources held for the performance of a mission. Many not-for-profit organizations separate their assets and liabilities into distinct segments or funds. The “balance” of any one fund will be significant to a particular purpose, but may serve a narrower purpose than that of the organization as a whole.

One objective of using the term net assets is to place a greater focus on the absence or existence of donor-imposed restrictions on resources available to the organization. Another objective is to focus attention and reporting on the organization as a whole, rather than on any particular fund, and to indicate that the term applies whether the entity uses fund accounting or not. Further, the net assets, within each fund and for the organization as a whole, will be separated into three classes (unrestricted, temporarily restricted, and permanently restricted), depending on the absence or existence of donor-imposed restrictions.

15A.02 Unrestricted Net Assets - Unrestricted net assets represent the net amount of resources available without restriction for carrying out the entity’s objectives. Unrestricted net assets may be further segregated to indicate portions allocated for specific purposes by the organization's governing body. Additions or deductions to this class of net assets will result from regular operations of the organization, including the use of specific portions of restricted resources during the current fiscal year. Also, all operating expenses of the organization will be recorded as decreases in unrestricted net assets. While various types of operating activity will be recorded in individual accounts, all such transactions will be closed into unrestricted net assets at the end of the fiscal year.

15A.03 Temporarily Restricted Net Assets - Temporarily restricted net assets represent resources whose use is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled by actions of the organization. Additions to this class of net assets will result from receipt of restricted donations or appropriations. As implied previously, no expenses are charged directly to this class of net assets. As funds are spent for restricted purposes, or time limits elapse, corresponding amounts of temporarily restricted net assets are released from restrictions, and in effect, transferred to the unrestricted net assets accounts.

15A.04 Permanently Restricted Net Assets - Permanently restricted net assets represent resources whose use is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or removed by actions of the organization. This class of net assets works much like described above for temporarily restricted net assets, except that this class is by definition permanent. This class would be used primarily for endowments, but would also apply to donations of land or works of art, for example, if received with stipulations that they be used for a specified purpose, be preserved, and not be sold.

15A.05 Allocations of Unrestricted Net Assets - It is not possible for the administration or the governing committee to place a "restriction" on resources, but the committee can "allocate" certain portions of **unrestricted** funds to be used for specific purposes. Such actions simply "allocate" or separate a portion of the unrestricted net assets for the specified function. Since the governing committee has designated the intended use of such allocated funds, it also has the authority to remove such designation whenever it wishes to do so. Refer to Sections 1502.02, 1502.03, and 1502.04 for additional denominational principles regarding allocated net assets.

15A.06 Expense Versus Transfer - In practice, conferences maintain a larger number of allocated functions than other types of denominational entities because of the need for accountability for numerous different activities. For conferences, all expenses are charged to appropriate allocated functions, and two major unallocated functions are decreased only by use of transfers. For all other types of organizations, all expenses are charged to appropriate unallocated functions, and any allocated functions are decreased only by use of transfers. Illustrations of this are included in the Appendices for each type of organization.

15A.07 Plant-related Net Assets - Like operating resources, net assets related to land, buildings, and equipment will be separated among the three classes. The net depreciated value of unrestricted land, buildings, and equipment minus any related debt will be classified as Unrestricted Net Assets: Net Invested in Plant. This will be true whether the organization uses fund accounting or not. The net depreciated value of plant assets that were donated for a specific purpose or time period will be classified as Temporarily Restricted Net Assets. Any un-depreciable plant assets that were donated with stipulations that they be used only for specific purposes, or never be sold, would be classified as Permanently Restricted Net Assets.

The unspent balance of depreciation funding and acquisition funding from transfers of allocated operating resources should be classified as Unrestricted Net Assets: Allocated (within the unexpended plant fund, if used). The unspent balance of resources that have come from restricted donations for purchase or replacement of specified plant assets or types of assets would be classified as Temporarily Restricted Net Assets. In many organizations, the temporarily restricted net assets line on the financial statement will represent the total of a group of accounts that are restricted for various acquisition projects.

Appendix 15B - Changes in Net Assets (USA Standard)

15B.01 Guidance on Contributions - GAAP prescribes specific procedures for contributions in FASC 958. This guidance applies equally to both commercial and not-for-profit organizations. The guidance on this topic is very comprehensive, so the remainder of this section quotes specific sections. In addition, to help readers analyze contributions, this Manual includes Appendix 15D, which contains technical application advice, and Appendix 15E, which consists of analytical flowcharts.

15B.02 What is a Contribution?

FASC 958-605-20 - A contribution is an **unconditional** transfer of cash or other assets to an entity, or a settlement or cancellation of its liabilities, in a **voluntary nonreciprocal transfer** by another entity acting other than as an owner. Other assets include financial instruments, land, buildings, use of facilities or utilities, materials and supplies, intangible assets, services, and unconditional promises to give those items in the future.

FASC 958-310-25 - A promise to give is a written or oral agreement to contribute cash or other assets to another entity; however, to be recognized in financial statements there must be sufficient evidence in the form of verifiable documentation that a promise was made and received. A communication that does not indicate clearly whether it is a promise would be considered an unconditional promise to give only if it indicates an unconditional intention to give that is legally enforceable (which depends on state law).

15B.03 Conditions vs. Restrictions

FASC 958-605-20 - A donor-imposed **condition** on a transfer of assets or a promise to give specifies a future and uncertain event whose occurrence or failure to occur gives the promisor a right of return of the assets transferred or releases the promisor from its obligation to transfer assets promised.
In contrast, a donor-imposed **restriction** limits the use of contributed assets; it specifies a use that is more specific than broad limits resulting from the nature of the not-for-profit entity, the environment in which it operates, and the purposes specified in its articles of incorporation or its bylaws, or in comparable documents for an unincorporated association.

FASC 958-605-25 - A transfer of cash or other assets with a stipulation that the assets be returned if a specified future and uncertain event occurs or fails to occur is fundamentally different from both an unrestricted gift and a restricted gift. Imposing a condition creates a barrier that must be overcome before the recipient of the transferred assets has an unconditional right to retain those promised assets. For example, a transfer of cash with a promise to contribute that cash if a like amount of new gifts is raised from others within 30 days and a provision that the cash be returned if the gifts are not raised imposes a condition on which a promised gift depends.

FASC 958-605-25 - By imposing a condition, the transferor of assets not only retains a right of return of the transferred assets, but also casts doubt on whether the intent of the transfer was to make a gift, to conditionally promise a gift, or at the extreme, not to make a gift. Because donors impose very different kinds of conditions, the likelihood of meeting a condition can range from probable to remote. The Board concluded that if a transferor imposes a condition, a reasonable possibility exists that the condition will not occur and the transferred assets will be returned and, thus, should be accounted for as a refundable advance.

15B.04 Contributed Services

FASC 958-605-25 - Contributions of services shall be recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Services requiring specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftsmen. Contributed services and promises to give services that do not meet the above criteria shall not be recognized.

15B.05 Contributions Versus Agency Transactions

FASC 958-605-55-13 - A transfer of assets also may appear to be a contribution when a donor uses a recipient entity as its intermediary, agent, or trustee to transfer assets to a third-party donee, particularly if the recipient entity indirectly achieves its mission by disbursing the assets. Although the transaction between the donor and the donee may be a contribution, the transfer of assets from the donor is not a contribution received by the recipient entity, and the transfer of assets to the donee is not a contribution made by the recipient entity.

FASC 958-605-55-76 - A recipient entity has discretion sufficient to recognize a contribution received only if it can choose the beneficiaries of the assets. For example, if a recipient receives cash that it must disburse to any who meet guidelines specified by a resource provider or return the cash, those receipts may be deposits held by the recipient as an agent rather than contributions received as a donee. Similarly, if a recipient receives cash that it must disburse to individuals identified by the resource provider or return the cash, neither the receipt nor the disbursement is a contribution for the agent, trustee, or intermediary.
In contrast, if the resource provider allows the recipient to establish, define, and carry out the programs that disburse the cash, products, or services to the recipient's beneficiaries, the recipient generally is involved in receiving and making contributions.

15B.06 Sequence of Recording Restricted Revenue - All restricted revenue is to be recorded in temporarily or permanently restricted revenue accounts associated with particular functions as it is received during the year. At the end of each month and the year, amounts equal to what has been spent for each temporarily restricted function will be reclassified or transferred to the unrestricted net assets section. This reclassification is identified on the statement of changes in net assets as "Amounts Released from Restrictions." This line item will appear as an increase in the statement of changes in unrestricted net assets and as a decrease in the statement of changes in temporarily restricted net assets. (See Sections 1802.04, 1803.02, and 1803.03 for distinct principles for organizations, in certain jurisdictions, that must record unspent restricted resources as deferred income.) Restricted revenue transactions are illustrated in the sample financial statements in the Appendices for each type of organization.

15B.07 Value of Contributions - All contributions should be recorded at their fair market values. This is easy to accomplish for cash or cash equivalents, but takes more effort for non-cash contributions. Each organization should have a policy in place to determine when independent appraisals of value will be obtained for contributions of more than a specified value. In the USA, treasurers should also be aware there are specific IRS reporting requirements (Form 8283) for non-cash contributions over $500 and those over $5,000.

15B.08 Contributions Versus Exchange Transactions - If a donor receives something from the organization, the transaction must be analyzed to determine if any part of it is an exchange rather than a contribution. Following are some examples gleaned from professional literature.

(1) If the resource provider receives nothing of value, the transaction is a contribution.

(2) If value is received by the donor indirectly or incidentally, such as reduced crime from a drug-awareness campaign, the transaction is a contribution.

(3) If the donor receives something of value, but it is not in exchange for the assets transferred, the transaction is a contribution. For example, some charities send bookmarks or pre-printed address labels with their solicitation mailings. The potential donors can keep these items whether they make contributions or not. Any donations received are contributions, and the cost of token "gifts" mailed out is fund-raising expense.

(4) If donors receive something of nominal value in appreciation for their gifts, the transaction is still a contribution. For example, organizations frequently give hats or shirts imprinted with their logo to donors who give more than a certain amount. Following IRS guidelines, if the fair value of the thank-you object is less than the smaller of either $50 or 2% of the donation, it is a contribution. In that case, the total received would be a contribution, and the cost of thank-you items would be fund-raising expense.

(5) If the resource provider receives something of more than token value, the value given must be compared to the value received. If the relative values are commensurate, it is a normal business transaction, with no contribution. In contrast, there is a contribution element if the resource provider gives something to the organization and receives something in return of substantially lower value.

For example, a person may sell a building to a charity for much less than market value. The transaction is part exchange and part contribution. The organization would record a property asset at full market value, a credit to cash for the price paid, and contribution revenue for the difference. (If fund accounting is used; in the unexpended plant fund, debit assets purchased and credit cash; in the net invested in plant fund, debit the asset at market value, credit assets acquired for the cash portion, and credit contribution revenue for the difference.)

As another example, a donor may give property to the organization but reserve the right to live in it for the remainder of his/her life. The organization would record an asset at full market value, with a credit for the same amount as temporarily restricted contribution revenue.

15B.09 Accounting for Endowments - By their nature, endowment donations can be either perpetual or for a specified term. If the endowment instrument specifies permanent existence, it would be recorded as an increase in permanently restricted net assets. If the endowment instrument specifies a term to its existence, it would be recorded as an increase in temporarily restricted net assets. At the end of its term, it would then be transferred as assets released from restriction, and moved to unrestricted net assets. If the endowment instrument is unclear about its term of existence, the organization must look to applicable state law to determine how to classify the donation.

In addition, endowments can specify that revenue earned on the principal is to be either restricted or unrestricted, and can specify that some portion of earnings must be added to the principal. All investment earnings that are not added to permanently restricted net assets must be recorded as temporarily restricted support (even if they are not donor-restricted to a specified purpose). Such restricted net assets would be reclassified as assets released from restriction only as they are “appropriated for expenditure” by the governing committee or designees and then are used for the specified purposes.

Further, the organization must understand applicable state law related to the preservation of endowment principal, and use that understanding to develop its accounting policies. Some state laws require the preservation of the fair value of donated endowment assets, while others require the preservation of the purchasing power of donated endowment assets. The organization must use its understanding of state law to develop its accounting policies for recording gains and losses (both realized and unrealized) on investments held for endowments.

15B.10 Revenue and Expense Versus Net Gains and Losses - Most of an organization's activity will be normal revenue or expense related to its tax-exempt purpose. Many organizations, however, will have occasional unusual transactions that have elements of both revenue and expense. Can these events be recorded at their net effect on the organization, or do their revenue and expense elements need to be recorded separately? Under certain conditions, as discussed in Sections 1503.08 and 1503.09, revenue and expense may be reported at a net amount.

Appendix 15C - Split-Interest Agreements (USA Standard)

15C.01 Definition - The principles discussed in Appendix 15B present challenges in accounting for instruments known as "split-interest agreements." When a donor enters into a written trust or other arrangement under which a not-for-profit organization receives benefits that are shared with other beneficiaries, such a document is defined as a split-interest agreement. Unitrusts, annuity trusts, pooled income agreements, and revocable trusts are some of the types of split-interest agreements that exist. In the USA, denominational entities currently administer a large number of such agreements. Split-interest agreements frequently include the following characteristics:

- A donor transfers specified assets to a not-for-profit organization, or third party which acts as trustee.
- The trustee invests the assets and manages them in accordance with the agreement.
- The agreement may be revocable by the donor, or it may be irrevocable.
- The trustee may or may not be a beneficiary, but is not the sole beneficiary.
- The agreement is for a time period that is either a specified number of years, or until the demise of a specified individual.
- During the term of the agreement, distributions of income (and principal, if allowed) are made to the income beneficiaries designated by the agreement.
- At the end of the agreement's term, the remaining assets are distributed to the stated remainder beneficiaries according to the agreement.
- The charitable gift portion may consist of either: the income earned on the transferred assets (defined as a charitable lead interest), or the remaining assets (defined as a charitable remainder interest).

15C.02 Basic Accounting Rule - Under FAS 117, with its focus on the organization as a whole, the organization should include in its financial statements the assets, liabilities, and net assets of all funds under its control and should recognize contribution revenue for all unconditional interests it has in irrevocable agreements. Therefore, the basic accounting rule for split-interest agreements is that the trustee of a split-interest agreement should record the assets and liabilities under their control, and the unconditional beneficiary of a split-interest agreement should recognize any contribution revenue associated with that agreement in their general-use financial statements. This basic rule is to be used regardless of the extent to which fund accounting is used.

15C.03 Expanded Fund Accounting - Appendix 17D illustrates an expanded fund accounting presentation for organizations that administer a large number of split-interest agreements. It reflects the following principles:

♦ Deferred gifts are recorded uniformly regardless of the extent to which fund accounting is used.

♦ All releases of temporarily restricted net assets are reported in the Operating Fund.

♦ Split-interest agreements that have not yet matured are held in an Annuity and/or Trust Accounting Fund.

♦ When agreements mature, their resources are moved to the Operating Fund.

♦ Deferred gifts that are unrestricted or were only time restricted, regardless of who the trustee is, should be reported as unrestricted operating revenue, in the Fund in which the underlying assets were held or received.

The governing committee can transfer the portion of those resources that are in the Other Funds to the Operating Fund at any time thereafter.

- ♦ Deferred gifts for which the reporting entity is not the trustee and which are purpose restricted should be reported as temporarily restricted revenue in the Operating Fund or as permanently restricted revenue in the Endowment Fund, following donor instructions.
- ♦ Deferred gifts for which the reporting entity is the trustee, which are purpose restricted, and which are held in an annuity or trust accounting fund should be reported as revenue (gift portion) in the Fund in which they are held when they are established. When they mature, they should be reported as transfers of temporarily restricted net assets from that Fund to the Operating Fund. Then, in the reporting period when the purpose restrictions are met, the amount used should be reported as released from restrictions, like all other temporarily restricted net assets in the Operating Fund.

15C.04 Control of Assets - If the trustee does not have control of the irrevocable or revocable trust assets, the trustee is not required to include any related asset or related liability in its financial statements. Most of the revocable trusts for which denominational organizations are trustee specify that the trustor retains the right to control the investment of the trust's assets.

15C.05 Assets and Liabilities - Assets received under split-interest agreements should be recorded by the trustee at their fair value as of the date the gift is received. If the gift is a remainder interest, a liability should be recorded for the net present value of the future payments due to the income beneficiaries under the agreement. The value of the remainder interest is obtained by subtracting the present value of future payments to the income beneficiary from the fair value of the assets. A liability should also be recorded for any amounts that will be paid to remainder beneficiaries other than the trustee. A contribution should be recorded for the value of the assets received, less the value of the related liabilities. If the gift is a lead interest, the net present value of the future income payments to the charitable trustee should be recorded as a contribution. Then the liabilities to other income beneficiaries and remainder beneficiaries should be recorded as the difference between the total assets and the contribution amount.

15C.06 Present Value Discount Rate - When a trustee calculates the present value of the payments to the beneficiaries, it should use a "risk-free" discount rate that is appropriate for the expected term of the agreement. At the end of each year, the present value should be recalculated based on any changes in the expected future payments to beneficiaries, which change according to life expectancies and other actuarial assumptions. Note, however, that although the life expectancies and actuarial assumptions may change, the discount rate used for each agreement should not be changed from the rate established when the agreement was first recorded.

15C.07 Calculation of Present Value - The present value of a specific future dollar amount is equal to the amount of funds that would have to be invested presently, at a stated rate, to yield that dollar amount at a particular date in the future. Although, the easiest way to calculate present value is to use software designed for that purpose, the formula to calculate it is as follows: PV = FV /((1+ r) * n).

PV is the present value.
FV is the future value.
r is the discount (interest) rate per period.
n is the number of periods.

15C.08 Contribution Revenue - The trustee should record contribution revenue for the difference between the fair value of the assets received and the total of all liabilities related to the agreement. This contribution should be classified as temporarily restricted revenue, unless the donor has permanently restricted the purpose for which it can be used (such as an endowment), or unless the donor has given the trustee the immediate right to use the assets without restrictions (such as a charitable gift annuity). If the purpose for which the gift can be used is unrestricted, it is recorded as restricted revenue if the organization is not free to use the resources until some future event specified by the donor.

15C.09 Conditional Agreements - For revocable and irrevocable agreements that are conditional (see Section 15B.03), no amount is to be recognized as revenue initially. An amount equal to the total assets of the agreement should be recorded as a liability, in the form of a refundable advance. Only when the condition has been substantially met should the relevant amount be recorded as revenue.

15C.10 Beneficiaries Other Than Trustee - A charitable beneficiary that is not the trustee of an irrevocable agreement should record in its general-use financial statements an account receivable asset and a temporarily restricted contribution for its beneficial interest in the agreement. The transaction should be valued and recorded at the date when the organization is notified by the trustee that the agreement names the organization as a beneficiary. It should be considered a fiduciary responsibility of the trustee to notify the respective charitable beneficiaries when split-interest agreements are established.

Appendix 15D - Technical Application Advice (USA Standard)

15D.01 Donations To Worthy Student Funds

When donors specify what their gift is to be used for, it can be a challenge to those who solicit money as well as those who have to record the transaction.

For example, an academy may receive a check for $3,000 in the mail, for its worthy student fund. Accompanying the check is a note that says, "Please apply $2,000 of this to our grandson's account, and then you may use the rest for any other worthy student accounts." Is that a problem? If so, is there a solution?

It is well established that US tax law does not allow individuals to deduct as charitable contributions amounts that benefit the donor or donor's family. It also does not allow the donor a deduction if they specify the name of the individual who is to benefit from their gift.

We understand that a contribution is allowable under the following conditions.

- The donor contributes to an established scholarship or worthy student fund of the school.
- The school then considers a person related to the donor or a person suggested separately by the donor, without giving any assurance that any scholarship or benefit will be made to that person.
- The selection of the recipient is strictly on merit.
- At the time of the donor's contribution to the scholarship or worthy student fund, the beneficiary or beneficiaries of the fund are uncertain.
- The school has complete discretion in selecting the recipients of scholarship or worthy student funds.

A word of caution: if a school participates on a regular basis in a plan to transform payments on a student's account into "charitable contributions" it could risk getting itself and the donor into serious trouble. School and church administrators should manage their activities so that potential providers of funds are welcomed, but are not placed at risk for negative results.

15D.02 Mission Trip Appeals

Students who participate in mission trips typically ask their local congregations for "donations" to help them pay for the trip, and churches typically indicate that such gifts are deductible.

US tax law says, "Personalized gifts, including those to church mission boards earmarked for a particular missionary are generally not deductible." Does this rule out student missionary activity? Probably not, if we follow some rules.

The mission trip appeals and program need to be carefully structured to be defensible and legal.

- The trip should be sponsored by a church or school.
- The sponsor should set up a specific mission trip account in their accounting records. (That is a bookkeeping account, not a separate bank account.) This is where the sponsor will keep track of all donations received and how much is spent for the mission trip.
- The church or school board, or its finance committee, should also approve the details of the project. How many students are expected to go? How many dollars will each one need for the trip? For example, if ten students are going, and the travel cost is $2,000 each, the total project is then $20,000.
- The students then go out with proper instructions and raise the funds for the mission trip project. Relatives could give to the mission trip project, as long as they do not name a particular student to benefit from their gift.
- If the actual plane ticket cost only $1,750, a donor who gave $2,000 would not get a partial refund.
- In our example, if only $18,000 were raised, either one student would have to stay home, no matter how much he or she raised, the church or school or conference could pay the difference, or there could be additional last-minute fund-raising.
- If a student got sick and had to miss the trip, a family member who gave to the project would not get a refund. The gift must be **irrevocable** to be a legitimate donation.

Appendix 15D - Technical Application Advice (USA Standard) (continued)

15D.03 - Agency Funds Versus Revenue at Schools

The Problem. At most SDA schools there are many bookkeeping accounts for “agency” or “trust fund” activity. Many of these accounts result from fund-raising or extra-curricular activities, but some of them result from school policies and billing practices. School accountants are sometimes unsure about which of these accounts should be recorded as liabilities and which should be recorded as income and net assets.

For example, if someone gives money to a school for a teacher (an employee) to use in that teacher’s classroom (which is merely part of the teacher’s assigned responsibilities), shouldn’t the money be income to the school, rather than an agency liability?

As another example, if a group of students are raising money for a music tour, or a mission trip, should the money be income to the school, or is it an agency liability?

As a further example, if the school charges an entrance fee, and divides it between various activities and programs, is it entirely income, or is some of it an agency liability?

The Accounting Rule. During 2000, the accounting standard known as FAS 136 was issued to clarify the accounting for these kinds of transactions. While FAS 136 does not approach the subject in the context of the specific examples given above, it does provide guidance that can be applied to similar situations. This rule was applied in developing the sample financial statements illustrated in Appendices 17B and 17D of this Manual. The criteria established by FAS 136 have been paraphrased into the following chain of questions and answers.

1. Does the resource provider reserve the right to revoke the transfer, redirect the use of the resources to a different beneficiary, or demand a refund of the resources at any time?

    a. If yes, classify and record the resources as an agency liability.
    b. If no, go to item #2.

If the resource provider specified a beneficiary (whether that is a program or an organization), does the recipient of the funds exercise control over that beneficiary, either directly or indirectly?

    a. If yes, classify and record the resources as contribution revenue.
    b. If no, go to item #3.

    [The first example above, regarding resources provided for classroom use, would probably result in a yes answer to this question.]

    [The second example, regarding music or mission trips, would probably result in a yes answer if the school decides when and how to use the money, but would result in a no answer if some other group or individual decides when and how to use the money.]

3. Are the recipient and the ultimate beneficiary financially interrelated organizations? (FAS 136 defines interrelated as one entity having both (a) the ability to influence decisions of the other entity and (b) an ongoing economic interest in the other entity.)

    a. If yes, classify and record the resources as contribution revenue.
    b. If no, go to item 4.

15D.03 - Agency Funds Versus Revenue at Schools (continued)

4. Does the resource provider explicitly grant the recipient the variance power to redirect the use of the resources to a different beneficiary without obtaining approval from the provider?

   If yes, classify and record the resources as contribution revenue.

   [If the organization wants to track the use of that money, the governing committee can vote to "allocate" those funds to a particular purpose. Those resources would be unrestricted net assets, but they would also be allocated net assets.]

   If no, classify and record the resources as an agency liability.

   [If a provider says, here is $1,000 to use for books or anything else you need for your classroom, the answer to this question would be yes. If the school wanted to track the use of that donation or that function, it would record the donation in a specific allocated account identified with the purpose of the donation, and would track the use of the money through that account.]

   [If the school has adopted a project, and students are raising money for it, or if the school has a worthy student fund, and the provider makes a gift to the project or the worthy student fund (without insisting on a particular student to benefit from it), the answer to this question would be yes, and the provider would receive a donation receipt.]

   [If a provider says here is $1,000, please use it for my grandchild's music trip, but not for anyone else's trip, the answer to this question would be no. The school should acknowledge that they are holding the provider's money, but the receipt given to the provider should not in any way indicate that it is a deductible contribution. If the child did not go on the trip, the school would refund the money to the provider, or use it for an alternate purpose as directed by the provider.]

   [If a provider insists that the money be applied to a specific student's account, the answer to this question would be no. However, instead of a credit to an agency liability account, it would credit the student's account. The receipt given to the provider would indicate "payment on account" rather than any indication that it was a "donation."]

Extra Fees and Activities. Another form of resources that some school accountants may be unsure about how to classify is the portion of registration or entrance fees that are designated for such activities as boys or girls clubs, library use, choir, band, or science fees, etc. While not specifically addressed by FAS 136, application of its general philosophy leads to the following guidance.

Who determines the amount that is paid for an academic or extracurricular activity?

If the school sets the amount (such as the components of the registration fee), and requires that amount from each student who participates, then classify and record each of those components as revenue. If the school wants to track the use of that money, it can establish allocated net asset functions for as many of these types of activities as necessary.

If the provider determines the amount given, go back through The Accounting Rule checklist above to determine the appropriate accounting.

Appendix 15D - Technical Application Advice (USA Standard) (continued)

15D.04 Some Basic Requirements for Endowments

Charitable organizations, such as church schools, have always liked endowments as a way to appeal to donors and generate extra resources. In their haste to accept donations any time they are offered, some schools overlook the need to put the details in writing. This Manual offers the following guidance to help make it easier to prepare at least a minimum amount of documentation for each endowment.

Professional literature defines an endowment as "a fund in which a donor has stipulated in the gift instrument that the principal is to be maintained intact and forever, and only the income from investment of the principal may be used." There are variations on the theme, but this is a good starting place.

Sometimes auditors find that a donor has given money to a school, or a school has started an endowment fund-raising campaign, or even has started using donations that have come in, but nothing has been written down to indicate how the endowment is to be administered. There may be an assortment of memos or e-mails, but nothing in one document to tie it all together.

An endowment agreement can be short or long, depending on the wishes of the donor. However, every endowment agreement should answer at least the following basic questions.

- What is the name of the endowment fund?
- How will the fund be financed? (Cash, securities, other kinds of assets, etc.)
- What is the specific purpose of the fund? Is that purpose related to the primary mission of the charitable entity?
- What does the donor want the organization to do if the original purpose is no longer appropriate for some reason beyond the control of the administration?
- What is the term of the endowment? (Is it perpetual, or is it for a given number of years?)
- Does the donor require the funds to be invested in a specific manner?
- Who is to manage the investing and disbursing of endowment resources?
- Has the receiving organization voted to accept the donation? [The governing committee should develop some guidelines for what they will accept. Organizations usually are not interested in managing endowments that benefit only a very small group of individuals.]
- Has the original donor accepted the plan as drafted?

On the following page is a sample endowment agreement form. Some degree of legal counsel was used to draft this form, but any entity that uses it should have their own legal counsel review it. The final document should contain whatever terms the donor and the charity agree to.

Sample Endowment Agreement

This endowment is to be known as the: ____

The resources for this endowment are to be supplied by:
Personal gift from ____
Fund-raising Campaign managed by ____
Proceeds from the Estate of ____
Other ____

The amount of the gift (the Principal) is to be held and invested.
The choice of investments will be at the discretion of the governing committee of the Organization, subject to the following restrictions, if any ____.
The Principal is to be held for the following length of time (select one):
[ ] in perpetuity, or [ ] for ____ years.

Earnings on the Principal, such as interest and dividends, are to be used for the following purpose:
____
Gains realized from sales of investments are to be used for the following purpose:
____
Losses on sales of investments are to be accounted for as follows (select one of the following two options):
[ ] Reduce the amount of earnings and gains otherwise available for distribution
[ ] Reduce the amount held in principal
Losses in market value of investments are to be accounted for as follows (select one of the following two options):
[ ] Reduce the amount of earnings and gains otherwise available for distribution
[ ] Reduce the amount held in principal

If the original purpose is no longer appropriate for some reason beyond the control of the Organization, the earnings may be used for the following purpose: ____

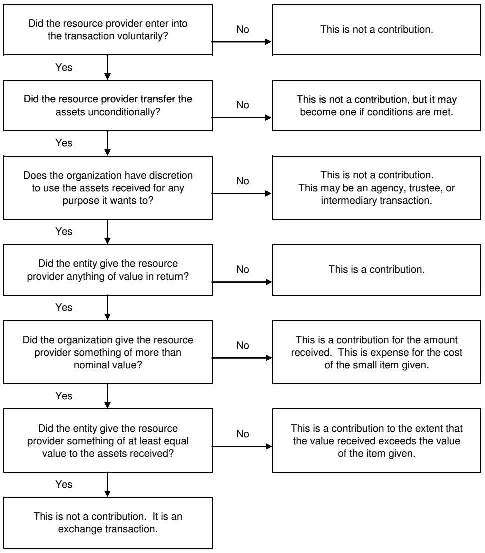
This endowment agreement is accepted by the Organization by:

______________________________	______________________________	______________
Signature	Title	Date

The purpose and terms of this endowment agreement are acceptable to the donor(s):

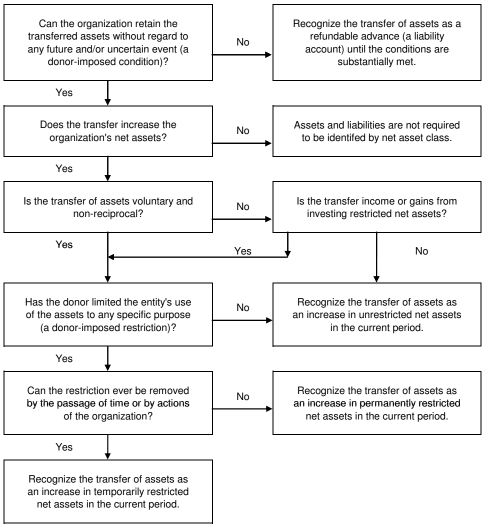
____	______________
Signature	Date
____	______________
Signature	Date

Appendix 15E.01 - How To Identify a Contribution Transaction (USA Standard)



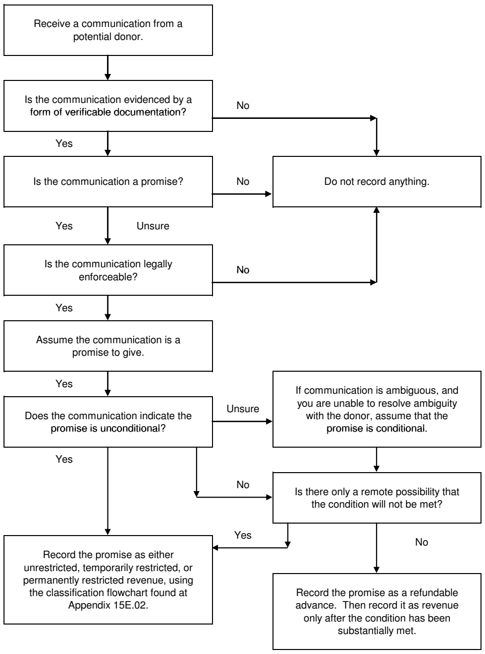
Assumptions: The transaction is not a tax incentive, tax exemption, or tax abatement.
The resource provider is not acting as an owner of the recipient organization.

Appendix 15E.02 - Classifying Receipts of Assets (USA Standard)

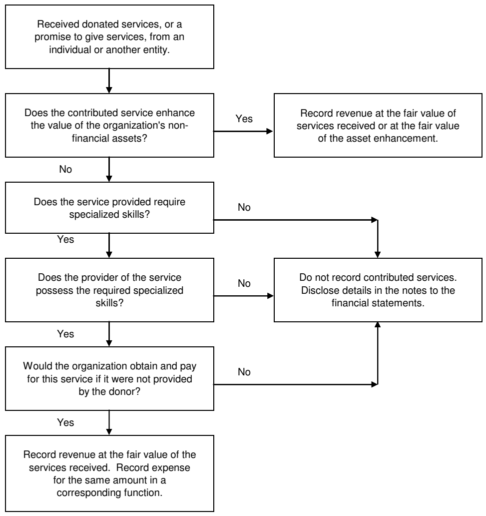


Assumptions: This is a transfer of assets from an entity acting other than as an owner. The entity reports contributions whose restrictions are met in the same period as temporarily restricted revenues, and then as reclassifications to the changes in unrestricted net assets.

Appendix 15E.03 - Identifying Promises to Give (USA Standard)



Appendix 15E.04 - Contributed Services (USA Standard)



Section 1601 - Multiple Currencies and Currency Exchange

1601.01 Multiple Currencies - As a world-wide organization, the Seventh-day Adventist denomination uses most of the currencies of the world. This is a routine element in the financial operations of GC divisions and of many union conferences/missions whose territory includes two or more countries. To encourage uniform global accounting, denominational policy has included a currency exchange provision for many years. Also, transactions in multiple currencies are subject to provisions of International GAAP. Administrators and accountants who deal with multiple currencies should be familiar with the provisions of GCWP and GAAP.

1601.02 Summary of International GAAP - The following is a summary of the basic provisions of International GAAP for multiple currencies and currency exchange. The recently-revised edition of this standard was effective beginning 1 January 2005. The revised GAAP refers to several common principles, but uses a number of terms that are different from historical denominational terminology. The following glossary identifies both the GAAP term and the denominational term. Users of the Manual who may want to study the professional standards will need to use the GAAP terminology.

Definition of terms: [International GAAP term (followed by historical denominational term)]

Functional (Base) currency - the currency of the primary economic environment in which the reporting entity operates. This is the currency in which the entity purchases goods and services, pays compensation to its employees, and reports to local government authorities. Once the functional currency is determined, it is not changed unless there are systemic changes in the underlying economic or legal conditions.

Foreign (Transaction or Account) currency - a currency other than the functional currency of the reporting entity. Accounts or transactions denominated in a foreign currency are translated into the functional currency for accounting and financial reporting. (This would include routine transactions with affiliated entities in other countries, as well as investments held in financial institutions that are denominated in other currencies.)

Presentation (Report) currency - the currency in which financial statements are presented. An entity may prepare its financial statements in any currency. Typically, when an entity's functional currency is different from that of its parent organization, financial statements are prepared in the entity's functional currency, and supplemental financial statements may be prepared in the currency of the entity's parent organization.

Exchange rate - the ratio of exchange of one currency for another.

Spot (Current) exchange rate - the open market exchange rate for immediate delivery.

Average (Fixed) exchange rate - a rate that approximates the current rate, and is established by an organization for use by it and affiliated entities during a short period, usually a week or a month.

Closing exchange rate - the current exchange rate at an organization's statement of financial position date.

Exchange difference - the difference resulting from translating a given number of units of one currency into another currency at different exchange rates at different times.

Accounting and Financial Reporting Principles

1. When a foreign currency transaction occurs (such as revenue, expense, or appropriation), it is recorded by applying to the foreign currency amount the current exchange rate between it and the functional currency at the date of the transaction. **The date of the transaction is the date on which the transaction first qualifies for recognition in accordance with GAAP.**

2. At each statement of financial position date, all foreign currency monetary items are translated into the functional (base) currency using the closing exchange rate.

3. At each statement of financial position date, all non-monetary items that are measured in terms of historical cost in a foreign currency are translated into the functional (base) currency using the exchange rates that were in effect at the dates of the underlying acquisition transactions.

4. At each statement of financial position date, all non-monetary items that are measured at fair value in a foreign currency are translated into the functional (base) currency using the exchange rates that were in effect at the dates when fair value was determined.

5. Exchange differences arising on the settlement of monetary items, or on translating monetary items, at rates different from those at which they were translated during the period or in previous financial statements are recorded as income or expense in the period in which the settlement or translation occurs.

6. When financial statements are prepared in a presentation (report) currency other than the reporting entity's functional (base) currency, balances and activity are translated as follows:

   a. All assets and liabilities, whether monetary or non-monetary, for each statement of financial position presented are translated using the closing exchange rate at the date of each respective statement of financial position.

   b. Financial activity for each period presented is translated using the exchange rates effective at the dates of the underlying transactions. Average (fixed) exchange rates for each period may be used if there was no significant fluctuation in the rates during the year.

   c. All exchange differences resulting from the translation into the presentation (report) currency are reported as a separate item of increase or decrease to net assets, after all other financial activity, in the statement of financial activity.

   d. If the functional (base) currency is that of a hyper-inflationary economy (refer to Section 1603.01), any comparative prior year information presented must first be restated as required for statements presented in that functional (base) currency (refer to Section 1603.02). Then the restated amounts are converted to the presentation (report) currency as described in the preceding paragraphs a, b, and c.

1601.03 Functional (Base) Currency and Rates of Exchange - Each entity maintains its records primarily in the national currency of its physical location, which is its **functional (base) currency**. For example, Southern Asia-Pacific Division uses the Philippine Peso, and East Indonesian Union Conference uses the Indonesia Rupiah. When transactions occur between entities that use different functional currencies, the accounting must use an exchange rate, which specifies how much one currency unit is worth in terms of the other currency unit. Exchange rates do not remain constant, but fluctuate, sometimes within a narrow range and sometimes widely, depending on economic factors in both the issuing and the receiving countries. The GC has developed policies to assist in accounting for such fluctuations.

1601.04 Current and Fixed Rates of Exchange - GCWP T 25 10 applies the concept of two rates of exchange. The **current** rate (also know as the spot rate) is the rate at which one currency can be exchanged for another for immediate delivery at a given time. The **fixed** rate (also known as the average rate) is a rate set each month by the GC and its respective divisions, very close to the current rate at the time it is adopted.

For example, if the GC sets the fixed rate of exchange with the Philippine Peso (PhP) at PhP 55.5 to one U.S. dollar (USD), and transfers USD 100,000 to SSD at a time when the current rate is PhP 56.0 to USD 1.00, there will be a difference of PhP 50,000 between conversion at the fixed rate and at the current rate. If the transaction is recorded by SSD at the fixed rate, as the policy requires, the cash account will be increased by PhP 5,600,000, but the credit to the GC account will be only PhP 5,550,000. The remaining PhP 50,000 is recorded as **exchange gain**, and is recorded as illustrated in subsequent paragraphs of this section and in Appendix 16A.

GAAP allows only one exception; when the current rate "fluctuates significantly" between the time the fixed rate is set and the time the transaction occurs. [GAAP does not define "significantly," but this Manual suggests it should refer to fluctuations (either increases or decreases) that are frequent and which exceed 10% of the fixed rate.] For example, assume the current rate fluctuated between PhP 56.0 and 68.0, and at the time of the transaction was PhP 63.5. Instead of recording a credit to the GC of PhP 5,550,000 and an exchange gain of PhP 800,000, GAAP would require the whole amount of PhP 6,350,000 to be credited to the GC account (and there would be no exchange gain). In practice, this exception should not occur very often because the GC reviews and modifies the fixed rate, as necessary, on a monthly basis.

1601.05 Current Rate Transactions - GCWP requires the **current** rate of exchange to be used on all regular routine transactions, except those that arise from denominational policy provisions and transactions between denominational entities. The **current** exchange rate is to be used on the following types of transactions:

a. Sale and purchase of currencies.
b. Purchases of goods and services by all organizations and employees.
c. Deposits received from or cash advances paid to employees while performing duties outside of the country in which they reside.
d. Personal transfer of funds by inter-division employees.
e. All other transactions not specifically covered elsewhere in this policy.

1601.06 Fixed Rate Transactions - GCWP requires the **fixed** rate of exchange to be used on all balances receivable or payable between denominational entities, and on all transactions between denominational entities, such as budgets, appropriations, and policy provisions. The **fixed** exchange rate is to be used on the following types of accounts and transactions:

a. Statement of financial position accounts carried in currencies other than the reporting entity's functional currency. For a division this would include accounts receivable from unions whose functional currency is different from that of the division. The relationship between the two currencies will always be in terms of the fixed rate of exchange. When the fixed rate between the two currencies changes, all accounts carried on the dual currency basis will be revised to preserve this relationship, reflecting the new fixed rate. Any adjustments of this nature will be reflected as exchange gains or losses (see 1601.08).

b. Denominational appropriations received or disbursed. General Conference appropriations are passed on to divisions in US dollars. Division and union appropriations to subsidiary organizations are recorded in the functional currency of the payer, and are then converted to the recipient's local currency.

c. Transmittal of tithes, offerings, tithe percentages, and retirement plan contributions.

d. Salaries, expenses, and allowances for inter-division employees, including those under appointment, on furlough, or permanently returned to their home bases.

e. Realized exchange gains and losses.

f. Compilation of financial summaries, statistical reports, budgets, and financial statements.

1601.07 Establishment of Fixed Rate - Although it may incorporate a small variance in relation to the current rate at the time it is set, the fixed rate is not designed to accumulate large exchange gains to the benefit of the higher organization. The policy provides for the GC to set the fixed rate for the functional currencies of the various world divisions. Each division then sets the fixed rates for all other currencies used within its territory, and informs the GC what the fixed rates are in effect within its field. Typically, the fixed rates for division currencies are voted each month by the GC Treasurers committee, and those for the fields within each division are voted each month at the time of that division's corresponding committee meeting. In a volatile economy, where exchange rates may fluctuate widely and rapidly, any of these fixed rates can be changed when necessary.

1601.08 Exchange Gains and Losses - For denominational reporting purposes, exchange gains and losses should be classified and recorded within three categories of transactions:

1. Operating Activity - General routine transactions
2. Operating Appropriations - Higher organization operating and special appropriations
3. Capital Appropriations - Higher organization capital appropriations.

Three net exchange gain (loss) accounts will be used and displayed in the Statement of Financial Activity; one for each of the categories referred to above. Because the net effect of currency exchange during an accounting period can be either a gain or a loss, the net amount, whether a gain or a loss, will be reported on a single line for comparative purposes in each of the three sections of the Statement of Financial Activity. (Refer to Appendix 16A.01 to 16A.03, and Appendix 17A.02.)

1. Net Exchange Gain (Loss) - General. The net effect of currency exchange on general operating activity, whether a gain or a loss, will be reported within the Earned Operating Income section of the Statement of Financial Activity.

2. Net Exchange Gain (Loss) - Operating Appropriations. The net effect of currency exchange on operating appropriations, whether a gain or a loss, will be reported within the Operating Appropriations section.

3. Net Exchange Gain (Loss) - Capital Appropriations. The net effect of currency exchange on capital appropriations, whether a gain or a loss, will be reported within the Capital Activity section.

GCWP T 25 25 requires every organization that deals with multiple currencies to record the effects of exchange transactions in an Exchange Fluctuation Allocated Fund. The exchange gain or loss accounts are to be recorded as direct income or expense in the Exchange Fluctuation Allocated Fund. There should be one such allocated function for operating purposes and one for capital purposes. Excess amounts in this allocated function may be utilized for “special appropriations” (GCWP T 25 25, paragraph 6). This is accomplished by transferring the excess funds to the Unallocated Non-tithe Fund, and then making appropriations for allowable purposes as voted by the governing committee. (See Appendix 16A.04.)

1601.09 Change in Accounting for Appropriations - As explained in Section 1601.06, appropriations between denominational entities are to be accounted for using the fixed rate. That has not changed. What has changed, effective 1 January 2005, is that GAAP now defines more specifically how to determine which period’s exchange rate to use. The differences are explained and illustrated in the following paragraphs.

The former accounting manual (1988-90 edition) interpreted policy to mean that appropriations should be recorded using the fixed rate of exchange that was effective for the month in which the appropriations budget was voted. That resulted in exchange gain or loss for fluctuations between that date (usually October or November) and the dates actually recorded (each month during the following year).

Revised GAAP, effective beginning 1 January 2005, requires transactions between different currencies to be recorded using the exchange rate in effect at the date the transaction first qualifies for recognition in the financial statements. Because appropriations budgets are considered to be goals or intentions that can be changed by subsequent action of the issuing entity’s governing committee, at the time the budget is voted the appropriations do not yet qualify as transactions that can be recorded in the intended recipient’s accounts. Appropriations do not become a recordable transaction to the recipient entity until either the amount is received or a credit memo is received from the issuing entity. Therefore, the recipient entity should use the fixed exchange rate in effect for the month in which the appropriation is received, whether by cash or by a credit memo.

To illustrate the revised GAAP for exchange gain or loss on appropriations, consider the following example. Assume an appropriations budget from the GC (functional currency is USD) to a Division (functional currency is DFC): voted in October 20X0 for USD 540,000 Tithe and USD 480,000 Non-tithe. For illustration, assume that USD 135,000 Tithe was received 15 March 20X1, and USD 160,000 Non-tithe was received 15 June 20X1.

Fixed exchange rates:	1 October 20X0:	DFC 56.0 = USD 1.00
	1 March 20X1:	DFC 58.5 = USD 1.00
	1 June 20X1:	DFC 54.3 = USD 1.00
Current exchange rates:	1 March 20X1:	DFC 58.9 = USD 1.00
	15 March 20X1:	DFC 59.1 = USD 1.00
	1 June 20X1:	DFC 54.5 = USD 1.00
	15 June 20X1:	DFC 54.0 = USD 1.00

Under the former accounting manual, the Division's accounting entries would have been:

Debit: Cash or Receivable (on 15 March 20X1)	DFC 7,978,500		[USD 135,000 x 59.1]
Credit: Tithe Appropriation Received		DFC (7,560,000)	[USD 135,000 x 56.0]
Credit: Exchange (Gain) or Loss		DFC (418,500)	
Debit: Cash or Receivable (on 15 June 20X1)	DFC 8,640,000		[USD 160,000 x 54.0]
Debit Exchange (Gain) or Loss	DFC 320,000		
Credit: Non-tithe Appropriation Received		DFC (8,960,000)	[USD 160,000 x 56.0]

Under this Manual, the Division's accounting entries would be:

Debit: Cash or Receivable (on 15 March 20X1)	DFC 7,978,500		[USD 135,000 x 59.1]
Credit: Tithe Appropriation Received		DFC (7,897,500)	[USD 135,000 x **58.5**]
Credit: Exchange (Gain) or Loss		DFC (81,000)	
Debit: Cash or Receivable (on 15 June 20X1)	DFC 8,640,000		[USD 160,000 x 54.0]
Debit Exchange (Gain) or Loss	DFC 48,000		
Credit: Non-tithe Appropriation Received		DFC (8,688,000)	[USD 160,000 x **54.3**]

1601.10 Currency Fluctuation Allocated Fund - GCWP T 25 25 places responsibility on denominational entities that deal with multiple currencies to ensure that the Exchange Fluctuation Allocated Fund remains strong enough to absorb fluctuations in the international money market. One aspect of this responsibility involves anticipating future fluctuations and providing for potential losses, when necessary, in the annual operating budget. This will be necessary when the net gains from general transactions and appropriations are not sufficient to meet anticipated exchange losses. This budgetary provision is accomplished by a monthly transfer from the Unallocated Non-tithe Fund to the Exchange Fluctuation Allocated Fund. (See Appendix 16A.05.) In no case should this allocated fund ever reflect a debit balance; if this occurs, additional funds should be transferred from the Unallocated Non-tithe Fund to the Exchange Fluctuation Allocated Fund. (See Appendix 16A.06.)

1601.11 Illustrated Transactions - To help organizations account for exchange gains and losses in accordance with international GAAP, Appendix 16A offers a number of illustrated accounting entries for various types of transactions.

Section 1602 - Accounting for Restricted Currencies

1602.01 The Problem - In some divisions of the world field, certain national governments have enacted laws that prohibit the transfer of funds outside their national borders. Under these conditions, certain local conferences or missions, or in some cases entire union fields, cannot remit to their related higher organizations the apportionment of tithe income and offerings that belong to those higher organizations. This creates a serious problem in organizations for which the total outgoing obligation consistently exceeds the incoming credits for appropriations. Without a solution, the liability to the higher organizations would simply continue to increase.

1602.02 Terminology - Currencies which are controlled as outlined above are frequently referred to as **frozen, blocked, or restricted** currencies. This Manual adopts the term **restricted**. The funds are not truly frozen, because they can be used freely within the country where they are located. They are restricted in the sense that they cannot be transferred to organizations outside of their country.

1602.03 The Solution - The procedures outlined in this section will be used by all entities that hold restricted currency for the benefit of denominational entities such as a union, division, and/or the GC. The process involves the establishment of a separate bank account, in the restricted currency country, for the benefit of the union, division, and/or GC. The local entity holds the cash in this separate bank account, and records the same amount in a “trust fund” (agency) liability account for each higher entity. Each higher entity records an account receivable for the entire amount due from the local entity, an offsetting valuation (contra) account for the portion that belongs to that higher entity, and a “trust fund” (agency) liability account for the portion that belongs to the next higher entities.

Only as funds may be converted to unrestricted currency, or used for higher organization programs or purposes within the restricted territory, will the asset, valuation, and agency accounts be reduced, and financial activity will be recorded by the higher entities that ultimately benefit from the restricted currency resources. Occasionally, a union or a division may be able to arrange sponsored activities within the local area for which the union or division could use a portion of its restricted currency account. Also, the union or the division may be able to make special appropriations to the local field which could use some of the union or division's restricted currency account. (See Appendix 16B.)

1602.04 Required Disclosures - GAAP requires disclosure of the amount of cash and cash equivalents that are held for other entities but not available to them because of currency exchange restrictions. GAAP also requires disclosure of the characteristics of the accounts. The notes to the financial statements should indicate:

(a) the restricted currency accounts, classified as noncurrent assets (unless there is an immediate possibility that they will be used by the owning organization),
(b) the total amount held, the valuation account, the net value, and the related trust (agency) amounts, and
(c) the reporting organization's view of the possibility and timing of use of the funds.

Section 1603 - Reporting Under Hyper-inflationary Economies

1603.01 Introduction - There are countries in which the economy experiences such severe decline that it is described as "hyper-inflationary." In such situations, the unadjusted comparative prior year data in an entity's financial statements becomes meaningless. The following sections summarize GAAP for these situations.

1603.02 Definition - Hyper-inflation is defined as a condition of severe economic decline that is evidenced by the following characteristics.

- The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power.
- The general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices of goods and services may be quoted in that other currency.
- Interest rates, wages, and prices are linked to a price index.
- The cumulative inflation rate over three years approaches or exceeds 100%.

1603.03 Statement of Financial Position Presentation - The financial statements of an entity whose functional currency is that of a hyper-inflationary economy are to be stated in terms of the measuring unit current at the statement of financial position date. The measuring unit is essentially the functional currency adjusted by a general price index to the statement of financial position date. **All comparative prior year information presented is to be restated in terms of the current measuring unit.** If the prior year information is not restated, it should be omitted from the current financial statements.

The following process is to be used in preparing statement of financial position data in terms of the measuring unit.

1. Statement of financial position amounts not already expressed in terms of the current measuring unit are restated by applying a general price index.
2. Monetary items are not restated because they are already expressed in terms of the measuring unit. Monetary items are money held (cash, checking and saving accounts, and money market funds) and items to be received or paid in money (accounts receivable and accounts payable).
3. Assets and liabilities linked by agreement to changes in prices are adjusted in accordance with the agreement in order to ascertain the amount outstanding at the statement of financial position date. These items are carried at this adjusted amount in the restated statement of financial position.
4. All other assets and liabilities are non-monetary. Some non-monetary items are carried at amounts current at the statement of financial position date, such as net realisable value or fair market value, so they are not restated. All other non-monetary assets and liabilities are restated.

5. Most non-monetary items, such as investments that are not carried at fair value, inventories, and land, buildings, and equipment, are carried at historical cost or historical cost less depreciation, which means they are carried at amounts which were current at their dates of acquisition. The historical cost is to be restated in terms of the current measuring unit by applying a general price index from the date of acquisition to the current statement of financial position date. If a general price index is not available, an alternative is to use an estimate based on fluctuation in the exchange rate between the functional currency and a relatively stable foreign currency from the dates of acquisition to the current statement of financial position date.

1603.04 Financial Activity Presentation - The following process is to be used in preparing financial activity data in terms of the measuring unit.

1. All items of financial activity are restated by applying the change in the general price index from the dates when the items were initially recorded to the statement of financial position date. If such restatement has not been done on a monthly basis, a practical solution is to apply the rate of change in the general price index from the beginning to the end of the year.

2. The gain or loss in net monetary position that results from converting yearly financial activity into terms of the year-end measuring unit is to be reported as a separate item, after all other activity, in the statement of financial activity.

1603.05 Required Disclosures - The notes to the financial statements are to include the following disclosures.

1. The fact that the financial statements and any corresponding amounts from prior years have been restated for the changes in the general purchasing power of the functional currency, and as a result are stated in terms of the measuring unit current at the statement of financial position date.

2. Whether the underlying balances that have been converted to the measuring unit were initially recorded under the historical cost or the current cost approach.

3. The identity and level of the price index used at the statement of financial position date and the movement in that index during the current and the previous reporting periods.

4. If comparative prior information has been omitted because it was not restated, an explanatory note that the reporting entity considered the cost of restating that information to be greater than the benefit to be derived from such information.

Appendix 16A - Illustrated Accounting Entries for Currency Exchange

The following sample transactions between typical denominational entities illustrate how to account for transactions in multiple currencies and the corresponding exchange gains and losses.

For purposes of these illustrations, assume the following definitions:

General Conference: functional currency is the United States dollar (USD).
Continental Division: functional currency is the continental paper money (CPM).
Sample Union Conference: functional currency is the sample money unit (SMU).
Local Mission/Field: functional currency is the national local currency (NLC).

Assume the following exchange rates between these currencies:

CPM:	At 15 October 20X0,	Fixed Rate is CPM 2.00 = USD 1.00,	Current Rate is CPM 2.05 = USD 1.00
	At 1 March 20X1,	Fixed Rate is CPM 2.25 = USD 1.00,	Current Rate is CPM 2.35 = USD 1.00
	At 15 March 20X1,	Fixed Rate is CPM 2.25 = USD 1.00,	Current Rate is CPM 2.45 = USD 1.00
SMU:	At 1 March 20X1,	Fixed Rate is SMU 1.50 = CPM 1.00,	Current Rate is SMU 1.489 = CPM 1.00
	At 1 March 20X1,	Fixed Rate is SMU 3.375 = USD 1.00,	Current Rate is SMU 3.50 = USD 1.00
	At 15 March 20X1,	Fixed Rate is SMU 1.50 = CPM 1.00,	Current Rate is SMU 1.405 = CPM 1.00
	At 15 March 20X1,	Fixed Rate is SMU 3.375 = USD 1.00,	Current Rate is SMU 3.44 = USD 1.00
NLC:	At 1 March 20X1,	Fixed Rate is NLC 0.75 = SMU 1.00,	Current Rate is NLC 0.73 = SMU 1.00
	At 15 March 20X1,	Fixed Rate is NLC 0.75 = SMU 1.00,	Current Rate is NLC 0.70 = SMU 1.00

It is important to understand and remember that to record a transaction between denominational entities in two currencies, the entry to cash or receivable is converted at the current exchange rate, and the entry to the appropriation revenue account is converted at the fixed exchange rate, at the date of the transaction. If the exchange rate in effect at the time the transaction is entered into the accounting records is different from the exchange rate that was in effect on the date the transaction occurred, use the exchange rate that was in effect as of the date the transaction occurred.

16A.01 Example of exchange gain on a general routine transaction.

On 1 March 20XI, the Sample Union purchased stationery in the USA for USD 525. The billing originated with the General Conference, was passed on to the Continental Division, and then was passed on to the Sample Union.

a. Continental Division entry:

Debit: Account with Sample Union	CPM 1,233.75		[USD 525.00 x 2.35]
Credit: Account with GC		CPM 1,181.25	[USD 525.00 x 2.25]
Credit: Exchange Gain - General		CPM 52.50	

To record Sample Union's purchase of stationery through GC (Voucher XY123).

b. Sample Union entry:

Debit: Stationery Expense	SMU 1,850.63		
Credit: Account with Division		SMU 1,850.63	[CPM 1,233.75 x 1.50]

To record purchase of stationery through General Conference (voucher XY123).

16A.02 Example of exchange gain on an operating appropriation.

According to GAAP, appropriations between organizations are recorded using the rates of exchange effective as of the date when received. Assume a fixed rate for March 20X1 of CPM 2.15 = USD 1.00. Assume a tithe appropriation of USD 1,000,000 was received by a Division from the GC on 15 March 20X1, when the current rate was CPM 2.25 = USD 1.00.

Debit:	Account with General Conference	CPM 2,250,000		[USD 1,000,000 x 2.25]
Credit:	Tithe Appropriation Received		CPM 2,150,000	[USD 1,000,000 x 2.15]
Credit:	Exchange Gain - Appropriations		CPM 250,000	

To record General Conference tithe appropriation (voucher XY234) received for March 20X1.

16A.03 Example of exchange gain on a capital appropriation.

According to GAAP, appropriations between organizations are recorded using the rates of exchange effective as of the date when received. Assume a fixed rate for March 20X1 of CPM 2.15 = USD 1.00. Assume a non-tithe capital appropriation of USD 300,000 was received by a Division from the GC on 15 March 20X1, when the current rate was CPM 2.25 = USD 1.00.

Debit:	Account with General Conference	CPM 675,000		[USD 300,000 x 2.25]
Credit:	Capital Appropriation Received		CPM 645,000	[USD 300,000 x 2.15]
Credit:	Exchange Gain - Capital Appropriations		CPM 30,000	

To record General Conference capital appropriation (voucher XY235) in March 20X1.

16A.04 Example of a transfer of excess funds from the Exchange Fluctuation Allocated Fund to the Unallocated Non-tithe Fund.

At 31 December 20XI, Continental Division estimated that its Exchange Fluctuation Allocated Fund had an excess balance of about CPM 236,000. The governing committee voted to use CPM 120,000 of the excess funds to make a special appropriation to Sample Union, as allowed by GCWP T 25 25.

Debit:	OAF Exchange Fluct. - Trs To Unallocated Non-tithe	CPM 120,000	
Credit:	UNT Unallocated Non-tithe - Trs From Exchange Fluct.		CPM 120,000
Debit:	UNT Unallocated Non-tithe - Appropriations To Field	CPM 120,000	
Credit:	Account with Sample Union		CPM 120,000

To record a transfer of excess funds from Exchange Fluctuation Allocated Fund to Unallocated Non-tithe Fund, and an appropriation to Sample Union, per governing committee action 1234-X1.

16A.05 Example of a transfer of budgeted monthly currency fluctuation allotment.

Continental Division anticipates that it may sustain exchange losses during 20XI. To provide for this in accordance with GCWP T 25 25, paragraph 5, it has budgeted CPM 240,000 for the year 20XI, and transfers one-twelfth of that amount, CPM 20,000, each month to cover possible losses. Note that this entry is not recorded as an expense, for at this time no actual loss has been identified. This is simply a transfer of existing unallocated non-tithe funds to an allocated function. (Refer to Section 1601.10.)

Debit:	UNT Unallocated Non-tithe - Trs To Exchange Fluct.	CPM 20,000	
Credit:	OAF Exchange Fluct. - Trs From Unallocated Non-tithe		CPM 20,000

To record monthly provision for anticipated 20XI exchange losses, per 20X1 operating budget.

(Note: In this example 16A.5, the transfer has been made from the Unallocated Non-tithe Fund. A transfer could also have been made from the Unallocated Tithe Fund. However, transfers from the Tithe fund should not exceed what is estimated to be the net exchange loss on tithe appropriations.)

16A.06 Example of a transfer to cover a net loss in the Exchange Fluctuation Allocated Fund.

At 31 December 20XI, Continental Division's Exchange Fluctuation Allocated Fund reflected a debit balance of CPM 14,600. This debit has to be recovered before final closing of the accounting records for the year. (Refer to Section 1601.10.)

Debit: UNT Unallocated Non-tithe - Trs To Exchange Fluct. CPM 14,600
Credit: OAF Exchange Fluct. - Trs From Unallocated Non-tithe CPM 14,600

To record a transfer from Unallocated Non-tithe Fund to cover the debit balance at 31 December 20XI in the Exchange Fluctuation Allocated Fund account.

(Note: In this example 16A.6, the transfer has been made from the Unallocated Non-tithe Fund. A transfer could also have been made from the Unallocated Tithe Fund. However, transfers from the Tithe fund should not exceed what is estimated to be the net exchange loss on tithe appropriations.)

Appendix 16B - Illustrated Accounting for Restricted Currency

The philosophy adopted by the denomination is that each entity which is entitled to restricted currency funds will account for them in its general ledger, using either a separate Restricted Currency Fund, which is combined with the operating fund for financial statement reporting, or just the Operating Fund, as follows.

16B.01 Restricted Currency Accounting Principles

1. GAAP allows two options: (a) Entities that own or are entitled to restricted currency funds could operate their own bank accounts in the restricted currency territory (subject to legal considerations), or (b) all restricted currency funds could be held on behalf of the owning or benefitting entities by the organization that was the source of the restricted currency.

2. The denomination has chosen to apply option 1(b) for all organizations. The authorized process is for all funds to be retained in the originating entity's bank accounts. The union, division, and General Conference should not establish their own bank accounts in the restricted currency country.

3. Separate restricted currency accounts (as opposed to hard currency accounts) are operated for all restricted currency assets, liabilities, and income accounts.

4. Valuation accounts are established by each entity for the full value of its own portion, if any, of the restricted currency assets and liabilities. An allowance account is created for restricted currency income. Trust fund (agency) liability accounts are established by each entity for the portion of the restricted asset, if any, that is payable to the next higher denominational entities.

5. Revenue is recognized in the Operating Fund of the owning entity only as restricted currency is either (a) converted to unrestricted currency and received, or (b) expended within the restricted currency territory for uses that are under the control or direction of the owning entity.

6. Separate memoranda are kept to track how much of each organization's restricted currency consists of tithe and how much of trust funds and world mission offerings. Inter-organization accounts receivable and payable are operated for restricted currency balances.

7. Restricted currencies are converted to the owning entity's functional currency at the current exchange rate.

8. Restricted currency exchange gains and losses are borne by the entity that owns the restricted currency funds.

9. If there is an immediate possibility of the restricted currency being used, the asset and the valuation account should be reported as a current asset.

10. If there is not an immediate possibility of the restricted currency being used, the asset and valuation account and the trust fund (agency) liabilities should be reported as other noncurrent assets and liabilities. In the notes to the financial statements, the organization should disclose its view of the possibility and timing of use of the restricted currency funds.

16B.02 Illustrated Accounting Entries - Local Conference/Mission/Field

	Account	Debit	Credit
1.	Remittances Receivable from Churches	775,000	
	Gross Tithe Revenue		600,000
	GC Mission Offering Trust Funds		100,000
	Division Offering Trust Funds		50,000
	Union Offering Trust Funds		25,000
	To record tithe and offering income from remittance reports.		
2.	Tithe Percentages Passed On (assume 10% Union, 3% Div, 2% GC)	90,000	
	GC Mission Offering Trust Funds	100,000	
	Division Offering Trust Funds	50,000	
	Union Offering Trust Funds	25,000	
	Restricted Currency Trust Fund Payable to Union		265,000
	To record restricted currency funds that should be remitted to Union.		
3.	Restricted Currency Trust Fund Payable to Union	115,000	
	Local Conference/Mission Bank Account		115,000
	To record conversion of a portion of the restricted currency held into hard currency, and payment of hard currency to Union.		
4.	Restricted Currency Trust Fund Payable to Union	75,000	
	Local Conference/Mission Bank Account		75,000
	To record the use of restricted funds in the local territory for Union, Division, and GC programs, with corresponding reduction in liability for restricted currency funds.		

16B.03 Illustrated Accounting Entries - Union Conference/Mission

	Account	Debit	Credit
1.	Restricted Currency Remittance Receivable from Local Conference	265,000	
	Restricted Currency Valuation Account (Union portion)		85,000
	Restricted Currency Trust Fund Payable to Division		180,000
	To record restricted currency funds receivable from Local Conference.		
2.	Union Conference/Mission Bank Account	115,000	
	Restricted Currency Remittance Receivable from Local Conference		115,000
	Restricted Currency Valuation Account	36,887	
	Restricted Currency Trust Fund Payable to Division	78,113	
	Gross Tithe Revenue (percentage from Conference)		26,038
	Union Program Revenue (from Conference offering)		10,849
	Current Remittance Account Payable to Division		78,113
	To record revenue upon exchange of restricted currency for hard currency, and receipt of hard currency from Conference. (Proceeds should be applied pro-rata to the valuation account and to the trust (agency) accounts.)		
3.	Restricted Currency Valuation Account	25,000	
	Restricted Currency Trust Fund Payable to Division	50,000	
	Restricted Currency Remittance Receivable from Local Conference		75,000
	Specified Union-directed Expenses	25,000	
	Gross Tithe Revenue (percentage from Conference)		17,647
	Union Program Revenue (from Conference offering)		7,353
	To record the use of restricted funds in the local territory for Union, Division, and GC programs, with corresponding reduction in liability for restricted currency funds, and recognition of revenue.		

16B.04 Illustrated Accounting Entries - Division

		Debit	Credit
1.	Restricted Currency Remittance Receivable from Union Conference	180,000	
	Restricted Currency Valuation Account (Division portion)		68,000
	Restricted Currency Trust Fund Payable to General Conference		112,000
	To record restricted currency funds that should be remitted from Union.		
2.	Division Bank Account	78,113	
	Restricted Currency Remittance Receivable from Union Conference		78,113
	Restricted Currency Valuation Account	29,509	
	Restricted Currency Trust Fund Payable to General Conference	48,604	
	Gross Tithe Revenue (percentage from Union)		7,811
	Division program revenue (from offerings remitted)		21,698
	Current Remittance Account Payable to General Conference		48,604
	To record revenue upon exchange of restricted currency for hard currency, and receipt of hard currency from Union. (Proceeds should be applied pro-rata to the valuation account and to the trust (agency) accounts.)		
3.	Restricted Currency Valuation Account	25,000	
	Restricted Currency Trust Fund Payable to General Conference	25,000	
	Restricted Currency Remittance Receivable from Union Conference		50,000
	Specified Division-directed Expenses	25,000	
	Gross Tithe Revenue (percentage from Union)		6,618
	Division program revenue (from offerings remitted)		18,382
	To record the use of restricted funds in the local territory for Division and GC programs, with corresponding reduction in liability for restricted currency funds, and recognition of revenue.		

16B.05 Illustrated Accounting Entries - General Conference

		Debit	Credit
1.	Restricted Currency Remittance Receivable from Division	112,000	
	Restricted Currency Valuation Account (GC portion)		112,000
	To record restricted currency funds that should be remitted from Division.		
2.	General Conference Bank Account	48,604	
	Restricted Currency Remittance Receivable from Division		48,604
	Restricted Currency Valuation Account	48,604	
	Gross Tithe Revenue (percentage from Division)		5,208
	Mission Offerings (remitted from Division)		43,396
	To record revenue upon exchange of restricted currency for hard currency, and receipt of hard currency from Division. (Proceeds should be applied pro-rata to the valuation account and to the trust (agency) accounts.)		
4.	Restricted Currency Valuation Account	25,000	
	Restricted Currency Remittance Receivable from Division		25,000
	Specified General Conference-directed Expenses	25,000	
	Gross Tithe Revenue (percentage from Division)		2,679
	Mission Offerings (remitted from Division)		22,321
	To record the use of restricted funds in the local territory for General Conference programs, with corresponding reduction in receivable for restricted currency funds, and recognition of revenue.		

Section 1701 - General Concepts

1701.01 Scope of This Chapter - Chapters 1 to 16 discussed principles to be followed by all denominational entities. This chapter discusses additional topics that are unique to the GC, divisions, and local and union conferences, missions, and fields. **Whenever this chapter uses the term "conference" it is intended to apply to all forms of local and union conferences, missions, and fields, and to the GC.**

1701.02 Distinction Between Tithe and Non-tithe - Routine conference operations are financed from two sources: tithe funds and non-tithe funds. Because of the theological foundation for the concept of tithe and the purposes for which tithe may be used, the denomination, through this Manual and other means, expresses a sacred responsibility to preserve limitations on the expenditure of tithe funds. It is appropriate, then, for the fund accounting concept to provide a clear presentation of the use of all funds representing tithe, whether they come directly from the individual contributor through local church channels or are received as appropriations from senior organizations according to denominational policy.

In addition to tithe, conferences receive non-tithe funds from various sources, to be used in their general or specific programs and services. The use of tithe and non-tithe funds is clearly recorded in the accounting records and reported in the financial statements. Although the assets and liabilities of the conference operating fund do not distinguish between tithe and non-tithe funds, the financial activity and net assets must be divided between tithe and non-tithe funds. This is illustrated in the Statement of Changes in Net Assets (Appendix 17A.03) and the Schedule of Financial Activity - Operating Fund (Appendix 17A.05, Note 18). For conferences that report expenses by function, this is illustrated in the Schedule of Activity by Function (Appendix 17E.05).

1701.03 Resources Received - Some of the resources flowing to the conference are by their nature the property of the conference, subject to certain restrictions and commitments. Included in this category is tithe. In addition, certain offerings and gifts received belong to the conference to be used in its various programs and services. Some of these offerings and gifts are **restricted;** the terms under which they are solicited, or instructions given by the donors, require that they be used only for specified purposes. All conference revenue that is unrestricted can be "allocated" for certain purposes by action of the conference governing committee.

In addition to revenue it can use, conferences receive other offerings, which are designated for General Conference, division, or union programs and services. These offerings are considered "trust funds" or agency accounts, because they must be passed on to the respective senior entity. They are liabilities of the receiving conference until they are remitted through appropriate channels to the organization that has the authority to establish, define, and carry out the programs that disburse those funds. In the records of the organization which can spend the money, the funds will be recorded as revenue.

1701.04 Disposition of Conference-Owned Funds - The resources of the conference are used in several ways. Certain percentages of tithe, according to denominational policy, must be passed on to senior organizations. Because the tithe percentages are set by denominational policy, not by conference administration or committee, they are reported as deductions from gross tithe revenue, rather than as expense. The remainder, or net tithe, is retained by the conference for use within basic denominational policy limitations on the use of tithe. (See Section 1702.06.) From this remainder and from other conference resources, appropriations are made to other entities in accordance with actions of the governing committee or as agreed by representative bodies of the church. These appropriations are reported as expenses in the statement of changes in net assets.

1701.05 Contributions to Retirement Plans - Contributions made to defined benefit retirement plans, although calculated as a percentage of tithe, are recorded as expense and combined with "other" operating expense. This is because only part of the ultimate benefit flows to employees of the reporting conference, although it is an expense of maintaining employees, similar to payroll taxes. In addition, part of the contributions to defined benefit retirement plans are intended to supplement payments made by other conference-affiliated entities for their employees, so they cannot be distributed among various functions like direct payroll expenses. In contrast, all contributions to defined contribution retirement plans relate to only the reporting entity's employees, so should be distributed among various functions on the same basis as the underlying payroll expense.

1701.06 Financial Statement Presentation - The account structure, discussed in Chapter 4, should produce the following placement of various types of activity in the financial statements.

<u>Tithe Income:</u>	<u>Statement of Changes in Net Assets</u>
Gross Tithe Revenue	Income Section of Changes in Net Assets
Less Tithe Percentages	Income Section of Changes in Net Assets
<u>Expense</u>:	
DB Retirement Plan Contribution	Expense Section of Changes in Net Assets
<u>Other Conference-owned Revenue</u>:	
Restricted	Income Section of Changes in Net Assets
Unrestricted	Income Section of Changes in Net Assets
<u>Conference Non-Owned Inflows</u>:	<u>Statement of Financial Position</u>
World Mission Offerings	Liability Section
Other Offerings	Liability Section
Offering Fund Agency Accounts	Liability Section

1701.07 Church and School Properties - It is important that a formal accounting record be made of all property that is owned by the conference or its affiliated legal entity. This includes churches, elementary schools, intermediate schools, and other land and buildings used by local congregations. This also includes all secondary schools (day schools and boarding schools) for which legal title to the property is held in the name of the affiliated legal entity. Extensive guidance for property accounting is given in Appendix 13A.

1701.08 Review of Local Church and School Records - Most conference revenue comes through remittances and payments from constituent churches and schools. To ensure that donors' intentions are followed from the local level to the conference and beyond, some method of monitoring local records is necessary. To do this, GCWP SA 10 requires that accounting records of local churches and schools be reviewed at least biennially by qualified individuals employed by the local conference. The governing committee should budget accordingly for personnel, so that the benefits of such reviews may be realized.

Section 1702 - The Tithe

1702.01 Basic Conference Revenue - All transactions related to tithe are to be recorded in the Conference Operating Fund. Tithe is the basic revenue of the conference for its operating purposes and is reported as such in the statement of changes in net assets. Gross tithe revenue is to be recorded in a specific general ledger account.

1702.02 Tithe Percentages - As described in the previous section, certain percentages of tithe revenue as mandated by policy are reported as deductions from gross tithe revenue, rather than as expense. Each GC Division establishes percentages for remittance from local conference to union and division, and the GC establishes percentages for remittance from each level to the GC. The percentage that is retained by each level of organization is available for its operations. Each of these tithe percentage groups is to be recorded in a separate specific general ledger account. The percentage of tithe contributed to defined benefit retirement plans is considered an expense rather than a tithe percentage. It is included in "other operating expense" in the statement of changes in net assets.

1702.03 Tithe Exchange - GCWP V 10 10 establishes a process of exchanging tithe for non-tithe resources between the GC divisions and the unions and conferences. It says:

> As the work of the church develops around the world, some conferences/missions/fields with larger membership and relatively more tithe funds have urgent needs which require non-tithe funds, while at the same time situations exist in other areas where additional tithe funds can be used to meet appropriate needs. This is particularly true where needs arise which cannot properly be met from tithe funds, such as expanding church or school facilities, certain educational needs, or land, buildings, or equipment costs.

Therefore it seems prudent for some organizations to pass on such additional tithe to the division within certain limits, and with the understanding that an equal amount of non-tithe funds will be appropriated from the division to the requesting organization.

As part of the annual budget process, the GC and divisions estimate the amount of non-tithe funds that may be available for exchange. During the year, the GC and divisions monitor the amount actually exchanged.

The accounting entries for a conference to record tithe exchange are as follows:

Debit: Tithe Exchange To [*name*] Division (activity account in the unallocated tithe function)
Credit: Cash in Bank -or- Account Receivable/Payable With [*name*] Division
To record tithe funds sent to Division for exchange.

Debit: Cash in Bank -or- Account Receivable/Payable With [*name*] Division
Credit: Non-tithe Exchange From [*name*] Division (activity account in the unallocated non-tithe function)
To record non-tithe funds received from Division for exchange.

1702.04 Permissible Uses of Tithe - Conferences typically receive many requests for appropriations and expenditures for various purposes. It is important to know whether tithe can be used for any given disbursement. The following partial list reflects the current understanding as to permissible and non-permissible expenditures from tithe, according to GCWP V 15 15:

<u>Purposes for which Tithe may be used:</u>

Pastors, Evangelists, Ministers
World Missions through tithe sharing
Soul-winning support personnel
Conference/mission/field operating expense
Other employees with ministerial credentials/licenses
Literature Evangelist's Benefit Fund
Subsidies for specific activities, such as youth camp and campmeetings
Evangelistic and conference office equipment
Bible/Religion teaching and support personnel in schools:

<u>Elementary church schools</u> - limited to a maximum of 30 percent (30%) of total salaries and allowances of principals and teachers.
<u>Secondary church schools</u> - limited to a maximum of the total salaries and allowances of Bible teachers, residence hall deans, and principals.
<u>Church-operated colleges and universities</u> - limited to a maximum of the total cost of Bible or Religion departments, deans of students, residence hall deans, and presidents.

<u>Purposes for which Tithe shall not be used</u>:

Maintenance and other operating expense of local churches and schools
Local church and school employees (secretaries, janitors, etc.)
Capital expenditures to purchase or construct buildings and facilities
Equipment - except evangelistic and conference office

1702.05 Internally Exchanged Tithe - Some conferences operate activities whose payroll may be an allowable charge against tithe funds, but which attempt to be self-sufficient with non-tithe revenue such as sales. A common example is an Adventist Book Center whose employees may appropriately be paid from tithe but who must be financed by non-tithe funds generated by sales of merchandise. These individuals are typically carried on the conference payroll, and the disbursements are recorded in the Conference Operating Fund. The ABC reimburses the conference, which reports the reimbursement in a Salary Returns account in the Conference Operating Fund. An amount equal to the Salary Returns received from the ABC may then be transferred from the Unallocated Tithe Function to the Unallocated Non-tithe Function as non-tithe funds of the conference. The actual cost of the salaries is recorded as expense in the ABC records.

Section 1703 - Offerings

1703.01 Nature of Offerings - Various offerings are received by the conference, such as those earmarked specifically for various offerings for the World Mission Fund, those for other specific funds administered by the General Conference, and those for local or union conference programs. All funds over which the local conference has little or no discretion, other than to pass them on to another organization, are recorded as Offering Fund Agency Accounts, which appear in the statement of financial position as current liabilities until they are properly remitted. (See Appendix 17A.01 and 17A.05 Note 11.) Offerings which represent restricted revenues to the local conference are identified as restricted revenue in appropriate functions. Ingathering is a special kind of offering, discussed in Section 1704.

1703.02 World Mission Offerings - World Mission Fund is defined in GCWP W 10 05 as follows:

> World Mission Fund—The Sabbath School in all its divisions has long been recognized as the church organization that gives weekly emphasis to the worldwide program, and funds received through Sabbath School mission offerings constitute a significant portion of the world mission fund.
>
> General Conference Funds—All Sabbath School mission offerings are General Conference offerings and are to be passed on in their entirety by the church treasurer to the conference/mission/field for transfer to the General Conference. These mission offerings include the regular weekly offering, Thirteenth Sabbath offering, Sabbath School Investment, and the Birthday-Thank offering. Each of these mission offerings is to be identified as a separate fund in the regular system of records from the local church to the General Conference.

Not included in the above groups are World Budget offerings and the Combined Offering Plan, which are used in some territories. Instead of contributing to a number of separate mission offerings, some contributors simply identify their donation as World Budget, or all offerings taken in the church are combined. These kinds of funds are to be apportioned by the conference to specific offerings on a percentage basis established by the GC Annual Council. All world mission offerings, World Budget offerings, and designated portions of Combined Offering Plan receipts are recorded as offering fund agency accounts when received.

1703.03 Other Offerings - All other offerings not retained by the local conference for its program activities are also recorded as specific offering fund agency accounts when received. Offerings received for conference use may be restricted by the donor to a particular purpose or time period to which they are to be applied. As mentioned in Section 1501.02, such offerings should be credited upon receipt to the appropriate restricted revenue account in the allocated functions group.

Section 1704 - Ingathering

1704.01 The Policy in General - Procedures related to Ingathering funds, from the time they are solicited from the public and from members, until they are placed in the hands of the GC Divisions and then reverted in part to the soliciting fields, are outlined in GCWP Section X, and in applicable sections of the working policy for each division that engages in the Ingathering program. Because a significant portion of Ingathering money is solicited from the general public and carries with it an obligation to administer the funds in agreement with the terms of the solicitation, it is essential that all provisions of the policy be clearly understood and that the accounting procedures be carried out in a way that conforms with policy.

1704.02 Collection and Remittance - GCWP X 15 delegates to each division the authority to establish procedures for solicitation and accounting for the Ingathering program. Generally, four concepts apply to all organizations that handle Ingathering.

1. Separate accounts are to be used to record amounts received and amounts remitted to senior organizations.
2. Ingathering is collected at the local church level, and is remitted through senior organizations until it reaches the respective division. The division distributes it according to policy formulas to designated organizations.
3. Ingathering collected is to be recorded in offering fund agency accounts as a liability. Ingathering remitted is to be recorded in a contra-account to the offering fund agency account.
4. Separate offering fund agency accounts are to be used for collections from members and from nonmembers of the Seventh-day Adventist Church.

1704.03 Distribution and Disbursement - The distinction between solicited funds (those from contributors other than members of the Seventh-day Adventist Church) and contributed funds (those which are gifts from Seventh-day Adventist church members) must be maintained at every level of organization. GCWP X 20, and related division working policies, contain guidelines for distribution and disbursement. Ingathering reversions received back from senior organizations are to be recorded as restricted revenue. Expenditure of ingathering reversion is to be recorded as expense in appropriate functions.

1704.04 Use of Ingathering Funds - As mentioned in Section 1704.01, the solicitation of funds from the general public may carry with it a responsibility, both moral and legal, to administer the funds in accordance with unique terms and representations of the solicitation. For this reason, the distinction between "solicited" and "donated" funds is maintained, not only in the remittance of the funds through denominational channels, but in their reversion to the originating fields as well. To comply with this responsibility, division policies may specify that no more than a certain maximum percentage of the ingathering reversion may be used for elementary and secondary education and youth camps. Similarly, they may specify that no less than a certain minimum percentage of the ingathering reversion is to be used for specified conference and local church community services programs.

1704.05 Restricted or Unrestricted Revenue - It is necessary to decide whether Ingathering Reversion is restricted or unrestricted revenue; that is, have specific requirements been placed upon the funds by an external source which must be met in their disbursement? If so, the reversion must be recorded as restricted revenue until expenditures are made within the limitations of the gift. Because of the methods of solicitation and the promotional literature used in Ingathering campaigns, it is evident that such a restriction is implicit in the acceptance of contributions for the Ingathering program, either from those not of our faith or from members of our church. Therefore, Ingathering Reversion from both member and non-member funds should be recorded as restricted revenue in specific accounts in the allocated functions group.

1704.06 Apportionment of Funds - Generally, the receipt of Ingathering reversion funds is recorded in an Ingathering Reversion function, and then transfers are made from that function to other functions that can use the money as policy allows. This means that, except for amounts appropriated directly to churches, no actual expenditures are charged to the Ingathering Reversion function. As allocations of Ingathering funds to other functions are voted by the governing committee, the accounting consists of a debit to the Transfers Between Functions of the Ingathering Reversion function and as a credit to the Transfers Between Functions accounts of the various functions receiving the funds. It is important, though, that all funds thus transferred are no more than the amount expended from the receiving function. Since these are restricted revenues, any unexpended portion will be kept in the Ingathering Reversion function. These accounting principles are illustrated in Appendices 17A.03 and 17A.05.

Section 1705 - Operating Subsidies and Appropriations

1705.01 Nature of Subsidies and Appropriations - A subsidy or appropriation is defined as a grant to an organization for some specific charitable, educational, or similar purpose. Our denominational plan of finance involves the extensive use of subsidies and appropriations, usually from a senior entity to a junior entity and usually for specified operating purposes. When subsidies and appropriations sent to conferences are designated for specific programs or future time periods, they must be treated as restricted revenue.

1705.02 Appropriations from Senior Organizations - The account structure allows the restricted or unrestricted nature of subsidies and appropriations to be identified. For example, two common subsidies are Tithe Reversion for Evangelism and K-12 Education Reversion. In each case the purpose for which the appropriation is made is implicit in the title of the account. The amount of the appropriation in each case is determined according to a formula or a budget and will seldom agree exactly with the amount spent for the designated purpose or program. (Subsidies of this nature are different from salary **returns**, which are reimbursements of exact amounts of salary outlays. Salary Returns are discussed in Section 1706.)

1705.03 Capital Appropriations Received - The previous discussion referred primarily to subsidies received for operating purposes. Appropriations are also commonly received for capital purposes, such as purchase of equipment, acquisition of land, or purchase or construction of buildings. Such appropriations will be credited to the appropriate restricted capital function as received, which will then be reduced as the funds are disbursed for the restricted purposes.

1705.04 Other Subsidies and Appropriations - The preceding discussion mentioned only a few of the subsidies and appropriations common to a conference, but the principles involved must be applied to all uniformly. The subsidy or appropriation must be identified as either restricted or unrestricted and, if restricted, identified as to the function to which it pertains and carried in that program function.

Section 1706 - Salary Returns

1706.01 Definition - Salary Returns are defined as financial reimbursements for specific services rendered by conference employees to other organizations; this includes the service of Adventist Book Center employees, hospital chaplains, and individuals serving operating functions of commonly-controlled entities.

1706.02 Rationale of the Plan - Even though the salary and related expense of some employees is carried by other entities or other conference activities, it is desirable for management to have the full expense of all conference-related employees reported in a single consolidated payroll system and to bill other entities or other functions for the cost of employees attributable to them.

1706.03 Expense Contra-Accounts - The salary returns accounts are contra-accounts to the payroll expense accounts. Salary returns accounts use distinct titles and object numbers, and may use function numbers to identify the particular program from which the returns are coming. Except for correcting adjustments, **all** entries made in these contra-accounts will be credits. They will be partial offsets to the gross expenses recorded in the employees' salaries and related expense accounts. These contra-accounts are intended only for exact

reimbursement of salaries that have been paid from the tithe fund. It is important to distinguish between such reimbursement arrangements, which are contra-expense accounts, and operating subsidies and appropriations, which are revenue accounts.

1706.04 Illustration, Reimbursement - One common reimbursement arrangement involves employees of the Adventist Book Center (ABC). The ABC is expected to generate resources to cover its own payroll expense. However, for government reporting, those employees are included in the conference payroll system. The ABC needs to reimburse the conference. For example, assume salaries and related expenses for the ABC are:

Remuneration	8,807.66
Travel, Regular	300.00
Travel, Special	337.58
Medical Expense	165.07
Payroll Tax Expense	673.79
Insurance Expense	74.12
Total Expense, ABC	10,358.22

The total amount would be billed to the ABC by the conference, and the accounting entry would be:

Debit: Adventist Book Center Receivable	10,358.22	
Credit: Salary Returns, ABC		10,358.22

1706.05 Illustration, Program Activity Transfer - In case certain salaries and related expenses are to be financed from functions other than the operating fund, the basic procedure is similar to that described above. However, because two funds are involved, two sets of entries must be made. For example, assume the following expenses are to be charged to the Trust Services function in the corporation operating fund:

Remuneration	5,448.25
Travel, Regular	435.00
Payroll Tax Expense	416.79
Insurance Expense	45.85
Total, Trust Services	6,345.89

The entry in the conference operating fund, to record the offset of gross expense, is much the same as for the ABC transaction previously illustrated, except that the debit, instead of being a receivable from another **entity**, is a receivable from another **fund**.

Debit: Due from Corporation Operating Fund	6,345.89	
Credit: Salary Returns, Trust Services		6,345.89

An entry must also be made in the corporation operating fund to record the payable to the conference operating fund and the detail of salaries and expense:

Debit: Trust Services: Salaries	5,448.25	
Regular Travel	435.00	
Payroll Taxes	416.79	
Insurance Expense	45.85	
Credit: Due to Conference Operating Fund		6,345.89

Section 1707 - Inter-Fund Transactions

1707.01 Definition of a Fund - A fund in the context of fund accounting is defined as a separate accounting entity with a self-balancing set of accounts for recording assets, liabilities, net assets, and changes in net assets. This definition makes it clear that every entry in a particular fund must be complete **within that fund**. It is conceptually impossible to have a single accounting entry affecting two different funds.

1707.02 Due From and Due To - As explained in Section 505.05 and illustrated in Section 1706.05, inter-fund transactions are recorded through Due From and Due To accounts. As explained in Chapter 4, these accounts are identified by the use of specific account numbers.

1707.03 Transfers Between Funds - The account structure provides for transfers from one fund to another within an organization, using credits for transfers in and debits for transfers out. It is important that the transfers in from a given fund agree exactly with the related transfers out in the records of the other fund. When the balances in all the transfer accounts for all funds are combined, the net result should be a zero balance for the organization as a whole. This netting effect is reported in the financial statements, as illustrated in Appendix 17A.03. As illustrated in Appendix 4B and 4C, the account structure is designed to identify the sending and receiving funds for all transfers.

1707.04 Transfers Between Functions - Each fund may be divided into a number of functions, with each having a net asset balance. Transfers can be made between these functions in the same way as transfers are made between funds. The account structure reserves a separate classification for transfers in and out between functions. Similar to inter-fund transfers, inter-function transfers should net to zero within each fund.

Section 1708 - Summary of Financial Activity

1708.01 Conference Operating Fund - The account structure provides for the activity of the conference operating fund to be separated into tithe, non-tithe, and allocated functions. Transfers are commonly made from the unallocated tithe function to various allocated functions for purposes for which the use of tithe is permissible. The unallocated non-tithe function receives various unrestricted non-tithe resources. Although assets and liabilities are not identified as to their tithe or non-tithe character, the accounting records clearly report how the tithe was used and the portions of **net** assets which consist of tithe and of non-tithe resources.

1708.02 Allocation of Funds - The use of allocated functions is necessary when specific revenue or a specific allocation of available funds is earmarked for a specific functional purpose. Since all expense must be associated with specific functions, conference administration must clearly define the entity's functions and report accordingly. See Section 1502 for further discussion about accounting for allocated net assets.

1708.03 Summary of Activity by Function or Department - The distribution of activity between tithe and non-tithe, unallocated and allocated, is disclosed in the Statement of Changes in Net Assets (see Appendix 17A.03). Note that for each function there is reported revenue, expense, net transfers in (out) between functions, beginning functional net assets, and ending functional net assets. Unallocated and allocated functional net assets combined make up the total net assets of the conference operating fund.

Section 1709 - Cash Receipt Cutoff

1709.01 The Accrual Entry - GAAP requires recorded cash receipts and disbursements to include only receipts and disbursements that actually occurred during the reporting period. GAAP also requires revenue to be recognized when it is due, even if it has to be estimated, rather than waiting until it is received. This is accomplished by recording accounts receivable and payable, not by holding open or post-dating cash receipts. To apply these concepts to church tithe and offering reports, the following procedures should be followed:

1. Local church remittances received by a conference after the end of an accounting period, which pertain to the prior accounting period (whether the reporting period is a whole year or only part of a year), should be recorded in an account receivable for the amount of those remittances, with credits to the appropriate offering fund agency accounts and revenue accounts.

2. The conference should also estimate any significant amounts due from churches that have not submitted reports for the prior accounting period, and make corresponding entries to revenue and agency accounts. It is more appropriate to estimate an amount as of the end of the current reporting period than to artificially cut off remittances as of the prior month due to delays by the remitting church or postal difficulties.

3. An account payable should be recorded for the conference's remittance to the union conference after the end of the accounting period, with appropriate tithe percentage and retirement expense accounts debited.

4. Appropriate entries should be made in the accounts of the union, division, and General Conference in harmony with the above.

1709.02 Sample Entries - Illustrative journal entries for church remittances would be as follows:

For the period ending 31 December 20X1:	Debit	Credit
Faithful SDA Church Remittance Receivable	XXXXXX	
Unrestricted Revenue - Gross Tithe		XXXXXX
Mission Extension Offering Fund Agency Account		XXXXX
Sabbath School Offering Fund Agency Account		XXXXXX
Thirteenth Sabbath Offering Fund Agency Account		XXXXX
Adventist University Offering Fund Agency Account		XXXXX
Division Evangelism Offering Fund Agency Account		XXXXX
To record the Tithe and Offering report of the Faithful SDA Church for the month of December, 20X1. (Report received January 5, 20X2.)		

DB Retirement Plan Contribution Expense	XXXXX	
Retirement Plan Contribution Payable		XXXXX
To record Contribution Expense and Contribution Payable to DB Retirement Plan (as a percentage of Tithe).		
XX% Tithe Remittance to GC	XXXXX	
XX% Tithe Remittance to Division	XXXXX	
XX% Tithe Remittance to Union	XXXXX	
Tithe Percentages Payable to Union		XXXXXX
To record Tithe Percentages required by policy for the month of December, based on all T & O reports received and recorded.		
For the period ending 31 January 20X2:		
First State Bank	XXXXXX	
Faithful SDA Church Remittance Receivable		XXXXXX
To record the receipt of remittance covering the Faithful SDA Church T & O report for December, 20X1. (Cash receipt #XXX dated January 12, 20X2)		

This example illustrates the required entries for a single church. A similar entry should be made for each church in the conference each month. It is usually more efficient to make either a manual or computerized summary of all the tithe and offering reports received, and use the totals from this summary as the basis for a consolidated journal entry for each month, similar to those illustrated above. Although not illustrated in the above entries, any remittances from churches that include payments on account would be credited to the specified accounts receivable.

1709.03 Remittances Receivable - There are occasions when a church, for some reason, is not able to remit cash for the amount of funds indicated in the monthly report of tithe and offerings. It is also common for small or remote churches to delay submitting their monthly reports for a month or two. This is generally a temporary matter, and the remittance is made a month or two later. Following the procedure outlined above, the report from **every** constituent church should be entered **each** month even though the cash may not be received as promptly as called for by policy. This ensures that the conference takes credit for its revenue in the month in which it accrues to the benefit of the conference. Also, a liability for funds to be passed on to other organizations is recorded in a timely manner. It should be the CFO's responsibility to establish appropriate procedures and to encourage timely reporting, as well as to monitor and control untimely payments, from the churches.

1709.04 Exception for Inadequate Postal Systems - In some parts of the world, Union conferences receive remittances from local conferences, and GC Divisions receive remittances from Union conferences, located in countries where postal and communication facilities make delivery relatively slow. To avoid unnecessary delays in producing Union or Division financial statements, the denomination has historically allowed Unions and Divisions to establish a policy that cuts off remittance reporting one or two months before the Union or Division fiscal year end.

Where such an early cutoff is implemented, it must be applied uniformly to **all** remitting entities, and must be applied consistently from year to year. For example, a Division would report its financial activity for a calendar year, January 1 to December 31, 20X1, except that it would report its tithe and offering remittance revenue from **all** Unions for the twelve-month period December 1, 20X0, to November 30, 20X1.

As mentioned earlier, GAAP requires revenue to be recognized when due, and if there are delays in receiving revenue, GAAP requires the best estimate to be recorded rather than using artificial cutoff processes. Therefore, Unions and Divisions should apply the preceding early cutoff process only when it is not reasonably practical to estimate the amount that is receivable at the reporting date. Further, the early cutoff should be limited to the shortest delay practical for the given territory. Unions and Divisions should also be alert to developing communication technology that may be available which can be used to minimize the need for such early cutoff procedures.

Appendix 17A

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS

Illustrative Combined Financial Statements (International Model)

31 December 20X1 and 20X0

(To be used by Divisions, Union Conferences/Missions, and Local Conferences/Fields)

The reporting currency is the [*name of local currency*]

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17A.01**
Combined Statement of Financial Position (International Model)
31 December 20X1 and 20X0

ASSETS	Operating	Plant	Total	Total
Current Assets	Fund	Fund	20X1	20X0
Cash & Cash Equivalents (Note 3)	1,702,642		1,702,642	1,599,670
Investments (Note 4)	8,571,777		8,571,777	5,840,869
Accounts Receivable, net (Note 5)	9,069,178		9,069,178	8,042,572
Cash Held for Agency (Note 3)	546,956		546,956	672,581
Loans Rec. - Current Portion (Note 6)	886,033		886,033	750,000
Supplies & Prepaid Expense (Note 7)	241,995		241,995	337,914
Total Current Assets	21,018,581		21,018,581	17,243,606
Land, Buildings, and Equipment (Note 8)		4,975,856	4,975,856	2,505,436
Other Assets				
Due From Other Funds	2,000		0	0
Restricted Currency Receivable (Note 16)	180,000		180,000	86,000
Loans Rec. - Noncurrent (Note 6)	4,276,542		4,276,542	5,803,827
Cash & Invest., Non-operating (Note 9)		1,245,890	1,245,890	41,235
Total Other Assets	4,458,542	1,245,890	5,702,432	5,931,062
Total Assets	25,477,123	6,221,746	31,696,869	25,680,104
LIABILITIES				
Current Liabilities				
Accounts Payable (Note 10)	955,057		955,057	820,057
Offering & Agency Accounts (Note 11)	7,200,452		7,200,452	4,526,233
Loans Pay. - Current Portion (Note 12)	697,450		697,450	435,456
Total Current Liabilities	8,852,959		8,852,959	5,781,746
Other Liabilities				
Due to Other Funds		2,000	0	0
Restricted Currency Payable (Note 16)	180,000		180,000	86,000
Loans Pay. - Noncurrent (Note 12)	2,140,744	1,000,000	3,140,744	2,375,000
Total Other Liabilities	2,320,744	1,002,000	3,320,744	2,461,000
Total Liabilities	11,173,703	1,002,000	12,173,703	8,242,746
NET ASSETS				
Unallocated Tithe Function	3,041,556		3,041,556	3,280,762
Unallocated Non-tithe Function	3,462,935		3,462,935	3,067,025
Allocated Functions	7,798,929		7,798,929	8,522,900
Unexpended Plant Function		1,243,890	1,243,890	61,235
Invested in Plant Function		3,975,856	3,975,856	2,505,436
Total Net Assets	14,303,420	5,219,746	19,523,166	17,437,358
Total Liabilities & Net Assets	25,477,123	6,221,746	31,696,869	25,680,104

Inter-fund borrowing is eliminated in the total columns.
The accompanying notes are an integral part of these financial statements.

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17A.02**
Combined Statement of Financial Activity (International Model)
Years Ended 31 December 20X1 and 20X0

OPERATING ACTIVITY	Operating Fund *	Plant Fund	Total 20X1	Budget 20X1	Total 20X0
Earned Income					
Tithe (net) (Note 14)	5,874,785		5,874,785	5,556,000	5,560,152
Specific Donations	97,961		97,961	0	702,521
Total Investment Income (Note 4)	845,186		845,186	840,000	557,384
Net Exchange Gain (Loss) - General	3,297		3,297	0	(18,741)
Other Operating Income	191,472		191,472	200,000	21,507
Total Earned Operating Income	7,012,701		7,012,701	6,596,000	6,822,823
Operating Expense					
Employee-related Expense (Note 19)	6,409,558		6,409,558	6,492,000	6,867,214
Administrative & General Expense	2,210,431	180,009	2,390,440	2,368,500	2,717,004
Departmental Expense	1,196,710		1,196,710	1,151,500	1,136,418
Other Operating Expense	1,101,984		1,101,984	968,000	1,167,324
Total Operating Expense	10,918,683	180,009	11,098,692	10,980,000	11,887,960
Increase (Decrease) before Approp.	(3,905,982)	(180,009)	(4,085,991)	(4,384,000)	(5,065,137)
Operating Appropriations					
Tithe Appropriations Received	8,636,721		8,636,721	8,625,000	8,204,885
Tithe Appropriations Disbursed	(5,510,223)		(5,510,223)	(4,850,000)	(3,572,250)
Non-tithe Appropriations Received	1,524,127		1,524,127	1,500,000	1,447,925
Non-tithe Appropriations Disbursed	(978,667)		(978,667)	(875,000)	(629,391)
Net Exchange Gain (Loss) Op. App.	26,775		26,775	0	(1,009)
Net Appropriations Retained	3,698,733		3,698,733	4,400,000	5,450,160
Increase (Decrease) after Approp.	(207,249)	(180,009)	(387,258)	16,000	385,023
CAPITAL ACTIVITY					
Capital Appropriations Received	19,991	560,929	580,920	580,920	2,060,640
Other Capital Income (Note 17)		2,080,657	2,080,657	1,095,000	71,920
Capital Appropriations Disbursed	(200,000)		(200,000)	(360,000)	0
Gain (Loss) on Sale of Assets		0	0	0	(54,562)
Net Exchange Gain (Loss) Cap. App.		11,489	11,489	0	0
Net Capital Increase (Decrease)	(180,009)	2,653,075	2,473,066	1,315,920	2,077,998
Increase (Decrease) before Transfers	(387,258)	2,473,066	2,085,808	1,331,920	2,463,021
TRANSFERS					
From Non-tithe to Unexpended Plant	(180,009)	180,009	0	0	0
Net Increase (Decrease) for the Year	(567,267)	2,653,075	2,085,808	1,331,920	2,463,021
Net Assets, Beginning of Year	14,870,687	2,566,671	17,437,358	17,437,358	14,974,337
Net Assets, End of Year	14,303,420	5,219,746	19,523,166	18,769,278	17,437,358

* See Note 18 for expanded detail of the operating fund.
The accompanying notes are an integral part of these financial statements.

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17A.03** (1)
Combined Statement of Changes in Net Assets (International Model)
Year Ended 31 December 20X1

	Balance 31-12-20X0	Income	Expense	Transfers From (To) Unallocated & Allocated	Operating & Plant	Balance 31-12-20X1
OPERATING FUND:						
Unallocated						
Tithe	3,280,762	9,203,774	9,242,980	(200,000)	0	3,041,556
Non-tithe	3,067,025	1,399,618	1,307,703	484,004	(180,009)	3,462,935
Total Unallocated	6,347,787	10,603,392	10,550,683	284,004	(180,009)	6,504,491
Allocated						
(Tithe-allowable Functions)						
Constituency Session	1,004,342	0	20,000	0	0	984,342
Evangelism - Big Cities	772,895	9,260	105,000	5,000	0	682,155
Evangelism - Rural Areas	632,368	8,701	140,000	5,000	0	506,069
Extended Inter-union Service	285,517	0	10,000	0	0	275,517
Health Outreach	808,299	25,000	60,000	25,000	0	798,299
Leadership Training	706,944	20,000	18,000	0	0	708,944
(Non-tithe-related Functions)						
Contingency	2,214,795	0	0	(297,120)	0	1,917,675
Exchange Fluctuation - Op.	927,602	30,072	0	(100,000)	0	857,674
Global Mission	553,699	0	195,000	0	0	358,699
Ingathering Reversion	0	35,000	0	(35,000)	0	0
Insurance	191,237	0	15,000	0	0	176,237
Religious Liberty	425,202	0	5,000	0	0	420,202
Securities Fluctuation	0	0	0	113,116	0	113,116
Total Allocated	8,522,900	128,033	568,000	(284,004)	0	7,798,929
Total Operating Fund	14,870,687	10,731,425	11,118,683	0	(180,009)	14,303,420
PLANT FUND:						
Unexpended Plant						
General / Unspecified	49,473	641,184	0	(512,429)	180,009	358,237
Building Projects - Donated	0	1,974,512	0	(1,200,000)	0	774,512
Building Projects - Allocated	8,000	75,890	0	0	0	83,890
Equipment Acquisitions	2,000	0	0	12,000	0	14,000
Exchange Fluctuation - Cap.	1,762	11,489	0	0	0	13,251
Total Unexpended Plant	61,235	2,703,075	0	(1,700,429)	180,009	1,243,890
Invested in Plant						
Invested in Plant	2,505,436	0	230,009	1,700,429	0	3,975,856
Total Plant Fund	2,566,671	2,703,075	230,009	0	180,009	5,219,746
Total All Funds	17,437,358	13,434,500	11,348,692	0	0	19,523,166

The accompanying notes are an integral part of these financial statements.

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17A.03** (2)
Combined Statement of Changes in Net Assets (International Model)
Year Ended 31 December 20X0

	Balance 31-12-19X9	Income	Expense	Transfers From (To) Unallocated & Allocated	Transfers From (To) Operating & Plant	Balance 31-12-20X0
OPERATING FUND:						
Unallocated						
Tithe	2,926,671	10,192,787	9,738,696	(100,000)		3,280,762
Non-tithe	2,982,437	1,662,425	1,377,837		(200,000)	3,067,025
Total Unallocated	5,909,108	11,855,212	11,116,533	(100,000)	(200,000)	6,347,787
Allocated						
(Tithe-allowable Functions)						
Constituency Session	1,112,947		108,605			1,004,342
Evangelism - Big Cities	668,187	200,000	95,292			772,895
Evangelism - Rural Areas	510,334	200,000	77,966			632,368
Extended Inter-union Service	285,517					285,517
Health Outreach	768,299			40,000		808,299
Leadership Training	728,638		121,694	100,000		706,944
(Non-tithe-related Functions)						
Contingency	2,289,795			(75,000)		2,214,795
Exchange Fluctuation - Op.	946,343	(18,741)				927,602
Global Mission	478,699	250,000	175,000			553,699
Ingathering Reversion	0	40,000		(40,000)		0
Insurance	131,143		14,906	75,000		191,237
Religious Liberty	418,690	11,512	5,000			425,202
Securities Fluctuation	0					0
Total Allocated	8,338,592	682,771	598,463	100,000	0	8,522,900
Total Operating Fund	14,247,700	12,537,983	11,714,996	0	(200,000)	14,870,687
PLANT FUND:						
Unexpended Plant						
General / Unspecified	13,044	70,158		(233,729)	200,000	49,473
Building Projects - Donated	0	1,795,640		(1,795,640)		0
Building Projects - Allocated	8,000					8,000
Equipment Acquisitions	2,000					2,000
Exchange Fluctuation - Cap.	0	1,762				1,762
Total Unexpended Plant	23,044	1,867,560	0	(2,029,369)	200,000	61,235
Invested in Plant						
Invested in Plant	703,593	0	227,526	2,029,369	0	2,505,436
Total Plant Fund	726,637	1,867,560	227,526	0	200,000	2,566,671
Total All Funds	14,974,337	14,405,543	11,942,522	0	0	17,437,358

The accompanying notes are an integral part of these financial statements.

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17A.04**
Combined Statement of Cash Flows (International Model)
Years Ended 31 December 20X1 and 20X0

	Operating Fund	Plant Fund	20X1 Total	20X0 Total
Cash Flows from Operating Activities:				
Net Increase from Financial Activity	(567,267)	2,653,075	2,085,808	2,463,021
Adjustments to remove non-cash items:				
Depreciation Expense		180,009	180,009	172,964
(Gain) Loss on Sale of Plant Assets		0	0	54,562
Unrealized (Gain) Loss on Investments	(133,971)	(45,890)	(179,861)	24,620
Adjustments to reclassify non-operating items:				
Total Exchange (Gain) Loss	(30,072)	(11,489)	(41,561)	19,750
Non-operating Donations & Appropriations		(2,535,441)	(2,535,441)	(169,858)
(Increase) Decrease - Accounts Receivable	(1,139,722)		(1,139,722)	569,861
(Increase) Decrease - Supplies & Prepaid	95,919		95,919	(55,903)
Increase (Decrease) - Accounts Payable	135,000		135,000	74,323
Increase (Decrease) - Agency Funds, net	2,799,844		2,799,844	(1,437,109)
Net Cash Provided (Used) from Operating	1,159,731	240,264	1,399,995	1,716,231
Cash Flows from Investing Activities:				
Proceeds from Maturity of Investments	316,179		316,179	0
Purchase of Investments	(2,800,000)	(1,158,765)	(3,958,765)	(2,000,000)
Payments Received on Notes Receivable	1,641,252		1,641,252	750,000
New Notes Receivable Issued	(250,000)		(250,000)	(3,000,000)
Proceeds from Sale of Assets		50,000	50,000	35,000
Purchase of Land, Buildings, & Equipment		(1,700,429)	(1,700,429)	(303,586)
Net Cash Provided (Used) from Investing	(1,092,569)	(2,809,194)	(3,901,763)	(4,518,586)
Cash Flows from Financing Activities:				
Donations for Future Plant Fund Acquisitions		2,535,441	2,535,441	169,858
Proceeds from Borrowing New Debt	500,000		500,000	3,500,000
Payments Made on Long-term Debt	(472,262)		(472,262)	(435,456)
Proceeds (Payments) on Inter-fund Borrowing	(22,000)	22,000	0	0
Net Cash Provided (Used) from Financing	5,738	2,557,441	2,563,179	3,234,402
Exchange Gain (Loss) on Cash Held in Other Currency	30,072	11,489	41,561	(19,750)
Net Increase (Decrease) for the Year	102,972	0	102,972	412,297
Cash, Beginning of Year	1,599,670	0	1,599,670	1,187,373
Cash, End of Year	1,702,642	0	1,702,642	1,599,670

Supplemental information: cash paid for interest on long-term debt: 305,595.
The accompanying notes are an integral part of these financial statements.

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17A.05** (1)
Notes to the Financial Statements (International Model)
Years Ended 31 December 20X1 and 20X0

Note 1 - Organizational Structure

The [*insert the name of the reporting entity, with an acronym as an identifier, for example: Sample Union Conference of Seventh-day Adventists (SUC)*] is an administrative entity of the world-wide Seventh-day Adventist Church. SUC coordinates the operation of all denominational activities within the [*identify the entity's geographic territory, as it is listed in the SDA Yearbook*], comprising the [*identify the applicable denominational entities, as they are listed in the SDA Yearbook*]. Most of SUC's financial activity consists of transactions with other denominational entities, such as: General Conference of Seventh-day Adventists, [*insert name*] Division, and the various conferences, missions, and fields within its assigned geographic territory.

Note 2 - Summary of Significant Accounting Policies

Currency - The financial statements and notes thereto are presented in [*identify the functional currency and the standard currency symbol as an identifier; for example: Functional Currency Units (FCU)*], which is the functional currency of SUC. Accounting records involving transactions with other countries are maintained in dual currencies: FCU and the applicable local currency. In accordance with policies of the Seventh-day Adventist denomination, the various local currencies are converted into FCU at fixed rates of exchange, which are set each month by the [*name*] Division, and are intended to approximate current market exchange rates. For comparison, the fixed exchange rate with the US dollar was FCU 225 and 208 at 31 December 20X1 and 20X0, respectively.

Accounting Method - The accounting records are maintained on the accrual method of accounting at historical cost, in accordance with International Financial Reporting Standards generally accepted by the Seventh-day Adventist denomination. The [*indicate authorizing group, such as:* SUC officers *or* finance committee] authorized issuance of the accompanying financial statements on [issuance date]. [*Add the following sentence **only** when, due to technology limitations, the reporting entity has adopted a modified remittance cutoff date.*] Because of difficulty in postal communication with remote areas, the monthly reports of tithes and offerings are cut-off for fiscal year accounting at [*indicate the cutoff date, such as 30 November*].

Cash and Equivalents - Cash consists of currency on hand and bank checking and saving accounts that are held for operating purposes. Cash equivalents consist of highly-liquid assets that are readily convertible to cash and are held for operating purposes. Cash equivalents include items such as time deposits that have a maturity date of three months or less from the date of acquisition and money market funds. Cash and equivalents that are held for purposes other than operating are classified as non-operating cash and investments. The increase or decrease in operating cash and equivalents is reported in the statement of cash flows as an increase or decrease in cash. The increase or decrease in non-operating cash and investments is reported in the statement of cash flows as proceeds or purchases of investments.

Investments - Investments consist of time deposits that have a maturity date of more than three months, and debt and equity securities, which are held for current income and/or appreciation in value. All investments whose fair value can be reliably measured are carried at fair value based on the investment portfolio as a whole for each type of instrument. Those investments that meet certain criteria are classified as held-to-maturity instruments, and are carried at historical cost. The difference between aggregate fair value and historical cost for each type of instrument is recorded in a valuation account. The change in this valuation account during each period is recognized as an unrealized gain or loss in the statement of financial activity.

Land, Buildings, and Equipment - Land, buildings, and equipment assets are recorded at historical cost in local currency, and are depreciated by the straight-line method over the estimated useful lives of the assets, which range from three to seventy-five years. Legal title to the land used by SUC is held in the name of [*identify the name of the entity that holds legal title to the property*].

Fund Accounting - The following self-balancing funds are established in the accounting system:

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17A.05** (2)
Notes to the Financial Statements (International Model)
Years Ended 31 December 20X1 and 20X0

Note 2 - Summary of Significant Accounting Policies (continued)

Operating Fund - Includes all income, expenses, other transactions, and related assets and liabilities involving SUC's operations, except transactions of the Plant and Retirement funds. Financial activity is sub-divided into tithe, non-tithe, and allocated funds.

Plant Fund - Includes all transactions relating to land, buildings, and equipment, such as holding title to, and accounting for, the real properties used by SUC, holding and accounting for equipment, accounting for depreciation on those assets, and holding liquid assets accumulated for renewal and replacement of land, buildings, and equipment. Equipment items that individually cost FCU 500 or more are capitalized and depreciated; equipment items that individually cost less than FCU 500 are charged to expense in full when acquired. [*If applicable, add the following sentence:* The Plant Fund also includes land for which legal title is held by (*name of legal entity*) but which is used by affiliated entities.]

Retirement Fund - [*Use if applicable.*] Includes all transactions relating to the receipt of funds from denominational entities and the disbursement of benefits to retirees within the SUC territory, which are intended to provide for retired national employees and their beneficiaries, in accordance with the retirement policies of General Conference of Seventh-day Adventists, [*insert name*] Division.

Principles of Combination - The Operating and Plant Funds are combined for reporting purposes, to represent the total operating activities of SUC. [The financial statements of the Retirement Fund are not combined with the other funds, because the retirement funds are held exclusively for the benefit of current and future retirees.]

Note 3 - Cash and Cash Equivalents	20X1	20X0
Imprest / Petty Cash	3,000	2,500
Bank Checking and Saving Accounts	239,857	197,747
Time Deposits, due in 3 months or less	500,000	500,000
General Conference Money Fund	1,506,741	1,572,004
Less Cash Held for Agency	(546,956)	(672,581)
Total Cash and Cash Equivalents	1,702,642	1,599,670

Note 4 - Investments

31 December 20X1	Cost	Fair Value	Unrealized Appreciation (Decline)
GC Unitized Bond Fund	2,800,000	3,000,708	200,708
GC Unitized Income Fund	1,000,000	1,000,962	962
GC Unitized International Fund	3,208,661	3,004,081	(204,580)
GC Unitized Investment Fund	800,000	892,200	92,200
Bank-managed Bond Fund	650,000	673,826	23,826
Total Investments, 31 December 20X1	8,458,661	8,571,777	113,116
31 December 20X0			
GC Unitized Income Fund	1,000,000	1,000,246	246
GC Unitized International Fund	3,211,724	3,191,416	(20,308)
GC Unitized Investment Fund	1,000,000	1,000,967	967
Bank-managed Bond Fund	650,000	648,240	(1,760)
Total Investments, 31 December 20X0	5,861,724	5,840,869	(20,855)

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17A.05** (3)
Notes to the Financial Statements (International Model)
Years Ended 31 December 20X1 and 20X0

Note 4 - Investments (continued)	20X1	20X0
Interest & Dividends from Investments	479,626	296,708
Net Realized Gain (Loss) on Sale of Investments	119,109	167,918
Net Unrealized Gain (Loss) in Value of Investments	133,971	(20,855)
Net Gain (Loss) on Investments	253,080	147,063
Total Income from Investments Excluding Cash	732,706	443,771
Interest Earned on Cash & Cash Equivalents	112,480	113,613
Total Investment Income	845,186	557,384

Source of Fair Value Information: The Organization uses information from various sources to determine the fair values of assets and liabilities that are subject to fair value accounting. This information is separated into three "levels" of inputs:

Level 1: Observable quoted market prices in active markets for identical assets or liabilities

Level 2: Direct or indirect observable market data, such as quoted prices in inactive markets for identical assets or liabilities, quoted prices in active markets for similar assets or liabilities, and other observable market data correlated to identical or similar assets or liabilities

Level 3: Unobservable inputs and assumptions based on judgment and the best information available

The Organization used the following inputs to determine fair values of assets which are carried at fair value.	Level 1	Level 2	Level 3
GC Unitized - Bond Fund		3,000,708	
GC Unitized - Income Fund		1,000,962	
GC Unitized - International Fund		3,004,081	
GC Unitized - Investment Fund		892,200	
Bank-managed Bond Fund		673,826	
Total Investments, 31 December 20X1	0	8,571,777	0
For investments valued with Level 3 inputs:			
Beginning balance			0
Total gains or losses (net)			0
Total purchases and sales (net)			0
Transfers in or out of level 3 (net)			0
Ending balance			0
Net Gain (Loss) for assets still held at reporting date			0

Note 5 - Accounts Receivable

	20X1	20X0
XYZ Division [*Name of next higher denominational entity*]	4,241,969	5,000,741
SDA Entities Within SUC [*identifier of reporting entity*] Territory	4,577,755	2,467,719
Other Denominational Entities	200,210	470,842
Administrative Employees (as defined in Note 19)	27,026	53,772
Other Employees	18,018	35,848
General Accounts	18,200	13,650
Total Accounts Receivable	9,083,178	8,042,572
Allowance for Uncollectible Accounts	(14,000)	0
Net Accounts Receivable	9,069,178	8,042,572

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17A.05** (4)
Notes to the Financial Statements (International Model)
Years Ended 31 December 20X1 and 20X0

Notes 6 - Loans Receivable

	20X1	20X0
Affiliated SDA Entities, Secured, 5 to 6% interest, payments due monthly	2,328,233	3,268,313
Employees Housing Loans, Secured, 6 to 7% interest, pmts due monthly		
Administrative Employees (as defined in Note 19)	1,439,263	1,644,868
Other Employees	1,177,579	1,345,802
Employees Car Loans, Unsecured, 8 to 10% interest, pmts due monthly	140,100	191,244
Employees Education Loans, Unsecured, 6 to 7% interest, amort. mo.	72,400	96,600
Other Loans, Secured, 8 to 10% interest, due on demand	15,000	32,000
Total Loans Receivable	5,172,575	6,578,827
Allowance for Uncollectible Loans	(10,000)	(25,000)
Net Loans Receivable	5,162,575	6,553,827
Current Portion - Due Within One Year	(886,033)	(750,000)
Long-term Portion	4,276,542	5,803,827

Note 7 - Supplies & Prepaid Expense

	20X1	20X0
Departmental Supplies	181,995	217,914
Prepaid Expenses	60,000	120,000
Total Supplies & Prepaid Expense	241,995	337,914

Note 8 - Land, Buildings, and Equipment

Balances at 31 December 20X1	Total Cost	Accumulated Depreciation	Net Value	Depreciation Expense
Land	900,000	0	900,000	0
Land Improvements	35,980	8,639	27,341	1,033
Buildings	3,045,000	707,460	2,337,540	45,900
Furnishings & Equipment	2,138,225	427,250	1,710,975	133,076
Land, Buildings, & Equipment, 20X1	6,119,205	1,143,349	4,975,856	180,009
Balances at 31 December 20X0				
Land	200,000	0	200,000	0
Land Improvements	35,980	7,606	28,374	1,033
Buildings	1,545,000	661,560	883,440	39,200
Furnishings & Equipment	1,738,470	344,848	1,393,622	132,731
Land, Buildings, & Equipment, 20X0	3,519,450	1,014,014	2,505,436	172,964

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17A.05** (5)
Notes to the Financial Statements (International Model)
Years Ended 31 December 20X1 and 20X0

Note 8 - Land, Buildings, and Equipment (continued)

Summary of Changes Total Cost	Balance 31-12-20X0	Additions	Deletions	Balance 31-12-20X1
Land	200,000	700,000	0	900,000
Land Improvements	35,980	0	0	35,980
Buildings	1,545,000	1,500,000	0	3,045,000
Furnishings & Equipment	1,738,470	500,429	100,674	2,138,225
Total Cost	3,519,450	2,700,429	100,674	6,119,205
Accumulated Depreciation				
Land Improvements	7,606	1,033	0	8,639
Buildings	661,560	39,200	0	707,460
Furnishings & Equipment	344,848	133,076	50,674	427,250
Accumulated Depreciation	1,014,014	180,009	50,674	1,143,349
Net Value	2,505,436	2,520,420	50,000	4,975,856

Note 9 - Cash and Investments - Non-operating

Unexpended Plant Fund	Cost	Fair Value	Unrealized Appreciation (Decline)
31 December 20X1			
[*Name*] Bank - Time Deposit, 5% interest, due Dec. 20X2	700,000	700,000	0
GC Unitized Income Fund	500,000	545,890	45,890
Total Cash and Investments - Non-operating 20X1	1,200,000	1,245,890	45,890
31 December 20X0			
[*Name*] Bank - Saving Account	41,235	41,235	0
Total Cash and Investments - Non-operating 20X0	41,235	41,235	0

Note 10 - Accounts Payable

	20X1	20X0
Commercial Accounts	49,204	11,763
XYZ Division [*Name of next higher denominational entity*]	15,707	10,022
SDA Entities Within SUC [*identifier of reporting entity*] Territory	878,311	792,371
Other Denominational Entities	8,621	3,713
Employees	3,214	2,188
Total Accounts Payable	955,057	820,057

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17A.05** (6)
Notes to the Financial Statements (International Model)
Years Ended 31 December 20X1 and 20X0

Note 11 - Offering Funds and Agency Accounts

	Balance 31-12-20X0	Additions	Withdrawals	Balance 31-12-20X1
World Missions				
Specific Mission Offerings	0	349,467	349,467	0
Sabbath School - 12 Sabbaths	0	621,354	620,598	756
Sabbath School - 13th Sabbath	6,215	329,168	326,718	8,665
Total World Missions	6,215	1,299,989	1,296,783	9,421
Miscellaneous Offerings				
Adventist World Radio	0	51,777	48,982	2,795
Disaster & Famine Relief	59,892	62,951	106,109	16,734
Ingathering Program	629	73,331	71,565	2,395
World Evangelism	0	70,904	50,856	20,048
Total Misc Offerings	60,521	258,963	277,512	41,972
General Agency				
Lay Evangelism	357,682	3,000	131,394	229,288
Publishing Development	248,163	67,570	49,458	266,275
Total General Agency	605,845	70,570	180,852	495,563
Depositor Accounts				
[*Name*] Memorial Fund	671,622	1,029,624	50,000	1,651,246
[*Name*] Scholarship Fund	1,422,015	491,243	110,000	1,803,258
[*Name 1*] Church Building Fund	46,912	750,000	12,750	784,162
[*Name 2*] Church Building Fund	524,779	417,718	0	942,497
[*Name 3*] School Building Fund	1,188,324	500,000	215,991	1,472,333
Total Depositor Accounts	3,853,652	3,188,585	388,741	6,653,496
Total Offering & Agency Funds	4,526,233	4,818,107	2,143,888	7,200,452

Note 12 - Loans Payable

	Operating	Plant	20X1	20X0
[*Name*] Division, Unsecured, 5% interest	1,618,014	0	1,618,014	1,154,820
[*Name*] Division, Unsecured, 6% interest	0	1,000,000	1,000,000	0
Security Bank, Unsecured, 6% interest	1,220,180	0	1,220,180	1,655,636
Total Loans Payable	2,838,194	1,000,000	3,838,194	2,810,456
Current Portion - Due Within One Year	(697,450)	0	(697,450)	(435,456)
Long-term Portion	2,140,744	1,000,000	3,140,744	2,375,000

Amounts due on principal in each of
the next five years are: 20X2: 697,450; 20X3: 747,911; 20X4: 787,662; 20X5: 829,539; and 20X6: 775,632.

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17A.05** (7)
Notes to the Financial Statements (International Model)
Years Ended 31 December 20X1 and 20X0

Note 13 - Contingent Liability

The [*identifier*] has guaranteed a loan payable by [*name of affiliated entity*] to [*name of lender*]. The loan balance at 31 December 20X1 was [*amount*]. Principal and interest payments on this loan are scheduled to be made by [*name of affiliated entity*]. At 31 December 20X1, [*name of affiliated entity*] was current on its payment obligation.

Note 14 - Tithe Received and Percentages Passed On	20X1	20X0
Tithe Received From Local Conferences/Missions/Fields	8,812,178	8,340,228
Tithe Passed On To (*name*) Division	(1,762,436)	(1,668,046)
Tithe Passed On To General Conference	(1,174,957)	(1,112,030)
Net Tithe Income	5,874,785	5,560,152

Note 15 - One-Offering Plan Remittances [*use if applicable*]	20X1	20X0
One-Offering Percentage Received From [*type of lower entity*]	324,997	311,876
Percentage Passed On To [*name of next higher entity*]	(97,501)	(93,563)
Percentage Passed On To General Conference	(129,998)	(124,752)
Net One-Offering Percentage Retained by [*reporting entity*]	97,498	93,561

Note 16 - Restricted Currency Remittances Receivable and Payable	20X1	20X0
Restricted Currency Remittances Receivable From Local Conference	265,000	125,000
Union Portion of Restricted Currency Receivable	(85,000)	(39,000)
Restricted Currency Receivable for Benefit of Division and GC	180,000	86,000
Restricted Currency Remittances Payable To Division and GC	(180,000)	(86,000)

These funds are subject to currency restrictions of the country in which they are held. The extent and timing of withdrawal of these funds for their intended use cannot be determined, so they are classified as noncurrent.

Note 17 - Other Capital Income	20X1	20X0
Donations Restricted for Plant Assets	1,974,512	69,858
Investment Income (Interest and Dividends)	60,255	2,062
Unrealized Gain (Loss) in Value of Investments	45,890	0
Total Other Capital Income	2,080,657	71,920

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17A.05** (8)
Notes to the Financial Statements (International Model)
Years Ended 31 December 20X1 and 20X0

Note 18 - Schedule of Financial Activity - Operating Fund

	Unallocated Funds			Allocated	Total	Budget	Total
OPERATING ACTIVITY	Tithe	Non-tithe	Total	Funds	20X1	20X1	20X0
Earned Income							
Tithe (net) (Note 14)	5,874,785	0	5,874,785	0	5,874,785	5,556,000	5,560,152
Specific Donations	0	0	0	97,961	97,961	0	702,521
Investment Income	0	845,186	845,186	0	845,186	840,000	557,384
Exch. Gain (Loss) - General	0	0	0	3,297	3,297	0	(18,741)
Other Operating Income	0	191,472	191,472	0	191,472	200,000	21,507
Tithe/Non-tithe Exchange	202,491	(202,491)	0	0	0	0	0
Total Earned Oper. Income	6,077,276	834,167	6,911,443	101,258	7,012,701	6,596,000	6,822,823
Operating Expenses							
Employee-related Expenses	6,381,558	0	6,381,558	28,000	6,409,558	6,492,000	6,867,214
Admin. & General Expense	1,535,913	649,518	2,185,431	25,000	2,210,431	2,200,500	2,544,040
Departmental Expense	846,228	350,482	1,196,710	0	1,196,710	1,151,500	1,136,418
Other Operating Expense	479,281	107,703	586,984	515,000	1,101,984	968,000	1,167,324
Total Operating Expense	9,242,980	1,107,703	10,350,683	568,000	10,918,683	10,812,000	11,714,996
Incr. (Decr.) before Approp.	(3,165,704)	(273,536)	(3,439,240)	(466,742)	(3,905,982)	(4,216,000)	(4,892,173)
Operating Appropriations							
Tithe Appropriations Received	8,636,721	0	8,636,721	0	8,636,721	8,625,000	8,204,885
Tithe Appropriations Disbursed	(5,510,223)	0	(5,510,223)	0	(5,510,223)	(4,850,000)	(3,572,250)
Non-tithe Approp. Received	0	1,524,127	1,524,127	0	1,524,127	1,500,000	1,447,925
Non-tithe Approp. Disbursed	0	(978,667)	(978,667)	0	(978,667)	(875,000)	(629,391)
Exch. Gain (Loss) Approp.	0	0	0	26,775	26,775	0	(1,009)
Net Appropriations Retained	3,126,498	545,460	3,671,958	26,775	3,698,733	4,400,000	5,450,160
Incr. (Decr.) after Approp.	(39,206)	271,924	232,718	(439,967)	(207,249)	(490,900)	557,987
CAPITAL ACTIVITY							
Capital Approp. Received	0	19,991	19,991	0	19,991	19,991	265,000
Capital Approp. Disbursed	0	(200,000)	(200,000)	0	(200,000)	260,000	0
Capital Increase (Decrease)	0	(180,009)	(180,009)	0	(180,009)	(240,009)	265,000
Incr. (Decr.) before Transfers	(39,206)	91,915	52,709	(439,967)	(387,258)	250,891	822,987
TRANSFERS							
From Unallocated to Allocated	(200,000)	(173,288)	(373,288)	373,288	0	0	0
From Allocated to Unallocated	0	657,292	657,292	(657,292)	0	0	0
From Non-tithe to Unexp Plant	0	(180,009)	(180,009)	0	(180,009)	168,000	(200,000)
Net Transfers In (Out)	(200,000)	303,995	103,995	(284,004)	(180,009)	(168,000)	(200,000)
Increase (Decrease) for Year	(239,206)	395,910	156,704	(723,971)	(567,267)	82,891	622,987
Net Assets, 1 January	3,280,762	3,067,025	6,347,787	8,522,900	14,870,687	14,870,687	14,247,700
Net Assets, 31 December	3,041,556	3,462,935	6,504,491	7,798,929	14,303,420	14,953,578	14,870,687

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17A.05** (9)
Notes to the Financial Statements (International Model)
Years Ended 31 December 20X1 and 20X0

Note 19 - Compensation of Administrative Personnel

Total employee-related expense is reported in the Statement of Financial Activity at FCU 6,409,558 and 6,867,214 for the years 20X1 and 20X0, respectively. Included in those totals are amounts for administrative officers, vice-presidents, and members of the governing committee who are employees, which as a group totaled FCU 1,858,772 and 1,922,820 for 20X1 and 20X0, respectively. (See Note 5 for receivables from this group.)

Note 20 - Pension and Other Post-retirement Benefits

Defined Benefit Retirement Plan

The [*identifier*] participates in a non-contributory defined benefit retirement plan known as the [*name of the plan or fund*] (DB Plan). The DB Plan, which covers substantially all employees of the [*identifier*], is administered by the Division. Contributions to the Plan are made by participating employers located within the Division territory. Employees do not contribute to the Plan. The required contributions from the [*identifier*] to the DB Plan (for retiree pension, health care, and other benefits) were FCU 250,207 and 278,008 for the years ended 31 December 20X1 and 20X0, respectively. The DB Plan and the Division together determine the amount of contributions that are required each year from the participating employers, and this amount may increase in the future.

> [*For entities whose retirement plan has not obtained an actuarial valuation that establishes a proportionate liability amount for each participating employer, use the following paragraph.*]

This DB Plan is defined as a "multiemployer" plan. The DB Plan has concluded that it is not reasonably possible to determine the actuarial present value of accumulated benefits or plan net assets for employees of the [*identifier*] apart from other plan participants. [*If the Plan has obtained an actuarial evaluation, even if it was obtained in an earlier period, add the following*: However, based on the latest actuarial evaluation of the DB Plan, as of [*date of last actuarial report*], the actuarially computed value of accumulated plan benefits exceeded the estimated market value of plan assets, for the plan as a whole.] [*If an actuarial evaluation has never been obtained, add the following*: No actuarial evaluation has been obtained for the DB Plan as a whole.]

> [*For entities whose retirement plan has determined an actuarial valuation that established a proportionate liability amount for each participating employer, use the following paragraph.*]

This DB Plan is defined as a "multiemployer" plan. Based on the latest actuarial evaluation of the DB Plan, as of [*date of last actuarial report*], the actuarially computed value of accumulated plan benefits exceeded the estimated market value of plan assets. The [*identifier's*] proportionate share of the unfunded obligation was determined to be FCU XXX,XXX, which is reported as a noncurrent liability in the Statement of Financial Position.

> [*If the reporting entity is located in a territory that has frozen its defined benefit retirement plan and started a defined contribution retirement plan, include the following paragraph.*]

During 20XX, the Division Executive Committee voted to freeze accrual of service credit in this DB Plan effective 31 December 20X0, except for employees who stated their intent to retire before 1 January 20X5, and to start a new defined contribution pension plan effective 1 January 20X1. The [*identifier*] is scheduled to continue making contributions to this frozen DB Plan after 31 December 20X0. Certain employees will continue to be eligible for future benefits under this DB Plan.

Defined Contribution Retirement Plan [*use this section for entities that participate in DC plans*]

Beginning 1 January 20X1, the [*identifier*] participates in a defined contribution retirement plan known as the [*name of the plan*] (DC Plan). The DC Plan, which covers substantially all employees of the [*identifier*], is governed by a plan document developed by the Division, in coordination with the entities in its territory. This DC Plan is defined as a "multiemployer" plan. Contributions to the DC Plan are made by participating employers located within the Division territory, and voluntary contributions may be made by eligible employees.

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17A.05** (10)
Notes to the Financial Statements (International Model)
Years Ended 31 December 20X1 and 20X0

Note 20 - Pension and Other Post-retirement Benefits (continued)

Defined Contribution Retirement Plan [*continued*]

The [*identifier*] contributed FCU 180,705 to the DC Plan for the year ended 31 December 20X1, based on a stated percentage of each employee's earnings and a matching percentage of certain employee voluntary contributions. Administration of the accumulated contributions designated for the future benefit of each employee is provided under an agreement between the Division, Union Conferences, and Missions and a record-keeping organization, [*name of record-keeping investment management organization, with (identifier)*]. (*Identifier of record-keeper*) receives all contributions, and invests them in accordance with portfolio profiles selected by each employee.

Note 21 - Concentrations of Risk (*use and adapt the following paragraphs as appropriate for each entity*)

The [*identifier*]'s assets include FCU 4,577,755 of loans receivable from affiliated organizations. These loans represent 14% of the [*identifier*]'s total assets. Management's estimate of the collectability of these loans could be subject to the risk that economic conditions could diminish the ability of the debtors to pay amounts due.

The [*identifier*] maintains its cash accounts primarily in banks that operate in the territory of [*names of countries, states, or provinces*]. The total cash balances are insured by government agencies up to FCU [*amount*] per bank. The [*identifier*] held cash balances on deposit with [*number*] banks at [*financial statement date*], which exceeded the balance insured by the government by [*excess amount*].

Note 22 - Denominational Working Capital & Liquidity	20X1	20X0
Working Capital:		
Current Assets	24,018,581	20,243,606
Current Liabilities	(8,852,959)	(5,781,746)
Actual Working Capital	15,165,622	14,461,860
Working Capital Recommended by Policy *		
30% of Operating Expense	3,329,608	3,572,010
Allocated Net Assets	7,798,929	8,522,900
Recommended Working Capital	11,128,537	12,094,910
Excess (Deficiency) of Actual over Recommended	4,037,085	2,366,950
Percentage of Actual to Recommended Working Capital	136%	120%
Liquidity:		
Cash and Cash Equivalents	1,702,642	1,599,670
Cash Held for Agency	546,956	672,581
Investments	8,571,777	5,840,869
Receivable From Higher Organization	7,241,969	8,000,741
Total Liquid Assets	17,950,228	16,113,861
Current Liabilities	(8,852,959)	(5,781,746)
Allocated Net Assets	(7,798,929)	(8,522,900)
Total Commitments	(16,651,888)	(14,304,646)
Net Liquid Assets	1,298,340	1,809,215
Percentage of Liquid Assets to Commitments	108%	113%

* *Refer to GC and Division Working Policy for recommended working capital by type of entity.*

Appendix 17B

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS

Illustrative Operating Fund Financial Report (International Model)

31 December 20X1 and 20X0

(To be used by Divisions, Union Conferences/Missions, and Local Conferences/Fields)

This report for a single fund is intended for management use only.
It is not intended to be a complete financial statement for the organization as a whole.

The reporting currency is the [*name of local currency*]

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17B.01**
Operating Fund Report of Financial Position (International Model)
31 December 20X1 and 20X0

	Supporting	Operating Fund	
ASSETS	Schedule	20X1	20X0
Current Assets			
Cash and Cash Equivalents	S-1	1,702,642	1,599,670
Investments	S-2	8,571,777	5,840,869
Accounts Receivable, net	S-3	9,069,178	8,042,572
Cash Held for Agency	S-1	546,956	672,581
Loans Receivable - Current Portion	S-4	886,033	750,000
Supplies and Prepaid Expense	S-5	241,995	337,914
Total Current Assets		21,018,581	17,243,606
Other Assets			
Due From Plant Fund		2,000	0
Restricted Currency Receivable	S-10	180,000	86,000
Loans Receivable - Noncurrent	S-4	4,276,542	5,803,827
Miscellaneous Other Assets	S-6	0	0
Total Other Assets		4,458,542	5,889,827
Total Assets		25,477,123	23,133,433
LIABILITIES			
Current Liabilities			
Accounts Payable	S-7	955,057	820,057
Offering and Agency Accounts	S-8	7,200,452	4,526,233
Loans Payable - Current Portion	S-9	697,450	435,456
Total Current Liabilities		8,852,959	5,781,746
Other Liabilities			
Due to Plant Fund		0	20,000
Restricted Currency Payable	S-10	180,000	86,000
Loans Payable - Noncurrent	S-9	2,140,744	2,375,000
Miscellaneous Other Liabilities	S-12	0	0
Total Other Liabilities		2,320,744	2,481,000
Total Liabilities		11,173,703	8,262,746
NET ASSETS			
Unallocated Tithe Fund		3,041,556	3,280,762
Unallocated Non-tithe Fund		3,462,935	3,067,025
Allocated Funds		7,798,929	8,522,900
Total Net Assets		14,303,420	14,870,687
Total Liabilities & Net Assets		25,477,123	23,133,433

This report is intended for management use only.
This is not intended to be a complete financial statement for the organization as a whole.

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17B.02**
Operating Fund Report of Financial Activity (International Model)
Years Ended 31 December 20X1 and 20X0

		Unallocated Funds			Allocated	Total	Budget	Total
OPERATING ACTIVITY		Tithe	Non-tithe	Total	Funds	20X1	20X1	20X0
Earned Income								
Tithe	S-15	5,874,785	0	5,874,785	0	5,874,785	5,556,000	5,560,152
Specific Donations	S-16	0	0	0	97,961	97,961	0	702,521
Investment Income	S-2	0	845,186	845,186	0	845,186	840,000	557,384
Exchange Gain (Loss)		0	0	0	3,297	3,297	0	(18,741)
Other Oper. Income	S-17	0	191,472	191,472	0	191,472	200,000	21,507
Tithe/Non-tithe Exchange		202,491	(202,491)	0	0	0	0	0
Total Earned Income		6,077,276	834,167	6,911,443	101,258	7,012,701	6,596,000	6,822,823
Operating Expenses								
Employee-related Exp.	S-18	6,381,558	0	6,381,558	28,000	6,409,558	6,492,000	6,867,214
Admin. & General Exp.	S-19	1,535,913	649,518	2,185,431	25,000	2,210,431	2,200,500	2,544,040
Departmental Expense	S-20	846,228	350,482	1,196,710	0	1,196,710	1,151,500	1,136,418
Other Oper. Expense	S-21	479,281	107,703	586,984	515,000	1,101,984	968,000	1,167,324
Total Operating Expense		9,242,980	1,107,703	10,350,683	568,000	10,918,683	10,812,000	11,714,996
Incr. (Decr.) before Approp.		(3,165,704)	(273,536)	(3,439,240)	(466,742)	(3,905,982)	(4,216,000)	(4,892,173)
Operating Appropriations								
Tithe App. Received	S-22	8,636,721	0	8,636,721	0	8,636,721	8,625,000	8,204,885
Tithe App. Disbursed	S-23	(5,510,223)	0	(5,510,223)	0	(5,510,223)	(4,850,000)	(3,572,250)
Non-tithe App. Received	S-24	0	1,524,127	1,524,127	0	1,524,127	1,500,000	1,447,925
Non-tithe App. Disb.	S-25	0	(978,667)	(978,667)	0	(978,667)	(875,000)	(629,391)
Exchange Gain (Loss)		0	0	0	26,775	26,775	0	(1,009)
Net Appropriations Retained		3,126,498	545,460	3,671,958	26,775	3,698,733	4,400,000	5,450,160
Incr. (Decr.) after Approp.		(39,206)	271,924	232,718	(439,967)	(207,249)	(490,900)	557,987
CAPITAL ACTIVITY								
Capital App. Received	S-26	0	19,991	19,991	0	19,991	19,991	265,000
Capital App. Disbursed	S-27	0	(200,000)	(200,000)	0	(200,000)	260,000	0
Capital Increase (Decrease)		0	(180,009)	(180,009)	0	(180,009)	(240,009)	265,000
Incr. (Decr.) before Transfers		(39,206)	91,915	52,709	(439,967)	(387,258)	250,891	822,987
TRANSFERS								
Unallocated to Allocated		(200,000)	(173,288)	(373,288)	373,288	0	0	0
Allocated to Unallocated		0	657,292	657,292	(657,292)	0	0	0
Non-tithe to Unexpended Plant		0	(180,009)	(180,009)	0	(180,009)	168,000	(200,000)
Net Transfers In (Out)		(200,000)	303,995	103,995	(284,004)	(180,009)	(168,000)	(200,000)
Increase (Decrease) for Year		(239,206)	395,910	156,704	(723,971)	(567,267)	82,891	622,987
Net Assets, 1 January		3,280,762	3,067,025	6,347,787	8,522,900	14,870,687	14,870,687	14,247,700
Net Assets, 31 December		3,041,556	3,462,935	6,504,491	7,798,929	14,303,420	14,953,578	14,870,687

This report is intended for management use only.
This is not intended to be a complete financial statement for the organization as a whole.

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17B.03** (1)
Operating Fund Report of Changes in Net Assets (International Model)
Year Ended 31 December 20X1

	Balance			Transfers From (To)		Balance
	31-12-20X0	Income	Expense	Unalloc. & Alloc.	Operating & Plant	31-12-20X1
OPERATING FUND:						
Unallocated						
Tithe	3,280,762	9,203,774	9,242,980	(200,000)	0	3,041,556
Non-tithe	3,067,025	1,399,618	1,307,703	484,004	(180,009)	3,462,935
Total Unallocated	6,347,787	10,603,392	10,550,683	284,004	(180,009)	6,504,491
Allocated						
(Tithe-allowable Functions)						
Constituency Session	1,004,342	0	20,000	0	0	984,342
Evangelism - Big Cities	772,895	9,260	105,000	5,000	0	682,155
Evangelism - Rural Areas	632,368	8,701	140,000	5,000	0	506,069
Extended Inter-union Service	285,517	0	10,000	0	0	275,517
Health Outreach	808,299	25,000	60,000	25,000	0	798,299
Leadership Training	706,944	20,000	18,000	0	0	708,944
(Non-tithe-related Functions)						
Contingency	2,214,795	0	0	(297,120)	0	1,917,675
Exchange Fluctuation	927,602	30,072	0	(100,000)	0	857,674
Global Mission	553,699	0	195,000	0	0	358,699
Ingathering Reversion	0	35,000	0	(35,000)	0	0
Insurance	191,237	0	15,000	0	0	176,237
Religious Liberty	425,202	0	5,000	0	0	420,202
Securities Fluctuation	0	0	0	113,116	0	113,116
Total Allocated	8,522,900	128,033	568,000	(284,004)	0	7,798,929
Total Operating Fund	14,870,687	10,731,425	11,118,683	0	(180,009)	14,303,420

This report is intended for management use only.
This is not intended to be a complete financial statement for the organization as a whole.

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17B.03** (2)
Operating Fund Report of Changes in Net Assets (International Model)
Year Ended 31 December 20X0

	Balance 31-12-19X9	Income	Expense	Transfers From (To) Unalloc. & Alloc.	Transfers From (To) Operating & Plant	Balance 31-12-20X0
OPERATING FUND:						
Unallocated						
Tithe	2,926,671	10,192,787	9,738,696	(100,000)		3,280,762
Non-tithe	2,982,437	1,662,425	1,377,837		(200,000)	3,067,025
Total Unallocated	5,909,108	11,855,212	11,116,533	(100,000)	(200,000)	6,347,787
Allocated						
(Tithe-allowable Functions)						
Constituency Session	1,112,947		108,605			1,004,342
Evangelism - Big Cities	668,187	200,000	95,292			772,895
Evangelism - Rural Areas	510,334	200,000	77,966			632,368
Extended Inter-union Service	285,517					285,517
Health Outreach	768,299			40,000		808,299
Leadership Training	728,638		121,694	100,000		706,944
(Non-tithe-related Functions)						
Contingency	2,289,795			(75,000)		2,214,795
Exchange Fluctuation	946,343	(18,741)				927,602
Global Mission	478,699	250,000	175,000			553,699
Ingathering Reversion	0	40,000		(40,000)		0
Insurance	131,143		14,906	75,000		191,237
Religious Liberty	418,690	11,512	5,000			425,202
Securities Fluctuation						0
Total Allocated	8,338,592	682,771	598,463	100,000	0	8,522,900
Total Operating Fund	14,247,700	12,537,983	11,714,996	0	(200,000)	14,870,687

This report is intended for management use only.
This is not intended to be a complete financial statement for the organization as a whole.

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17B.04**
Operating Fund Report of Cash Flows (International Model)
Years Ended 31 December 20X1 and 20X0

	Operating Fund	
	20X1	20X0
Cash Flows from Operating Activities:		
Net Increase from Financial Activity	(567,267)	622,987
Adjustments to reconcile change in net assets to net cash provided:		
Unrealized (Gain) Loss on Investments	(133,971)	20,855
Total Exchange (Gain) Loss	(30,072)	19,750
(Increase) Decrease - Accounts Receivable	(1,139,722)	569,861
(Increase) Decrease - Supplies & Prepaid	95,919	(55,903)
Increase (Decrease) - Accounts Payable	135,000	74,323
Increase (Decrease) - Agency Funds (net)	2,799,844	(1,437,109)
Net Cash Provided (Used) from Operating	1,159,731	(185,236)
Cash Flows from Investing Activities:		
Proceeds from Maturity of Investments	316,179	52,739
Purchase of Investments	(2,800,000)	(250,000)
Payments Received on Notes Receivable	1,641,252	750,000
New Notes Receivable Issued	(250,000)	(3,000,000)
Net Cash Provided (Used) from Investing	(1,092,569)	(2,447,261)
Cash Flows from Financing Activities:		
Proceeds from Borrowing New Debt	500,000	3,500,000
Payments Made on Long-term Debt	(472,262)	(435,456)
Proceeds (Payments) on Inter-fund Borrowing	(22,000)	0
Net Cash Provided (Used) from Financing	5,738	3,064,544
Exchange Gain (Loss) on Cash Held in Other Currency	30,072	(19,750)
Net Increase (Decrease) for the Year	102,972	412,297
Cash, Beginning of Year	1,599,670	1,187,373
Cash, End of Year	1,702,642	1,599,670

Supplemental information: cash paid for interest on long-term debt: 305,595.

This report is intended for management use only.
This is not intended to be a complete financial statement for the organization as a whole.

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17B.05** (1)
Operating Fund - Supporting Schedules (International Model)
Years Ended 31 December 20X1 and 20X0

Organizational Structure and Basis of Presentation

The [*insert the name of the reporting entity, with an acronym as an identifier, for example: Sample Union Conference of Seventh-day Adventists (SUC)*] is an administrative entity of the world-wide Seventh-day Adventist Church. SUC coordinates the operation of all denominational activities within the [*identify the entity's geographic territory, as it is listed in the SDA Yearbook*], comprising the [*identify the applicable denominational entities, as they are listed in the SDA Yearbook*]. Most of SUC's financial activity consists of transactions with other denominational entities, such as: General Conference of Seventh-day Adventists, [*insert name*] Division, and the various conferences, missions, and fields within its assigned geographic territory.

This report is intended for management use only, as a presentation of the balances and activity related to only the operating fund. This is not intended to be a complete financial statement for the organization as a whole.

Operating Fund - Includes all income, expenses, other transactions, and related assets and liabilities involving SUC's operations, except transactions of the Plant [and Retirement] fund[s]. Financial activity is sub-divided for presentation into tithe, non-tithe, and allocated funds.

Accounting Method - The accounting records are maintained, in all material respects, on the accrual method of accounting at historical cost. [*Add the following sentence only in situations where the reporting entity operates in an environment of limited communication technology and has adopted a modified remittance cutoff date.*] Because of difficulty in postal communication with remote areas, the monthly reports of tithes and offerings are cut-off for fiscal year accounting at [*indicate the cutoff date, such as 30 November or 31 October*].

Currency - The financial statements and notes thereto are presented in [*identify the functional currency and the recognized standard currency acronym or symbol as an identifier; for example: Functional Currency Units (FCU)*], which is the functional currency of SUC. The accounting records involving transactions with other countries are maintained in dual currencies: FCU and the applicable local currency. In accordance with policies of the Seventh-day Adventist denomination, the various local currencies are converted into FCU at fixed rates of exchange, which are set each month by the [*name*] Division, and are intended to approximate current market exchange rates. For comparison, the fixed rate of exchange with the US dollar was FCU 225 at 31 December 20X1 and FCU 208 at 31 December 20X0.

Supporting Schedules

S-1 - Cash and Cash Equivalents	20X1	20X0
Imprest / Petty Cash	3,000	2,500
[*name*] Bank - Operating Checking Account	209,066	164,925
[*name*] Bank - Payroll Checking Account	18,293	21,839
[*name*] Bank - Savings Account, 1% interest	12,498	10,983
[*name*] Bank - 3 month CD, 2% interest, due 15-2-20X1	0	500,000
[*name*] Bank - 3 month CD, 1.5% interest, due 15-2-20X2	200,000	0
[*name*] Bank - 3 month CD, 1.75% interest, due 15-3-20X2	300,000	0
General Conference Money Fund	1,506,741	1,572,004
Less Cash Held for Agency	(546,956)	(672,581)
Total Cash and Cash Equivalents	1,702,642	1,599,670

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17B.05** (2)
Operating Fund - Supporting Schedules (International Model)
Years Ended 31 December 20X1 and 20X0

S-2 - Investments

31 December 20X1	Cost	Fair Value	Unrealized Appreciation (Decline)
GC Unitized Bond Fund	2,800,000	3,000,708	200,708
GC Unitized Income Fund	1,000,000	1,000,962	962
GC Unitized International Fund	3,208,661	3,004,081	(204,580)
GC Unitized Investment Fund	800,000	892,200	92,200
Bank-managed Bond Fund	650,000	673,826	23,826
Total Investments, 31 December 20X1	8,458,661	8,571,777	113,116
31 December 20X0			
GC Unitized Income Fund	1,000,000	1,000,246	246
GC Unitized International Fund	3,211,724	3,191,416	(20,308)
GC Unitized Investment Fund	1,000,000	1,000,967	967
Bank-managed Bond Fund	650,000	648,240	(1,760)
Total Investments, 31 December 20X0	5,861,724	5,840,869	(20,855)

Summary of Investment Return	20X1	20X0
Interest & Dividends from Investments	479,626	296,708
Net Realized Gain (Loss) on Sale of Investments	119,109	167,918
Net Unrealized Gain (Loss) in Value of Investments	133,971	(20,855)
Net Gain (Loss) on Investments	253,080	147,063
Total Income from Investments Excluding Cash	732,706	443,771
Interest Earned on Cash & Cash Equivalents	112,480	113,613
Total Investment Income	845,186	557,384

S-3 - Accounts Receivable	20X1	20X0
[*name*] Division [*Name of next higher denominational entity*]	4,241,969	5,000,741
[*name 1*] Local Conference/Mission	1,997,776	1,110,474
[*name 2*] Local Conference/Mission	1,641,805	863,702
[*name*] College or University	938,174	493,543
SDA Entities Within SUC [*identifier of reporting entity*] Territory	4,577,755	2,467,719
[*name of other SDA entity, such as another Division*]	200,210	470,842
[*name of employee*]	29,280	33,897
[*name of employee*]	15,764	28,062
[*name of employee*]	0	27,661
Employees - current accounts	45,044	89,620
General Accounts	18,200	13,650
Total Accounts Receivable	9,083,178	8,042,572
Allowance for Uncollectible Accounts	(14,000)	0
Net Accounts Receivable	9,069,178	8,042,572

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17B.05** (3)
Operating Fund - Supporting Schedules (International Model)
Years Ended 31 December 20X1 and 20X0

S-4 - Loans Receivable	20X1	20X0
[*name of entity*], secured loan, 5% interest, payments due monthly	931,293	1,340,008
[*name of entity*], secured loan, 5.5% interest, payments due monthly	814,882	1,176,593
[*name of entity*], secured loan, 6% interest, payments due monthly	582,058	751,712
Affiliated SDA Entities	2,328,233	3,268,313
[*name*], secured housing loan, 6% interest, payments due monthly	837,389	957,014
[*name*], secured housing loan, 6.5% interest, payments due monthly	863,558	986,921
[*name*], secured housing loan, 7% interest, payments due monthly	915,895	1,046,735
Employees Housing Loans	2,616,842	2,990,670
[*name*], unsecured car loan, 8% interest, payments due monthly	63,045	86,060
[*name*], unsecured car loan, 10% interest, payments due monthly	77,055	105,184
Employees Car Loans	140,100	191,244
[*name*], unsecured education loan, 6% interest, amortized monthly	32,580	43,470
[*name*], unsecured education loan, 7% interest, amortized monthly	39,820	53,130
Employees Education Loans	72,400	96,600
Other Loans, Secured, 8 to 10% interest, due on demand	15,000	32,000
Total Loans Receivable	5,172,575	6,578,827
Allowance for Uncollectible Loans	(10,000)	(25,000)
Net Loans Receivable	5,162,575	6,553,827
Current Portion - Due Within One Year	(886,033)	(750,000)
Long-term Portion	4,276,542	5,803,827

S-5 - Supplies and Prepaid Expense	20X1	20X0
Ministerial Department Materials for Sale	81,898	98,061
Youth Department Materials for Sale	100,097	119,853
Prepaid Expense - Paper and Office Supplies	22,800	52,340
Prepaid Insurance	37,200	67,660
Total Supplies & Prepaid Expense	241,995	337,914

S-7 - Accounts Payable	20X1	20X0
Commercial Accounts - various vendors	49,204	11,763
[*name*] Division [*Name of next higher denominational entity*]	15,707	10,022
[*name*] Local Conference/Mission	395,240	380,338
[*name*] College or University	483,071	412,033
Other Denominational Entities	8,621	3,713
Employees - current accounts	3,214	2,188
Total Accounts Payable	955,057	820,057

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17B.05** (4)
Operating Fund - Supporting Schedules (International Model)
Years Ended 31 December 20X1 and 20X0

S-8 - Offering Funds and Agency Accounts

	Balance 31-12-20X0	Additions	Withdrawals	Balance 31-12-20X1
World Missions				
Specific Mission Offerings	0	349,467	349,467	0
Sabbath School - 12 Sabbaths	0	621,354	620,598	756
Sabbath School - 13th Sabbath	6,215	329,168	326,718	8,665
Total World Missions	6,215	1,299,989	1,296,783	9,421
Miscellaneous Offerings				
Adventist World Radio	0	51,777	48,982	2,795
Disaster & Famine Relief	59,892	62,951	106,109	16,734
Ingathering Program	629	73,331	71,565	2,395
World Evangelism	0	70,904	50,856	20,048
Total Misc Offerings	60,521	258,963	277,512	41,972
General Agency				
Lay Evangelism	357,682	3,000	131,394	229,288
Publishing Development	248,163	67,570	49,458	266,275
Total General Agency	605,845	70,570	180,852	495,563
Depositor Accounts				
[*Name*] Memorial Fund	671,622	1,029,624	50,000	1,651,246
[*Name*] Scholarship Fund	1,422,015	491,243	110,000	1,803,258
[*Name 1*] Church Building Fund	46,912	750,000	12,750	784,162
[*Name 2*] Church Building Fund	524,779	417,718	0	942,497
[*Name 3*] School Building Fund	1,188,324	500,000	215,991	1,472,333
Total Depositor Accounts	3,853,652	3,188,585	388,741	6,653,496
Total Offering & Agency Funds	4,526,233	4,818,107	2,143,888	7,200,452

S-9 - Loans Payable

	20X1	20X0
[*Name*] Division, Unsecured, 5% interest, payments due quarterly	1,618,014	1,154,820
Security Bank, Unsecured, 6% interest, payments due monthly	1,220,180	1,655,636
Total Loans Payable	2,838,194	2,810,456
Current Portion - Amount Due Within One Year	(697,450)	(435,456)
Long-term Portion	2,140,744	2,375,000

Amounts due on principal in each of the next five years are:
20X2: 697,450; 20X3: 647,911; 20X4: 587,662; 20X5: 529,539; and 20X6: 375,632.

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17B.05** (5)
Operating Fund - Supporting Schedules (International Model)
Years Ended 31 December 20X1 and 20X0

S-10 - Restricted Currency Remittances Receivable and Payable

	20X1	20X0
Restricted Currency Remittances Receivable From Local Conference	265,000	125,000
Union Portion of Restricted Currency Receivable	(85,000)	(39,000)
Restricted Currency Receivable for Benefit of Division and GC	180,000	86,000
Restricted Currency Remittances Payable To Division and GC	(180,000)	(86,000)

These funds are subject to currency exchange restrictions of the country in which they are held. The extent and timing of withdrawal of these funds for their intended use can not be determined. Therefore, the asset and liability are classified as noncurrent.

S-11 - Denominational Working Capital & Liquidity - Operating Fund Only

	20X1	20X0
Working Capital:		
Current Assets	24,018,581	20,243,606
Current Liabilities	(8,852,959)	(5,781,746)
Actual Working Capital *	15,165,622	14,461,860
Working Capital Recommended by Policy **		
30% of Operating Expense	3,275,605	3,520,121
Allocated Net Assets	7,798,929	8,522,900
Recommended Working Capital	11,074,534	12,043,021
Excess (Deficiency) of Actual over Recommended	4,091,088	2,418,839
Percentage of Actual to Recommended Working Capital	137%	120%
Liquidity:		
Cash and Cash Equivalents	1,702,642	1,599,670
Cash Held for Agency	546,956	672,581
Investments	8,458,661	5,840,869
Receivable From Higher Organization	7,241,969	8,000,741
Total Liquid Assets	17,950,228	16,113,861
Current Liabilities	(8,852,959)	(5,781,746)
Allocated Net Assets	(7,798,929)	(8,522,900)
Total Commitments	(16,651,888)	(14,304,646)
Net Liquid Assets	1,298,340	1,809,215
Percentage of Liquid Assets to Commitments	108%	113%

* *Inter-fund receivable and payable balances have been eliminated in the calculation of actual working capital.*

** *Refer to GC and Division Working Policy for recommended working capital by type of entity.*

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17B.05** (6)
Operating Fund - Supporting Schedules (International Model)
Years Ended 31 December 20X1 and 20X0

S-15 Tithe Income	Unallocated Tithe	Unallocated Non-tithe	Allocated Funds	Total 20X1	Budget 20X1	Total 20X0
[*Name*] Conference / Mission	2,026,799			2,026,799	1,900,151	1,901,572
[*Name*] Conference / Mission	1,674,314			1,674,314	1,583,460	1,584,643
[*Name*] Conference / Mission	1,321,827			1,321,827	1,250,102	1,251,036
[*Name*] Conference / Mission	1,938,680			1,938,680	1,833,479	1,834,849
[*Name*] Conference / Mission	1,850,558			1,850,558	1,766,808	1,768,128
Total Tithe Received	8,812,178			8,812,178	8,334,000	8,340,228
Passed On To General Conference	(1,174,957)			(1,174,957)	(1,111,200)	(1,112,030)
Passed On To [*Name*] Division	(1,762,436)			(1,762,436)	(1,666,800)	(1,668,046)
Net Tithe Income	5,874,785	0	0	5,874,785	5,556,000	5,560,152
S-16 Specific Donations						
One-Offering Plan Received			324,997	324,997	300,000	311,876
One-Offering Plan Passed On			(227,499)	(227,499)	(200,000)	(218,315)
One-Offering Plan Retained			97,498	97,498	100,000	93,561
Donations for Evangelism			463	463	0	608,960
Net Specific Donations	0	0	97,961	97,961	100,000	702,521
S-17 Other Operating Income						
Fees Received for Services		105,310		105,310	110,000	5,002
Sales of Materials		86,162		86,162	90,000	16,505
Total Other Operating Income	0	191,472	0	191,472	200,000	21,507
S-18 Employee-Related Expense						
Salaries and Wages	3,509,857		10,000	3,519,857	3,570,600	3,934,208
Housing Allowances	986,333			986,333	1,003,400	1,029,257
Health-care Benefits	765,787			765,787	779,040	751,287
Education Allowances	293,552			293,552	298,630	306,327
Travel Reimbursements	462,663		18,000	480,663	470,670	453,376
Payroll Taxes to Governments	187,873			187,873	191,130	196,049
Retirement Contribution to DC Plan	175,493			175,493	178,530	196,710
Total Employee-related Expense	6,381,558	0	28,000	6,409,558	6,492,000	6,867,214
Portion of Total Expense For Officers and Vice-Presidents	1,858,772	0	0	1,858,772	1,817,760	1,922,820
S-19 Admin. & General Expense						
Information Systems	322,965	306,721		629,686	626,900	895,777
Meetings	173,904		20,000	193,904	172,790	204,585
Office Supplies & Expense	211,170		5,000	216,170	209,810	229,854
Telecommunications	298,122	320,902		619,024	678,700	712,450
Utilities	236,013	21,895		257,908	234,500	223,366
Retirement Contribution to DB Plan	293,739			293,739	277,800	278,008
Total Admin. & General Expense	1,535,913	649,518	25,000	2,210,431	2,200,500	2,544,040

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17B.05** (7)
Operating Fund - Supporting Schedules (International Model)
Years Ended 31 December 20X1 and 20X0

	Unallocated Tithe	Unallocated Non-tithe	Allocated Funds	Total 20X1	Budget 20X1	Total 20X0
S-20 Departmental Expense						
Communication	152,321	167,204		319,525	262,700	303,426
Education	253,868			253,868	252,000	241,078
Literature Ministry	211,557	183,278		394,835	410,000	374,943
Pastoral Ministries	228,482			228,482	226,800	216,971
Total Departmental Expense	846,228	350,482	0	1,196,710	1,151,500	1,136,418
S-21 Other Operating Expense						
Building Repair & Maintenance		107,703		107,703	76,000	151,087
Equipment Repair & Maintenance	196,863			196,863	100,000	204,763
Insurance	98,206		15,000	113,206	112,000	110,224
Security	184,212			184,212	180,000	175,750
Evangelism - Big Cities			105,000	105,000	105,000	100,000
Evangelism - Rural Areas			140,000	140,000	140,000	130,000
Global Mission Projects			195,000	195,000	195,000	200,500
Health Outreach			60,000	60,000	60,000	95,000
Total Other Operating Expense	479,281	107,703	515,000	1,101,984	968,000	1,167,324
S-22 Tithe Approp. Received						
Regular Tithe Appropriation	6,477,541			6,477,541	6,468,750	6,153,664
Special Tithe Appropriation	2,159,180			2,159,180	2,156,250	2,051,221
Total Tithe Approp. Received	8,636,721	0	0	8,636,721	8,625,000	8,204,885
S-23 Tithe Approp. Disbursed						
[*Name*] Conference / Mission	1,873,476			1,873,476	1,649,000	1,214,565
[*Name*] Conference / Mission	1,542,862			1,542,862	1,358,000	1,000,230
[*Name*] Conference / Mission	1,432,658			1,432,658	1,261,000	928,785
[*Name*] College or University	661,227			661,227	582,000	428,670
Total Tithe Approp. Disbursed	5,510,223	0	0	5,510,223	4,850,000	3,572,250
S-24 Non-Tithe App. Received						
Regular Non-tithe Appropriation		1,219,302		1,219,302	1,200,000	1,158,340
Special Non-tithe Appropriation		304,825		304,825	300,000	289,585
Total Non-tithe Approp. Received	0	1,524,127	0	1,524,127	1,500,000	1,447,925
S-25 Non-Tithe App. Disbursed						
[*Name*] Conference / Mission		195,733		195,733	175,000	158,607
[*Name*] Conference / Mission		225,093		225,093	201,250	181,264
[*Name*] Conference / Mission		185,947		185,947	166,250	113,291
[*Name*] College or University		371,894		371,894	332,500	176,229
Total Non-tithe App. Disbursed	0	978,667	0	978,667	875,000	629,391

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17B.06**
Operating Fund - Report of Remuneration Expense by Employee (International Model)
Year Ended 31 December 20X1

This report is NOT part of the organization's financial statements and should not be included or presented with the financial statements. This report contains information that is to be provided separately to only the organization's governing committee solely to help them monitor compliance with denominational working policy (GCWP E 70 35). This report should be kept strictly confidential.

Employees	Salaries & Wages	Housing Allowance	Other Benefits	Travel Expense	Ret. Cont. & Taxes	Total 20X1
Administration						
[*name of employee*]	197,112	55,235	59,323	75,704	20,348	407,722
[*name of employee*]	225,271	63,125	67,797	86,519	23,256	465,968
[*name of employee*]	140,794	39,453	42,374	54,075	14,535	291,231
Sub-totals	563,177	157,813	169,494	216,298	58,139	1,164,921
Treasury/Accounting						
[*name of employee*]	369,585	103,565	111,231	25,235	38,154	647,770
[*name of employee*]	422,383	118,360	127,120	28,840	43,603	740,306
[*name of employee*]	263,989	73,975	79,451	18,025	27,253	462,693
Sub-totals	1,055,957	295,900	317,802	72,100	109,010	1,850,769
Departmental						
[*name of employee*]	492,780	138,087	148,307	67,293	50,871	897,338
[*name of employee*]	563,177	157,813	169,494	76,906	58,138	1,025,528
[*name of employee*]	351,986	98,633	105,935	48,066	36,337	640,957
Sub-totals	1,407,943	394,533	423,736	192,265	145,346	2,563,823
Support Services						
[*name of employee*]	172,473	48,330	51,908	0	17,805	290,516
[*name of employee*]	197,112	55,235	59,323	0	20,348	332,018
[*name of employee*]	123,195	34,522	37,076	0	12,718	207,511
Sub-totals	492,780	138,087	148,307	0	50,871	830,045
Total Employee-related Expense for 20X1	3,519,857	986,333	1,059,339	480,663	363,366	6,409,558

Appendix 17C

LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS

and

LOCAL CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS

Combined Financial Statements (USA Small Model)

December 31, 20X1 and 20X0

[*This illustrated financial statement displays a fund accounting presentation for smaller conferences; those that administer relatively few split-interest agreements and hold relatively few agency accounts.*]

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17C.01**
Combined Statement of Financial Position (USA Small Model)
December 31, 20X1 and 20X0

ASSETS	Operating Funds	Plant Fund	20X1 Total	20X0 Total
Current Assets				
Cash & Cash Equivalents (Note 2)	1,179,434	0	1,179,434	579,417
Investments (Note 3)	525,696	0	525,696	540,968
Accounts Receivable, net (Note 4)	425,474	0	425,474	413,720
Cash Held for Agency	56,806		56,806	49,607
Loans Receivable - Current Portion (Note 5)	17,620	0	17,620	15,673
Other Current Assets (Note 6)	16,086	0	16,086	16,833
Total Current Assets	2,221,116	0	2,221,116	1,616,218
Land, Buildings, & Equipment, Net (Note 7)				
For Use by Conference, Net	0	1,405,474	1,405,474	1,057,130
For Use by Affiliated Entities, Net	0	10,881,469	10,881,469	9,940,338
Other Assets				
Loans Receivable, Noncurrent (Note 5)	86,250	0	86,250	51,490
Cash & Investments - Nonoperating (Note 3)	0	552,887	552,887	203,049
Held for Split-interest Agreements (Note 12)	151,007	0	151,007	0
Total Other Assets	237,257	552,887	790,144	254,539
Total Assets	2,458,373	12,839,830	15,298,203	12,868,225
LIABILITIES				
Current Liabilities				
Accounts Payable (Note 9)	273,768	0	273,768	356,107
Loans Payable, Current Portion (Note 10)	60,381	0	60,381	15,909
Agency Accounts	56,806	0	56,806	49,607
Total Current Liabilities	390,955	0	390,955	421,623
Other Liabilities				
Loans Payable, Noncurrent (Note 10)	257,619	188,000	445,619	18,000
Liabilities for Annuity Agreements (Note 12)	75,956	0	75,956	0
Liabilities for Split-interest Agreements (Note 12)	0	0	0	0
Total Other Liabilities	333,575	188,000	521,575	18,000
Total Liabilities	724,530	188,000	912,530	439,623
NET ASSETS				
Unrestricted: Unallocated	289,736	0	289,736	212,315
Unrestricted: Allocated	1,245,837	327,887	1,573,724	1,118,978
Unrestricted: Net Invested Plant, Conference Use	0	1,217,474	1,217,474	1,057,130
Unrestricted: Net Invested Plant, Affiliated Use	0	10,881,469	10,881,469	9,940,338
Total Unrestricted	1,535,573	12,426,830	13,962,403	12,328,761
Temporarily Restricted (Notes 14)	198,270	225,000	423,270	99,841
Permanently Restricted	0	0	0	0
Total Net Assets	1,733,843	12,651,830	14,385,673	12,428,602
Total Liabilities & Net Assets	2,458,373	12,839,830	15,298,203	12,868,225

Inter-fund borrowing is eliminated in the total columns.
The accompanying notes are an integral part of these financial statements.

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17C.02**(1)
Combined Statement of Changes in Net Assets (USA Small Model)
Years ended December 31, 20X1 and 20X0

Changes in Unrestricted Net Assets Unrestricted Revenues and Support:	Operating Funds	Plant Fund	Actual 20X1 Total	Budget 20X1 Total	Actual 20X0 Total
Gross Tithe Income	2,767,767	0	2,767,767	2,565,000	2,700,281
Tithe Percentages Passed On	(853,008)	0	(853,008)	(790,150)	(832,340)
Net Tithe Income	1,914,759	0	1,914,759	1,774,850	1,867,941
Tithe Exchanged with Gen Conf	(200,000)	0	(200,000)	(200,000)	(100,000)
Non-Tithe Funds from Gen Conf	200,000	0	200,000	200,000	100,000
Church Schools Salary Share	373,386	0	373,386	356,000	355,000
Departmental Fees and Sales	89,131	0	89,131	88,000	88,164
Property Rental Income	48,251	0	48,251	38,000	38,747
Investment Income (Note 3)	61,682	0	61,682	60,000	52,004
Deferred Gifts Received *	62,302	0	62,302	0	0
Gift Portion Split-int. Agree. Added *	0	0	0	0	0
Actuarial Adjust. Unrestricted Agree.	0	0	0	0	0
Total Unrestricted Revenues	2,549,511	0	2,549,511	2,316,850	2,401,856
Released from Restrictions (Note 14)	550,850	0	550,850	546,550	433,936
Total Unrestricted Revenues & Support	3,100,361	0	3,100,361	2,863,400	2,835,792
Expenses and Losses:					
Program Services Functions					
Church Ministries	926,101	66,087	992,188	993,700	966,733
Educational	993,439	9,427	1,002,866	973,400	851,778
Publishing	48,320	0	48,320	48,300	46,761
Health & Humanitarian	106,923	1,048	107,971	175,000	121,806
Other	67,045	0	67,045	65,600	64,104
Total Program Services Function	2,141,828	76,562	2,218,390	2,256,000	2,051,182
Supporting Services Function					
Administration-Office Resources	159,051	1,676	160,727	169,000	150,363
Rental Properties & Miscellaneous	37,894	23,873	61,767	60,200	42,973
Retirement Contribution to DB Plan	221,421	0	221,421	205,200	216,022
Total Supporting Services Function	418,366	25,549	443,915	434,400	409,358
Total Expenses and Losses	2,560,194	102,111	2,662,305	2,690,400	2,460,540
Increase (Decrease) from Operations	540,167	(102,111)	438,056	173,000	375,252
Nonoperating Activity					
Nonoperating Investment Income	0	38,189	38,189	0	41,879
Nonoperating Gains (Losses)	0	46,017	46,017	102,000	17,191
Transfers Between Funds	(63,780)	63,780	0	0	0
Released from Restrictions (Note 17)	6,500	164,000	170,500	100,000	0
Increase (Decrease) Before Property Activity	482,887	209,875	692,762	375,000	434,322
Activity For Property Used by Affiliates:					
Donations of Property	0	1,085,000	1,085,000	700,000	0
Gain (Loss) on Sale of Property	0	120,000	120,000	0	0
Depreciation Expense	0	(263,869)	(263,869)	(250,000)	(248,807)
Increase (Decrease) Unrestricted Net Assets	482,887	1,151,006	1,633,893	825,000	185,515

The accompanying notes are an integral part of these financial statements.

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17C.02**(2)
Combined Statement of Changes in Net Assets (USA Small Model)
Years ended December 31, 20X1 and 20X0

Changes in Unrestricted Net Assets	Operating Funds	Plant Fund	Actual 20X1 Total	Budget 20X1 Total	Actual 20X0 Total
Increase (Decrease) Unrestricted Net Assets	482,887	1,151,006	1,633,893	825,000	185,515
Changes in Temporarily Restricted					
Restricted Income:					
Subsidies and Appropriations	109,609	0	109,609	107,500	93,195
Offerings and Donations	314,284	0	314,284	303,050	216,032
Investment Income	1,007	0	1,007	1,000	0
Ingathering Reversion	142,038	0	142,038	130,000	128,341
Restricted Capital Additions	12,202	354,000	366,202	0	0
Deferred Gifts Received *	37,344	0	37,344	30,000	0
Gift Portion Split-int. Agree. Added *	75,000	0	75,000	0	0
Actuarial Adjust. Restricted Agree.	(956)	0	(956)	0	0
Net Gain (Loss) Restricted Invest.	0	0	0	0	0
Restricted Income Received (Note 14)	690,528	354,000	1,044,528	571,550	437,568
Released from Rest. - Oper. (Note 14)	(550,850)	0	(550,850)	(546,550)	(433,936)
Released from Rest. - Cap. (Note 14)	(6,500)	(164,000)	(170,500)	0	0
Inc (Dec) Temporarily Restricted Net Assets	133,178	190,000	323,178	25,000	3,632
Increase (Decrease) in Net Assets	616,065	1,341,006	1,957,071	850,000	189,147
Net Assets, Beginning, Previously Stated	1,117,778	11,310,824	12,428,602	12,428,602	7,958,851
Prior Period Adjustment **	0	0	0	0	4,280,604
Adjusted Net Assets, Beginning of Year	1,117,778	11,310,824	12,428,602	12,428,602	12,239,455
Net Assets, End of Year	1,733,843	12,651,830	14,385,673	13,278,602	12,428,602

The accompanying notes are an integral part of these financial statements.

[* *The objectives of this presentation are to record deferred gifts uniformly, regardless of the extent to which fund accounting is used.*

(A) Deferred gifts that are unrestricted or were only time restricted, regardless of who the trustee is, should be reported as unrestricted operating revenue.

(B) Deferred gifts for which the reporting entity is not the trustee and which are purpose restricted should be reported as temporarily restricted revenue or as permanently restricted revenue, following donor instructions.

(C) Deferred gifts for which the reporting entity is the trustee, which are purpose restricted, and which are held in an annuity or trust should be reported as revenue (gift portion) in TRNA accounts. Then, in the reporting period when the purpose restrictions are met, the amount used should be reported as released from restrictions, like all other temporarily restricted net assets.]

[** *Prior period adjustments are generally related to corrections of accounting errors and adoption of new accounting principles. For this illustration, the adjustment consists of corrections in accounting of $91,459 ($56,459 Operating and $35,000 Plant), and Church and School properties added of $4,189,145; for the total prior period adjustment of $4,280,604.*]

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17C.03**
Combined Statement of Cash Flows (USA Small Model)
Years ended December 31, 20X1 and 20X0

Cash Flows from Operating Activities:	Operating Funds	Plant Fund	20X1 Total	20X0 Total
Increase (Decrease) in Net Assets	616,065	1,341,006	1,957,071	189,147
Prior Period Adjustment	0	0	0	4,280,604
Adjustments to eliminate non-cash items:				
Depreciation Expense	0	365,980	365,980	337,894
(Gain) Loss on Sale of Plant Assets	0	(46,017)	(46,017)	(12,275)
Donations of Property Used by Affiliated Entities	0	(1,205,000)	(1,205,000)	(4,189,145)
Unrealized (Gain) Loss in Value of Investments	15,272	0	15,272	0
Adjustments to reclassify non-operating items:				
Gift Portion New Annuity Agreements (Note 13)	(75,000)	0	(75,000)	0
Annuities Actuarial Adjustment (Note 13)	956	0	956	0
Nonoperating Donations Received	0	(354,000)	(354,000)	0
(Increase) Decrease Accounts Receivable	(11,754)	0	(11,754)	(74,059)
(Increase) Decrease Agency Cash	(7,199)		(7,199)	500
(Increase) Decrease Inventories & Prepaid	747	0	747	(1,614)
Increase (Decrease) Accounts Payable	(82,339)	0	(82,339)	(53,943)
Increase (Decrease) Trust/Agency Accounts	7,199	0	7,199	(500)
Net Cash Provided (Used) from Operating	463,947	101,969	565,916	476,109
Cash Flows from Investing Activities:				
Proceeds from Maturity of Investments	0	0	0	0
Purchase of Investments	(150,000)	(332,852)	(482,852)	(194,234)
Proceeds from Sale of Plant Assets	0	69,469	69,469	750
Purchases of Plant Assets	0	(473,907)	(473,907)	(125,830)
New Loans Receivable Issued	(46,000)	0	(46,000)	0
Payments Received on Loans Receivable	9,293	0	9,293	38,344
Net Cash Provided (Used) from Investing	(186,707)	(737,290)	(923,997)	(280,970)
Cash Flows from Financing Activities:				
Proceeds from External Borrowing	300,000	170,000	470,000	104,374
Principal Payments on Loans Payable	(15,909)	0	(15,909)	(15,909)
Proceeds (Payments) Inter-Fund Borrowing	(111,321)	111,321	0	0
New Gift Agreements Cash Received (Note 15)	150,000	0	150,000	0
Non-operating Investment Income (Note 15)	1,007	0	1,007	0
Payments to Annuitants	(1,000)	0	(1,000)	0
Payments to Income Beneficiaries	0	0	0	0
Matured Gifts Distributed to Other Beneficiaries	0	0	0	0
Donations for Plant Asset Acquisition	0	354,000	354,000	0
Net Cash Provided (Used) from Financing	322,777	635,321	958,098	88,465
Increase (Decrease) Cash and Cash Equivalents	600,017	0	600,017	284,104
Cash and Cash Equivalents, Beginning	579,417	0	579,417	295,313
Cash and Cash Equivalents, Ending	1,179,434	0	1,179,434	579,417

Supplemental Cash Flow Data:
Cash paid during the year for interest (other than for inter-fund borrowing) was $2,862 (from Operating Fund to banks).
Revenue for the year includes non-cash donations received, in the form of church and school properties added, of $1,205,000.

The accompanying notes are an integral part of these financial statements.

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17C.04**(1)
Notes to Combined Financial Statements (USA Small Model)
Years ended December 31, 20X1 and 20X0

Note 1 - Organization Description and Summary of Significant Accounting Policies

Organization Description

Seventh-day Adventist congregations within [*briefly describe the territory*] have formed Local Conference of Seventh-day Adventists (Conference) and Local Conference Association of Seventh-day Adventists (Association). Because the Conference and the Association are commonly controlled, their financial statements are combined (Organization).

The Organization's primary purpose is to spread the gospel of Jesus Christ throughout its territory. The Conference supports the operation of all the churches and schools in its territory, and is a member organization of the Area Union Conference of Seventh-day Adventists. The Association holds legal title to all denominational property located within its territory, and performs certain fiduciary duties. [The Conference also operates Name Adventist Book Center (ABC) as a department. The ABC sells religious literature and related merchandise to constituents and their families.] The Organization receives most of its revenue in the form of contributions from individuals in its constituent congregations. [The ABC receives most of its revenue from the sale of its merchandise.]

The Organization is a religious not-for-profit organization, and is exempt from Federal, State, and Local income taxes under the provisions of Section 501 (c) (3) of the Internal Revenue Code and corresponding sections of applicable state and local codes; except for taxes on Unrelated Business Income as described in Sections 511-514 of the Internal Revenue Code.

Summary of Significant Accounting Policies

(a) The significant accounting policies of the Organization are essentially the same as generally accepted accounting principles for not-for-profit organizations as promulgated by the Financial Accounting Standards Board and the American Institute of Certified Public Accountants. The significant policies are described below to enhance the usefulness of the financial statements. The financial statements of the Organization have been prepared on the accrual basis of accounting. In conformity with the accrual basis of accounting, the Organization has evaluated events that occurred subsequent to the financial statement date, up to [*insert date*], which is the date the financial statements were [*insert either* “issued” *or* “available to be issued” *but not both*].

(b) The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Restricted Resources: The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Components of Unrestricted Activity: Unrestricted activity is separated between operating and non-operating activity. Operating activity is defined as the regular recurring revenue and expense related to the core ministries of the Organization. Other activity, such as transfers between funds, additions and deletions related to church and school properties, and most of the activity of funds other than the operating fund, is classified as non-operating activity.

(d) Plant Assets & Depreciation: Plant assets are recorded at cost when purchased or at fair value at date of gift when donated. Plant assets that cost less than [*amount*] are not capitalized, but are charged to expense. Depreciation of land improvements, buildings, and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation expense is recorded in the Plant Fund, and is distributed among the operating expense reported in the Statement of Changes in Net Assets by the various program and supporting services functions that use those assets.

In its corporate capacity, the Association holds legal title to properties that are used by local congregations and other affiliated entities. The historical cost of these properties, and related accumulated depreciation, is included in the Plant Fund, and the related depreciation expense is recorded as non-operating expense in the Statement of Changes in Net Assets. (Note 7)

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17C.04**(2)
Notes to Combined Financial Statements (USA Small Model)
Years ended December 31, 20X1 and 20X0

Note 1 - Summary of Significant Accounting Policies (continued)

(d) Plant Assets & Depreciation (continued): Uses of operating funds for plant acquisitions and debt service payments are accounted for as committee approved transfers to the Plant Fund. Such transfers include depreciation funding as well as additional movements of resources from operating funds to the plant fund. Restricted proceeds from the sale of assets and restricted income from plant fund investments are recorded as restricted support. Both principal and interest payments made to retire plant fund debt are recorded in the Plant Fund.

(e) Cash and Cash Equivalents: Cash equivalents are highly-liquid assets held for operating purposes, which are readily convertible to cash and have a maturity date of three months or less from date of acquisition. Cash and investments held for purposes other than operating are not classified as cash and cash equivalents. The increase or decrease in non-operating cash and investments is reported in the statement of cash flows as proceeds or purchases of investments.

(f) Fair Value of Financial Instruments: Following are the major methods and assumptions used to estimate fair values:

Short-term financial instruments are valued at their carrying amounts included in the statement of financial position, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This applies to cash, cash equivalents, accounts receivable, and certain current liabilities.

Investment securities are valued at fair value; which is determined by the quoted market price or other reasonably obtainable fair value estimate at the reporting date for those or similar securities. The difference between aggregate fair value and historical cost for each type of security is recorded in a valuation account. The change in the valuation account during each period is recognized as gain or loss.

Loans receivable are valued at the amortized amount receivable at the reporting date. An allowance has been recorded based on an estimate of amounts which are not expected to be collected. Because these loans, by intent and practice, are expected to be held to maturity, the carrying amount approximates the discounted value of future cash flows expected to be received. Because of the difficulty and inherent subjectivity involved in determining fair values, which is not susceptible to independent verification, management has concluded that the amortized face value of loans receivable from related or affiliated entities approximates fair value.

Loans payable are valued at the amortized amount payable as of the reporting date. Because these loans, by intent and practice, are expected to be amortized to maturity, the carrying amount approximates the discounted value of the future cash flows expected to be paid. Because of the difficulty and inherent subjectivity involved in determining fair values, which is not susceptible to independent verification, management has concluded that the amortized face value of loans payable to related or affiliated entities approximates fair value. Further, because a reasonable estimate of fair value could not be made without incurring excessive costs, management has not attempted to estimate the fair value of any loans payable to creditors that are not related or affiliated entities.

(g) Current Assets & Liabilities: Assets and liabilities are classified as current or long-term depending on their characteristics. This excludes from current assets, cash and claims to cash that are restricted to use for other than current operations, or committee allocated for the acquisition or construction of plant assets or for the liquidation of plant fund debt. This excludes from current liabilities the long-term portion of all debt, and plant fund debt payable within the next fiscal year to the extent covered by designated plant fund liquid assets. Working capital (current assets less current liabilities) for the Organization usually reflects working capital of only the operating funds, since usually no assets or liabilities of the plant, annuity, trust accounting, or endowment funds are classified as current.

(h) Inventory & Supplies: Inventory is valued at the lower of cost or market, under the first-in, first-out method. Merchandise and items held for sale are classified as inventory. Supplies held for future consumption are classified as prepaid expense.
(i) Investment Income: Income from investments, loans, and similar assets is accounted for in the fund owning the assets.

(j) Split-interest Agreements: The Association acts as a trustee of and/or has a beneficial interest in [*number*] charitable gift annuities and/or other split-interest agreements. For those agreements that are irrevocable, the respective donated assets are recorded by the Association at fair value at the date of gift or acceptance of agreement. For those agreements, liabilities are recorded for the present value of the amount due to income beneficiaries and other remainder beneficiaries. Conservative discount rates are used to compute the present value of such liabilities. Standard actuarial tables and conservative interest rates are used to compute liabilities due to annuitants. For those irrevocable agreements that are unconditional, the Association's remainder interest is classified as unrestricted or temporarily restricted depending on the terms of each agreement. For those irrevocable agreements that are conditional, a liability is recorded as a refundable advance in an amount equal to the value of the respective trust assets. (For additional details, see Notes 11, 12, and 13.)

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17C.04**(3)
Notes to Combined Financial Statements (USA Small Model)
Years ended December 31, 20X1 and 20X0

Note 1 - Summary of Significant Accounting Policies (continued)

(k) Affiliated Organizations: The Organization operates through several organizations with which it is affiliated by reason of economic interest and/or shared membership on the respective governing committees. The financial statements of these other organizations are not consolidated with this Organization. Inter-organization transactions carried on in the ordinary course of business are handled through current accounts receivable and payable, and are settled generally on a monthly basis. Other financial transactions involving loans and appropriations are detailed in Notes 5 and 16 below. These other organizations are:

S.D.A. Boarding Academy: A Christian secondary school, which is a separate unincorporated entity serving the Organization's territory. It is governed by a committee whose chairman is the president of the Conference, and whose members are selected by the governing committee of the Conference. Legal title to real property used by the Academy is vested in the Association. The cost and accumulated depreciation of that property is included in the financial statements of the Association.

S.D.A. Day Academy: A Christian secondary school, which is a separate unincorporated entity serving part of the Organization's territory. It is governed by a committee that is chosen by the members of certain constituent churches within the Organization's territory. Two administrative employees of the Conference serve on that committee. Legal title to real property used by the Academy is vested in the Association. The cost and accumulated depreciation of that property is included in the financial statements of the Association.

SDA Retirement Home: A separately incorporated elder care facility, which is generally self-supporting. It is governed by a Board of Trustees whose chairman is the president of the Conference. The governing committee of the Conference appoints three of the seven members of that Board. Legal title to real property used by the Retirement Home is vested in the Association.

(l) Fund Accounting: To ensure observance of limitations and restrictions placed on the use of resources available to the Organization, the accounts are maintained in accordance with the principles of fund accounting. Resources are classified for accounting and reporting into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds have been combined into groups, and totals are presented for the Organization as a whole. The funds and fund groups are described in further detail below.

Operating Funds: Unrestricted and restricted resources available for current operations. This fund group reflects the combined financial activity of the Conference Operating Fund and the Association Operating Fund [and the Adventist Book Center department]. Separate financial statements for each of the funds are prepared by the Organization as supplementary information.

Plant Funds: The Unexpended Plant and Net Invested in Plant Funds. The Unexpended Plant Fund represents resources that were donor restricted or conference committee allocated for plant acquisitions. Since operating resources allocated by the conference committee can be returned to the Operating Funds by action of the committee, they are included in the Unrestricted section of Net Assets, and appear as Allocated Net Assets. This balance includes the unused portion of funded depreciation, additional funds transferred for plant acquisitions, proceeds from sale of plant assets, and unrestricted plant fund investment earnings. The Net Invested in Plant Fund represents plant assets acquired, respective accumulated depreciation, and any respective debt. A separate Plant Fund financial statement is prepared by the Association as supplementary information.

Note 2 - Cash & Cash Equivalents	Conference Operating	Association Operating	20X1 Total	20X0 Total
Imprest / Petty Cash	600	1,000	1,600	1,600
Bank Accounts (earning interest at 1%)	168,923	15,717	184,640	97,424
Money Market Accounts (earning interest at 2.5%)	890,000	160,000	1,050,000	530,000
Less Cash Held for Agency	(56,806)		(56,806)	(49,607)
Total Cash and Cash Equivalents, 20X1	1,002,717	176,717	1,179,434	
Total Cash and Cash Equivalents, 20X0	400,335	179,082		579,417

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17C.04**(4)
Notes to Combined Financial Statements (USA Small Model)
Years ended December 31, 20X1 and 20X0

Note 3 - Investments - All Funds	20X1			20X0		
Carrying Amount and Fair Value	Cost	Fair Value	Unrealized Appreciation (Decline)	Cost	Fair Value	Unrealized Appreciation (Decline)
Investments Held for Operating Purposes						
Time Deposits (longer than 3 months)	100,000	100,000	0	100,000	100,000	0
U.S. Government Bonds	125,000	125,500	500	125,000	128,750	3,750
General Conference Unitized Bond Fund	95,000	99,895	4,895	95,000	95,345	345
Government Securities Mutual Funds	105,068	102,177	(2,891)	105,068	108,045	2,977
General Conference Unitized Income Fund	105,829	98,124	(7,705)	105,829	108,828	2,999
Totals for Operating Purposes	530,897	525,696	(5,201)	530,897	540,968	10,071
The Carrying Amount is Stated at Fair Value						
Investments Held for Other than Operating						
Held for Split-interest Agreements:						
Time Deposits (longer than 3 months)	150,000	150,000	0	0	0	0
Held for Plant Fund:						
Money Market Accounts	167,887	167,887	0	18,049	18,049	0
Time Deposits (longer than 3 months)	185,000	185,000	0	185,000	185,000	0
Union Revolving Loan Fund	200,000	200,000	0	0	0	0
Totals for Plant Fund	552,887	552,887	0	203,049	203,049	0
The Carrying Amount is Stated at Fair Value						

Composition of Investment Return	Operating Activity	Nonoper. Activity	20X1 Total	20X0 Total
Interest and Dividends from Investments	55,764	38,189	93,953	73,813
Realized Gain (Loss) on Sale of Investments	0	0	0	0
Unrealized Gain (Loss) in Value of Investments	(15,272)	0	(15,272)	11,078
Net Gain (Loss) on Investments for which carrying value is fair value *	(15,272)	0	(15,272)	11,078
Total Income from Investments Excluding Cash	40,492	38,189	78,681	84,891
Interest Earned on Cash & Cash Equivalents	21,190	0	21,190	8,992
Total Investment Return	61,682	38,189	99,871	93,883

* The Organization did not have any gain or loss on investments for which carrying value is not fair value.

Source of Fair Value Information

The Organization is subject to accounting principles that require disclosure about the information used to determine fair values for assets and liabilities that are subject to fair value accounting on either a recurring or non-recurring basis. This information is separated into three "levels" of inputs, as follows:

Level 1: Observable quoted market prices in active markets for identical assets or liabilities

Level 2: Direct or indirect observable market data, such as quoted prices in inactive markets for identical assets or liabilities, quoted prices in active markets for similar assets or liabilities, and other observable market data correlated to identical or similar assets or liabilities

Level 3: Unobservable inputs and assumptions based on judgment and the best information available

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17C.04**(4)
Notes to Combined Financial Statements (USA Small Model)
Years ended December 31, 20X1 and 20X0

Note 3 - Investments (continued)

Source of Fair Value Information (continued)

The Organization used the following inputs to determine fair values of assets valued on a recurring basis.	Level 1	Level 2	Level 3
Debt securities	125,000	804,959	0
Equity securities	0	98,124	0
Revolving Fund Account Certificates	0	0	200,000
Totals	125,500	903,083	200,000
For investments valued with Level 3 inputs:			
Beginning balance			0
Total gains or losses (net)			0
Total purchases and sales (net)			200,000
Transfers in or out of level 3 (net)			0
Ending balance			200,000
Net Gain (Loss) for assets still held at reporting date			0

The Organization used the following inputs to determine fair values of assets valued on a non-recurring basis.	Level 1	Level 2	Level 3
Non-cash assets received during the period as contributions from donors via split-interest agreements			150,000
For these assets, fair value is estimated based on appraisals, if obtainable, or on published prices from vendors for similar items.			
Liabilities to other beneficiaries of split-interest agreements entered into during the period			75,000
For these liabilities, fair value is based on net present value calculations of expected cash flows.			

Note 4 - Accounts Receivable	Conference Operating	Assoc. Operating	20X1 Total	20X0 Total
Church Remittances	292,400	0	292,400	260,000
Church Schools	32,982	0	32,982	28,709
Adventist Book Center	8,875	0	8,875	6,556
Employees' Accounts	26,085	0	26,085	19,276
SDA Academy	60,149	5,983	66,132	99,179
Allowance for Uncollectible Accounts	(1,000)		(1,000)	0
Net Accounts Receivable, 20X1	419,491	5,983	425,474	
Net Accounts Receivable, 20X0	405,473	8,247		413,720

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17C.04**(5)
Notes to Combined Financial Statements (USA Small Model)
Years ended December 31, 20X1 and 20X0

Note 5 - Loans Receivable

	20X1			20X0		
Conference Operating Fund	Current	Long Term	Total	Current	Long Term	Total
Unsecured Church & School Loans	12,130	42,070	54,200	11,260	0	11,260
Allowance for Uncollectible	0	(1,820)	(1,820)	(1,000)	0	(1,000)
Total Conference Operating Loans	12,130	40,250	52,380	10,260	0	10,260
Association Operating Fund						
Secured Employee Home Loans @ 8%	5,490	46,000	51,490	5,413	51,490	56,903
Total Loans Receivable - Operating	17,620	86,250	103,870	15,673	51,490	67,163

Note 6 - Other Current Assets	20X1	20X0
Pathfinder Materials for Sale	6,791	7,060
Forms and Supplies for Sale to Churches and Schools	2,852	2,957
Total Inventory for Sale	9,643	10,017
Copier and Printer Paper Stock	1,895	2,030
Preprinted Office Forms	526	579
Prepaid Property Insurance	2,413	2,525
Prepaid Liability Insurance	1,609	1,682
Total Prepaid Expense	6,443	6,816
Total Other Current Assets	16,086	16,833

Note 7 - Land, Buildings, and Equipment

		Total	Accumulated		Depreciation Expense	
Balances 20X1		Cost	Depreciation	Net Value	Operating	Other
Conference Use:	Land	240,856	0	240,856	0	0
	Land Improvements	255,991	96,851	159,140	11,116	0
	Buildings	1,456,266	652,829	803,437	54,495	0
	Equipment & Vehicles	403,971	201,930	202,041	36,500	0
Total for Conference Use, 20X1		2,357,084	951,610	1,405,474	102,111	0
Affiliated Entities Use:	Land	1,794,050	0	1,794,050	0	0
	Buildings	15,832,160	6,744,741	9,087,419	0	263,869
Total for Affiliated Entities Use, 20X1		17,626,210	6,744,741	10,881,469	0	263,869
Balances 20X0						
Conference Use:	Land	174,856	0	174,856	0	0
	Land Improvements	166,659	85,735	80,924	8,333	0
	Buildings	1,256,935	610,291	646,644	49,334	0
	Equipment & Vehicles	324,581	169,875	154,706	31,420	0
Total for Conference Use, 20X0		1,923,031	865,901	1,057,130	89,087	0
Affiliated Entities Use:	Land	1,492,800	0	1,492,800	0	0
	Buildings	14,928,410	6,480,872	8,447,538	0	248,807
Total for Affiliated Entities Use, 20X0		16,421,210	6,480,872	9,940,338	0	248,807

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17C.04**(6)
Notes to Combined Financial Statements (USA Small Model)
Years ended December 31, 20X1 and 20X0

Note 7 - Land, Buildings, and Equipment (continued)

Changes in Cost, 20X1		Cost 20X0	Additions	Deletions	Cost 20X1
Conference Use:	Land	174,856	75,000	9,000	240,856
	Land Improvements	166,659	89,332	0	255,991
	Buildings	1,256,935	225,375	26,044	1,456,266
	Equipment & Vehicles	324,581	84,200	4,810	403,971
Total for Conference Use, 20X1		1,923,031	473,907	39,854	2,357,084
Affiliated Entities Use:	Land	1,492,800	301,250	0	1,794,050
	Buildings	14,928,410	903,750	0	15,832,160
Total for Affiliated Entities Use, 20X1		16,421,210	1,205,000	0	17,626,210

Changes in Accumulated Depreciation, 20X1		Accumulated Depreciation 20X0	Additions	Deletions	Accumulated Depreciation 20X1
Conference Use:	Land Improvements	85,735	11,116	0	96,851
	Buildings	610,291	54,495	11,957	652,829
	Equipment & Vehicles	169,875	36,500	4,445	201,930
Total for Conference Use, 20X1		865,901	102,111	16,402	951,610
Affiliated Entities Use:	Buildings	6,480,872	263,869	0	6,744,741
Total for Affiliated Entities Use, 20X1		6,480,872	263,869	0	6,744,741

Note 8 - Contingent Liabilities - Guaranteed Debt Related to Church and School Properties

The Conference has guaranteed certain liabilities of local church congregations and school constituencies payable to the (*name*) Union Revolving Fund. The proceeds of these loans were used by local congregations to acquire certain assets that were then donated to the Association and are included within church and school properties in Note 7 above. [*If applicable, add the following sentence:* Liens or mortgages are recorded against (*indicate how many*) of these properties as collateral for the related loans.] Principal and interest payments on these loans are scheduled to be made by the local congregations and constituencies. At December 31, 20X1, no church congregations or school constituencies were delinquent on their payment schedules.

The balances due on these guaranteed loans totaled $3,958,040 and $3,732,103 at December 31, 20X1 and 20X0, respectively. These guaranteed loans relate to (*indicate how many*) specific properties for which the original cost totaled $8,795,644 and $8,293,562 as of December 31, 20X1 and 20X0, respectively.

Note 9 - Accounts Payable	Conference Operating	Assoc Operating	20X1 Total	20X0 Total
Union Conference, Tithe & Offerings	107,500	0	107,500	85,800
Employee Accounts	6,510	0	6,510	10,409
SDA Academy	2,669	0	2,669	0
Commercial Accounts	135,680	7,798	143,478	236,352
Local Churches	0	750	750	0
Miscellaneous	9,931	2,930	12,861	23,546
Total Accounts Payable, 20X1	262,290	11,478	273,768	
Total Accounts Payable, 20X0	341,203	14,904		356,107

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17C.04**(7)
Notes to Combined Financial Statements (USA Small Model)
Years ended December 31, 20X1 and 20X0

Note 10 - Loans Payable - All Funds

	20X1			20X0		
Conference Operating Fund	Current	Long Term	Total	Current	Long Term	Total
Bank One; $200,000 at 9% interest, 60 monthly payments of $4,152.	33,166	166,834	200,000	0	0	0
XYZ Corp.; $100,000 at 9% interest, 48 monthly payments of $2,489.	21,744	78,256	100,000	7,500	0	7,500
Association Operating Fund						
Bank Two; $18,000 at 9% interest, 36 monthly payments of $572.	5,471	12,529	18,000	8,409	18,000	26,409
Total Loans Payable - Operating	60,381	257,619	318,000	15,909	18,000	33,909
Plant Fund (Secured by Trust Deed)						
Bank One; $188,000 at 8.5% interest, 96 monthly payments of $2,706.	17,146	170,854	188,000	0	0	0

Amounts due on principal during the next five years are as follows:

	Conference Operating	Association Operating	Plant Fund
20X2	54,910	5,471	17,146
20X3	60,061	5,984	18,662
20X4	65,696	6,545	20,312
20X5	71,859	0	22,107
20X6	47,474	0	24,061
Future	0	0	85,712
Total	300,000	18,000	188,000

Note 11 - Summary of Split-interest Agreements

As of December 31, 20X1 and 20X0, respectively, the Organization served as trustee of [*number*] and [*number*] charitable remainder trusts, and [*number*] and [*number*] other unconditional irrevocable trusts. In accordance with accounting principles generally accepted by the denomination, the assets, liabilities, and net assets related to these trusts have been included in these financial statements.

As of December 31, 20X1 and 20X0, respectively, the Organization served as trustee of [*number*] and [*number*] conditional irrevocable trusts totaling $[*amount*] and $[*amount*], and of [*number*] and [*number*] other irrevocable trusts of which the Organization was not a named beneficiary. In accordance with accounting principles generally accepted by the denomination, the assets of these trusts, and appropriate liabilities totaling an equal amount, have been included in these financial statements.

As of December 31, 20X1 and 20X0, respectively, the Organization served as trustee of [*number*] and [*number*] revocable trusts. Since the trustors of these agreements have reserved the right to direct and control investment of the related assets, no assets or liabilities related to these trusts are included in these financial statements.

The Organization is generally a remainder beneficiary of at least a portion of these various trust assets. Also, the Organization may be a beneficiary of wills or trusts administered by other trustees, of which the Organization may not be aware. The General Conference Auditing Service has performed a review of the Organization's fiduciary administration of the agreements for which the Organization is trustee, and has issued a separate report thereon dated (*month day, year*).

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17C.04**(8)
Notes to Combined Financial Statements (USA Small Model)
Years ended December 31, 20X1 and 20X0

Note 12 - Split-interest Agreements - Ending Balances	20X1 Total	20X0 Total
Cash & Invest. Split-int. Agree. (Note 3)	150,000	0
Accrued Interest Receivable	1,007	0
Total Assets	151,007	0
NPV Liability To Annuitants *	75,956	0
NPV Liability To Income Beneficiaries *	0	0
Liability To Remainder Beneficiaries **	0	0
Total Liabilities	75,956	0
Unrestricted Net Assets	0	0
Temporarily Restricted Net Assets	75,051	0
Permanently Restricted Net Assets	0	0
Total Net Assets	75,051	0
Total Net Assets and Liabilities	151,007	0
* Net Present Value Liabilities		
Net Present Value Liabilities, beginning	0	0
Liability of New Agreements Added	75,000	0
Actuarial Adjustments (incl. maturities)	956	0
Net Present Value Liabilities, ending	75,956	0

Note 13 - Split-interest Agreements - Changes in Net Assets	20X1	20X0
Unrestricted Activity	Total	Total
Investment Income (interest & dividends)	0	0
Gift Portion of New Annuities Added	0	0
Actuarial Adjustment from (to) Present Value *	0	0
Unrealized Gain (Loss) in Value of Investments	0	0
Increase (Decrease) Unrestricted	0	0
Unrestricted Net Assets, beginning	0	0
Unrestricted Net Assets, ending	0	0
Temporarily Restricted Activity		
Gift Portion of New Annuities Added	75,000	0
Gift Portion of New Agreements Added	0	0
Gift Portion Added to Existing Agreements	0	0
Total Gift Portion Added	75,000	0
Investment Income (interest & dividends)	1,007	0
Actuarial Adjustment from (to) Present Value	(956)	0
Realized Gain (Loss) Sale of Investments	0	0
Unrealized Gain (Loss) Value of Investments	0	0
Increase (Decrease) Temporarily Restricted	75,051	0
Temporarily Restricted Net Assets, beginning	0	0
Temporarily Restricted Net Assets, ending	75,051	0

[*The Actuarial Adjustment from (to) Present Value will be a net amount that incorporates changes in life expectancy of income beneficiaries, after payments to income beneficiaries and remainder beneficiaries. The line items illustrated in Notes 12 and 13 should be presented by all entities that administer split-interest agreements, whether they use fund accounting or not.*]

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17C.04**(9)
Notes to Combined Financial Statements (USA Small Model)
Years ended December 31, 20X1 and 20X0

Note 14 - Temporarily Restricted Net Assets

Restricted for the following purposes or periods:	Balance 20X0	Restricted Income	Transfers In (Out)	Restrictions Released	Balance 20X1
Pastors and Bible Workers	0	36,609		36,609	0
General Evangelism	0	127,329		127,329	0
Radio-TV Evangelism	0	6,084	11,210	15,905	1,389
Sabbath School and Youth Activities	897	5,118		4,029	1,986
Campmeeting	0	18,649		18,649	0
Youth Camp Operating	0	8,355		8,355	0
Church School Operating	0	62,121		62,121	0
Church & School Equipment	0	8,024	12,656	20,680	0
Academy Operating	0	36,538		36,538	0
Academy Building and Equipment	0	64,245		64,245	0
Worthy Student	0	21,753		21,753	0
Literature Evangelist Literature	1,686	1,128		1,694	1,120
Religious Liberty	24,161	24,210		32,911	15,460
Health and Temperance	660	3,292		3,080	872
Inner City	1,000	10,015		8,843	2,172
Community Services - General	3,968	4,152		1,477	6,643
Ingathering Reversion	26,410	142,038		86,632	81,816
Sub-total Conference Operating Functions	58,782	579,660	23,866	550,850	111,458
Evangelistic Equipment	4,000	6,000		4,000	6,000
Youth Camp Equipment	2,059	6,202		2,500	5,761
Sub-total Conference Capital Functions	6,059	12,202	0	6,500	11,761
Annuity Fund Held for Evangelism	0	75,051	0	0	75,051
Operating Fund Temporarily Restricted	64,841	666,913	23,866	557,350	198,270
Conference Office Building	0	100,000		0	100,000
Conference Office Equipment	0	34,000		34,000	0
Conference Office Land Improvement	0	80,000		80,000	0
Campmeeting Buildings	15,000	50,000		0	65,000
Conference Housing	0	50,000		0	50,000
Youth Camp Buildings	20,000	40,000		50,000	10,000
Plant Fund Temporarily Restricted	35,000	354,000	0	164,000	225,000
Total Temporarily Restricted Net Assets	99,841	1,020,913	23,866	721,350	423,270

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17C.04**(10)
Notes to Combined Financial Statements (USA Small Model)
Years ended December 31, 20X1 and 20X0

Note 15 - Pension and Other Post-Retirement Benefits

Defined Benefit Plans

The Organization participates in a non-contributory, defined benefit pension plan known as the Seventh-day Adventist Retirement Plan of the North American Division. This plan, which covers substantially all employees of the Organization, is administered by the North American Division of the General Conference of Seventh-day Adventists in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a "multiple-employer" plan of a church-related agency.

The Organization also participates in a non-contributory, defined benefit health care plan known as the Health Care Assistance Plan for Participants in the Seventh-day Adventist Retirement Plan of the North American Division. This plan, which covers substantially all employees of the Organization, is administered by the North American Division of the General Conference of Seventh-day Adventists in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a "multiple-employer" plan of a church-related agency.

The required contributions from the Organization to these plans (for retiree pension and retiree health care benefits combined) were $221,421 and $216,022 for the years ended December 31, 20X1 and 20X0, respectively.

These plans are defined by the Financial Accounting Standards Board as "multiemployer" plans. As such, it is not required, nor is it possible, to determine the actuarial present value of accumulated benefits or plan net assets for employees of the Organization apart from other plan participants. However, based on the latest actuarial evaluation of the Seventh-day Adventist Retirement Plan of the North American Division, as of December 31, 1998, the actuarially computed value of accumulated plan benefits exceeded the estimated market value of plan assets, for that plan. No actuarial evaluation has been obtained for the Health Care Assistance Plan for Participants in the Seventh-day Adventist Retirement Plan of the North American Division.

The North American Division Committee voted to freeze accrual of service credit in these plans effective December 31, 1999, except for employees who chose the career completion option, and to start a new defined contribution plan effective January 1, 2000. The Organization is scheduled to continue making contributions (at a reduced rate) to the frozen plans after December 31, 1999. Certain employees will continue to be eligible for future benefits under these plans.

Defined Contribution Plan

Effective January 1, 2000, the Organization participates in a defined contribution retirement plan known as The Adventist Retirement Plan. This plan, which covers substantially all employees of the Organization, is administered by the North American Division of the General Conference of Seventh-day Adventists (GC) in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a "multiple-employer" plan of a church-related agency.

The Organization contributed $46,562 and $46,096 to the plan for the years ended December 31, 20X1 and 20X0, respectively, based on a stated percentage of each employee's earnings and a stated matching percentage of employee voluntary contributions. Administration of the accumulated contributions designated for each employee is provided under an agreement between the GC and VALIC.

Note 16 - Transactions With Affiliated Entities

As explained in Note 1, the Conference is affiliated with [*name*] Adventist Academy and Area Union Conference. Balances receivable from and payable to the Academy are disclosed in Notes 4, 8, and 9. During the years 20X1 and 20X0, appropriations were made to the Academy as follows: operating subsidies $64,000 and $60,000, scholarship funds $6,000 and $1,000, and capital appropriations $138,000 and $70,000; resulting in total appropriations of $208,000 and $131,000, respectively. Also during 20X1 and 20X0, the Division and the Union paid for audit services for the Conference, and either did not charge the Conference or charged the Conference less than the full cost of those services. The fair value of the audit services not charged to the Conference, estimated at $14,400 and $13,500 for the years 20X1 and 20X0, respectively, are reported as contributed services revenue and administrative expense.

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17C.04**(11)
Notes to Combined Financial Statements (USA Small Model)
Years ended December 31, 20X1 and 20X0

Note 17 - Concentrations of Risk

The Organization receives most of its revenue in the form of contributions from members living within its territory. The amount of contributions are subject to economic conditions that could cause loss of income among church members, and could also be subject to decrease if any significant number of individuals cease to be active members.

The Organization's assets include $552,380 of loans receivable from related organizations and $51,490 of loans receivable from employees. These loans represent 5.2% of the Organization's total assets. Management's estimate of the collectability of these loans could be subject to a similar economic impact as mentioned above for contributions.

The Organization maintains its cash accounts primarily in banks that operate [in the state(s) of (*names of states*) –or- nationwide]. The total cash balances are insured by the FDIC up to $250,000 per bank. The Organization held cash balances on deposit with [*number*] banks at [*financial statement date*], which exceeded the balance insured by the FDIC by [*excess amount*].

Note 18 - Working Capital and Liquidity

	Conference	Association	Organization Totals **	
WORKING CAPITAL	Operating	Operating	20X1	20X0
Total Current Assets	2,032,926	188,190	2,221,116	1,616,218
Total Current Liabilities	(372,006)	(18,949)	(390,955)	(421,623)
Total Working Capital	1,660,920	169,241	1,830,161	1,194,595
Recommended Working Capital *	1,228,130	18,950	1,247,080	753,082
Working Capital Excess (Deficiency)	432,790	150,291	583,081	441,513
Percent of Recommended Working Capital	135%	893%	147%	159%
LIQUIDITY				
Cash and Cash Equivalents	1,002,717	176,717	1,179,434	579,417
Investments	525,696	0	525,696	540,968
Accounts Receivable - Church Remittances	292,400	0	292,400	260,000
Cash Held for Agency	56,806	0	56,806	49,607
Total Liquid Assets	1,877,619	176,717	2,054,336	1,429,992
Current Liabilities	(372,006)	(18,949)	(390,955)	(421,623)
Capital Functions Net Assets	(240,622)	0	(240,622)	(80,000)
Temporarily Restricted Net Assets ***	(123,219)	0	(123,219)	(64,841)
Total Commitments	(735,847)	(18,949)	(754,796)	(566,464)
Liquid Assets Surplus (Deficiency)	1,141,772	157,768	1,299,540	863,528
Percent Liquid Assets to Commitments	255%	933%	272%	252%
* Calculation of Recommended Working Capital:				
25% of Conference Unrestricted Income ****	619,199	0	619,199	590,241
20% of Association Unrestricted Income	0	6,421	6,421	0
Long-Term Payable	245,090	12,529	257,619	18,000
Capital Functions Allocated Net Assets	240,622	0	240,622	80,000
Temporarily Restricted Net Assets ***	123,219	0	123,219	64,841
Total Recommended Working Capital	1,228,130	18,950	1,247,080	753,082

** Inter-fund borrowing is eliminated in the Organization total columns.
*** Excludes restricted amounts that are covered by specific noncurrent assets.
**** Excludes matured trusts and wills, and excludes releases from restrictions.

Appendix 17D

LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS

and

LOCAL CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS

Combined Financial Statements (USA Large Model)

December 31, 20X1 and 20X0

[*This illustrated financial statement displays a recommended expansion of fund accounting for large conferences that administer a significant number of split-interest agreements (both annuities and irrevocable trusts) and that hold significant amounts in endowments and agency accounts.*]

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.01**
Combined Statement of Financial Position (USA Large Model)
December 31, 20X1 and 20X0

ASSETS	Operating Funds	Plant Fund	Other Funds	20X1 Total	20X0 Total
Current Assets					
Cash & Cash Equivalents (Note 2)	1,179,434	0	0	1,179,434	579,417
Investments (Note 3)	525,696	0	0	525,696	540,968
Accounts Receivable, net (Note 5)	425,474	0	0	425,474	413,720
Loans Receivable – Current Portion (Note 7)	17,620	0	0	17,620	15,673
Cash Held for Agency	56,806	0	0	56,806	49,607
Other Current Assets (Note 9)	16,086	0	0	16,086	16,833
Total Current Assets	2,221,116	0	0	2,221,116	1,616,218
Land, Buildings, & Equipment, Net (Note 10)					
For Use by Conference, Net	0	1,405,474	0	1,405,474	1,057,130
For Use by Affiliated Entities, Net	0	10,881,469	0	10,881,469	9,940,338
Other Assets					
Loans Receivable, Noncurrent (Note 7)	86,250	0	0	86,250	51,490
Cash & Investments – Non-operating (Note 3, 15)	0	493,513	177,000	670,513	255,049
Held for Split-interest Agreements (Note 15)	0	0	1,526,504	1,526,504	1,673,879
Inter-Fund Receivables (Notes 6, 8, 15)	0	59,374	108,000	0	0
Total Other Assets	86,250	552,887	1,811,504	2,283,267	1,980,418
Total Assets	2,307,366	12,839,830	1,811,504	16,791,326	14,594,104
LIABILITIES					
Current Liabilities					
Accounts Payable (Note 12)	260,604	0	0	260,604	356,107
Loans Payable, Current Portion (Note 13)	60,381	0	0	60,381	15,909
Agency Accounts	56,806	0	0	56,806	49,607
Due To Other Funds (Note 6)	13,164	0	0	0	0
Total Current Liabilities	390,955	0	0	377,791	421,623
Other Liabilities					
Loans Payable, Noncurrent (Note 13)	257,619	80,000	0	337,619	18,000
Liabilities for Annuity Agreements (Note 15)	0	0	348,770	348,770	328,639
Liabilities for Split-interest Agreements (Note 15)	0	0	926,423	926,423	1,141,003
Agency Fund Liability to Depositors (Note 17)	0	0	77,000	77,000	32,000
Inter-Fund Payables (Notes 6, 8)	0	108,000	46,210	0	0
Total Other Liabilities	257,619	188,000	1,398,403	1,689,812	1,519,642
Total Liabilities	648,574	188,000	1,398,403	2,067,603	1,941,265
NET ASSETS					
Unrestricted: Unallocated	289,736	0	0	289,736	308,074
Unrestricted: Allocated	1,245,837	327,887	161,924	1,735,648	1,118,978
Unrestricted: Net Invested Plant, Conference Use	0	1,217,474	0	1,217,474	1,057,130
Unrestricted: Net Invested Plant, Affiliated Use	0	10,881,469	0	10,881,469	9,940,338
Total Unrestricted	1,535,573	12,426,830	161,924	14,124,327	12,424,520
Temporarily Restricted (Note 18)	123,219	225,000	151,177	499,396	208,319
Permanently Restricted (Note 19)	0	0	100,000	100,000	20,000
Total Net Assets	1,658,792	12,651,830	413,101	14,723,723	12,652,839
Total Liabilities & Net Assets	2,307,366	12,839,830	1,811,504	16,791,326	14,594,104

Inter-fund borrowing is eliminated in the total columns.
The accompanying notes are an integral part of these financial statements.

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.02**(1)
Combined Statement of Changes in Net Assets (USA Large Model)
Years ended December 31, 20X1 and 20X0

Changes in Unrestricted Net Assets Unrestricted Revenues and Support:	Operating Funds	Plant Fund	Other Funds	Actual 20X1 Total	Budget 20X1 Total	Actual 20X0 Total
Gross Tithe Income	2,767,767	0	0	2,767,767	2,565,000	2,700,281
Tithe Percentages Passed On	(853,008)	0	0	(853,008)	(790,150)	(832,340)
Net Tithe Income	1,914,759	0	0	1,914,759	1,774,850	1,867,941
Tithe Exchanged with Gen Conf	(200,000)	0	0	(200,000)	(200,000)	(100,000)
Non-Tithe Funds from Gen Conf	200,000	0	0	200,000	200,000	100,000
Church Schools Salary Share	373,386	0	0	373,386	356,000	345,000
Departmental Fees and Sales	89,131	0	0	89,131	88,000	88,164
Property Rental Income	28,251	0	0	28,251	37,000	37,893
Investment Income (Notes 3 & 16)	61,682	0	33,341	95,023	60,089	52,004
Deferred Gifts Received *	48,710	0	0	48,710	0	0
Gift Portion Split-int. Agree. Added *	0	0	63,205	63,205	0	0
Actuarial Adjust. Unrestricted Agree.	0	0	52,025	52,025	0	10,854
Total Unrestricted Revenues	2,515,919	0	148,571	2,664,490	2,315,939	2,401,856
Released from Restrictions (Note 18)	550,850	0	0	550,850	546,558	433,936
Total Unrestricted Revenues & Support	3,066,769	0	148,571	3,215,340	2,862,497	2,835,792
Expenses and Losses:						
Program Services Functions						
Church Ministries	926,101	66,087	0	992,188	993,716	966,733
Educational	993,439	9,427	0	1,002,866	973,434	851,778
Publishing	48,320	0	0	48,320	48,320	46,761
Health & Humanitarian	106,923	1,048	0	107,971	175,036	121,806
Other	67,045	0	0	67,045	65,633	64,104
Total Program Services Function	2,141,828	76,562	0	2,218,390	2,256,139	2,051,182
Supporting Services Function						
Administration-Office Resources	159,051	1,676	0	160,727	169,093	150,363
Rental Properties & Miscellaneous	37,894	23,873	0	61,767	60,263	42,973
Retirement Contribution to DB Plan	221,421	0	0	221,421	205,200	216,022
Total Supporting Services Function	418,366	25,549	0	443,915	434,556	409,358
Total Expenses and Losses	2,560,194	102,111	0	2,662,305	2,690,695	2,460,540
Increase (Decrease) from Operations	506,575	(102,111)	148,571	553,035	171,802	375,252
Non-operating Activity						
Non-operating Revenue (Note 20)	0	28,189	0	28,189	0	41,879
Non-operating Gains (Losses) (Note 20)	0	18,413	(11,461)	6,952	158,975	17,191
Transfers Between Funds (Note 20)	(30,439)	101,384	(70,945)	0	0	0
Released from Restrictions (Note 18)	6,500	164,000	0	170,500	100,000	0
Increase (Decrease) Before Activity Related to Property Used by Affiliates	482,636	209,875	66,165	758,676	430,777	434,322
For Property Used by Affiliates:						
Donations of Property	0	1,085,000	0	1,085,000	700,000	0
Gain (Loss) on Sale of Property	0	120,000	0	120,000	0	0
Depreciation Expense	0	(263,869)	0	(263,869)	(250,000)	(248,807)
Increase (Decrease) Unrestricted Net Assets	482,636	1,151,006	66,165	1,699,807	880,777	185,515

The accompanying notes are an integral part of these financial statements.

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.02**(2)
Combined Statement of Changes in Net Assets (USA Large Model)
Years ended December 31, 20X1 and 20X0

Changes in Unrestricted Net Assets	Operating Funds	Plant Fund	Other Funds	Actual 20X1 Total	Budget 20X1 Total	Actual 20X0 Total
Increase (Decrease) Unrestricted Net Assets	482,636	1,151,006	66,165	1,699,807	880,777	185,515
Changes in Temporarily Restricted						
Restricted Income:						
Subsidies and Appropriations	109,609	0	0	109,609	107,500	93,195
Offerings and Donations	275,419	0	0	275,419	249,050	216,032
Investment Income (Notes 3 & 16)	0	0	89,718	89,718	70,000	95,101
Endowment Income	0	0	15,250	15,250	14,750	4,750
Ingathering Reversion	142,038	0	0	142,038	130,000	128,341
Restricted Capital Additions	12,202	354,000	0	366,202	0	0
Deferred Gifts Received *	37,344	0	0	37,344	15,000	0
Gift Portion Split-int. Agree. Added *	0	0	62,645	62,645	0	0
Actuarial Adjust. Restricted Agree.	0	0	(61,256)	(61,256)	(70,000)	(74,112)
Net Gain (Loss) Rest. Invest. (Note 16)	0	0	(24,542)	(24,542)	0	360
Restricted Income Received (Note 18)	576,612	354,000	81,815	1,012,427	516,300	463,667
Transfers Between Funds (Note 16)	23,866	0	(23,866)	0	0	0
Released from Rest. – Oper. (Note 18)	(535,600)	0	(15,250)	(550,850)	(546,558)	(433,936)
Released from Rest. – Cap. (Note 18)	(6,500)	(164,000)	0	(170,500)	0	0
Inc (Dec) Temporarily Restricted Net Assets	58,378	190,000	42,699	291,077	(30,258)	29,731
Changes in Permanently Restricted						
Endowment Fund Donations	0	0	80,000	80,000	0	20,000
Inc (Dec) Permanently Restricted Net Assets	0	0	80,000	80,000	0	20,000
Increase (Decrease) in Net Assets	541,014	1,341,006	188,864	2,070,884	850,519	235,246
Net Assets, Beginning, Previously Stated	1,117,778	11,310,824	224,237	12,652,839	12,693,327	8,136,989
Prior Period Adjustment **	0	0	0	0	0	4,280,604
Adjusted Net Assets, Beginning of Year	1,117,778	11,310,824	224,237	12,652,839	12,693,327	12,417,593
Net Assets, End of Year	1,658,792	12,651,830	413,101	14,723,723	13,543,846	12,652,839

The accompanying notes are an integral part of these financial statements.

[* *Objectives of this presentation are to record deferred gifts uniformly regardless of the extent to which fund accounting is used; to report all releases of temporarily restricted net assets in the Operating Fund; and to recommend the use of Other Funds to hold split-interest agreements that have not yet matured, and to move those resources to the Operating Fund when agreements mature.*
(A) Deferred gifts that are unrestricted or were only time restricted, regardless of who the trustee is, should be reported as unrestricted operating revenue, in the Fund in which the underlying assets were held or received. The governing committee can transfer the portion of those resources that are in the Other Funds to the Operating Fund at any time thereafter.
(B) Deferred gifts for which the reporting entity is not the trustee and which are purpose restricted should be reported as temporarily restricted revenue in the Operating Fund or as permanently restricted revenue in the Endowment Fund, following donor instructions.
(C) Deferred gifts for which the reporting entity is the trustee, which are purpose restricted, and which are held in an annuity or trust accounting fund should be reported as revenue (gift portion) in the Fund in which they are held when they are established. When they mature, they should be reported as transfers of TRNA accounts from that Fund to the Operating Fund. Then, in the reporting period when the purpose restrictions are met, the amount used should be reported as released from restrictions, like all other temporarily restricted net assets in the Operating Fund.]

[** *Prior period adjustments are generally related to corrections of accounting errors and adoption of new accounting principles. For this illustration, the adjustment consists of corrections in accounting of $91,459 ($56,459 Operating and $35,000 Plant), and Church and School properties added of $4,189,145; for the total prior period adjustment of $4,280,604.*]

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.03**
Combined Statement of Cash Flows (USA Large Model)
Years ended December 31, 20X1 and 20X0

Cash Flows from Operating Activities:	Operating Funds	Plant Fund	Other Funds	20X1 Total	20X0 Total
Increase (Decrease) in Net Assets	541,014	1,341,006	188,864	2,070,884	235,246
Prior Period Adjustment	0	0	0	0	4,280,604
Adjustments to eliminate non-cash items:					
Depreciation Expense	0	365,980	0	365,980	337,894
(Gain) Loss on Sale of Plant Assets	0	(18,413)	0	(18,413)	(12,275)
Donations of Property Used by Affiliated Entities	0	(1,205,000)	0	(1,205,000)	(4,189,145)
Unrealized (Gain) Loss in Value of Investments	15,272	0	0	15,272	0
Adjustments to reclassify non-operating items:					
Annuity Fund (Increase) Decrease (Note 16)	0	0	(83,864)	(83,864)	(54,659)
Trust Acctng. Fd. (Increase) Decrease (Note 16)	0	0	(25,000)	(25,000)	(12,500)
Non-operating Donations Received	0	(354,000)	(80,000)	(434,000)	(20,000)
(Increase) Decrease Accounts Receivable	(11,754)	0	0	(11,754)	(74,059)
(Increase) Decrease Cash Held for Agency	(7,199)	0	0	(7,199)	500
(Increase) Decrease Inventories & Prepaid	747	0	0	747	(1,614)
Increase (Decrease) Accounts Payable	(95,503)	0	0	(95,503)	(53,943)
Increase (Decrease) Trust/Agency Accounts	7,199	0	0	7,199	(500)
Net Cash Provided (Used) from Operating	449,776	129,573	0	579,349	435,549
Cash Flows from Investing Activities:					
Proceeds from Maturity of Investments	0	0	60,000	60,000	0
Purchase of Investments	0	(292,367)	(164,571)	(456,938)	(194,234)
Proceeds from Sale of Plant Assets	0	41,865	0	41,865	750
Purchases of Plant Assets	0	(473,907)	0	(473,907)	(125,830)
New Loans Receivable Issued	(46,000)	0	0	(46,000)	0
Payments Received on Loans Receivable	9,293	0	14,850	24,143	38,344
Net Cash Provided (Used) from Investing	(36,707)	(724,409)	(89,721)	(850,837)	(280,970)
Cash Flows from Financing Activities:					
Proceeds from External Borrowing	300,000	80,000	0	380,000	104,374
Principal Payments on Loans Payable	(15,909)	0	0	(15,909)	(15,909)
Proceeds (Payments) Inter-Fund Borrowing	(97,143)	158,933	(61,790)	0	0
Proceeds (Payments) on Accounts Payable	0	1,903	0	1,903	(56)
New Gift Agreements Cash Received (Note 16)	0	0	126,901	126,901	0
Non-operating Investment Income (Note 16)	0	0	123,059	123,059	125,141
Payments to Annuitants	0	0	(18,722)	(18,722)	(15,641)
Payments to Income Beneficiaries	0	0	(59,916)	(59,916)	(87,883)
Matured Gifts Distributed	0	0	(144,811)	(144,811)	0
Donations for Plant Assets and Endowments	0	354,000	80,000	434,000	20,000
Net Proceeds from Agency Depositors	0	0	45,000	45,000	10,000
Net Cash Provided (Used) from Financing	186,948	594,836	89,721	871,505	140,026
Increase (Decrease) Cash and Cash Equivalents	600,017	0	0	600,017	294,605
Cash and Cash Equivalents, Beginning	579,417	0	0	579,417	284,812
Cash and Cash Equivalents, Ending	1,179,434	0	0	1,179,434	579,417

Supplemental Cash Flow Data:
Cash paid during the year for interest (other than for inter-fund borrowing) was $2,862 (from Operating Fund to banks).
Revenue for the year includes non-cash donations received, in the form of church and school properties added, of $1,205,000.

The accompanying notes are an integral part of these financial statements.

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.04**(1)
Notes to Combined Financial Statements (USA Large Model)
Years ended December 31, 20X1 and 20X0

Note 1 – Organization Description and Summary of Significant Accounting Policies

Organization Description

Seventh-day Adventist congregations within [*briefly describe the territory*] have formed Local Conference of Seventh-day Adventists (Conference) and Local Conference Association of Seventh-day Adventists (Association). Because the Conference and the Association are commonly controlled, their financial statements are combined (Organization).

The Organization's primary purpose is to spread the gospel of Jesus Christ throughout its territory. The Conference supports the operation of all the churches and schools in its territory, and is a member organization of the Area Union Conference of Seventh-day Adventists. The Association holds legal title to all denominational property located within its territory, and performs certain fiduciary duties. [The Conference also operates Name Adventist Book Center (ABC) as a department. The ABC sells religious literature and related merchandise to constituents and their families.] The Organization receives most of its revenue in the form of contributions from individuals in its constituent congregations. [The ABC receives most of its revenue from the sale of its merchandise.]

The Organization is a religious not-for-profit organization, and is exempt from Federal, State, and Local income taxes under the provisions of Section 501 (c) (3) of the Internal Revenue Code and corresponding sections of applicable state and local codes; except for taxes on Unrelated Business Income as described in Sections 511-514 of the Internal Revenue Code.

Summary of Significant Accounting Policies

(a) The significant accounting policies of the Organization are essentially the same as generally accepted accounting principles for not-for-profit organizations as promulgated by the Financial Accounting Standards Board and the American Institute of Certified Public Accountants. The significant policies are described below to enhance the usefulness of the financial statements. The financial statements of the Organization have been prepared on the accrual basis of accounting. In conformity with the accrual basis of accounting, the Organization has evaluated events that occurred subsequent to the financial statement date, up to [*insert date*], which is the date the financial statements were [*insert either* "issued" *or* "available to be issued" *but not both*].

(b) The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Restricted Resources: The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Components of Unrestricted Activity: Unrestricted activity is separated between operating and non-operating activity. Operating activity is defined as the regular recurring revenue and expense related to the core ministries of the Organization. Other activity, such as transfers between funds, additions and deletions related to church and school properties, and most of the activity of funds other than the operating fund, is classified as non-operating activity.

(d) Plant Assets & Depreciation: Plant assets are recorded at cost when purchased or at fair value at date of gift when donated. Plant assets that cost less than [*state a threshold amount*] are not capitalized, but are charged to expense. Depreciation of land improvements, buildings, and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation expense is recorded in the Plant Fund, and is distributed among the operating expense reported in the Statement of Changes in Net Assets by the various program and supporting services functions that use those assets.

In its corporate capacity, the Association holds legal title to properties that are used by local congregations and other affiliated entities. The historical cost of these properties, and related accumulated depreciation, is included in the Plant Fund, and the related depreciation expense is recorded as non-operating expense in the Statement of Changes in Net Assets. (See Notes 10 & 11)

Uses of operating funds for plant acquisitions and debt service payments are accounted for as committee approved transfers to the Plant Fund. Such transfers include depreciation funding as well as additional movements of resources from operating funds to the plant fund. Restricted proceeds from the sale of assets and restricted income from plant fund investments are recorded as restricted support. Both principal and interest payments made to retire plant fund debt are recorded in the Plant Fund.

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.04**(2)
Notes to Combined Financial Statements (USA Large Model)
Years ended December 31, 20X1 and 20X0

Note 1 – Summary of Significant Accounting Policies (continued)

(e) Cash and Cash Equivalents: Cash equivalents are highly-liquid assets held for operating purposes, which are readily convertible to cash and have a maturity date of three months or less from date of acquisition. Cash and investments held for purposes other than operating are not classified as cash and cash equivalents. The increase or decrease in non-operating cash and investments is reported in the statement of cash flows as proceeds or purchases of investments.

(f) Fair Value of Financial Instruments: Following are the major methods and assumptions used to estimate fair values:

Short-term financial instruments are valued at their carrying amounts included in the statement of financial position, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This applies to cash, cash equivalents, accounts receivable, and certain current liabilities.

Investment securities are valued at fair value, which is the quoted market price or other reasonably obtainable fair value estimate at the reporting date for those or similar securities. The difference between aggregate fair value and historical cost for each type of security is recorded in a valuation account. The change in this valuation account during each period is recognized as a gain or loss.

Loans receivable are valued at the amortized amount receivable at the reporting date. An allowance has been recorded based on an estimate of amounts which are not expected to be collected. Because these loans, by intent and practice, are expected to be held to maturity, the carrying amount approximates the discounted value of future cash flows expected to be received. Because of the difficulty and inherent subjectivity involved in determining fair values, which is not susceptible to independent verification, management has concluded that the amortized face value of loans receivable from related or affiliated entities approximates fair value.

Loans payable are valued at the amortized amount payable as of the reporting date. Because these loans, by intent and practice, are expected to be amortized to maturity, the carrying amount approximates the discounted value of the future cash flows expected to be paid. Because of the difficulty and inherent subjectivity involved in determining fair values, which is not susceptible to independent verification, management has concluded that the amortized face value of loans payable to related or affiliated entities approximates fair value. Further, because a reasonable estimate of fair value could not be made without incurring excessive costs, management has not attempted to estimate the fair value of any loans payable to creditors that are not related or affiliated entities.

(g) Current Assets & Liabilities: Assets and liabilities are classified as current or long-term depending on their characteristics. This excludes from current assets, cash and claims to cash that are restricted to use for other than current operations, or committee allocated for the acquisition or construction of plant assets or for the liquidation of plant fund debt. This excludes from current liabilities the long-term portion of all debt, and plant fund debt payable within the next fiscal year to the extent covered by designated plant fund liquid assets. Working capital (current assets less current liabilities) for the Organization usually reflects working capital of only the operating funds, since usually no assets or liabilities of the plant, annuity, trust accounting, or endowment funds are classified as current.

(h) Inventory & Supplies: Inventory is valued at the lower of cost or market, under the first-in, first-out method. Merchandise and materials held for sale are classified as inventory. Supplies held for future consumption are classified as prepaid expense.

(i) Investment Income: Ordinary income from investments, loans, and similar assets is accounted for in the fund owning the assets, except for the endowment fund. Unrestricted income on endowment fund investments is accounted for as income of the operating fund. Restricted income on endowment fund investments is accounted for as restricted support and temporarily restricted net assets until spent for the restricted purpose designated by the endowment instrument.

(j) Split-interest Agreements: The Association acts as a trustee of and/or has a beneficial interest in various kinds of trusts, gift annuities, and/or other split-interest agreements. Other organizations are partial beneficiaries of some of these agreements. For those agreements that are irrevocable, the respective donated assets are recorded by the Association at fair value at the date of gift or acceptance of agreement. For those agreements, liabilities are recorded for the present value of the amount due to income beneficiaries and other remainder beneficiaries. Conservative discount rates are used to compute the present value of such liabilities. Standard actuarial tables and conservative interest rates are used to compute liabilities due to annuitants. For those irrevocable agreements that are unconditional, the Association's remainder interest is classified as unrestricted or temporarily restricted depending on the terms of each agreement. For those irrevocable agreements that are conditional, a liability is recorded as a refundable advance in an amount equal to the value of the respective trust assets. (For additional details, see Notes 14, 15, and 16.)

(k) Affiliated Organizations: The Organization operates through several organizations with which it is affiliated by reason of economic interest and/or shared membership on the respective governing committees. The financial statements of these other organizations are not consolidated with this Organization. Inter-organization transactions carried on in the ordinary course of business are handled through current accounts receivable and payable, and are settled generally on a monthly basis. Other financial transactions involving loans and appropriations are detailed in Notes 7 and 22 below. These other organizations are:

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.04**(3)
Notes to Combined Financial Statements (USA Large Model)
Years ended December 31, 20X1 and 20X0

Note 1 – Summary of Significant Accounting Policies (continued)

S.D.A. Boarding Academy: A Christian secondary school, which is a separate unincorporated entity serving the Organization's territory. It is governed by a committee whose chairman is the president of the Conference, and whose members are selected by the governing committee of the Conference. Legal title to real property used by the Academy is vested in the Association. The cost and accumulated depreciation of that property is included in the financial statements of the Association.

S.D.A. Day Academy: A Christian secondary school, which is a separate unincorporated entity serving part of the Organization's territory. It is governed by a committee that is chosen by the members of certain constituent churches within the Organization's territory. Two administrative employees of the Conference serve on that committee. Legal title to real property used by the Academy is vested in the Association. The cost and accumulated depreciation of that property is included in the financial statements of the Association.

SDA Retirement Home: A separately incorporated elder care facility, which is generally self-supporting. It is governed by a Board of Trustees whose chairman is the president of the Conference. The governing committee of the Conference appoints three of the seven members of that Board. Legal title to real property used by the Retirement Home is vested in the Association.

(l) Fund Accounting: To ensure observance of limitations and restrictions placed on the use of resources available to the Organization, the accounts are maintained in accordance with the principles of fund accounting. Resources are classified for accounting and reporting into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds have been combined into groups, and totals are presented for the Organization as a whole. The funds and fund groups are described in further detail below.

Operating Funds: Unrestricted and restricted resources available for current operations. This fund group reflects the combined financial activity of the Conference Operating Fund and the Association Operating Fund [and the Adventist Book Center department]. Separate financial statements for each of the funds are prepared by the Organization as supplementary information.

Plant Funds: The Unexpended Plant and Net Invested in Plant Funds. The Unexpended Plant Fund represents resources that were donor restricted or conference committee allocated for plant acquisitions. Since operating resources allocated by the conference committee can be returned to the Operating Funds by action of the committee, they are included in the Unrestricted section of Net Assets, and appear as Allocated Net Assets. This balance includes the unused portion of funded depreciation, additional funds transferred for plant acquisitions, proceeds from sale of plant assets, and unrestricted plant fund investment earnings. The Net Invested in Plant Fund represents plant assets acquired, respective accumulated depreciation, and any respective debt. A separate Plant Fund financial statement is prepared by the Association as supplementary information.

Other Funds: A combination of the Annuity, Trust Accounting, Endowment, and Agency funds. Separate financial statements for each of these funds are prepared by the Association as supplementary information. Following are descriptions of them.

Annuity Fund: Represents resources that have been received according to the conditions stated in Gift Annuity Agreements. By denominational policy all assets received are to be held until maturity, and until then, no portion of such resources received may be used except to meet the regular annuity payments according to the terms of the Agreements.

Trust Accounting Fund: An accounting entity for assets that are held in a trustee capacity. This fund is limited to certain conditional and unconditional irrevocable trust agreements that name the Organization as the trustee.

Agency Fund: An accounting entity for funds that are received by the conference as fiscal agent for other organizations. These funds may be pooled or otherwise invested as directed, and all income and principal is used as directed by the depositors.

Endowment Fund: Represents funds that are subject to restrictions of gift instruments requiring that the principal be held in perpetuity, be invested, and only the income from such investments be used. Further information about endowments is included in paragraphs (m) through (p) below.

(m) Endowment Net Assets - Interpretation of State Law

[*State laws vary regarding the preservation of endowment principal. Some equate it to preservation of the fair value of donated endowment assets; others equate it to preservation of the purchasing power of donated endowment assets. Use one of the following two examples to draft disclosures tailored to the reporting entity.*]

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.04**(4)
Notes to Combined Financial Statements (USA Large Model)
Years ended December 31, 20X1 and 20X0

Note 1 – Summary of Significant Accounting Policies (continued)

(m) Endowment Net Assets - Interpretation of State Law (continued)

[***Example #1: Preservation of Fair Value***]
The Organization's [*name of governing committee*] has interpreted the [*name of state*] Prudent Management of Institutional Funds Act (*x*PMIFA) to require the preservation of the fair value of the original gift as of the gift date of donor-restricted endowments, unless explicit donor stipulations provide otherwise.

- As a result of this interpretation, the Organization classifies as permanently restricted net assets:
  (a) The original value of gifts donated as permanent endowments,
  (b) The original value of subsequent gifts to the permanent endowment, and
  (c) Accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment.
- The remaining portion of the donor-restricted endowments that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by *x*PMIFA.

[***Example #2: Preservation of Purchasing Power***]
The Organization's [*name of governing committee*] has interpreted the [*name of state*] Prudent Management of Institutional Funds Act (*x*PMIFA) to require the preservation of the purchasing power (inflation-adjusted real value) of donor-restricted endowments, unless explicit donor stipulations provide otherwise.

- As a result of this interpretation, the Organization classifies as permanently restricted net assets:
  (a) The original value of gifts donated as permanent endowments,
  (b) The original value of subsequent gifts to the permanent endowment,
  (c) Accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment, and
  (d) The portion of investment return added to the permanent endowment to maintain its purchasing power.
  For purposes of determining that added portion, each year the Organization adjusts permanently restricted net assets by the change in the [*name the index, such as Consumer Price Index or Higher Education Price Index*].
- If endowment assets earn investment returns beyond the amount necessary to maintain the endowment assts' purchasing value, that excess is available for appropriation and, therefore, is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization.

[***For both examples #1 and #2, add the following item at the end of the Interpretation of Law section.***]

- In accordance with *x*PMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowments:
  (1) The duration and preservation of the endowment
  (2) The purposes of the Organization and of the donor-restricted endowment
  (3) General economic conditions
  (4) The possible effect of inflation and deflation
  (5) The expected total return from income and the appreciation of investments
  (6) Other resources of the Organization
  (7) The investment policies of the Organization.

(n) Endowment Investment Policies – Return Objectives, Risk Parameters, and Strategies

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the [*insert* fair value *-or-* purchasing power] of the endowment assets. Endowment assets include those assets of donor-restricted endowments that the Organization must hold in perpetuity or for a donor-specified period, as well as committee-designated (quasi) endowments.

Under this policy, as approved by the [*name of governing committee*], the endowment assets are invested in a manner that is intended to produce results that approximate the price and yield results of [*name a relevant index, such as the S&P 500*] while assuming a moderate level of investment risk. The Organization expects its total endowments, over time, to provide an average rate of return of approximately [*number*] percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. The Organization places the endowment assets into the following ranges of investment types: XX% to XX% in equity securities, XX% to XX% in government-issued securities, and XX% to XX% in other debt securities.

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.04**(5)
Notes to Combined Financial Statements (USA Large Model)
Years ended December 31, 20X1 and 20X0

Note 1 – Summary of Significant Accounting Policies (continued)

(o) Endowment Spending Policies and Relation to Investment Objectives

The Organization has adopted an endowment spending policy that directs it to appropriate for distribution each year an amount equal to [*number*] percent of its endowments' total average fair value [*for a period of time, such as:* over the previous *(number of quarters or years)* ending on *(date); or as of a specific date, such as:* at the calendar year-end preceding the fiscal year in which the distribution is planned].

In establishing this policy, the Organization considered the long-term expected return on its endowments. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowments to grow at an average of [*number*] percent annually. This is consistent with the Organization's objective to maintain the [*insert* fair value *-or-* purchasing power] of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(p) Endowments with Deficiencies in Assets Compared to Net Assets [*Use this paragraph when applicable.*]

From time to time, the fair value of assets associated with individual donor-restricted endowments may fall below the level that the donor or *x*PMIFA requires the Organization to retain as permanently restricted net assets. In accordance with accounting principles generally accepted by the denomination, deficiencies of this nature that are reported in unrestricted net assets were [$xxx] and [$xxx] at [*financial statement date, current and prior years*], respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted donations, combined with appropriations of disbursements for programs that were deemed prudent by the [*name of governing committee*].

Note 2 – Cash & Cash Equivalents	Conference Operating	Association Operating	20X1 Total	20X0 Total
Imprest / Petty Cash	600	1,000	1,600	1,600
Bank Checking and Saving Accounts (earning interest at 1%)	168,923	15,717	184,640	97,424
Money Market Accounts (earning interest at 2.5%)	890,000	160,000	1,050,000	530,000
Less Cash Held for Agency	(56,806)	0	(56,806)	(49,607)
Total Cash and Cash Equivalents, 20X1	1,002,717	176,717	1,179,434	
Total Cash and Cash Equivalents, 20X0	400,335	179,082		579,417

Note 3 – Investments - All Funds	20X1			20X0		
Carrying Amount and Fair Value	Cost	Fair Value	Unrealized Appreciation (Decline)	Cost	Fair Value	Unrealized Appreciation (Decline)
Investments Held for Operating Purposes						
Time Deposits (longer than 3 months)	100,000	100,000	0	100,000	100,000	0
U.S. Government Bonds	125,000	125,500	500	125,000	128,750	3,750
General Conference Unitized Bond Fund	95,000	99,895	4,895	95,000	95,345	345
Government Securities Mutual Funds	105,068	102,177	(2,891)	105,068	108,045	2,977
General Conference Unitized Income Fund	105,829	98,124	(7,705)	105,829	108,828	2,999
Totals for Operating Purposes	530,897	525,696	(5,201)	530,897	540,968	10,071

The Carrying Amount is Stated at Fair Value

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.04**(6)
Notes to Combined Financial Statements (USA Large Model)
Years ended December 31, 20X1 and 20X0

Note 3 – Investments - All Funds (continued)	20X1			20X0		
Carrying Amount and Fair Value	Cost	Fair Value	Unrealized Appreciation (Decline)	Cost	Fair Value	Unrealized Appreciation (Decline)
Investments Held for Other than Operating						
Money Market Accounts	108,513	108,513	0	18,049	18,049	0
Time Deposits (longer than 3 months)	185,000	185,000	0	185,000	185,000	0
Union Revolving Loan Fund	200,000	200,000	0	0	0	0
Totals for Plant Fund	493,513	493,513	0	203,049	203,049	0
Money Market Accounts	23,995	23,995	0	93,567	93,567	0
Time Deposits (longer than 3 months)	0	0	0	60,000	60,000	0
Government Securities Mutual Funds	101,180	102,130	950	100,780	102,342	1,562
Corporate Bonds	148,500	142,290	(6,210)	108,000	111,373	3,373
General Conf. Unitized Investment Fund	256,507	249,306	(7,201)	112,409	115,594	3,185
Totals for Annuity Fund	530,182	517,721	(12,461)	474,756	482,876	8,120
Money Market Accounts	35,992	35,992	0	187,134	187,134	0
Government Securities Mutual Funds	151,770	153,194	1,424	151,170	153,512	2,342
Corporate Bonds	181,500	173,910	(7,590)	132,000	136,123	4,123
General Conf. Unitized Income Fund	140,004	137,259	(2,745)	140,004	143,971	3,967
General Conf. Unitized Investment Fund	175,896	170,094	(5,802)	205,881	213,008	7,127
Totals for Trust Accounting Fund	685,162	670,449	(14,713)	816,189	833,748	17,559
Union Revolving Fund – Endowment Fund	100,000	100,000	0	20,000	20,000	0
Money Market Accounts – Agency Fund	77,000	77,000	0	32,000	32,000	0
Totals for Other than Operating Purposes	1,885,857	1,858,683	(27,174)	1,545,994	1,571,673	25,679

The Carrying Amount is Stated at Fair Value

Composition of Investment Return	Operating Activity	Non-oper. Activity	20X1 Total	20X0 Total
Investment Income (Interest and Dividends)	55,764	151,248	207,012	170,984
Realized Gain (Loss) on Sale of Investments	0	16,850	16,850	(9,471)
Unrealized Gain (Loss) in Value of Investments	(15,272)	(52,853)	(68,125)	25,825
Net Gain (Loss) on Investments for which carrying value is fair value *	(15,272)	(36,003)	(51,275)	16,354
Total Income from Investments Excluding Cash	40,492	115,245	155,737	187,338
Interest Earned on Cash & Cash Equivalents	21,190	0	21,190	8,992
Total Investment Return	61,682	115,245	176,927	196,330

* The Organization did not have any gain or loss on investments for which carrying value is not fair value.

Note 4 - Sources of Fair Value Information

The Organization is subject to accounting principles that require disclosure about the information used to determine fair values for assets and liabilities that are subject to fair value accounting on either a recurring or non-recurring basis. This information is separated into three "levels" of inputs, as follows:

Level 1: Observable quoted market prices in active markets for identical assets or liabilities

Level 2: Direct or indirect observable market data, such as quoted prices in inactive markets for identical assets or liabilities, quoted prices in active markets for similar assets or liabilities, and other observable market data correlated to identical or similar assets or liabilities

Level 3: Unobservable inputs and assumptions based on judgment and the best information available

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.04**(7)
Notes to Combined Financial Statements (USA Large Model)
Years ended December 31, 20X1 and 20X0

Note 4 - Sources of Fair Value Information

Assets valued on a recurring basis:	20X1			20X0		
The Organization used these levels of inputs to determine fair values.	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Debt securities	799,201	865,778	0	740,145	1,023,894	0
Equity securities	0	419.400	0	0	328,602	0
Revolving Fund Account Certificates	0	0	300,000	0	0	20,000
Totals	799,201	1,285,178	300,000	740,145	1,352,496	20,000
For assets valued with Level 3 inputs:						
Beginning balance			20,000			0
Total gains or losses (net)			0			0
Total purchases and sales (net)			280,000			20,000
Transfers in or out of level 3 (net)			0			0
Ending balance			300,000			20,000
Net Gain (Loss) for assets still held			0			0

Assets and liabilities valued on a Non-recurring basis:	20X1			20X0		
The Organization used these levels of inputs to determine fair values.	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets received during the period as contributions from donors via split-interest agreements	0	125,850	0	0	0	0
Fair value is estimated based on appraisals, if obtainable, or on published prices from vendors for similar items.						
Liabilities to income beneficiaries of new split-interest agreements entered into during the period	0	0	90,057	0	0	0
Fair value is estimated by net present value calculations of the expected future cash flows.						
Liabilities to other remainder beneficiaries of new split-interest agreements entered into during the period	0	9,786	0	0	0	0
Fair value is calculated as the fair value of the related asset(s), minus the liability to income beneficiaries.						
Real property and improvements received by donation from local church congregations, designated for their use:						
Fair value based on formal appraisals and/or documented payments	0	720,000				
Fair value estimated by donated hours of labor and/or value of donated materials			485,000			
Totals	0	855,636	575,057	0	0	0

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.04**(8)
Notes to Combined Financial Statements (USA Large Model)
Years ended December 31, 20X1 and 20X0

Note 5 – Accounts Receivable	Conference Operating	Assoc. Operating	20X1 Total	20X0 Total
Church Remittances	292,400	0	292,400	260,000
Church Schools	32,982	0	32,982	28,709
Adventist Book Center	8,875	0	8,875	6,556
Employees' Accounts	26,085	0	26,085	19,276
SDA Academy	60,149	5,983	66,132	99,179
Allowance for Uncollectible Accounts	(1,000)		(1,000)	0
Net Accounts Receivable, 20X1	419,491	5,983	425,474	
Net Accounts Receivable, 20X0	405,473	8,247		413,720

Note 6 - Inter-Fund Accounts Receivable/Payable

Due From (To) Operating Funds	Plant Fund	Annuity Fund	20X1 Total	20X0 Total
Conference Operating Fund	57,374	(46,210)	11,164	110,307
Association Operating Fund	2,000	0	2,000	0
Total Inter-fund Receivable/Payable	59,374	(46,210)	13,164	110,307

Note 7 - Loans Receivable

	20X1			20X0		
Conference Operating Fund	Current	Long Term	Total	Current	Long Term	Total
Unsecured Church & School Loans	12,130	42,070	54,200	11,260	0	11,260
Allowance for Uncollectible	0	(1,820)	(1,820)	(1,000)	0	(1,000)
Total Conference Operating Loans	12,130	40,250	52,380	10,260	0	10,260
Association Operating Fund						
Secured Employee Home Loans @ 8%	5,490	46,000	51,490	5,413	51,490	56,903
Total Loans Receivable - Operating	17,620	86,250	103,870	15,673	51,490	67,163
Trust Accounting Fund						
Secured Loan Receivable from						
Sale of Donated Property	15,445	115,305	130,750	14,850	130,750	145,600

Note 8 - Inter-fund Loans	20X1			20X0		
Plant Fund Loans Payable To	Current	Long Term	Total	Current	Long Term	Total
Annuity Fund; Interest at 11%	4,000	34,000	38,000	0	0	0
Annuity Fund; Interest at 12%	7,000	63,000	70,000	0	0	0
Total Loans Payable to Annuity Fund	11,000	97,000	108,000	0	0	0

Note 9 - Other Current Assets	20X1	20X0
Pathfinder Materials for Sale	6,791	7,060
Forms and Supplies for Sale to Churches and Schools	2,852	2,957
Total Inventory for Sale	9,643	10,017
Copier and Printer Paper Stock	1,895	2,030
Preprinted Office Forms	526	579
Prepaid Property Insurance	2,413	2,525
Prepaid Liability Insurance	1,609	1,682
Total Prepaid Expense	6,443	6,816
Total Other Current Assets	16,086	16,833

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.04**(9)
Notes to Combined Financial Statements (USA Large Model)
Years ended December 31, 20X1 and 20X0

Note 10 - Land, Buildings, and Equipment

Balances 20X1		Total Cost	Accumulated Depreciation	Net Value	Depreciation Expense Operating	Depreciation Expense Other
Conference Use:	Land	240,856	0	240,856	0	0
	Land Improvements	255,991	96,851	159,140	11,116	0
	Buildings	1,456,266	652,829	803,437	54,495	0
	Equipment & Vehicles	403,971	201,930	202,041	36,500	0
Total for Conference Use, 20X1		2,357,084	951,610	1,405,474	102,111	0
Affiliated Entities Use:	Land	1,794,050	0	1,794,050	0	0
	Buildings	15,832,160	6,744,741	9,087,419	0	263,869
Total for Affiliated Entities Use, 20X1		17,626,210	6,744,741	10,881,469	0	263,869
Balances 20X0						
Conference Use:	Land	174,856	0	174,856	0	0
	Land Improvements	166,659	85,735	80,924	8,333	0
	Buildings	1,256,935	610,291	646,644	49,334	0
	Equipment & Vehicles	324,581	169,875	154,706	31,420	0
Total for Conference Use, 20X0		1,923,031	865,901	1,057,130	89,087	0
Affiliated Entities Use:	Land	1,492,800	0	1,492,800	0	0
	Buildings	14,928,410	6,480,872	8,447,538	0	248,807
Total for Affiliated Entities Use, 20X0		16,421,210	6,480,872	9,940,338	0	248,807

Changes in Cost, 20X1		Cost 20X0	Additions	Deletions	Cost 20X1
Conference Use:	Land	174,856	75,000	9,000	240,856
	Land Improvements	166,659	89,332	0	255,991
	Buildings	1,256,935	225,375	26,044	1,456,266
	Equipment & Vehicles	324,581	84,200	4,810	403,971
Total for Conference Use, 20X1		1,923,031	473,907	39,854	2,357,084
Affiliated Entities Use:	Land	1,492,800	301,250	0	1,794,050
	Buildings	14,928,410	903,750	0	15,832,160
Total for Affiliated Entities Use, 20X1		16,421,210	1,205,000	0	17,626,210

Changes in Accumulated Depreciation, 20X1		Accumulated Depreciation 20X0	Additions	Deletions	Accumulated Depreciation 20X1
Conference Use:	Land	0	0	0	0
	Land Improvements	85,735	11,116	0	96,851
	Buildings	610,291	54,495	11,957	652,829
	Equipment & Vehicles	169,875	36,500	4,445	201,930
Total for Conference Use, 20X1		865,901	102,111	16,402	951,610
Affiliated Entities Use:	Land	0	0	0	0
	Buildings	6,480,872	263,869	0	6,744,741
Total for Affiliated Entities Use, 20X1		6,480,872	263,869	0	6,744,741

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.04**(10)
Notes to Combined Financial Statements (USA Large Model)
Years ended December 31, 20X1 and 20X0

Note 11 - Contingent Liabilities - Guaranteed Debt Related to Church and School Properties

The Conference has guaranteed certain liabilities of local church congregations and school constituencies payable to the (*name*) Union Revolving Fund. The proceeds of these loans were used by local congregations to acquire certain assets that were then donated to the Association and are included within church and school properties in Note 9 above. [*If applicable, add the following sentence:* Liens or mortgages are recorded against (*indicate how many*) of these properties as collateral for the related loans.] Principal and interest payments on these loans are scheduled to be made by the local congregations and constituencies. At December 31, 20X1, no church congregations or school constituencies were delinquent on their payment schedules.

The balances due on these guaranteed loans totaled $3,958,040 and $3,732,103 at December 31, 20X1 and 20X0, respectively. These guaranteed loans relate to (*indicate how many*) specific properties for which the original cost totaled $8,795,644 and $8,293,562 as of December 31, 20X1 and 20X0, respectively.

Note 12 - Accounts Payable	Conference Operating	Assoc Operating	20X1 Total	20X0 Total
Union Conference, Tithe & Offerings	97,500	0	97,500	85,800
Employee Accounts	6,510	0	6,510	10,409
SDA Academy	2,669	0	2,669	0
Commercial Accounts	135,680	7,798	143,478	236,352
Local Churches	0	750	750	0
Miscellaneous	6,767	2,930	9,697	23,546
Total Accounts Payable, 20X1	249,126	11,478	260,604	
Total Accounts Payable, 20X0	341,203	14,904		356,107

Note 13 - Loans Payable - All Funds

	20X1			20X0		
Conference Operating Fund	Current	Long Term	Total	Current	Long Term	Total
Bank One; $200,000 at 9% interest, 60 monthly payments of $4,152.	33,166	166,834	200,000	0	0	0
XYZ Corp.; $100,000 at 9% interest, 48 monthly payments of $2,489.	21,744	78,256	100,000	7,500	0	7,500
Association Operating Fund						
Bank Two; $18,000 at 9% interest, 36 monthly payments of $572.	5,471	12,529	18,000	8,409	18,000	26,409
Total Loans Payable - Operating	60,381	257,619	318,000	15,909	18,000	33,909
Plant Fund (Secured by Trust Deed)						
Bank One; $80,000 at 8.5% interest, 96 monthly payments of $1,151.	7,296	72,704	80,000	0	0	0

Amounts due on principal during the next five years are as follows:

	Conference Operating	Association Operating	Plant Fund
20X2	54,910	5,471	7,296
20X3	60,061	5,984	7,941
20X4	65,696	6,545	8,643
20X5	71,859	0	9,407
20X6	47,474	0	10,239
Future	0	0	36,474
Total	300,000	18,000	80,000

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.04**(11)
Notes to Combined Financial Statements (USA Large Model)
Years ended December 31, 20X1 and 20X0

Note 14 - Summary of Split-interest Agreements

As of December 31, 20X1 and 20X0, respectively, the Organization served as trustee of [*number*] and [*number*] charitable remainder trusts, and [*number*] and [*number*] other unconditional irrevocable trusts. In accordance with accounting principles generally accepted by the denomination, the assets, liabilities, and net assets related to these trusts have been included in these financial statements.

As of December 31, 20X1 and 20X0, respectively, the Organization served as trustee of [*number*] and [*number*] conditional irrevocable trusts totaling $[*amount*] and $[*amount*], and of [*number*] and [*number*] other irrevocable trusts of which the Organization was not a named beneficiary. In accordance with accounting principles generally accepted by the denomination, the assets of these trusts, and appropriate liabilities totaling an equal amount, have been included in these financial statements.

As of December 31, 20X1 and 20X0, respectively, the Organization served as trustee of [*number*] and [*number*] revocable trusts. Since the trustors of these agreements have reserved the right to direct and control investment of the related assets, no assets or liabilities related to these trusts are included in these financial statements.

The Organization is generally a remainder beneficiary of at least a portion of these various trust assets. Also, the Organization may be a beneficiary of wills or trusts administered by other trustees, of which the Organization may not be aware. The General Conference Auditing Service has performed a review of the Organization's fiduciary administration of the agreements for which the Organization is trustee, and has issued a separate report thereon dated (*month day, year*).

Note 15 - Other Funds - Financial Position	Annuity Fund	Trust Acctng Fd	Endowment Fund	Agency Fund	20X1 Total	20X0 Total
Cash & Invest. Endow. & Agency (Note 3)			100,000	77,000	177,000	52,000
Cash & Invest. Split-int. Agree. (Note 3)	517,721	670,449			1,188,170	1,316,624
Accrued Interest Receivable	7,360	17,174			24,534	21,345
Loans Receivable (Note 6)		130,750			130,750	145,600
Rental Property (Land and Buildings)		183,050			183,050	183,050
Inter-fund Loan Receivable	108,000				108,000	0
Total Assets	633,081	1,001,423	100,000	77,000	1,811,504	1,718,619
Inter-fund Account Payable	46,210				46,210	0
NPV Liability To Annuitants *	232,543				232,543	165,667
NPV Liability To Income Beneficiaries *		483,394			483,394	450,982
Liability To Remainder Beneficiaries **	116,227	175,470			291,697	281,911
Liability For Conditional Irrev. Agree.		267,559			267,559	563,822
Agency Fund Liability To Depositors				77,000	77,000	32,000
Total Liabilities	394,980	926,423	0	77,000	1,398,403	1,494,382
Unrestricted Net Assets	161,924				161,924	95,759
Temporarily Restricted Net Assets	76,177	75,000			151,177	108,478
Permanently Restricted Net Assets			100,000		100,000	20,000
Total Net Assets	238,101	75,000	100,000	0	413,101	224,237
Total Net Assets and Liabilities	633,081	1,001,423	100,000	77,000	1,811,504	1,718,619
* Net Present Value Liabilities						
Net Present Value Liabilities, beginning	165,667	450,982			616,649	679,907
Liability of New Agreements Added	58,723	31,334			90,057	0
Actuarial Adjustments (incl. maturities)	8,153	1,078			9,231	(63,258)
Net Present Value Liabilities, ending	232,543	483,394	0	0	715,937	616,649
** Liability to Remainder Beneficiaries						
Liability to [*name*] Media Ministry	116,227				116,227	111,898
Liability to [*name*] Organization		175,470			175,470	170,013
Liability to Remainder Beneficiaries	116,227	175,470	0	0	291,697	281,911

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.04**(12)
Notes to Combined Financial Statements (USA Large Model)
Years ended December 31, 20X1 and 20X0

Note 16 - Other Funds - Changes in Net Assets

Unrestricted Activity	Gift Annuity Fund	Trust Accounting Fund	Endowment Fund	20X1 Total	20X0 Total
Investment Income (interest & dividends)	33,341			33,341	30,040
Gift Portion of New Annuities Added	63,205			63,205	0
Actuarial Adjustment from (to) Present Value *	6,215	45,810		52,025	10,854
Unrealized Gain (Loss) in Value of Investments	(11,461)			(11,461)	4,916
Increase (Decrease) Before Transfers	91,300	45,810	0	137,110	45,810
Transfer Matured Unrestricted Gifts to Oper. Fd.	(25,135)	(45,810)		(70,945)	0
Increase (Decrease) Unrestricted	66,165	0	0	66,165	45,810
Unrestricted Net Assets, beginning	95,759	0		95,759	49,949
Unrestricted Net Assets, ending	161,924	0	0	161,924	95,759
Temporarily Restricted Activity					
Gift Portion of New Annuities Added	22,595			22,595	0
Gift Portion of New Agreements Added	0	25,000		25,000	0
Gift Portion Added to Existing Agreements	0	15,050		15,050	0
Total Gift Portion Added	*22,595*	*40,050*	0	62,645	0
Investment Income (interest & dividends)	29,802	59,916		89,718	95,101
Actuarial Adjustment from (to) Present Value *	(14,368)	(46,888)		(61,256)	(74,112)
Realized Gain (Loss) Sale of Investments	0	16,850		16,850	(9,471)
Unrealized Gain (Loss) Value of Investments	(9,120)	(32,272)		(41,392)	9,831
Increase (Decrease) Before Transfers	28,909	37,656	0	66,565	21,349
Transfer Matured Restricted Gifts to Oper. Fd.	(11,210)	(12,656)		(23,866)	0
Increase (Decrease) Temporarily Restricted	17,699	25,000	0	42,699	21,349
Temporarily Restricted Net Assets, beginning	58,478	50,000	0	108,478	87,129
Temporarily Restricted Net Assets, ending	76,177	75,000	0	151,177	108,478
Permanently Restricted Activity					
Restricted Donations Received			80,000	80,000	20,000
Permanently Restricted Net Assets, beginning			20,000	20,000	0
Permanently Restricted Net Assets, ending	0	0	100,000	100,000	20,000
Total Other Funds Net Assets, ending	238,101	75,000	100,000	413,101	224,237

[* *In the schedule of changes in net assets, the Actuarial Adjustment from (to) Present Value will be a net amount that incorporates changes in life expectancy of income beneficiaries, after payments to income beneficiaries and distributions to remainder beneficiaries.*]

[*Note: The information illustrated in Notes 14 and 15 should be presented by all entities that administer split-interest agreements, whether they use fund accounting or not. If such an entity does not use fund accounting, the applicable illustrated line items will be presented, but instead of multiple fund columns, there would just be a total column for each year presented (see Appendix 17C).*]

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.04**(13)
Notes to Combined Financial Statements (USA Large Model)
Years ended December 31, 20X1 and 20X0

Note 17 - Agency Fund Liability to Depositors	20X0	Additions	Withdrawals	20X1
Depositors accounts with Interest by Note:	12,000	16,600	1,600	27,000
Depositors accounts with Interest Prorated:	20,000	35,300	5,300	50,000
Total Agency Fund Liability to Depositors	32,000	51,900	6,900	77,000

Note 18 - Temporarily Restricted Net Assets Restricted for the following purposes or periods:	Balance 20X0	Restricted Income	Transfers In (Out)	Restrictions Released	Balance 20X1
Pastors and Bible Workers	0	36,609		36,609	0
General Evangelism	0	127,329		127,329	0
Radio-TV Evangelism	0	6,084	11,210	15,905	1,389
Sabbath School and Youth Activities	897	5,118		4,029	1,986
Campmeeting	0	18,649		18,649	0
Youth Camp Operating	0	8,355		8,355	0
Church School Operating	0	62,121		62,121	0
Church & School Equipment	0	8,024	12,656	20,680	0
Academy Operating	0	36,538		36,538	0
Academy Building and Equipment	0	64,245		64,245	0
Worthy Student	0	6,503		6,503	0
Literature Evangelist Literature	1,686	1,128		1,694	1,120
Religious Liberty	24,161	24,210		32,911	15,460
Health and Temperance	660	3,292		3,080	872
Inner City	1,000	10,015		8,843	2,172
Community Services - General	3,968	4,152		1,477	6,643
Ingathering Reversion	26,410	142,038		86,632	81,816
Sub-total Conference Operating Functions	58,782	564,410	23,866	535,600	111,458
Evangelistic Equipment	4,000	6,000		4,000	6,000
Youth Camp Equipment	2,059	6,202		2,500	5,761
Sub-total Conference Capital Functions	6,059	12,202	0	6,500	11,761
Total Operating Fund Temporarily Restricted	64,841	576,612	23,866	542,100	123,219
Conference Office Building	0	100,000		0	100,000
Conference Office Equipment	0	34,000		34,000	0
Conference Office Land Improvement	0	80,000		80,000	0
Campmeeting Buildings	15,000	50,000		0	65,000
Conference Housing	0	50,000		0	50,000
Youth Camp Buildings	20,000	40,000		50,000	10,000
Total Plant Fund Temporarily Restricted	35,000	354,000	0	164,000	225,000
Annuity Fund Temp. Restricted - TV Evangelism	58,478	28,909	(11,210)	0	76,177
Trust Acct. Fund Temp. Restricted - School Equip.	50,000	37,656	(12,656)	0	75,000
Endowment Fund Temp. Restricted - Worthy Student	0	15,250	0	15,250	0
Total Temporarily Restricted Net Assets	208,319	1,012,427	0	721,350	499,396

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.04**(14)
Notes to Combined Financial Statements (USA Large Model)
Years ended December 31, 20X1 and 20X0

Note 19 - Endowment Net Asset Composition and Activity

Endowment Net Asset Composition As of December 31, 20X1	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted Endowments	0	0	100,000	100,000
Committee-designated Endowments	0	0	0	0
Total Endowments	0	0	100,000	100,000
Changes in Endowment Net Assets For the year ended December 31, 20X1	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, beginning of year			20,000	20,000
Investment Income (interest, dividends)		15,250		15,250
Net Appreciation or (Decline)				0
(consisting of net realized and unrealized)				0
Total Investment Return		15,250		15,250
Contributions			80,000	80,000
Appropriation of assets for expenditure		(15,250)		(15,250)
Transfers to Maintain Purchasing Power				0
Committee-designated Transfers in (out)				0
Endowment Net Assets, end of year	0	0	100,000	100,000

Endowment Net Asset Composition As of December 31, 20X0	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted Endowments	0	0	20,000	20,000
Committee-designated Endowments	0	0	0	0
Total Endowments	0	0	20,000	20,000
Changes in Endowment Net Assets For the year ended December 31, 20X0	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, beginning of year	0	0	0	0
Reclassification based on change in law				0
Net Assets, after reclassification				0
Investment Income (interest, dividends)		4,750		4,750
Net Appreciation or (Decline)				0
(consisting of net realized and unrealized)				0
Total Investment Return		4,750		4,750
Contributions			20,000	20,000
Appropriation of assets for expenditure		(4,750)		(4,750)
Transfers to Maintain Purchasing Power				0
Committee-designated Transfers in (out)				0
Endowment Net Assets, end of year	0	0	20,000	20,000

Composition of Restrictions on Endowment Assets		
Permanently Restricted Net Assets:	20X2	20X1
Portion of perpetual endowments required to be retained permanently, either by explicit donor stipulation or by *x*PMIFA	100,000	20,000
Total endowment assets classified as permanently restricted net assets	100,000	20,000
Temporarily Restricted Net Assets:		
Term Endowments	0	0
Portion of perpetual endowments subject to a time restriction under *x*PMIFA:		
Without purpose restrictions	0	0
With purpose restrictions	0	0
Total endowment assets classified as temporarily restricted net assets	0	0

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.04**(15)
Notes to Combined Financial Statements (USA Large Model)
Years ended December 31, 20X1 and 20X0

Note 20 - Non-operating Activity	Operating Funds	Plant Funds	Other Funds	20X1 Total	20X0 Total
Non-operating Investment Income	0	28,189	0	28,189	23,879
Donated Land, Buildings, & Equipment	0	0	0	0	18,000
Net Non-operating Revenue and Expense	0	28,189	0	28,189	41,879
Realized Gain (Loss) on Investments Sold	0	0	0	0	0
Unrealized Gain (Loss) in Investment Value	0	0	(11,461)	(11,461)	4,916
Net Gain (Loss) on Sale of Plant Assets	0	18,413	0	18,413	12,275
Net Non-operating Gains and (Losses)	0	18,413	(11,461)	6,952	17,191
Funding of Depreciation & Plant Acquisition	(101,384)	101,384	0	0	0
Unrestricted Matured Annuities to Operating	25,135	0	(25,135)	0	0
Unrestricted Matured Trusts to Operating	45,810	0	(45,810)	0	0
Net Transfers Between Funds	(30,439)	101,384	(70,945)	0	0

Note 21 - Pension and Other Post-Retirement Benefits

Defined Benefit Plans

The Organization participates in a non-contributory, defined benefit pension plan known as the Seventh-day Adventist Retirement Plan of the North American Division. This plan, which covers substantially all employees of the Organization, is administered by the North American Division of the General Conference of Seventh-day Adventists in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a “multiple-employer” plan of a church-related agency.

The Organization also participates in a non-contributory, defined benefit health care plan known as the Health Care Assistance Plan for Participants in the Seventh-day Adventist Retirement Plan of the North American Division. This plan, which covers substantially all employees of the Organization, is administered by the North American Division of the General Conference of Seventh-day Adventists in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a “multiple-employer” plan of a church-related agency.

The required contributions from the Organization to these plans (for retiree pension and retiree health care benefits combined) were $221,421 and $216,022 for the years ended December 31, 20X1 and 20X0, respectively.

These plans are defined by the Financial Accounting Standards Board as “multiemployer” plans. As such, it is not required, nor is it possible, to determine the actuarial present value of accumulated benefits or plan net assets for employees of the Organization apart from other plan participants. However, based on the latest actuarial evaluation of the Seventh-day Adventist Retirement Plan of the North American Division, as of December 31, 1998, the actuarially computed value of accumulated plan benefits exceeded the estimated market value of plan assets, for that plan. No actuarial evaluation has been obtained for the Health Care Assistance Plan for Participants in the Seventh-day Adventist Retirement Plan of the North American Division.

The North American Division Committee voted to freeze accrual of service credit in these plans effective December 31, 1999, except for employees who chose the career completion option, and to start a new defined contribution plan effective January 1, 2000. The Organization is scheduled to continue making contributions (at a reduced rate) to the frozen plans after December 31, 1999. Certain employees will continue to be eligible for future benefits under these plans.

Defined Contribution Plan

Effective January 1, 2000, the Organization participates in a defined contribution retirement plan known as The Adventist Retirement Plan. This plan, which covers substantially all employees of the Organization, is administered by the North American Division of the General Conference of Seventh-day Adventists (GC) in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a “multiple-employer” plan of a church-related agency.

The Organization contributed $46,562 and $46,096 to the plan for the years ended December 31, 20X1 and 20X0, respectively, based on a stated percentage of each employee's earnings and a stated matching percentage of employee voluntary contributions. Administration of the accumulated contributions designated for each employee is provided under an agreement between the GC and VALIC.

LOCAL CONFERENCE AND ASSOCIATION OF SEVENTH-DAY ADVENTISTS **Appendix 17D.04**(16)
Notes to Combined Financial Statements (USA Large Model)
Years ended December 31, 20X1 and 20X0

Note 22 - Transactions With Affiliated Entities

As explained in Note 1, the Conference is affiliated with [*name*] Adventist Academy and Area Union Conference. Balances receivable from and payable to the Academy are disclosed in Notes 5, 8, and 11. During the years 20X1 and 20X0, appropriations were made to the Academy as follows: operating subsidies $64,000 and $60,000, scholarship funds $6,000 and $1,000, and capital appropriations $138,000 and $70,000; resulting in total appropriations of $208,000 and $131,000, respectively. Also during 20X1 and 20X0, the Division and the Union paid for audit services for the Conference, and either did not charge the Conference or charged the Conference less than the full cost of those services. The fair value of the audit services not charged to the Conference, estimated at $14,400 and $13,500 for the years 20X1 and 20X0, respectively, are reported as contributed services revenue and administrative expense.

Note 23 - Concentrations of Risk [*Adapt the following paragraphs as applicable for the reporting entity.*]

The Organization receives most of its revenue in the form of contributions from members living within its territory. The amount of contributions are subject to economic conditions that could cause loss of income among church members, and could also be subject to decrease if any significant number of individuals cease to be active members.

The Organization's assets include $552,380 of loans receivable from related organizations and $51,490 of loans receivable from employees. These loans represent 5.2% of the Organization's total assets. Management's estimate of the collectability of these loans could be subject to a similar economic impact as mentioned above for contributions.

The Organization maintains its cash accounts primarily in banks that operate [in the state(s) of (*names of states*) -or- nationwide]. The total cash balances are insured by the FDIC up to $250,000 per bank. The Organization held cash balances on deposit with [*number*] banks at [*financial statement date*], which exceeded the balance insured by the FDIC by [*excess amount*].

Note 24 - Working Capital and Liquidity	Conference	Association	Organization Totals **	
WORKING CAPITAL	Operating	Operating	20X1	20X0
Total Current Assets	2,032,926	188,190	2,221,116	1,616,218
Total Current Liabilities	(372,006)	(18,949)	(377,791)	(421,623)
Total Working Capital	1,660,920	169,241	1,843,325	1,194,595
Recommended Working Capital *	1,221,525	18,950	1,240,475	753,082
Working Capital Excess (Deficiency)	439,395	150,291	602,850	441,513
Percent of Recommended Working Capital	136%	893%	149%	159%
LIQUIDITY				
Cash and Cash Equivalents	1,002,717	176,717	1,179,434	579,417
Investments	525,696	0	525,696	540,968
Accounts Receivable - Church Remittances	292,400	0	292,400	260,000
Cash Held for Agency	56,806	0	56,806	49,607
Total Liquid Assets	1,877,619	176,717	2,054,336	1,429,992
Current Liabilities	(372,006)	(18,949)	(377,791)	(421,623)
Capital Functions Net Assets	(240,622)	0	(240,622)	(80,000)
Temporarily Restricted Net Assets ***	(123,219)	0	(123,219)	(64,841)
Total Commitments	(735,847)	(18,949)	(741,632)	(566,464)
Liquid Assets Surplus (Deficiency)	1,141,772	157,768	1,312,704	863,528
Percent Liquid Assets to Commitments	255%	933%	277%	252%
* Calculation of Recommended Working Capital:				
25% of Conference Unrestricted Income ****	612,594	0	612,594	590,241
20% of Association Unrestricted Income	0	6,421	6,421	0
Long-Term Payable	245,090	12,529	257,619	18,000
Capital Functions Allocated Net Assets	240,622	0	240,622	80,000
Temporarily Restricted Net Assets ***	123,219	0	123,219	64,841
Total Recommended Working Capital	1,221,525	18,950	1,240,475	753,082

** Inter-fund borrowing is eliminated in the Organization total columns.
*** Excludes restricted amounts that are covered by specific noncurrent assets.
**** Excludes matured trusts and wills, and excludes releases from restrictions.

Appendix 17E

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS

Illustrative Operating Fund Financial Report (USA Model)

December 31, 20X1 and 20X0

(To be used by Division, Union Conferences, and Local Conferences)

(This illustrates an operating fund, but can be adapted for any single fund.)

This report for a single fund is intended for management use only.
It is not intended to be a complete financial statement for the organization as a whole.

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.01**
Operating Fund Report of Financial Position (USA Model)
December 31, 20X1 and 20X0

	Supporting Schedule	Operating Fund 20X1	Operating Fund 20X0
ASSETS			
Current Assets			
Cash and Cash Equivalents	S-1	1,002,717	400,335
Investments	S-2	525,696	540,968
Accounts Receivable, net	S-3	419,491	405,473
Cash Held for Agency	S-1	56,806	49,607
Loans Receivable - Current Portion	S-4	12,130	10,260
Supplies Inventory		9,643	10,017
Prepaid Expense	S-5	6,443	6,816
Total Current Assets		2,032,926	1,423,476
Other Assets			
Loans Receivable, Long-term Portion	S-4	40,250	0
Total Assets		2,073,176	1,423,476
LIABILITIES			
Current Liabilities			
Accounts Payable	S-7	249,126	341,203
Loans Payable, Current Portion	S-8	54,910	7,500
Agency Accounts	S-9	56,806	49,607
Due To Association Operating Fund		500	1,000
Due To Other Funds	S-10	11,164	110,307
Total Current Liabilities		372,506	509,617
Other Liabilities			
Loans Payable, Long-term Portion	S-8	245,090	0
Total Liabilities		617,596	509,617
NET ASSETS			
Unrestricted: Unallocated		166,779	179,969
Unrestricted: Allocated Operating		924,960	589,049
Unrestricted: Allocated Capital		240,622	80,000
Total Unrestricted		1,332,361	849,018
Temporarily Restricted	S-12	123,219	64,841
Total Net Assets	S-15	1,455,580	913,859
Total Liabilities and Net Assets		2,073,176	1,423,476

This report is intended for management use only.
This is not intended to be a complete financial statement for the organization as a whole.

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.02** (1)
Operating Fund Report of Changes in Net Assets (USA Model)
Years ended December 31, 20X1 and 20X0

UNRESTRICTED NET ASSETS	Supporting Schedule	ACTUAL 20X1	BUDGET 20X1	ACTUAL 20X0
Unrestricted Revenues and Gains				
Gross Tithe Income	S-15-1	2,767,767	2,565,000	2,700,281
Tithe Percentages Passed On	S-15-1	(853,008)	(790,150)	(832,340)
Net Tithe Income	S-15-1	1,914,759	1,774,850	1,867,941
Matured Trusts and Wills		48,710	0	0
Investment Income	S-2	57,830	70,989	43,391
Church Schools Salary Share		373,386	356,000	345,000
Departmental Fees and Sales		89,131	88,000	88,164
Total Unrestricted Revenues	S-15	2,483,816	2,289,839	2,344,496
Net Assets Released from Restriction	S-15	550,850	546,558	433,936
Total Unrestricted Support	S-15	3,034,666	2,836,397	2,778,432
Expenses and Losses				
Church Ministries		926,101	927,629	902,684
Educational		993,439	964,006	842,643
Publishing		48,320	48,985	46,761
Special Services		102,203	169,589	116,644
Other		67,045	65,633	64,104
Total Program Services Functions		2,137,108	2,175,842	1,972,836
Conference Administration		159,051	167,417	148,740
Moving Van Operations		29,284	29,950	27,320
Retirement Contribution to DB Plan		221,421	205,200	216,022
Total Supporting Services Functions		409,756	402,567	392,082
Total Expense	S-15	2,546,864	2,578,409	2,364,918
Increase (Decrease) from Operations		487,802	257,988	413,514
Non-operating Activity:				
Net Assets Released from Restriction		6,500	4,000	22,941
Transfers Between Funds, In (Out):				
Plant Fund - Depreciation Funding		(81,904)	(81,904)	(76,155)
Trust Accounting Fund - Maturity Distribution		45,810	42,531	0
Annuity Fund - Maturity Distribution		25,135	0	0
Net Transfers Between Funds, In (Out)	S-15	(10,959)	(39,373)	(76,155)
Net Non-operating Activity		(4,459)	(35,373)	(53,214)
Increase (Decrease) Unrestricted Net Assets		483,343	222,615	360,300
Unrestricted Net Assets, Beginning		849,018	849,018	488,718
Unrestricted Net Assets, Ending	S-15	1,332,361	1,071,633	849,018

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.02** (2)
Operating Fund Report of Changes in Net Assets (USA Model
Years ended December 31, 20X1 and 20X0

TEMPORARILY RESTRICTED NET ASSETS	Supporting Schedule	ACTUAL 20X1	BUDGET 20X1	ACTUAL 20X0
Restricted Income				
Subsidies		109,609	107,500	93,195
Offerings		245,974	227,400	177,057
Donations		29,445	21,650	28,975
Endowment Income		15,250	14,750	14,750
Matured Deferred Gifts		61,210	15,000	0
Ingathering Reversion		142,038	130,000	128,341
Restricted Capital Additions		12,202	0	0
Total Restricted Income Received	S-12	615,728	516,300	442,318
Net Assets Released from Restrictions				
Operating Functions	S-12	(550,850)	(546,558)	(433,936)
Capital Functions	S-12	(6,500)	0	0
Increase (Decrease) Temp. Restr. Net Assets		58,378	(30,258)	8,382
Temporarily Restricted Net Assets, Beginning		64,841	64,841	56,459
Temporarily Restricted Net Assets, Ending	S-15	123,219	34,583	64,841

TOTAL NET ASSETS				
Increase (Decrease) Unrestricted		483,343	222,615	360,300
Increase (Decrease) Temporarily Restricted		58,378	(30,258)	8,382
Increase (Decrease) Net Assets		541,721	192,357	368,682
Total Net Assets, Beginning		913,859	913,859	545,177
Total Net Assets, Ending	S-15	1,455,580	1,106,216	913,859

This report is intended for management use only.
This is not intended to be a complete financial statement for the organization as a whole.

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.03**
Operating Fund Report of Cash Flows (USA Model)
Years ended December 31, 20X1 and 20X0

	ACTUAL 20X0	ACTUAL 19X9
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	541,721	368,682
Prior Period Adjustment		56,459
Adjustments to reconcile change in net assets		
to net cash provided:		
Unrealized (Gain) Loss in Fair Value of Investments	15,272	
(Increase) Decrease Accounts Receivable	(14,018)	(75,632)
(Increase) Decrease Agency Cash	(7,199)	500
(Increase) Decrease Inventory and Prepaid	747	(1,614)
Increase (Decrease) Accounts Payable	(92,077)	(56,439)
Increase (Decrease) Trust & Agency Accounts	7,199	(500)
Net Cash Provided (Used) from Operating	451,645	291,456
Cash Flows from Investing Activities:		
Proceeds from Maturity of Investments	0	0
Purchase of Investments	0	0
New Loans Receivable Issued	(46,000)	0
Payments Received on Loans Receivable	3,880	3,540
Net Cash Provided (Used) from Investing	(42,120)	3,540
Cash Flows from Financing Activities:		
Proceeds from External Borrowing	300,000	0
Proceeds (Payments) Inter-Fund Borrowing	(99,643)	(11,330)
Principal Payments on Loans Payable	(7,500)	0
Net Cash Provided (Used) from Financing	192,857	(11,330)
Increase (Decrease) Cash and Equivalents	602,382	283,666
Cash and Equivalents, Beginning	400,335	116,669
Cash and Equivalents, Ending	1,002,717	400,335

Supplemental Cash Flow Data:
Cash paid during the year for interest (other than for inter-fund borrowing) was $2,862.

This report is intended for management use only.
This is not intended to be a complete financial statement for the organization as a whole.

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.04** (1)
Operating Fund - Supporting Schedules for Financial Position (USA Model)
Years ended December 31, 20X1 and 20X0

Organizational Structure and Basis of Presentation

The [*insert the name of the reporting entity, with an acronym as an identifier, for example: Local Conference of Seventh-day Adventists (LC)*] is an administrative entity of the world-wide Seventh-day Adventist Church. LC coordinates the operation of all denominational activities within the [*identify the entity's geographic territory, as it is listed in the SDA Yearbook*]. Most of LC's financial activity consists of transactions with other denominational entities, such as: [*name*] Union Conference of Seventh-day Adventists, and the various church congregations and school constituencies within its assigned geographic territory.

Operating Fund - This report is intended for management use only, as a presentation of the balances and activity related to the operating fund. This is not intended to be a complete financial statement for the organization as a whole. The Operating Fund includes all income, expenses, other transactions, and related assets and liabilities involving LC's operations, except transactions of the Plant, Agency, Annuity, and Trust Accounting funds. Financial activity is sub-divided for presentation into tithe, non-tithe, and allocated funds, and is separated between unrestricted, temporarily restricted, and permanently restricted activity.

Accounting Method - The accounting records are maintained, in all material respects, on the accrual method of accounting at historical cost.

Supporting Schedules

S-1 - Cash and Equivalents	20X1	20X0
Petty Cash	600	600
[*name*] Bank - Operating Checking Account	109,053	41,539
[*name*] Bank - Payroll Checking Account	59,870	17,803
General Conference Money Fund	890,000	390,000
Less Cash Held for Agency	(56,806)	(49,607)
Total Cash and Equivalents	1,002,717	400,335

S-2 - Investments

31 December 20X1	Cost	Fair Value	Unrealized Appreciation (Decline)
3-year Certificate of Deposit, Due 6-15-02	100,000	100,000	0
US Government Bonds	125,000	125,500	500
Government Securities Mutual Fund	105,068	102,177	(2,891)
GC Unitized Bond Fund	95,000	99,895	4,895
GC Unitized Income Fund	105,829	98,124	(7,705)
Total Investments, December 31, 20X1	530,897	525,696	(5,201)
31 December 20X0			
3-year Certificate of Deposit, Due 6-15-02	100,000	100,000	0
US Government Bonds	125,000	128,750	3,750
Government Securities Mutual Fund	105,068	108,045	2,977
GC Unitized Bond Fund	95,000	95,345	345
GC Unitized Income Fund	105,829	108,828	2,999
Total Investments, December 31, 20X0	530,897	540,968	10,071

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.04** (2)
Operating Fund - Supporting Schedules for Financial Position (USA Model)
Years ended December 31, 20X1 and 20X0

S-2 - Investments (continued)

Summary of Investment Return	20X1	20X0
Interest & Dividends from Investments	51,912	23,321
Net Realized Gain (Loss) on Sale of Investments	0	0
Net Unrealized Gain (Loss) in Value of Investments	(15,272)	11,078
Net Gain (Loss) on Investments	(15,272)	11,078
Total Income on Investments Excluding Cash	36,640	34,399
Interest Earned on Cash & Cash Equivalents	21,190	8,992
Total Investment Return	57,830	43,391

S-3 - Accounts Receivable	20X1	20X0
Tithe and Offering Remittances from Churches	292,400	260,000
[*name 1*] Elementary School	21,768	19,522
[*name 2*] Elementary School	11,214	9,187
[*name*] Academy	60,149	90,932
[*name*] Adventist Book Center	8,875	6,556
Allowance for Uncollectible Accounts	(1,000)	0
SDA Entities Within LC [*identifier of reporting entity*] Territory	101,006	126,197
[*name of employee 1*]	8,016	6,746
[*name of employee 2*]	4,950	7,518
[*name of employee 3*]	7,043	5,012
[*name of employee 4*]	6,076	0
Employees - current accounts	26,085	19,276
Net Accounts Receivable	419,491	405,473

S-4 - Loans Receivable	20X1	20X0
[*name 1*] Church, unsecured loan, 5% interest, payments due monthly	0	10,260
[*name* 2] Church, unsecured loan, 5% interest, payable on demand	1,000	1,000
[*name*] School, unsecured loan, 6% interest, payments due monthly	53,200	0
Total Loans Receivable	54,200	11,260
Allowance for Uncollectible Loans	(1,820)	(1,000)
Net Loans Receivable	52,380	10,260
Current Portion - Due Within One Year	12,130	10,260
Long-term Portion	40,250	0

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.04** (3)
Operating Fund - Supporting Schedules for Financial Position (USA Model)
Years ended December 31, 20X1 and 20X0

S-7 - Accounts Payable	20X1	20X0
Commercial Accounts - various vendors	135,680	236,352
Tithe and Offering Remittances Payable to [*name*] Union Conference	97,500	85,800
[*name*] Church	2,669	0
[*name*] Academy	6,767	8,642
Employees - current accounts	6,510	10,409
Total Accounts Payable	249,126	341,203

S-8 - Loans Payable	20X1	20X0
[*name 1*] Bank, Line of Credit, 5% interest, payments due monthly	100,000	7,500
[*name 2*] Bank, Unsecured, 6% interest, payments due monthly	200,000	0
Total Loans Payable	300,000	7,500
Current Portion - Amount Due Within One Year	54,910	7,500
Long-term Portion	245,090	0

Amounts due on principal in each of the next five years are:
20X2: 54,910; 20X3: 60,061; 20X4: 65,696; 20X5: 71859; 20X6: 47,474

S-12 - Temporarily Restricted Net Assets

Available for the following purposes:	Balance 12- 31-20X0	Restricted Income	Restrictions Released	Balance 12-31-20X1
Pastoral Ministries	0	36,609	36,609	0
General Evangelism	0	127,329	127,329	0
Radio-TV Evangelism	0	17,294	15,905	1,389
Sabbath School Activities	897	5,118	4,029	1,986
Campmeeting	0	18,649	18,649	0
Youth Camp Operating	0	8,355	8,355	0
Elementary School Operating	0	62,121	62,121	0
Church & School Bldg & Equip	0	20,680	20,680	0
Academy Operating	0	36,538	36,538	0
Academy Building & Equipment	0	64,245	64,245	0
Worthy Student Fund	0	6,503	6,503	0
Literature Evangelism	1,686	1,128	1,694	1,120
Religious Liberty	24,161	24,210	32,911	15,460
Health and Temperance	660	3,292	3,080	872
Inner City	1,000	10,015	8,843	2,172
Community Services	3,968	4,152	1,477	6,643
Ingathering Reversion	26,410	142,038	86,632	81,816
Evangelistic Equipment	4,000	6,000	4,000	6,000
Youth Camp Equipment	2,059	6,202	2,500	5,761
Totals	64,841	600,478	542,100	123,219

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.04** (4)
Operating Fund - Supporting Schedules for Financial Position (USA Model)
Years ended December 31, 20X1 and 20X0

S-13 - Denominational Working Capital & Liquidity - Operating Fund Only

	20X1	20X0
Working Capital:		
Current Assets	2,032,926	1,421,976
Current Liabilities	(372,506)	(398,310)
Actual Working Capital *	1,660,420	1,023,666
Working Capital Recommended by Policy **		
25% of Conference Unrestricted Income ***	612,594	586,124
Long-term Loans Payable	245,090	0
Capital Functions Allocated Net Assets	240,622	80,000
Temporarily Restricted Net Assets ****	123,219	64,841
Recommended Working Capital	1,221,525	730,965
Excess (Deficiency) of Actual over Recommended	438,895	292,701
Percentage of Actual to Recommended Working Capital	136%	140%
Liquidity:		
Cash and Equivalents	1,002,717	400,335
Investments	525,696	540,968
Accounts Receivable - Church Remittances	292,400	260,000
Cash Held for Agency	56,806	49,607
Total Liquid Assets	1,877,619	1,250,910
Current Liabilities	(360,842)	(398,310)
Capital Functions Net Assets	(240,622)	(80,000)
Temporarily Restricted Net Assets ****	(123,219)	(64,841)
Total Commitments	(724,683)	(543,151)
Net Liquid Assets	1,152,936	707,759
Percentage of Liquid Assets to Commitments	259%	230%

* *Inter-fund receivable and payable balances have been eliminated in the calculation of actual working capital.*
** *Refer to Division Working Policy for recommended working capital by type of entity.*
*** *Excludes matured trusts and wills, and excludes releases from restrictions.*
**** *Excludes restricted amounts that are covered by specific noncurrent assets.*

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.05** (1)
Operating Fund - Schedule of Activity by Function (USA Model)
Year Ended December 31, 20X1

Schedule 15

UNRESTRICTED	Net Assets 12-31-20X0	Income	Restrictions Released	Total Expense	Transfers In (Out) Between Functions	Transfers In (Out) Between Funds	Net Assets 12-31-20X1
UNALLOCATED							
Tithe	134,931	1,714,759	0	0	(1,729,956)	0	119,734
Non-tithe	45,038	306,540	0	0	(378,550)	70,945	43,973
Total Unallocated	179,969	2,021,299	0	0	(2,108,506)	70,945	163,707
ALLOCATED							
Church Programs							
Pastoral Ministries	4,868	0	36,609	514,984	498,800	(8,799)	16,494
Evangelism	18,493	0	127,329	129,900	6,000	(710)	21,212
Radio-TV	2,600	0	24,251	36,180	18,000	0	8,671
Sabbath School	149	0	4,029	4,109	0	0	69
Campmeeting	10,480	36,297	18,649	49,597	2,595	(16,324)	2,100
Youth Activities	3,842	24,209	8,355	28,418	3,000	(6,589)	4,399
Church Ministries	0	0	0	162,913	177,000	0	14,087
Total Church	40,432	60,506	219,222	926,101	705,395	(32,422)	67,032
Education Programs							
Elementary Operating	32,763	373,386	62,121	592,753	179,000	(9,428)	45,089
Academy Operating	2,385	0	36,538	70,000	44,000	0	12,923
College Operating	0	0	0	20,000	20,000	0	0
Elementary Bldgs & Eq	6,409	0	12,334	23,000	9,000	0	4,743
Academy Bldgs & Equip	16,493	0	64,245	138,000	60,000	0	2,738
College Bldgs & Equip	281	0	0	47,914	48,000	0	367
Teacher Training	4,861	0	0	15,000	16,000	0	5,861
Worthy Student	0	0	21,753	40,000	20,000	0	1,753
Education Office	500	0	0	46,772	53,500	0	7,228
Total Education	63,692	373,386	196,991	993,439	449,500	(9,428)	80,702
Publishing Programs							
L E Operating	0	0	1,694	8,029	7,200	0	865
Publishing Office	0	0	0	40,291	41,000	0	709
Total Publishing	0	0	1,694	48,320	48,200	0	1,574
Special Svc Programs							
Religious Liberty	0	0	32,911	32,911	0	0	0
Inner City	0	0	8,192	8,192	1,000	0	1,000
Community Service	0	0	1,477	26,477	25,000	0	0
Health & Temp Office	2,420	0	3,731	34,623	32,000	(1,047)	2,481
Total Special Services	2,420	0	46,311	102,203	58,000	(1,047)	3,481
Other Programs							
Tithe Appropriations	0	0	0	12,580	15,000	0	2,420
Non-tithe Appropriations	2,257	0	0	2,833	5,000	0	4,424
Ingathering Reversion	0	0	86,632	51,632	(35,000)	0	0
Total Other	2,257	0	86,632	67,045	(15,000)	0	6,844
Supporting Services							
Administration	20,518	0	0	159,051	162,000	(1,676)	21,791
Moving Van	2,126	28,625	0	29,284	8,000	(4,393)	5,074
DB Retirement Plan	978	0	0	221,421	222,000	0	1,557
Total Supporting Svc	23,622	28,625	0	409,756	392,000	(6,069)	28,422
Working Capital							
Tithe	422,274	0	0	0	75,351	0	497,625
Non-tithe	34,352	0	0	0	208,000	0	242,352
Total Working Capital	455,626	0	0	0	283,351	0	739,977
Total Allocated Oper.	589,049	462,517	550,850	2,546,864	1,921,446	(48,966)	928,032
Total Operating	769,018	2,483,816	550,850	2,546,864	(187,060)	21,979	1,091,739

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.05** (2)
Operating Fund - Schedule of Activity by Function (USA Model)
Year Ended December 31, 20X1

Schedule 15

UNRESTRICTED	Net Assets 12-31-20X0	Income	Restrictions Released	Total Expense	Transfers In (Out) Between Functions	Transfers In (Out) Between Funds	Net Assets 12-31-20X1
ALLOCATED							
Allocated Capital							
Conf Office Bldgs	70,000	0	6,500	0	125,000	(6,500)	195,000
Campground Bldgs	0	0	0	0	40,000	0	40,000
Youth Camp Bldgs	10,000	0	0	0	0	(10,000)	0
Equipment	0	0	0	0	22,060	(16,438)	5,622
Total Allocated Capital	80,000	0	6,500	0	187,060	(32,938)	240,622
Total Unrestricted	849,018	2,483,816	557,350	2,546,864	0	(10,959)	1,332,361
RESTRICTED							
Church Programs							
Pastoral Ministries	0	36,609	(36,609)				0
Evangelism	0	127,329	(127,329)				0
Radio-TV	0	25,640	(24,251)				1,389
Sabbath School	897	5,118	(4,029)				1,986
Campmeeting	0	18,649	(18,649)				0
Youth Activities	0	8,355	(8,355)				0
Total Church	897	221,700	(219,222)	0	0	0	3,375
Education Programs							
Elementary Operating	0	62,121	(62,121)				0
Academy Operating	0	36,538	(36,538)				0
Elementary Bldgs & Eq	0	12,334	(12,334)				0
Academy Bldgs & Equip	0	64,245	(64,245)				0
Worthy Student	0	21,753	(21,753)				0
Total Education	0	196,991	(196,991)	0	0	0	0
Publishing Programs							
LE Operating	1,686	1,128	(1,694)	0	0	0	1,120
Special Svc Programs							
Religious Liberty	24,161	24,210	(32,911)				15,460
Inner City	1,000	9,364	(8,192)				2,172
Community Service	3,968	4,152	(1,477)				6,643
Health & Temp Office	660	3,943	(3,731)				872
Total Special Svc	29,789	41,669	(46,311)	0	0	0	25,147
Other Programs							
Ingathering Reversion	26,410	142,038	(86,632)	0	0	0	81,816
Capital Functions							
Conf Office Bldgs	6,059	12,202	(6,500)	0	0	0	11,761
Total Temporarily Restricted	64,841	615,728	(557,350)	0	0	0	123,219
Total Net Assets	913,859	3,099,544	0	2,546,864	0	(10,959)	1,455,580

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.06** (1)
Operating Fund - Unallocated Tithe Function
Schedule of Financial Activity (USA Model)
Years Ended December 31, 20X1 and 20X0

Schedule 15-1

UNRESTRICTED INCOME	ACTUAL 20X1	BUDGET 20X1	ACTUAL 20X0
Gross Tithe Income	2,767,767	2,565,000	2,700,281
Less Tithe Percentages Passed On:			
20% Tithe to North American Division	(553,553)	(513,000)	(540,056)
10% Tithe to Union Conference	(276,777)	(256,500)	(270,028)
Special Assistance Fund	(22,678)	(20,650)	(22,256)
Total Tithe Percentages Passed On	(853,008)	(790,150)	(832,340)
Net Tithe Income	1,914,759	1,774,850	1,867,941
Less Tithe Exchanged with General Conference	(200,000)	(200,000)	(100,000)
Total Unrestricted Income	1,714,759	1,574,850	1,767,941
TRANSFERS IN (OUT):			
Unallocated Non-tithe - Internal Tithe Exchange:			
Adventist Book Center	(63,280)	(63,000)	(61,256)
Community Hospital	(10,547)	0	0
Pastoral Ministries	(498,800)	(498,800)	(495,615)
General Evangelism	(5,000)	(35,250)	(30,250)
Radio-TV Evangelism	0	(1,300)	(1,885)
Sabbath School Child Evangelism	(1,000)	(1,000)	(800)
Campmeeting	(2,595)	(2,350)	(5,942)
Church Ministries Office	(177,000)	(177,000)	(158,681)
Elementary School Operating	(167,000)	(167,000)	(156,650)
Academy Operating	(25,000)	(25,000)	(24,000)
College Operating	(20,000)	(20,000)	(20,000)
Education Office	(47,500)	(47,500)	(43,773)
Literature Evangelism Operating	(7,000)	(7,000)	(6,125)
Publishing Office	(41,000)	(41,000)	(38,736)
Health and Temperance Office	(29,000)	(29,000)	(27,038)
Defined Benefit Retirement Plan	(222,000)	(220,000)	(216,000)
Miscellaneous Appropriations	(15,000)	(15,000)	(12,470)
General Administration	(172,200)	(172,200)	(149,825)
Moving Van and Vehicles	(3,000)	(3,000)	(2,500)
Tithe Working Capital	(221,234)	(107,050)	(189,685)
Conference Office Equipment Capital	(14,000)	(14,000)	(10,376)
Net Transfers Between Functions	(1,742,156)	(1,646,450)	(1,651,607)
Net Increase (Decrease) After Transfers	(27,397)	(71,600)	116,334
Unrestricted Net Assets, January 1	134,931	134,931	18,597
Unrestricted Net Assets, December 31	107,534	63,331	134,931

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.06** (2)
Operating Fund - Unallocated Non-Tithe Function
Schedule of Financial Activity (USA Model)
Years Ended December 31, 20X1 and 20X0

Schedule 15-2

UNRESTRICTED INCOME	ACTUAL 20X1	BUDGET 20X1	ACTUAL 20X0
Non-tithe Funds from General Conference	200,000	200,000	100,000
Matured Trusts and Wills	48,710	0	0
Investment Earnings	73,102	70,989	43,391
Total Unrestricted Income	321,812	270,989	143,391
TRANSFERS IN (OUT)			
Transfers Between Functions:			
Unallocated Tithe - Internal Tithe Exchange:			
Adventist Book Center	63,280	63,000	61,256
Community Hospital	10,547	0	0
Radio-TV Programming	(18,000)	(18,000)	(10,000)
Elementary School Operating	(12,000)	(12,000)	(11,500)
Academy Operating	(19,000)	(19,000)	(16,000)
Church School Building and Equipment Appropriations	(7,000)	(7,000)	(5,500)
Academy Building and Equipment Appropriations	(55,000)	(55,000)	(46,000)
College Building and Equipment Appropriations	(48,000)	(48,000)	(45,500)
Teacher Training	(16,000)	(15,000)	(15,000)
Worthy Student	(20,000)	(16,000)	0
Miscellaneous Educational Appropriations	(6,000)	(10,000)	(2,000)
L E Literature	(200)	(200)	0
Inner City	(1,000)	(1,000)	0
Health and Temperance Office	(3,000)	(3,000)	(3,000)
Miscellaneous Appropriations	(3,000)	(3,000)	(3,000)
Miscellaneous Building and Equipment Appropriations	(2,000)	(2,000)	(2,000)
General Administration	(2,000)	(2,000)	(4,000)
Moving Van Operating	(5,000)	(5,000)	(200)
Non-tithe Working Capital	(62,117)	26,550	87,192
Conference Office Building	(125,000)	(125,000)	(70,000)
Campground Buildings	(40,000)	(40,000)	0
Youth Camp Buildings	0	0	(10,000)
Equipment Capital	(8,060)	0	0
Net Transfers Between Functions	(378,550)	(291,650)	(95,252)
Transfers Between Funds			
Trust Accounting Fund - Unrestricted Maturity	45,810	45,810	0
Annuity Fund - Unrestricted Maturity	25,135	0	0
Net Transfers Between Funds	70,945	45,810	0
Net Transfers In (Out)	(307,605)	(245,840)	(95,252)
Net Increase (Decrease) After Transfers	14,207	25,149	48,139
Unrestricted Net Assets, January 1	45,038	45,038	(3,101)
Unrestricted Net Assets, December 31	59,245	70,187	45,038

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.06** (3)
Operating Fund - Pastoral Ministries Function
Schedule of Financial Activity (USA Model)
Years Ended December 31, 20X1 and 20X0

Schedule 15-3

INCOME	ACTUAL 20X1	BUDGET 20X1	ACTUAL 20X0
Net Assets Released from Restrictions	36,609	35,500	30,500
EXPENSE			
Salaries and Wages	403,710	403,725	401,450
Auto Insurance Allowance	654	650	632
Moving Allowance	5,289	6,000	5,112
Miscellaneous Allowances	575	625	600
Health Care Assistance	15,150	15,000	18,750
Tuition Assistance	8,807	8,500	10,002
Total Remuneration and Allowances	434,185	434,500	436,546
Travel, Regular	31,336	30,850	39,898
Travel, Special	5,626	4,500	4,182
Total Travel	36,962	35,350	44,080
Retirement Contribution - Defined Contribution Plan	16,148	16,150	0
Med. Insurance & Survivor Benefit	4,706	4,800	4,675
Social Security Contribution	13,915	14,000	13,165
Workers' Compensation Insurance	1,310	1,300	1,239
Total Undistributed Benefits	36,079	36,250	19,079
Total Employee-Related Expense	507,226	506,100	499,705
Maintenance and Repairs	3,491	3,785	3,566
Utilities	4,267	4,625	4,359
Total Miscellaneous Expense	7,758	8,410	7,925
Total Expense	514,984	514,510	507,630
Net Increase (Decrease) From Operations	(478,375)	(479,010)	(477,130)
TRANSFERS IN (OUT)			
Unallocated Tithe Function	498,800	498,800	495,615
Unexpended Plant Fund	(8,799)	(8,799)	(8,181)
Net Transfers In (Out)	490,001	490,001	487,434
Net Increase (Decrease) After Transfers	11,626	10,991	10,304
Unrestricted Net Assets, January 1	4,868	4,868	(5,436)
Unrestricted Net Assets, December 31	16,494	15,859	4,868
RESTRICTED INCOME			
Intern Salary Subsidy	22,668	22,000	20,408
Return Missionary Salary Subsidy	3,394	3,000	0
Salary Subsidy from Hospital	10,547	10,500	10,092
Restricted Income Received	36,609	35,500	30,500
Released from Restrictions	(36,609)	(35,500)	(30,500)
Net Increase (Decrease)	0	0	0
Temporarily Restricted Net Assets, January 1	0	0	0
Temporarily Restricted Net Assets, December 31	0	0	0

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.06** (4)
Operating Fund - Elementary School Operating Function
Schedule of Financial Activity (USA Model)
Years Ended December 31, 20X1 and 20X0

Schedule 15-12

INCOME	ACTUAL 20X1	BUDGET 20X1	ACTUAL 20X0
Elementary Schools Salary Share	373,386	356,000	345,000
Net Assets Released from Restrictions	62,121	57,000	56,275
Total Unrestricted Support	435,507	413,000	401,275
EXPENSE			
Contract Salaries	374,877	370,000	360,200
Hourly Wages	96,904	90,000	91,089
Moving Allowances	5,461	4,500	3,409
Health Care Assistance	14,447	9,760	14,969
Tuition Assistance	6,778	6,000	13,007
Travel, Special	1,210	1,000	976
Social Security Tax	36,091	35,200	34,523
Retirement Contribution - DC Plan	14,935	14,240	0
Medical & Survivor Insurance	5,595	5,300	3,410
Workers' Compensation Insurance	3,220	4,000	4,089
Local Employee Wages	14,286	0	12,019
Salary Returns	(14,286)	0	(12,019)
Maintenance and Repairs	3,740	4,055	3,821
Utilities	4,572	4,956	4,671
General Supplies & Expense	24,923	20,000	19,956
Total Expense	592,753	569,011	554,120
Net Increase (Decrease) From Operations	(157,246)	(156,011)	(152,845)
TRANSFERS IN (OUT)			
Unallocated Tithe Function (30% Limit)	167,000	167,000	156,650
Unallocated Non-tithe Function	12,000	12,000	11,500
Unexpended Plant Fund	(9,428)	(9,428)	(8,766)
Net Transfers In (Out)	169,572	169,572	159,384
Net Increase (Decrease) After Transfers	12,326	13,561	6,539
Unrestricted Net Assets, January 1	32,763	32,763	26,224
Unrestricted Net Assets, December 31	45,089	46,324	32,763
RESTRICTED INCOME			
Church Offering	18,330	15,000	14,525
Donations - Miscellaneous	4,791	4,000	3,750
G.C. - K-12 Reversion Subsidy	39,000	38,000	38,000
Restricted Income Received	62,121	57,000	56,275
Released from Restrictions	(62,121)	(57,000)	(56,275)
Net Increase (Decrease)	0	0	0
Temporarily Restricted Net Assets, January 1	0	0	0
Temporarily Restricted Net Assets, December 31	0	0	0

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.06** (5)
Operating Fund - Academy Operating Function
Schedule of Financial Activity (USA Model)
Years Ended December 31, 20X1 and 20X0

Schedule 15-13

	ACTUAL 20X1	BUDGET 20X1	ACTUAL 20X0
INCOME			
Net Assets Released from Restrictions	36,538	32,000	25,159
EXPENSE			
[*name 1*] Academy Regular Subsidy	40,000	40,000	38,000
[*name 2*] Academy Regular Subsidy	24,000	24,000	22,000
[*name 1*] Academy Scholarships	3,000	1,000	500
[*name 2*] Academy Scholarships	3,000	1,000	500
Total Expense	70,000	66,000	61,000
Net Increase (Decrease) From Operations	(33,462)	(34,000)	(35,841)
TRANSFERS IN (OUT)			
Unallocated Tithe Function	25,000	25,000	24,000
Unallocated Non-tithe Function	19,000	19,000	16,000
Net Transfers In (Out)	44,000	44,000	40,000
Net Increase (Decrease) After Transfers	10,538	10,000	4,159
Unrestricted Net Assets, January 1	2,385	2,385	(1,774)
Unrestricted Net Assets, December 31	12,923	12,385	2,385
RESTRICTED INCOME			
Church Offering	28,297	25,000	22,683
Donations - Individuals	3,241	2,000	2,476
Union Conference Donation - Subsidy	5,000	5,000	0
Restricted Income Received	36,538	32,000	25,159
Released from Restrictions	(36,538)	(32,000)	(25,159)
Net Increase (Decrease)	0	0	0
Temporarily Restricted Net Assets, January 1	0	0	0
Temporarily Restricted Net Assets, December 31	0	0	0

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.06** (6)
Operating Fund - Community Services Function
Schedule of Financial Activity (USA Model)
Years Ended December 31, 20X1 and 20X0

Schedule 15-28

INCOME	ACTUAL 20X1	BUDGET 20X1	ACTUAL 20X0
Net Assets Released from Restrictions	1,477	1,750	2,634
EXPENSE			
General Supplies and Expense	465	500	439
Uniform Expense	249	250	227
Community Services Approp. to Churches	25,763	91,000	61,968
Total Expense	26,477	91,750	62,634
Net Increase (Decrease) From Operations	(25,000)	(90,000)	(60,000)
TRANSFERS IN (OUT)			
Ingathering Reversion Function	25,000	90,000	60,000
Net Increase (Decrease) After Transfers	0	0	0
Unrestricted Net Assets, January 1	0	0	0
Unrestricted Net Assets, December 31	0	0	0
RESTRICTED INCOME			
Church Offerings	3,865	4,000	4,053
Donations - Miscellaneous	287	100	95
Restricted Income Received	4,152	4,100	4,148
Released from Restrictions	(1,477)	(1,750)	(2,634)
Net Increase (Decrease)	2,675	2,350	1,514
Temporarily Restricted Net Assets, January 1	3,968	3,968	2,454
Temporarily Restricted Net Assets, December 31	6,643	6,318	3,968

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.06** (7)
Operating Fund - Ingathering Reversion Function
Schedule of Financial Activity (USA Model)
Years Ended December 31, 20X1 and 20X0

Schedule 15-33

INCOME	ACTUAL 20X1	BUDGET 20X1	ACTUAL 20X0
Net Assets Released from Restrictions	86,632	149,900	116,891
EXPENSE			
Ingathering Reversion Appropriations to Churches (2)	51,632	49,900	48,891
Net Increase (Decrease) From Operations	35,000	100,000	68,000
TRANSFERS IN (OUT)			
Church School Building Function (1)	(2,000)	(2,000)	(1,500)
Academy Capital Function (1)	(5,000)	(5,000)	(4,000)
Youth Camp Operating Function (2)	(3,000)	(3,000)	(2,500)
Community Services Function (2)	(25,000)	(90,000)	(60,000)
Net Transfers In (Out)	(35,000)	(100,000)	(68,000)
Net Increase (Decrease) After Transfers	0	0	0
Unrestricted Net Assets, January 1	0	0	0
Unrestricted Net Assets, December 31	0	0	0

(1) Member Donated.
(2) Non-member Solicited.

RESTRICTED INCOME			
Ingathering Reversion for the Year	142,038	130,000	128,341
Released from Restrictions	(86,632)	(149,900)	(116,891)
Net Increase (Decrease)	55,406	(19,900)	11,450
Temporarily Restricted Net Assets, January 1	26,410	26,410	14,960
Temporarily Restricted Net Assets, December 31	81,816	6,510	26,410

SAMPLE LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.06** (8)
Operating Fund - General Administration Function
Schedule of Financial Activity (USA Model)
Years Ended December 31, 20X1 and 20X0

Schedule 15-36

	ACTUAL 20X1	BUDGET 20X1	ACTUAL 20X0
EXPENSES AND LOSSES			
Salaries and Wages	69,020	68,600	68,091
Area Travel	4,500	4,500	4,320
Miscellaneous Allowances	653	680	642
Health Care Assistance	3,946	3,800	3,819
Tuition Assistance	2,628	2,700	2,595
Total Remuneration and Allowances	80,747	80,280	79,467
Travel, Regular	18,150	18,000	19,355
Travel, Special	6,630	6,840	7,505
Total Travel	24,780	24,840	26,860
Retirement Contribution - Defined Contribution Plan	2,761	2,740	0
Medical Insurance & Survivor Benefit	791	790	765
Social Security Contribution	3,399	3,400	3,357
Workers' Compensation Insurance	218	215	210
Total Undistributed Benefits	7,169	7,145	4,332
Total Employee-Related Expense	112,696	112,265	110,659
Supplies: Public Affairs	3,567	3,450	2,247
Supplies: Treasury	3,859	4,000	2,893
General Office Expense	7,338	9,300	7,475
Public Relations	2,407	4,000	3,172
Conventions and Meetings	4,765	6,300	6,195
Interest Expense	5,635	4,500	0
Legal Expense	1,950	4,200	0
Postage	1,825	2,000	1,425
Maintenance and Repairs	665	721	680
Utilities	813	881	830
Telephone	13,531	15,000	13,164
Total Miscellaneous Expense	46,355	54,352	38,081
Total Expenses and Losses	159,051	167,417	148,740
Net Increase (Decrease) From Operations	(159,051)	(167,417)	(148,740)
TRANSFERS IN (OUT)			
Unallocated Tithe Function	160,000	172,200	149,825
Unallocated Non-tithe Function	2,000	2,000	4,000
Unexpended Plant Fund	(1,676)	(1,676)	(1,558)
Net Transfers In (Out)	160,324	172,524	152,267
Net Increase (Decrease) After Transfers	1,273	5,107	3,527
Unrestricted Net Assets, January 1	20,518	20,518	16,991
Unrestricted Net Assets, December 31	21,791	25,625	20,518

LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.07**
Operating Fund - Schedule of Expense by Function and Object (USA Model)
This schedule is optional, for use as desired by management and governing committee.
Year Ended December 31, 20X1

Schedule 16	Church Program Functions	Education Program Functions	Publishing Program Functions	Special & Other Functions	Support Services Functions	Actual 20X1	Budget 20X1
Employee-Related							
Salaries & Wages	535,254	501,566	29,097	20,400	77,735	1,164,052	1,147,945
Area Travel	0	0	0	0	4,500	4,500	4,500
Auto Insurance	864	0	0	0	573	1,437	1,450
Moving Allowance	7,970	461	0	0	0	8,431	8,000
Holiday Gift	745	60	50	40	105	1,000	1,000
Distributed Medical	22,274	14,856	675	0	4,349	42,154	40,000
Tuition Assistance	12,690	7,528	0	0	2,737	22,955	20,000
Pay & Allowances	579,797	524,471	29,822	20,440	89,999	1,244,529	1,222,895
Travel, Regular	64,621	3,250	3,066	1,509	19,722	92,168	88,500
Travel, Special	18,029	1,760	262	250	10,129	30,430	30,000
Total Travel	82,650	5,010	3,328	1,759	29,851	122,598	118,500
Retire. Cont. - DC	21,410	20,063	1,164	816	3,109	46,562	45,918
Med & Surv Ins	7,047	5,735	165	165	872	13,984	13,842
FICA Contribution	18,128	37,558	1,457	1,020	3,529	61,692	60,850
Workers' Comp Ins	1,762	3,314	55	40	244	5,415	6,175
Taxes & Benefits	48,347	66,670	2,841	2,041	7,754	127,653	126,785
Employee-Related	710,794	596,151	35,991	24,240	127,604	1,494,780	1,468,180
General Expense							
Public Relations	3,045	0	0	2,648	2,407	8,100	21,500
Phone & Utilities	17,205	9,745	1,897	1,612	14,351	44,810	48,000
Repair & Maint.	13,928	2,711	0	302	483	17,424	19,450
Evangelism	65,871	0	0	0	0	65,871	64,050
Appropriations	23,135	355,414	0	100,308	0	478,857	513,800
Interest Expense	0	0	0	0	5,635	5,635	4,500
Retire. Cont. - DB	0	0	0	0	221,421	221,421	205,200
Supplies & General	92,123	29,418	10,432	40,138	37,855	209,966	233,729
General Expense	215,307	397,288	12,329	145,008	282,152	1,052,084	1,110,229
Total Expense 20X1	926,101	993,439	48,320	169,248	409,756	2,546,864	
Total Budget 20X1	927,630	964,006	48,985	235,221	402,567		2,578,409

LOCAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 17E.08**
Operating Fund - Report of Remuneration Expense by Employee (USA Model)
Year Ended December 31, 20X1

This report is NOT part of the organization's financial statements and should not be included or presented with the financial statements. This report contains information that is to be presented separately to only the organization's governing committee solely to help them monitor compliance with denominational working policy (NADWP E 70 35). This report should be kept strictly confidential, and information related to benefits and allowances should not be used in any manner related to hiring or termination of employees.

Functions & Employees	Salaries & Wages	Benefits & Allowances	Travel Expense	Retire.Cont. & Taxes	Total 20X1
Church Programs					
[*name of employee*]	21,300	6,087	3,448	1,917	32,752
[*name of employee*]	20,170	1,560	2,705	1,815	26,250
[*name of employee*]	13,921	325	0	1,253	15,499
[*name of employee*]	16,780	538	1,920	1,510	20,748
. . .					
. . .					
[*name of employee*]	20,410	3,367	5,439	1,837	31,053
Total Church Programs	535,254	44,543	82,650	48,347	710,794
Education Programs					
[*name of employee*]	21,761	5,607	501	1,958	29,827
[*name of employee*]	18,972	2,901	907	1,707	24,487
[*name of employee*]	21,237	3,224	1,232	1,911	27,604
[*name of employee*]	19,256	1,147	400	1,733	22,536
. . .					
. . .					
[*name of employee*]	18,904	1,871	1,086	1,701	23,562
Total Education Programs	501,566	22,905	5,010	66,670	596,151
Publishing Program					
[*name of employee*]	8,596	300	501	774	10,171
[*name of employee*]	20,501	425	2,827	2,067	25,820
Total Publishing Office	29,097	725	3,328	2,841	35,991
Special Services					
[*name of employee*]	9,713	0	0	796	10,509
[*name of employee*]	10,687	40	1,759	1,245	13,731
Total Sp Services	20,400	40	1,759	2,041	24,240
Supporting Services					
Administration					
[*name of employee*]	23,854	3,615	9,041	2,388	38,898
[*name of employee*]	22,709	3,807	8,372	2,269	37,157
[*name of employee*]	20,457	3,005	8,518	2,055	34,035
[*name of employee*]	10,715	1,837	3,920	1,042	17,514
Total Supporting Services	77,735	12,264	29,851	7,754	127,604
Total Employee-related Expense for 20X1	1,164,052	80,477	122,598	127,653	1,494,780

Section 1801 - General Concepts

1801.01 Introduction - As mentioned in Section 103.03, many countries have adopted or plan to adopt the International Financial Reporting Standards (IFRS) that are the basis of this Manual. It is understood that some countries will implement IFRS on a rapid schedule while others will implement IFRS on a slower schedule. This chapter offers transitional guidance for organizations in countries, such as Canada, which will implement IFRS later rather than sooner. For example, Canada has adopted IFRS for fair value accounting of financial instruments effective for years beginning on or after October 1, 2006, but has adopted most other elements of IFRS effective only for years beginning on or after January 1, 2011, and then only for "publicly-accountable" enterprises. Canada is still deliberating the extent to which not-for-profit entities should be subject to IFRS.

1801.02 Two Major Account Types Illustrated - There are two major types of accounts for which Canada and some other countries diverge from the general denominational application of IFRS: accounting for financial instruments and accounting for unspent donor-restricted resources. This chapter uses sample Canadian financial statements to illustrate the accounting for these subjects. Organizations located in jurisdictions which have similar standards may adapt these sample statements to their own needs.

1801.03 Overall Focus and Presentation - In spite of the differences, there are a few core elements that are the same for the illustrations in this chapter as for those in the preceding sections of this Manual.

The overall focus of the financial reporting system is on the organization as a whole. If fund accounting is used, totals should be presented for each financial statement line item for all funds combined. Also, accounting systems should enable the tracking of contribution revenue according to the presence or absence of donor restrictions over the use of those resources.

The standards allow some flexibility in the use of statement and line titles. For comparability, the denomination has chosen to use "Statement of Financial Position" in place of the former Balance Sheet; "Statement of Changes in Net Assets" in place of the former Statement of Financial Activity; and "Net Assets" in place of the former Fund Balance. In addition, a Statement of Cash Flows is required.

Section 1802 - Financial Position

1802.01 Financial Instruments at Fair Value - Organizations in jurisdictions that are converting to the fair value model should follow the guidance in Section 1004. (Canada, for example, is adopting the fair value standard effective for all types of organizations for all years beginning on or after October 1, 2006.) Organizations should specifically identify the investment strategy and valuation class for each financial instrument they acquire.

All applicable financial instruments will be presented in the statement of financial position at their fair values. A valuation account will be used to account for the unrealized appreciation or decline in fair value. The change in the valuation account each year will be recorded as unrealized gain or loss. (Canada uses different terminology than IFRS, but the concepts are similar. Unrealized gain or loss on investments selected for fair value accounting is reported before "excess or deficiency of revenue over expense." Unrealized gain or loss on investments that default into the available for sale class is reported after "excess or deficiency of revenue over expense.")

1802.02 Financial Instruments at Lower of Cost or Market - Organizations in jurisdictions that have not yet adopted fair value accounting must record financial instruments at the lower of cost or market (like entities in Canada for years beginning before October 1, 2006). Such organizations will still need to determine what the fair value is for each financial instrument, using the guidance in Sections 1004.03 and 1004.04. However, the valuation account will not be a positive number, the carrying value will not exceed historical cost, and gains will be recognized only to the extent of recovering negative amounts in the valuation account. Whether cost is higher or lower than fair value, the fair value, aggregated by type of instrument, is to be disclosed in the notes to the financial statements.

Financial instruments held for noncurrent or non-operating purposes generally are to be recorded at cost. This would include investments of Annuity or Endowment Funds that the organization intends to hold to maturity. Purchases of debt securities should be recorded at face amount, and discounts or premiums, if significant, should be recorded in companion accounts. Any recorded discount or premium should be amortized over the remaining life of the instrument. The net carrying value of non-operating investments may be written down using valuation accounts, but only for declines in value that are not temporary, and it is not to be written back up, even if the value recovers.

1802.03 Capital Assets - Canada has the following accounting principles for plant assets.

- Land, buildings, and equipment as a group are defined and described as "capital" assets.
- The amount of net assets invested in capital assets is required to be reported separately from other net assets in the statement of financial position.
- The amortization (depreciation) rates for each class or group of capital assets are required to be disclosed in the notes to the financial statements.
- The deferral method of accounting requires externally restricted contributions used to acquire depreciable capital assets, and the value of donated depreciable capital assets, to be deferred and then amortized and recognized as income on the same basis as the depreciation expense on the respective capital assets. In other words, as the cost of the capital asset is amortized or depreciated, a corresponding portion of the deferred capital contribution is recognized as revenue.

1802.04 Deferred Contributions - Under the deferral method, unspent portions of externally-restricted, or donor-restricted, resources are reported in the same section as liabilities. If the resources are restricted for normal operating programs or activities, the deferred contributions account will be classified as a current liability. If the resources are restricted for acquisition of capital assets or any other non-operating purpose or program, the deferred contributions account will be classified as a noncurrent liability. Amounts not yet spent will be held in an account called Deferred Contributions. Amounts spent to acquire capital assets will be transferred to an account called Deferred Capital Contributions for the period of time during which they will be amortized.

1802.05 Classes of Net Assets - Although the Canadian terminology is slightly different from that used in other sections of this Manual, net assets are similarly classified according to their purpose and the presence or absence of donor restrictions. The net asset section of the financial statements is to distinguish between invested in capital assets, permanent endowments, other restricted net assets, and unrestricted net assets. In addition, an organization may choose to provide a net asset balance for internally restricted net assets. Externally restricted net assets are those which carry restrictions imposed by donors or other organizations outside the control of the recipient organization. Internally restricted net assets are those which have been set aside for specific purposes by the governing committee of the organization, and which may be redirected at any time.

Section 1803 - Financial Activity

1803.01 Classes of Contributions - Contribution revenue is classified in a manner to coincide with the classes of net assets described in the preceding paragraph. Contributions that are restricted for permanent endowments are to be called endowment net assets, and are to be presented after all other classes of net assets. All other contributions that are restricted by the donor or other provider for specific purposes or time periods are to be called externally restricted. If there are no donor restrictions, of course, the contributions are called unrestricted.

1803.02 Recognition of Contribution Revenue - Canadian accounting principles allow organizations to choose between two methods of accounting for contributions; the Restricted Fund Method and the Deferral Method. The restricted fund method recognizes contributions as revenue when they are received, somewhat similar to the USA model. Under this method, externally restricted contributions are recorded as revenue in an appropriate identified restricted fund, and unrestricted contributions are recorded in a general fund. Where there is no appropriate restricted fund for a particular externally restricted contribution, the deferral method is to be used. The deferral method, in contrast, recognizes contributions as revenue only when they are spent or used for the intended purpose. Under this method, externally restricted contributions are recorded as deferred contributions (see Section 1802.04) until the corresponding expense is recognized. For the purpose of comparability, denominational entities in Canada chose to use the deferral method.

1803.03 Unspent Restricted Contributions - The treatment of unspent restricted contributions is distinctly different between the restricted fund and deferral methods. Because the restricted fund method recognizes contributions as revenue when received, all unspent amounts are kept in the class of net assets in which they were recorded as revenue (unrestricted or externally restricted). Because the deferral method recognizes externally restricted contributions as revenue when they are spent or used, all unspent amounts are held in accounts in the liabilities section (see Section 1802.04).

1803.04 Investment Income - Net investment income that is not externally restricted is to be recorded as revenue within the general fund group. Externally restricted investment income that is required to be added to endowment principal is to be recorded as direct additions to endowment net assets if the deferral method is used, or as revenue of the endowment fund if the restricted fund method is used. Other externally restricted net investment income is to be recorded as revenue in the same manner as externally restricted donations.

The preceding concepts will apply to unrealized gains and losses after adoption of the fair value principle. Whether the unrealized change in fair value is a gain or a loss, it will be recorded in the same section of the financial activity accounts as other investment income and realized gains and losses related to the same portfolio of assets. If the donor did not specify whether unrealized gains and losses are restricted, they should be recorded as if they carry the same restrictions, if any, as other income earned on the respective underlying investment assets.

1803.05 Presentation of Operating Expense - Under the restricted fund method, operating expenses are reported within either the general funds column or the restricted funds column, depending on whether the expense was related to unrestricted or restricted programs. Under the deferral method, if fund accounting is used, all expense is reported within the fund column related to each program. For any functions, programs, or departments that have both restricted and unrestricted resources available, it is presumed that restricted resources will be used first.

1803.06 Related Organizations - Canadian organizations are required to analyze their relationships with other organizations similar to the way IFRS requires. Related organizations are defined in similar terms; controlled, commonly controlled, and significantly influenced. However, Canadian accounting principles allow organizations the option to either consolidate controlled related entities, or to present certain summarized financial data of the controlled entity in the notes to the financial statements of the controlling organization. Significantly influenced entities are not to be consolidated. In addition, for all related organizations, the notes are to disclose the nature of the relationship between the related organizations, the extent of any significant receivables, payables, sales, appropriations, and other transactions between them, and the reasons for consolidating or separately reporting their financial statements.

When an organization does not have control or significant influence over another entity, consideration should be given to whether the organization has an economic interest in the other entity. Economic interest exists if the other entity holds resources that must be used to produce revenue or provide services for the reporting organization, or if the reporting organization is responsible for the liabilities of the other entity. Organizations are required to disclose the nature and extent of any economic interest.

1803.07 Contributions Receivable - A contribution receivable should be recorded as an asset when the amount to be received under a pledge or promise can be reasonably estimated and ultimate collection is reasonably assured. Because promised contributions are generally freewill gifts, typically their ultimate collection is not reasonably assured until the funds are actually collected. Therefore, this type of receivable will be recorded only in unique circumstances. When an organization has recognized contributions receivable, the notes should disclose the amount recognized as revenue during the fiscal year and the amount included in assets at the close of the period.

Contributions receivable for pledges or promises to give should not be confused with accounts receivable for contributions that have been received by related entities for the benefit of senior organizations but which have not yet been remitted to them. Contributions received by churches for tithe and designated offerings for the benefit of senior organizations should be recorded as accounts receivable on a timely basis by the senior organizations according to the principles discussed in Sections 1103.01 and 1709.04.

Appendix 18A

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH

Financial Statements (Fair Value model)

December 31, 2007 and 2006

[*This sample financial statement illustrates use of the* ***fair value method*** *for valuing financial instruments. (In Canada, this valuation method is applicable for all years that begin on or after October 1, 2006.)*]

[*This sample financial statement also illustrates use of the Deferral Method of accounting for externally-restricted (donor-restricted) resources that have not yet been spent or used.*]

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18A.01**
Statement of Financial Position (Fair Value model)
December 31, 2007 and 2006

ASSETS	Operating Funds	Plant Funds	Other Funds	2007 Total	2006 Total
Current Assets					
Cash (Note 2)	1,167,673	0	0	1,167,673	573,358
Investments (Note 3)	525,696	0	0	525,696	542,125
Accounts Receivable, net (Note 4)	425,474	0	0	425,474	413,720
Cash Held for Agency	56,806			56,806	49,607
Loans Receivable (Note 5)	17,620	0	0	17,620	15,673
Inventories and Prepaid Expense	16,086	0	0	16,086	16,833
Total Current Assets	2,209,355	0	0	2,209,355	1,611,316
Capital Assets, Net (Note 6)	0	6,620,276	0	6,620,276	5,164,135
Other Noncurrent Assets					
Loans Receivable, Long-term (Note 5)	236,250	0	0	236,250	151,490
Cash and Investments (Note 7)	0	506,774	651,299	1,158,073	575,202
Accrued Interest Receivable	0	0	24,534	24,534	28,605
Inter-Fund Accounts Receivable	0	59,374	0	0	0
Total Other Noncurrent Assets	236,250	566,148	675,833	1,418,857	755,297
Total Assets	2,445,605	7,186,424	675,833	10,248,488	7,530,748
LIABILITIES					
Current Liabilities					
Accounts Payable & Accrued Liabilities (Note 8)	260,604	0	0	260,604	356,107
Loans Payable, Current (Note 9)	60,381	0	0	60,381	15,909
Inter-Fund Accounts Payable	13,164	0	0	0	0
Deferred Contributions - Operating (Note 13)	186,458	0	0	186,458	108,782
Agency Funds	56,806	0	0	56,806	49,607
Total Current Liabilities	577,413	0	0	564,249	530,405
Noncurrent Liabilities					
Deferred Contributions (Notes 12, 13)	0	236,761	76,177	312,938	99,537
Deferred Capital Contributions (Note 14)	0	3,574,202	0	3,574,202	2,614,205
Loans Payable, Long-term (Note 9)	332,619	0	0	332,619	68,000
Loans Payable (Note 10)	0	188,000	0	188,000	0
Annuity Liability Present Value (Note 12)	0	0	232,543	232,543	165,667
Agency Liability to Depositors	0	0	52,979	52,979	54,795
Inter-Fund Accounts Payable	0	0	46,210	0	0
Total Noncurrent Liabilities	332,619	3,998,963	407,909	4,693,281	3,002,204
Total Liabilities	910,032	3,998,963	407,909	5,257,530	3,532,609
NET ASSETS					
Unrestricted Unallocated	289,736	0	0	289,736	308,074
Internally Restricted	1,245,837	329,387	166,424	1,741,648	1,120,135
Sub-total Unrestricted	1,535,573	329,387	166,424	2,031,384	1,428,209
Invested in Capital Assets	0	2,858,074	0	2,858,074	2,549,930
Endowment	0	0	101,500	101,500	20,000
Total Net Assets (Note 15)	1,535,573	3,187,461	267,924	4,990,958	3,998,139
Total Liabilities & Net Assets	2,445,605	7,186,424	675,833	10,248,488	7,530,748

The accompanying notes are an integral part of these financial statements.

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18A.02**(1)
Statement of Operations and Changes in Net Assets (Fair Value model)
Years ended December 31, 2007 and 2006

General Activity	Operating Funds	Plant Funds	Other Funds	Actual 2007 Total	Budget 2007 Total	Actual 2006 Total
Unrestricted Revenue & Support:						
Gross Tithe Income	2,767,767	0	0	2,767,767	2,565,000	2,700,281
Tithe Percentages Passed On	(853,008)	0	0	(853,008)	(790,150)	(832,340)
Net Tithe Income	1,914,759	0	0	1,914,759	1,774,850	1,867,941
Investment Earnings	92,226	31,289	0	123,515	102,559	70,308
Unrealized Gain (Loss) Inv. Value	(16,429)	0	0	(16,429)	0	1,157
Church Schools Salary Share	373,386	0	0	373,386	356,000	345,000
Departmental Fees and Sales	137,841	0	0	137,841	88,000	88,164
Residence Rent Income	28,251	0	0	28,251	23,000	12,893
Annuities, Net Income (Note 12)	0	0	137,110	137,110	47,725	56,226
Total Unrestricted Revenue	2,530,034	31,289	137,110	2,698,433	2,392,134	2,441,689
Restricted Revenue Used:						
Offerings and Donations	339,781	0	0	339,781	409,308	325,991
Subsidies and Appropriations	109,609	0	0	109,609	107,500	93,195
Matured Deferred Gifts	86,210	0	0	86,210	15,000	0
Endowment Income	15,250	0	0	15,250	14,750	14,750
Restricted Rev. Used (Note 13, 14)	550,850	0	0	550,850	546,558	433,936
Total Revenue and Support	3,080,884	31,289	137,110	3,249,283	2,938,692	2,875,625
Expenses and Losses:						
Program Services Functions						
Church Ministries	918,343	45,888	0	964,231	976,507	950,282
Educational	985,127	11,400	0	996,527	954,995	834,152
Publishing	48,320	0	0	48,320	48,320	46,761
Special Services	105,999	0	0	105,999	172,987	119,848
Retirement and Other	288,466	0	0	288,466	270,833	280,126
Total Program Services	2,346,255	57,288	0	2,403,543	2,423,642	2,231,169
Supporting Services Function						
Administration-Office Resources	168,080	0	0	168,080	159,515	141,035
Conventions and Meetings	4,765	0	0	4,765	6,300	6,195
Bldg & Equip Operations & Maint	18,472	20,950	0	39,422	40,975	39,168
Moving Van Operations	29,284	4,393	0	33,677	34,343	30,080
Residence Rental	8,610	22,580	0	31,190	30,195	12,893
Total Supporting Services	229,211	47,923	0	277,134	271,328	229,371
Total Expenses and Losses	2,575,466	105,211	0	2,680,677	2,694,970	2,460,540
Excess (Deficiency) of General Revenue over Expense	505,418	(73,922)	137,110	568,606	243,722	415,085

The accompanying notes are an integral part of these financial statements.

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18A.02**(2)
Statement of Operations and Changes in Net Assets (Fair Value model)
Years ended December 31, 2007 and 2006

	Operating Funds	Plant Funds	Other Funds	Actual 2007 Total	Budget 2007 Total	Actual 2006 Total
Excess (Deficiency) of General Revenue over Expense	505,418	(73,922)	137,110	568,606	243,722	415,085
Capital Activity						
Capital Revenue and Support:						
Capital Contributions Amortized	0	114,253	0	114,253	100,000	82,140
Unrealized Gain (Loss) Inv. Value	0	1,500	0	1,500	0	0
Gain (Loss) Sale of Cap. Assets	0	18,413	0	18,413	39,600	30,275
Capital Revenue	0	134,166	0	134,166	139,600	112,415
Capital Expenses						
Church & School Properties Exp.	0	97,203	0	97,203	85,000	82,140
Excess (Deficiency) of Capital Revenue over Expense	0	36,963	0	36,963	54,600	30,275
Other Activity						
Annuities:						
Unrealized Gain (Loss) Inv. Value	0	0	4,500	4,500	0	0
Excess (Deficiency) of Total Revenues over Expenses	505,418	(36,959)	141,610	610,069	298,322	445,360
Church/School Properties Added*	0	301,250	0	301,250	425,000	0
Endowment Donations (Note 15)	0	0	80,000	80,000	0	20,000
Endow. Unrealized Gain (Loss)	0	0	1,500	1,500	0	0
Transfers Between Fds (Note 11)	(23,939)	94,884	(70,945)	0	0	0
Net Assets, Beginning **	1,054,094	2,828,286	115,759	3,998,139	3,998,139	3,532,779
Net Assets, End of Year (Note 15)	1,535,573	3,187,461	267,924	4,990,958	4,721,461	3,998,139

* Church and school properties added to net assets during the current year comprise the value of the land portion of the property acquired or contributed during the year. The value of the building portion of the property is added to deferred capital contributions. (See Notes 1e, 14, and 15)

** If the beginning net assets have been restated due to the adoption of new accounting principles, explain the changes in a section added to the end of Note 1 about significant accounting policies, and cross-reference it here.

The accompanying notes are an integral part of these financial statements.

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18A.03**
Statement of Cash Flows (Fair Value model)
Years ended December 31, 2007 and 2006

Cash Flows from Operating Activities:	Operating Funds	Plant Funds	Other Funds	2007 Total	2006 Total
Excess (Deficiency) of					
Total Revenues over Expenses	505,418	(36,959)	141,610	610,069	445,360
Adjustments to reconcile excess (deficiency)					
of revenue over expense to net cash provided:					
Depreciation Expense	0	199,314	0	199,314	171,217
Amortization of Deferred Capital Contributions	0	(114,253)	0	(114,253)	(82,140)
Gain on Sale of Capital Assets	0	(18,413)	0	(18,413)	(30,275)
Annuity Fund Net (Increase) Decrease	0	0	(137,110)	(137,110)	(111,215)
Unrealized (Gain) Loss Investments Value	16,429	(1,500)	(4,500)	10,429	(1,157)
(Increase) Decrease Accounts Receivable	(11,754)	0	4,071	(7,683)	(74,059)
(Increase) Decrease Agency Cash	(7,199)	0	0	(7,199)	500
(Increase) Decrease Inventories & Prepaid	747	0	0	747	(1,614)
Increase (Decrease) Accounts Payable	(95,503)	0	0	(95,503)	(53,943)
Increase (Decrease) Agency Funds	7,199	0	0	7,199	(500)
Increase (Decrease) Deferred Contributions	77,676	0	0	77,676	30,074
Net Transfers Between Funds - In (Out)	(23,939)	94,884	(70,945)	0	0
Net Cash Provided (Used) - Operating	469,074	123,073	(66,874)	525,273	292,248
Cash Flows from Investing Activities:					
Proceeds from Maturity of Investments	0	33,834	0	33,834	0
Purchase of Investments	0	(330,000)	(279,205)	(609,205)	(417,300)
Proceeds from Sale of Capital Assets	0	41,865	0	41,865	18,750
Purchases of Capital Assets	0	(473,907)	0	(473,907)	(125,830)
Donated Capital Assets Placed in Service	0	(903,750)	0	(903,750)	(2,696,345)
New Loans Receivable Issued	(102,380)	0	0	(102,380)	0
Payments Received on Loans Receivable	15,673	0	0	15,673	23,944
Net Cash Provided (Used) - Investing	(86,707)	(1,631,958)	(279,205)	(1,997,870)	(3,196,781)
Cash Flows from Financing Activities:					
Proceeds from External Borrowing	325,000	188,000	0	513,000	104,318
Proceeds (Payments) Inter-Fund Borrowing	(97,143)	50,933	46,210	0	0
Principal Payments on Loans Payable	(15,909)	0	0	(15,909)	(15,909)
Deferred Capital Contributions Received	0	366,202	0	366,202	0
Donated Capital Assets Received	0	903,750	0	903,750	2,696,345
Proceeds from New Gift Annuities	0	0	234,055	234,055	87,040
Annuities Investment Income	0	0	52,562	52,562	33,259
Annuity Payments	0	0	(18,722)	(18,722)	(15,641)
Distribution of Matured Annuities	0	0	(46,210)	(46,210)	0
Donations Received for Endowments	0	0	80,000	80,000	20,000
Proceeds (Payments) Agency Deposits	0	0	(1,816)	(1,816)	(2,799)
Net Cash Provided (Used) - Financing	211,948	1,508,885	346,079	2,066,912	2,906,613
Increase (Decrease) Cash & Equivalents	594,315	0	0	594,315	2,080
Cash and Cash Equivalents, Beginning	573,358	0	0	573,358	571,278
Cash and Cash Equivalents, Ending	1,167,673	0	0	1,167,673	573,358

Supplemental Cash Flow Data: Cash paid during the year for interest was $3,100.
The accompanying notes are an integral part of these financial statements.

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18A.04**(1)
Notes to the Financial Statements (Fair Value model)
Years ended December 31, 2007 and 2006

Note 1 - Organization Description and Summary of Significant Accounting Policies

Organization Description

Seventh-day Adventist congregations within [briefly describe the territory] have formed the Canadian Conference of the Seventh-day Adventist Church (Organization). The Organization's primary purpose is to spread the gospel of Jesus Christ throughout its territory. The Organization provides services to all church congregations and schools in its territory, and is a member of the Seventh-day Adventist Church in Canada. The Organization holds legal title to all denominational property in its territory, and performs certain fiduciary duties.

The Organization receives most of its revenue in the form of contributions from individuals in its constituent congregations. These congregations carry out the Organization's mission within their respective local communities and remit to the Organization certain contributions designated for its larger territory and related world-wide functions. The Organization sends designated portions of these contributions through established procedures to the General Conference of Seventh-day Adventists. Because each member congregation is operated by a local board, they are not considered controlled entities subject to consolidation in these financial statements. The Organization does not control the operating, investing, or financing operations of the local congregations.

[If the Organization operates an ABC as a department, describe the ABC here.]

The Organization is incorporated under the laws of the province of (name) and is a registered Canadian charity which is exempt from income taxes. [See Note 1k for description of affiliated organizations.]

Summary of Significant Accounting Policies

(a) The significant accounting policies of the Organization are essentially the same as generally accepted accounting principles for not-for-profit organizations as promulgated by the Canadian Institute of Chartered Accountants. The significant policies are described below to enhance the usefulness of the financial statements. The financial statements of the Organization have been prepared on the accrual basis of accounting.

(b) Fund Accounting: To ensure observance of limitations and restrictions placed on the use of resources available to the Organization, the accounts are maintained in accordance with the principles of fund accounting. Resources are classified for accounting and reporting into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds are combined into groups, and totals are presented for the Organization as a whole. The funds and fund groups are described in further detail below.

Operating Fund: includes current operating assets, liabilities, and transactions emanating from restricted and unrestricted resources of an operating nature.

Plant Fund: consists of two classes of net assets; the Unexpended class for resources that are held for use in future acquisitions of capital assets (land, buildings, and equipment), and the Net Invested class for accounts related to capital assets that have been acquired. The Unexpended class consists of resources that were donor restricted (held as deferred contributions) or conference committee allocated (held as internally restricted net assets) for future acquisitions. Allocated funds can be returned to the operating funds by action of the committee. The allocated balance includes the unused portion of funded depreciation, additional funds transferred for acquisitions, proceeds from sale of capital assets, and unrestricted plant fund investment earnings. The Net Invested class consists of the cost of capital assets acquired or contributed, respective accumulated depreciation, any respective debt, and the unamortized portion of deferred capital contributions.

Other Funds: a combination of the Endowment, Annuity, and Agency funds.

Endowment Fund: represents funds that are subject to restrictions of gift instruments requiring that the principal be held in perpetuity, be invested, and only the income from such investments be used. The principal of true endowments is reported as Endowment Net Assets. Contributions received for endowment principal are recorded as direct additions to endowment net assets. (See paragraph (j) below for accounting principles for investment income on endowments.)

Annuity Fund: represents funds that are subject to the conditions stated in Gift Annuity Agreements. By denominational policy all funds received are to be held until maturity, and no portion of such funds received may be used except to meet the regular annuity payments when they exceed earnings from investment of the annuity funds. When an annuity agreement is accepted, assets are recorded at fair market value, a net present value liability is recorded for the actuarial liability due to the annuitant, and the remainder, which is the gift portion, is recorded as either deferred contribution, if externally restricted, or internally restricted net assets, if unrestricted by the donor. The net present value of the liability due to annuitants is revalued annually using published actuarial tables.

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18A.04**(2)
Notes to the Financial Statements (Fair Value model)
Years ended December 31, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies (continued)

Agency Fund: a group of accounts that hold resources received by the Organization as fiscal agent for other entities. These funds may be commingled with other resources unless directed by the provider to be specifically invested. Investment income is distributed pro-rata to depositors, and is not recorded as revenue or expense of the Organization.

(c) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Restricted Resources: The Organization follows the Deferral Method of accounting for contributions. Gifts of cash and other assets are reported as externally restricted contributions if they are received with donor stipulations that limit use of the donated assets. When such assets are used for the restricted purpose or a stipulated time restriction expires, restricted assets are recognized as income and reported in the statement of operations. Until recognized as income, they are recorded in a liability account as deferred contributions. Gifts of cash or other assets that must be used to acquire plant assets are reported as deferred contributions. Deferred contributions that have been spent to acquire plant assets are reported as deferred capital contributions, and are amortized and recognized as revenue on the same basis as the depreciation expense on the related plant assets.

(e) Donated Capital Assets: The value of donated depreciable capital assets, whether or not restricted, is also deferred, and amortized and recognized as revenue on the same basis as depreciation expense on the related capital assets. The value of donated land is recognized as an increase to net assets invested in capital assets at the time of the gift. The unamortized portion of donated depreciable capital assets is recorded as deferred capital contributions.

(f) Capital Assets & Depreciation: Uses of operating funds for acquisition of capital assets and debt service payments are accounted for as committee approved transfers to the plant fund. Such transfers include depreciation funding and other committee allocations of unrestricted operating funds to the plant fund. Both principal and interest payments made to retire plant fund debt are recorded in the Plant Fund.

Capital assets are recorded at cost when purchased or at fair market value at date of gift. In its corporate capacity, the Canadian Conference of the Seventh-day Adventist Church holds legal title to the church and school properties used by local church congregations. The value of these properties is included in the Plant Fund. Depreciation of land improvements, buildings, and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation expense is recorded in the Plant Fund within various program, supporting services, and church and school properties functions in the statement of operations and changes in net assets. The following ranges of estimated useful lives are assigned to these assets: Land Improvements: 10-40 years; Buildings: 30-50 years; Equipment: 3-20 years.

(g) Cash and Equivalents: Cash equivalents are highly-liquid assets of the Operating Funds, which are readily convertible to cash and have a maturity date of three months or less from date of acquisition. Highly-liquid assets that are held for externally restricted purposes or for internally restricted long-term purposes are classified as noncurrent assets, rather than as cash or cash equivalents. The increase or decrease in noncurrent highly-liquid assets is reported in the statement of cash flows as proceeds from sale or maturity or as purchases of investments.

(h) Carrying Value of Financial Instruments: Following are the major methods and assumptions used to record investments:

Financial instruments recorded in the statement of financial position consist of cash, term deposits, accounts receivable, loans receivable, debt and equity securities, accounts payable and accrued liabilities, loans payable, and agency accounts. At December 31, 20X7 and 20X6, the difference between fair value and carrying value of financial instruments other than debt and equity securities was not deemed significant. The Organization does not have significant credit risk to any other entity.

Investments in debt and equity securities are held for current income and/or appreciation in value, and are classified as held for trading. All investments whose fair value can be reasonably determined are carried at fair value based on the portfolio as a whole for each type of instrument. The difference between aggregate fair value and historical cost for each type of instrument is recorded in a valuation account. The change in this valuation account during each period is recognized as unrealized gain or loss in the statement of changes in net assets, and is recorded in the Fund in which the investments are held.

Accounts receivable and loans receivable from related parties are classified as held-to-maturity instruments, and are valued at the amortized amount receivable at the reporting date. Allowance has been made for accounts and loans which are not expected to be repaid. All related party loans receivable, by intent and practice, are expected to be held to maturity. At December 31, 20X7 and 20X6, the difference between market value and the carrying value was not deemed to be significant.

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18A.04**(3)
Notes to the Financial Statements (Fair Value model)
Years ended December 31, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies (continued)

(i) Current Assets & Liabilities: Assets and liabilities are classified as current or noncurrent, depending on their nature. This excludes from current assets, cash and claims to cash that are restricted for other than current operations, committee allocated for the acquisition or construction of capital assets or for the liquidation of plant fund debt, or held as agent for others. This excludes from current liabilities the long-term portion of all debt, plant fund debt payable within the next fiscal year to the extent covered by designated plant fund liquid assets, or amounts held as fiscal agent for others. Working capital (current assets less current liabilities) for the Organization usually reflects working capital of only the operating funds, since usually no assets or liabilities of the plant, endowment, annuity, or agency funds are classified as current.

(j) Investment Income: Ordinary income from investments, loans, etc., is accounted for in the fund owning the assets, except for the endowment fund. Unrestricted income on endowment fund investments is accounted for as income of the operating fund. Restricted income on endowment fund investments is accounted for as deferred contributions until spent for the purpose designated by the endowment instrument. Restricted investment income that is required to be added to endowment principal, including unrealized gain or loss in fair value, is recorded as direct additions to net assets in the endowment fund.

(k) Affiliated Organizations: This Organization operates through several entities with which it is affiliated by reason of control and/or economic interest. Inter-organization transactions carried on in the ordinary course of business are handled through current accounts receivable and payable, and are settled generally on a monthly basis. Control is evidenced by authority to select a majority of the members of the respective governing committees as described below. Economic interest is evidenced by other financial transactions involving appropriations and loans, which are detailed in Notes 5 and 16.

S.D.A. Boarding Academy: A Christian secondary school, which is a separate unincorporated entity serving this Organization's territory. It is governed by a committee whose chairman is the president of this Organization, and whose members are selected by the governing committee of this Organization. It is a registered charity which is exempt from income taxes. Legal title to Academy real property is vested in Canadian Conference of the Seventh-day Adventist Church; real property values are accounted for in the financial statements of this Organization. This Organization has chosen not to consolidate its financial statements with those of the academy. Because this Organization exercises control over the academy, summarized financial data is presented in Note 16.

S.D.A. Day Academy: A Christian secondary school, which is a separate unincorporated entity serving part of this Organization's territory. It is governed by a committee that is chosen by the members of certain constituent churches within this Organization's territory. Two of this Organization's administrative staff serve on the committee. The academy is a registered charity which is exempt from income taxes. Legal title to Academy real property is vested in Canadian Conference of the Seventh-day Adventist Church; real property values are accounted for in the financial statements of this Organization. Because this Organization does not exercise control over the academy, summarized financial data is not presented in these financial statements.

Note 2 - Cash & Cash Equivalents	2007	2006
Imprest Cash	1,600	1,600
Chequing Accounts	172,879	91,365
Saving & Money Market Accounts	1,050,000	530,000
Less Cash Held for Agency	(56,806)	(49,607)
Total Operating Cash & Cash Equivalents	1,167,673	573,358

Note 3 - Investments	2007			2006		
	Cost	Fair Value	Unrealized Appreciation (Decline)	Cost	Fair Value	Unrealized Appreciation (Decline)
2 year Term Deposit	100,000	100,000	0	100,000	100,000	0
Government-issued Bond	235,060	233,050	(2,010)	235,060	236,025	965
Gen Conf Investment Fund	205,908	192,646	(13,262)	205,908	206,100	192
Total Investments	540,968	525,696	(15,272)	540,968	542,125	1,157
The Carrying Value of Investments is Fair Value		525,696			542,125	

The term deposit has a face value of $100,000, a maturity date of November 2008, and an interest rate of 6%. The government bond has a face value of $230,000, a maturity date of June 2010, and an interest rate of 7%. The General Conference Investment Fund is a unitized fund that holds primarily government and corporate debt and equity securities (equity securities by policy never exceed 75% of the total portfolio). The Organization's cost of units held is $205,908.

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18A.04**(4)
Notes to the Financial Statements (Fair Value model)
Years ended December 31, 2007 and 2006

Note 4 - Accounts Receivable

	2007 Total	2006 Total
Church Remittances	292,400	260,000
Church Schools	32,982	28,709
Adventist Book Centre	8,875	6,556
Employees' Accounts	26,085	19,276
SDA Academy	66,132	99,179
Allowance for Uncollectible Accounts	(1,000)	0
Net Accounts Receivable	425,474	413,720

Note 5 - Loans Receivable - Operating

	2007			2006		
	Current	Long Term	Total	Current	Long Term	Total
Unsecured Church & School Loans 6% interest, payments of principal and interest at $1,000 per month.	12,000	88,000	100,000	0	0	0
Unsecured Church & School Loans 6% Interest payable monthly, principal payable on demand.	130	54,070	54,200	11,260	50,000	61,260
Allowance for Uncollectible	0	(1,820)	(1,820)	(1,000)	0	(1,000)
Sub-total Unsecured	12,130	140,250	152,380	10,260	50,000	60,260
Secured Employee Home Loans 8% Interest, payments of principal and interest at $1,200 per month.	5,490	96,000	101,490	5,413	101,490	106,903
Total Loans Receivable	17,620	236,250	253,870	15,673	151,490	167,163

Loans receivable are from member organizations or employees of the Conference. Terms of the loans vary between 10 and 20 years. Collateral on the secured employee home loans consists of mortgages on the respective properties. At December 31, 2007 and 2006, the difference between market value and carrying value was not deemed to be significant.

Note 6 - Capital Assets

		Total Cost	Accumulated Depreciation	Net Value	Depreciation Expense General	Depreciation Expense Capital
2007						
Conference Use:	Land	240,856	0	240,856	0	0
	Land Improvements	255,991	96,851	159,140	11,116	0
	Buildings	1,456,266	652,829	803,437	54,495	0
	Equipment & Furnishings	403,971	201,930	202,041	36,500	0
Churches & Schools:	Land	1,794,050	0	1,794,050	0	0
	Buildings	5,832,160	2,411,408	3,420,752	0	97,203
Capital Assets, 12-31-07		9,983,294	3,363,018	6,620,276	102,111	97,203
2006						
Conference Use:	Land	174,856	0	174,856	0	0
	Land Improvements	166,659	85,735	80,924	8,333	0
	Buildings	1,256,935	610,291	646,644	49,334	0
	Equipment & Furnishings	324,581	169,875	154,706	31,420	0
Churches & Schools:	Land	1,492,800	0	1,492,800	0	0
	Buildings	4,928,410	2,314,205	2,614,205	0	82,140
Capital Assets, 12-31-06		8,344,241	3,180,106	5,164,135	89,087	82,140

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18A.04**(5)
Notes to the Financial Statements (Fair Value model)
Years ended December 31, 2007 and 2006

Note 7 - Noncurrent Cash and Investments

	Unexpended Plant	Endowment Fund	Annuity Fund	Agency Fund	2007 Total	2006 Total
Money Market Accounts	175,274	0	22,320	52,979	250,573	325,202
Term Deposits and GIC's	230,000	0	170,000	0	400,000	250,000
Noncurrent Cash	405,274	0	192,320	52,979	650,573	575,202
Government Bonds, Cost	100,000	100,000	300,000	0	500,000	0
Unrealized Appreciation (Decline)	1,500	1,500	4,500	0	7,500	0
Noncurrent Investments Fair Value	101,500	101,500	304,500	0	507,500	0
Noncurrent Cash & Invest. 2007	506,774	101,500	496,820	52,979	1,158,073	
Noncurrent Cash & Invest. 2006	209,108	20,000	291,299	54,795		575,202

Note 8 - Accounts Payable and Accrued Liabilities

	2007	2006
Union Conference, Tithe & Offerings	97,500	85,800
Employee Accounts	6,510	10,409
SDA Academy	2,669	0
Commercial Accounts	143,478	236,352
Local Churches	750	0
Miscellaneous	9,697	23,546
Total Accounts Payable and Accrued Liabilities	260,604	356,107

Note 9 - Loans Payable - Operating

	2007			2006		
Operating Fund (Unsecured)	Current	Long Term	Total	Current	Long Term	Total
Security Bank; $225,000 at 9%, principal and interest payable at $4,056 per month.	33,166	191,834	225,000	0	0	0
XYZ Corp.; $100,000 at 9%, principal and interest payable at $2,076 per month.	21,744	78,256	100,000	7,500	0	7,500
National Bank; $68,000 at 9%, principal and interest payable at $996 per month.	5,471	62,529	68,000	8,409	68,000	76,409
Total Loans Payable - Operating	60,381	332,619	393,000	15,909	68,000	83,909

Note 10 - Loans Payable - Other than Operating

	2007			2006		
Plant Fund (Secured Mortgage)	Current	Long-Term	Total	Current	Long-Term	Total
National Bank; $188,000 at 8.5%, principal and interest payable at $2,706 per month.	17,146	170,854	188,000	0	0	0

For Notes 9 & 10: Amounts due on principal during the next five years are as follows:

	2008	2009	2010	2011	2012	Future	Total
Operating Fund	60,381	64,221	68,416	73,019	78,088	48,875	393,000
Plant Fund	17,146	18,662	20,312	22,107	24,061	85,712	188,000

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18A.04**(6)
Notes to the Financial Statements (Fair Value model)
Years ended December 31, 2007 and 2006

Note 11 - Transfers Between Funds	Operating Funds	Plant Funds	Other Funds	2007 Total
Depreciation / Acquisition Funding	(94,884)	94,884		0
Unrestricted Matured Annuities	70,945		(70,945)	0
Net Transfers - In (Out)	(23,939)	94,884	(70,945)	0

Note 12 - Gift Annuities Changes in Gift Portion	Externally Restricted Annuities	Unrestricted Annuities	Total Annuities 2007	Total Annuities 2006
Annuity Investment Income	20,682	31,880	52,562	33,259
Gift Portion of New Annuities Added	22,595	99,015	121,610	45,810
Actuarial Adjustment from (to) Present Value	30,657	14,912	45,569	4,266
Required Payments to Annuitants	(10,025)	(8,697)	(18,722)	(15,641)
Distributions from Matured Annuities	(46,210)	0	(46,210)	0
Increase (Decrease) for the Year	17,699	137,110	154,809	67,694
Deferred Contributions, Beginning	58,478			
Deferred Contributions, Ending	76,177			
Internally Restricted Net Assets, Beginning		95,759		
Transfer of Unrestricted Maturity to Operating Fund		(70,945)	(70,945)	0
Internally Restricted Net Assets, Ending		161,924		
Total Annuity Gift Portion, Beginning			154,237	86,543
Total Annuity Gift Portion, Ending			238,101	154,237
Changes in Liability to Annuitants				
Present Value of Liability, Beginning	89,179	76,488	165,667	128,703
Actuarial Adjustments	(30,657)	(14,912)	(45,569)	(4,266)
Liability of New Annuities Added	52,405	60,040	112,445	41,230
Present Value of Liability, Ending	110,927	121,616	232,543	165,667

Note 13 - Deferred Contributions

Unspent externally restricted contributions are available for the following purposes or periods:	Deferred Balance 12/31/06	Total Received 2007	Amount Used 2007	Deferred Balance 12/31/07
Church Program Functions	897	238,354	210,876	28,375
Educational Program Functions	50,000	205,337	205,337	50,000
Special Services Functions	31,475	42,797	48,005	26,267
Ingathering Reversion	26,410	142,038	86,632	81,816
Sub-total Operating Activity	108,782	628,526	550,850	186,458
Church Program Capital Functions	41,059	102,202	56,500	86,761
Educational Program Capital Functions	0	264,000	114,000	150,000
Sub-total Capital Functions (Note 14) *	41,059	366,202	170,500	236,761
Restricted Annuities (Note 12)	58,478	17,699	0	76,177
Total Deferred Contributions	208,319	1,012,427	721,350	499,396

* The $170,500 used for capital functions represents externally restricted contributions that were spent during the year for acquisition of new capital assets. This amount is moved from Deferred Contributions (Note 13) into Deferred Capital Contributions (Note 14), and is then amortized and recognized as revenue over the useful life of the respective capital assets.

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18A.04**(7)
Notes to the Financial Statements (Fair Value model)
Years ended December 31, 2007 and 2006

Note 14 - Deferred Capital Contributions

Externally restricted contributions used for acquisition of capital assets, and donated capital assets consist of the following:	Deferred Balance 12/31/06	Total Added 2007	Amount Amortized 2007	Deferred Balance 12/31/07
Spent for Church Program Functions	0	56,500	5,650	50,850
Spent for Educational Program Functions	0	114,000	11,400	102,600
Donated Church and School Properties	2,614,205	903,750	97,203	3,420,752
Total Deferred Capital Contributions	2,614,205	1,074,250	114,253	3,574,202

The amount spent from externally restricted contributions to acquire capital assets and the amount of donated assets are amortized and recognized as revenue over the useful life of the respective capital assets.

Note 15 - Components of Net Assets	Operating Funds	Plant Funds	Other Funds	2007 Total	2006 Total
Unrestricted Net Assets, Beginning	1,054,094	278,356	95,759	1,428,209	1,031,117
Excess (Deficiency) Revenues over Expenses	505,418	29,689	141,610	676,717	504,172
Capital Assets Purchased	0	(73,542)	0	(73,542)	(107,080)
Transfers Between Funds	(23,939)	94,884	(70,945)	0	0
Unrestricted Net Assets, Ending	1,535,573	329,387	166,424	2,031,384	1,428,209
Invested in Capital Assets, Beginning		2,549,930		2,549,930	2,501,662
Excess (Deficiency) Revenues over Expenses		(66,648)		(66,648)	(58,812)
Capital Assets Acquired		73,542		73,542	107,080
Church and School Properties Added		301,250		301,250	0
Invested in Capital Assets, Ending	0	2,858,074	0	2,858,074	2,549,930
Endowment Net Assets, Beginning			20,000	20,000	0
Endowment Fund Contributions			80,000	80,000	20,000
Endow. Unrealized Gain (Loss) Invest. Value			1,500	1,500	0
Endowment Net Assets, Ending	0	0	101,500	101,500	20,000
Total Net Assets, Ending	1,535,573	3,187,461	267,924	4,990,958	3,998,139

Note 16 - Unconsolidated Related Party

As explained in Note 1, the Organization is affiliated with SDA Boarding Academy. Balances receivable from and payable to the Academy are disclosed in Notes 4, 9, & 10. During the years 2007 and 2006, appropriations were made to the Academy as follows: operating subsidies $64,000 and $60,000, scholarship funds $6,000 and $1,000, and capital appropriations $138,000 and $70,000; for total appropriations of $208,000 and $131,000, respectively. The following represents summarized financial data for the Academy for its fiscal years ended June 30, 2007 and 2006:

	6/30/07	6/30/06
Total Assets	1,226,105	1,103,814
Total Liabilities	472,305	561,571
Total Net Assets	753,800	542,243
Total Liab. & Net Assets	1,226,105	1,103,814

	6/30/07	6/30/06
Total Revenues	1,575,559	1,271,158
Total Expenses	(1,364,002)	(1,159,601)
Excess (Deficiency)	211,557	111,557
Cash provided (used):		
Operating Activities	342,434	190,332
Investing Activities	(295,082)	(168,462)
Financing Activities	(50,000)	(20,000)
Total Cash Provided (Used)	(2,648)	1,870

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18A.04**(8)
Notes to the Financial Statements (Fair Value model)
Years ended December 31, 2007 and 2006

Note 17 - Pension Plans

The Organization is a member of a noncontributory, defined benefit pension plan and a supplemental benefit plan known as the Seventh-day Adventist Church Retirement Plan for Canadian Employees (the Plan). The Plan covers substantially all employees who have completed at least three years of service and provides a defined benefit pension based on a benefit rate factor, pension factor, and credited service. The supplemental benefit plan provides post-employment benefits such as medical benefits.

The Plan is defined as a multi-employer plan. As such, it is not reasonably possible to determine the actuarial present value of the accumulated benefit obligation or the Plan net assets for employees of the Organization apart from other plan participants. However, based on the latest actuarial evaluation of the Plan as a whole, as of January 1, 20XX, the actuarially computed value of accumulated plan benefits was estimated to be $xxx, and the Plan net assets were estimated to be $xxx, which results in a projected funding deficit for the Plan as a whole of $xxx. The Organization as a participating employer will be asked to fund its proportionate share of the funding deficit and as a result, future contributions will increase.

The required contributions from the Organization to the Plan are recorded as expense each year. Because the supplemental benefit plan is unfunded, the cost of supplemental benefits, except for pension benefits, is charged to expense as payments are made by the Organization. The amount of required contributions from the Organization were $xxx and $xxx for the years ended December 31, 2007 and 2006, respectively.

Each member organization of the SDA Church in Canada provides a retirement allowance up to a maximum of five months of salary based on years of service. The retirement allowance is paid by the organization where the individual was employed at the time of retirement, but is calculated on the basis of service credit earned from all employers in the group. Therefore, the Organization charges retirement allowances to expense in the year they are incurred.

Note 18 - Beneficial Interest in Wills [*Use this note only if the known number of wills is significant.*]

The Organization is a remainder beneficiary of at least a portion of the assets of [*number*] wills written by some of the members within its territory. These assets are not included in the financial statements of the Organization. Also, the Organization may be a beneficiary of other wills that the Organization may not be aware of.

Note 19 - Contingent Liabilities

The Organization has guaranteed certain liabilities of local church congregations and school constituencies payable to the Seventh-day Adventist Church in Canada Revolving Fund. These loans were used to acquire some of the church and school capital assets listed in Note 6. The balance due on these loans was $1,430,500 and $1,039,750 at December 31, 2007 and 2006, respectively. None of this property is pledged as collateral for any of these guaranteed loans. Principal and interest payments on these loans are scheduled to be made by the local congregations and constituencies. At December 31, 2007, no church congregations or school constituencies were delinquent on their payment schedules.

Note 20 - Concentrations of Risk

The Organization receives most of its revenue in the form of contributions from members living within its territory. The amount of contributions are subject to economic conditions that could cause loss of income among church members. The amount of contributions could also be subject to decrease if any significant number of individuals cease to be active members.

The Organization's assets include $152,380 of loans receivable from related organizations and $101,490 of loans receivable from employees. These loans represent 10% of the Organization's total Operating Fund assets. Management's estimate of the collectability of these loans could be subject to a similar economic impact as mentioned above for contribution revenue.

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18A.04**(9)
Notes to the Financial Statements (Fair Value model)
Years ended December 31, 2007 and 2006

Note 21 - Working Capital and Liquidity - Operating Funds

The following is a summary of working capital and liquidity as recommended by the Working Policy of the North American Division of the General Conference of Seventh-day Adventists. Recommended working capital is defined as 25% of unrestricted revenue, plus long-term payables, deferred operating contributions, and any internally restricted net assets for capital functions. Liquid assets are defined as cash, short-term marketable securities, and receivables from senior organizations. Liquidity commitments are defined as current liabilities and any internally restricted net assets for capital functions.

WORKING CAPITAL	2007	2006
Total Current Assets	2,209,355	1,611,316
Total Current Liabilities	564,249	530,405
Total Working Capital	1,645,106	1,080,911
** Recommended Working Capital	1,392,208	847,178
Working Capital Excess (Deficit)	252,898	233,733
Percent of Recommended Working Capital	118%	128%
Current Ratio	3.9 to 1	3.0 to 1
LIQUIDITY		
Cash	1,167,673	573,358
Investments	525,696	542,125
Accounts Receivable-Church Remittances	292,400	260,000
Cash Held for Agency	56,806	49,607
Total Liquid Assets	2,042,575	1,425,090
Less Commitments as defined by policy:		
Current Liabilities	564,249	530,405
Capital Functions Net Assets, if any	240,622	80,000
Total Commitments	804,871	610,405
Liquid Assets Surplus (Deficit)	1,237,704	814,685
Percent Liquid Assets to Commitments	254%	233%
** Calculation of Recommended Working Capital:		
25% of Unrestricted Revenue	632,509	590,396
Long-Term Payable	332,619	68,000
Deferred Contributions - Operating	186,458	108,782
Capital Functions Net Assets	240,622	80,000
Total Recommended Working Capital	1,392,208	847,178

Appendix 18B

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH

Financial Statements (LCM model)

December 31, 2006 and 2005

[*This sample financial statement illustrates use of the **lower of cost or market method** for valuing financial instruments. (In Canada, this method is applicable for only years that began prior to October 1, 2006.)*]

[*This sample financial statement also illustrates use of the Deferral Method of accounting for externally-restricted (donor-restricted) resources that have not yet been spent or used.*]

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18B.01**
Statement of Financial Position (LCM model)
December 31, 2006 and 2005

ASSETS	Operating Funds	Plant Funds	Other Funds	2006 Total	2005 Total
Current Assets					
Cash (Note 2)	1,167,673	0	0	1,167,673	573,358
Investments (Note 3)	525,696	0	0	525,696	540,968
Accounts Receivable, net (Note 4)	425,474	0	0	425,474	413,720
Cash Held for Agency	56,806			56,806	49,607
Loans Receivable (Note 5)	17,620	0	0	17,620	15,673
Inventories and Prepaid Expense	16,086	0	0	16,086	16,833
Total Current Assets	2,209,355	0	0	2,209,355	1,610,159
Capital Assets, Net (Note 6)	0	6,620,276	0	6,620,276	5,164,135
Other Noncurrent Assets					
Loans Receivable, Long-term (Note 5)	236,250	0	0	236,250	151,490
Cash and Investments (Note 7)	0	505,274	645,299	1,150,573	575,202
Accrued Interest Receivable	0	0	24,534	24,534	28,605
Inter-Fund Accounts Receivable	0	59,374	0	0	0
Total Other Noncurrent Assets	236,250	564,648	669,833	1,411,357	755,297
Total Assets	2,445,605	7,184,924	669,833	10,240,988	7,529,591
LIABILITIES					
Current Liabilities					
Accounts Payable & Accrued Liabilities (Note 8)	260,604	0	0	260,604	356,107
Loans Payable, Current (Note 9)	60,381	0	0	60,381	15,909
Inter-Fund Accounts Payable	13,164	0	0	0	0
Deferred Contributions - Operating (Note 13)	186,458	0	0	186,458	108,782
Agency Funds	56,806	0	0	56,806	49,607
Total Current Liabilities	577,413	0	0	564,249	530,405
Noncurrent Liabilities					
Deferred Contributions (Notes 12, 13)	0	236,761	76,177	312,938	99,537
Deferred Capital Contributions (Note 14)	0	3,574,202	0	3,574,202	2,614,205
Loans Payable, Long-term (Note 9)	332,619	0	0	332,619	68,000
Loans Payable (Note 10)	0	188,000	0	188,000	0
Annuity Liability Present Value (Note 12)	0	0	232,543	232,543	165,667
Agency Liability to Depositors	0	0	52,979	52,979	54,795
Inter-Fund Accounts Payable	0	0	46,210	0	0
Total Noncurrent Liabilities	332,619	3,998,963	407,909	4,693,281	3,002,204
Total Liabilities	910,032	3,998,963	407,909	5,257,530	3,532,609
NET ASSETS					
Unrestricted Unallocated	289,736	0	0	289,736	308,074
Internally Restricted	1,245,837	327,887	161,924	1,735,648	1,118,978
Sub-total Unrestricted	1,535,573	327,887	161,924	2,025,384	1,427,052
Invested in Capital Assets	0	2,858,074	0	2,858,074	2,549,930
Endowment	0	0	100,000	100,000	20,000
Total Net Assets (Note 15)	1,535,573	3,185,961	261,924	4,983,458	3,996,982
Total Liabilities & Net Assets	2,445,605	7,184,924	669,833	10,240,988	7,529,591

The accompanying notes are an integral part of these financial statements.

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18B.02**(1)
Statement of Operations and Changes in Net Assets (LCM model)
Years ended December 31, 2006 and 2005

General Activity	Operating Funds	Plant Funds	Other Funds	Actual 2006 Total	Budget 2006 Total	Actual 2005 Total
Unrestricted Revenue and Support:						
Gross Tithe Income	2,767,767	0	0	2,767,767	2,565,000	2,700,281
Tithe Percentages Passed On	(853,008)	0	0	(853,008)	(790,150)	(832,340)
Net Tithe Income	1,914,759	0	0	1,914,759	1,774,850	1,867,941
Investment Earnings	76,954	31,289	0	108,243	102,559	70,308
Church Schools Salary Share	373,386	0	0	373,386	356,000	345,000
Departmental Fees and Sales	137,841	0	0	137,841	88,000	88,164
Residence Rent Income	28,251	0	0	28,251	23,000	12,893
Annuities, Net Income (Note 12)	0	0	137,110	137,110	47,725	56,226
Total Unrestricted Revenue	2,531,191	31,289	137,110	2,699,590	2,392,134	2,440,532
Restricted Revenue Used:						
Offerings and Donations	339,781	0	0	339,781	409,308	325,991
Subsidies and Appropriations	109,609	0	0	109,609	107,500	93,195
Matured Deferred Gifts	86,210	0	0	86,210	15,000	0
Endowment Income	15,250	0	0	15,250	14,750	14,750
Restricted Rev. Used (Note 13, 14)	550,850	0	0	550,850	546,558	433,936
Total Revenue and Support	3,082,041	31,289	137,110	3,250,440	2,938,692	2,874,468
Expenses and Losses:						
Program Services Functions						
Church Ministries	918,343	45,888	0	964,231	976,507	950,282
Educational	985,127	11,400	0	996,527	954,995	834,152
Publishing	48,320	0	0	48,320	48,320	46,761
Special Services	105,999	0	0	105,999	172,987	119,848
Retirement and Other	288,466	0	0	288,466	270,833	280,126
Total Program Services	2,346,255	57,288	0	2,403,543	2,423,642	2,231,169
Supporting Services Function						
Administration-Office Resources	168,080	0	0	168,080	159,515	141,035
Conventions and Meetings	4,765	0	0	4,765	6,300	6,195
Bldg & Equip Operations & Maint	18,472	20,950	0	39,422	40,975	39,168
Moving Van Operations	29,284	4,393	0	33,677	34,343	30,080
Residence Rental	8,610	22,580	0	31,190	30,195	12,893
Total Supporting Services	229,211	47,923	0	277,134	271,328	229,371
Total Expenses and Losses	2,575,466	105,211	0	2,680,677	2,694,970	2,460,540
Excess (Deficiency) of General Revenue over Expense	506,575	(73,922)	137,110	569,763	243,722	413,928

The accompanying notes are an integral part of these financial statements.

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18B.02**(2)
Statement of Operations and Changes in Net Assets (LCM model)
Years ended December 31, 2006 and 2005

	Operating Funds	Plant Funds	Other Funds	Actual 2006 Total	Budget 2006 Total	Actual 2005 Total
Excess (Deficiency) of General Revenue over Expense	506,575	(73,922)	137,110	569,763	243,722	413,928
Capital Activity						
Capital Revenue and Support:						
Capital Contributions Amortized	0	114,253	0	114,253	100,000	82,140
Gain (Loss) Sale of Cap. Assets	0	18,413	0	18,413	39,600	30,275
Capital Revenue	0	132,666	0	132,666	139,600	112,415
Capital Expenses						
Church & School Properties Exp.	0	97,203	0	97,203	85,000	82,140
Excess (Deficiency) of Capital Revenue over Expense	0	35,463	0	35,463	54,600	30,275
Excess (Deficiency) of Total Revenues over Expenses	506,575	(38,459)	137,110	605,226	298,322	444,203
Church/School Properties Added *	0	301,250	0	301,250	425,000	0
Endowment Donations (Note 15)	0	0	80,000	80,000	0	20,000
Transfers Between Fds (Note 11)	(23,939)	94,884	(70,945)	0	0	0
Net Assets, Beginning **	1,052,937	2,828,286	115,759	3,996,982	3,996,982	3,532,779
Net Assets, End of Year (Note 15)	1,535,573	3,185,961	261,924	4,983,458	4,720,304	3,996,982

* Church and school properties added to net assets during the current year comprise the value of the land portion of the property acquired or contributed during the year. The value of the building portion of the property is added to deferred capital contributions. (See Notes 1e, 14, and 15)

** If the beginning net assets have been restated due to the adoption of new accounting principles, explain the changes in a section added to the end of Note 1 about significant accounting policies, and cross-reference it here.

The accompanying notes are an integral part of these financial statements.

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18B.03**
Statement of Cash Flows (LCM model)
Years ended December 31, 2006 and 2005

Cash Flows from Operating	Operating Funds	Plant Funds	Other Funds	2006 Total	2005 Total
Excess (Deficiency) of Total Revenues over Expenses	506,575	(38,459)	137,110	605,226	444,203
Adjustments to reconcile excess (deficiency) of revenue over expense to net cash provided:					
Depreciation Expense	0	199,314	0	199,314	171,217
Amortization of Deferred Capital Contributions	0	(114,253)	0	(114,253)	(82,140)
Gain on Sale of Plant Assets	0	(18,413)	0	(18,413)	(30,275)
Annuity Fund Net (Increase) Decrease	0	0	(137,110)	(137,110)	(111,215)
Unrealized Loss in Value of Investments	15,272	0	0	15,272	0
(Increase) Decrease Accounts Receivable	(11,754)	0	4,071	(7,683)	(74,059)
(Increase) Decrease Agency Cash	(7,199)	0	0	(7,199)	500
(Increase) Decrease Inventories & Prepaid	747	0	0	747	(1,614)
Increase (Decrease) Accounts Payable	(95,503)	0	0	(95,503)	(53,943)
Increase (Decrease) Agency Funds	7,199	0	0	7,199	(500)
Increase (Decrease) Deferred Contributions	77,676	0	0	77,676	30,074
Net Transfers Between Funds - In (Out)	(23,939)	94,884	(70,945)	0	0
Net Cash Provided (Used) - Operating	469,074	123,073	(66,874)	525,273	292,248
Cash Flows from Investing					
Proceeds from Maturity of Investments	0	33,834	0	33,834	0
Purchase of Investments	0	(330,000)	(279,205)	(609,205)	(417,300)
Proceeds from Sale of Capital Assets	0	41,865	0	41,865	18,750
Purchases of Capital Assets	0	(473,907)	0	(473,907)	(125,830)
Donated Capital Assets Placed in Service	0	(903,750)	0	(903,750)	(2,696,345)
New Loans Receivable Issued	(102,380)	0	0	(102,380)	0
Payments Received on Loans Receivable	15,673	0	0	15,673	23,944
Net Cash Provided (Used) - Investing	(86,707)	(1,631,958)	(279,205)	(1,997,870)	(3,196,781)
Cash Flows from Financing					
Proceeds from External Borrowing	325,000	188,000	0	513,000	104,318
Proceeds (Payments) Inter-Fund Borrowing	(97,143)	50,933	46,210	0	0
Principal Payments on Loans Payable	(15,909)	0	0	(15,909)	(15,909)
Deferred Capital Contributions Received	0	366,202	0	366,202	0
Donated Capital Assets Received	0	903,750	0	903,750	2,696,345
Proceeds from New Gift Annuities	0	0	234,055	234,055	87,040
Annuities Investment Income	0	0	52,562	52,562	33,259
Annuity Payments	0	0	(18,722)	(18,722)	(15,641)
Distribution of Matured Annuities	0	0	(46,210)	(46,210)	0
Donations Received for Endowments	0	0	80,000	80,000	20,000
Proceeds (Payments) Agency Deposits	0	0	(1,816)	(1,816)	(2,799)
Net Cash Provided (Used) - Financing	211,948	1,508,885	346,079	2,066,912	2,906,613
Increase (Decrease) Cash & Equivalents	594,315	0	0	594,315	2,080
Cash and Cash Equivalents, Beginning	573,358	0	0	573,358	571,278
Cash and Cash Equivalents, Ending	1,167,673	0	0	1,167,673	573,358

Supplemental Cash Flow Data: Cash paid during the year for interest was $3,100.
The accompanying notes are an integral part of these financial statements.

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18B.04**(1)
Notes to the Financial Statements (LCM model)
Years ended December 31, 2006 and 2005

Note 1 - Organization Description and Summary of Significant Accounting Policies

Organization Description

Seventh-day Adventist congregations within [briefly describe the territory] have formed the Canadian Conference of the Seventh-day Adventist Church (Organization). The Organization's primary purpose is to spread the gospel of Jesus Christ throughout its territory. The Organization provides services to all church congregations and schools in its territory, and is a member of the Seventh-day Adventist Church in Canada. The Organization holds legal title to all denominational property in its territory, and performs certain fiduciary duties.

The Organization receives most of its revenue in the form of contributions from individuals in its constituent congregations. These congregations carry out the Organization's mission within their respective local communities and remit to the Organization certain contributions designated for its larger territory and related world-wide functions. The Organization sends designated portions of these contributions through established procedures to the General Conference of Seventh-day Adventists. Because each member congregation is operated by a local board, they are not considered controlled entities subject to consolidation in these financial statements. The Organization does not control the operating, investing, or financing operations of the local congregations.

[If the Organization operates an ABC as a department, describe the ABC here.]

The Organization is incorporated under the laws of the province of (name) and is a registered Canadian charity which is exempt from income taxes. [See Note 1k for description of affiliated organizations.]

Summary of Significant Accounting Policies

(a) The significant accounting policies of the Organization are essentially the same as generally accepted accounting principles for not-for-profit organizations as promulgated by the Canadian Institute of Chartered Accountants. The significant policies are described below to enhance the usefulness of the financial statements. The financial statements of the Organization have been prepared on the accrual basis of accounting.

(b) Fund Accounting: To ensure observance of limitations and restrictions placed on the use of resources available to the Organization, the accounts are maintained in accordance with the principles of fund accounting. Resources are classified for accounting and reporting into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds are combined into groups, and totals are presented for the Organization as a whole. The funds and fund groups are described in further detail below.

Operating Fund: includes current operating assets, liabilities, and transactions emanating from restricted and unrestricted resources of an operating nature.

Plant Fund: consists of two classes of net assets; the Unexpended class for resources that are held for use in future acquisitions of capital assets (land, buildings, and equipment), and the Net Invested class for accounts related to capital assets that have been acquired. The Unexpended class consists of resources that were donor restricted (held as deferred contributions) or conference committee allocated (held as internally restricted net assets) for future acquisitions. Allocated funds can be returned to the operating funds by action of the committee. The allocated balance includes the unused portion of funded depreciation, additional funds transferred for acquisitions, proceeds from sale of capital assets, and unrestricted plant fund investment earnings. The Net Invested class consists of the cost of capital assets acquired or contributed, respective accumulated depreciation, any respective debt, and the unamortized portion of deferred capital contributions.

Other Funds: a combination of the Endowment, Annuity, and Agency funds.

Endowment Fund: represents funds that are subject to restrictions of gift instruments requiring that the principal be held in perpetuity, be invested, and only the income from such investments be used. The principal of true endowments is reported as Endowment Net Assets. Contributions received for endowment principal are recorded as direct additions to endowment net assets. (Accounting principles for investment income on endowments are described in paragraph (j) below.)

Annuity Fund: represents funds that are subject to the conditions stated in Gift Annuity Agreements. By denominational policy all funds received are to be held until maturity, and no portion of such funds received may be used except to meet the regular annuity payments when they exceed earnings from investment of the annuity funds. When an annuity agreement is accepted, assets are recorded at fair market value, a net present value liability is recorded for the actuarial liability due to the annuitant, and the remainder, which is the gift portion, is recorded as either deferred contribution, if externally restricted, or internally restricted net assets, if unrestricted by the donor. The net present value of the liability due to annuitants is revalued annually using published actuarial tables.

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18B.04**(2)
Notes to the Financial Statements (LCM model)
Years ended December 31, 2006 and 2005

Note 1 - Summary of Significant Accounting Policies (continued)

Agency Fund: a group of accounts that hold resources received by the Organization as fiscal agent for other entities. These funds may be commingled with other resources unless directed by the provider to be specifically invested. Investment income is distributed pro-rata to depositors, and is not recorded as revenue or expense of the Organization.

(c) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Restricted Resources: The Organization follows the Deferral Method of accounting for contributions. Gifts of cash and other assets are reported as externally restricted contributions if they are received with donor stipulations that limit use of the donated assets. When such assets are used for the restricted purpose or a stipulated time restriction expires, restricted assets are recognized as income and reported in the statement of operations. Until recognized as income, they are recorded in a liability account as deferred contributions. Gifts of cash or other assets that must be used to acquire plant assets are reported as deferred contributions. Deferred contributions that have been spent to acquire plant assets are reported as deferred capital contributions, and are amortized and recognized as revenue on the same basis as the depreciation expense on the related plant assets.

(e) Donated Capital Assets: The value of donated depreciable capital assets, whether or not restricted, is also deferred, and amortized and recognized as revenue on the same basis as depreciation expense on the related capital assets. The value of donated land is recognized as an increase to net assets invested in capital assets at the time of the gift. The unamortized portion of donated depreciable capital assets is recorded as deferred capital contributions.

(f) Capital Assets & Depreciation: Uses of operating funds for acquisition of capital assets and debt service payments are accounted for as committee approved transfers to the plant fund. Such transfers include depreciation funding and other committee allocations of unrestricted operating funds to the plant fund. Both principal and interest payments made to retire plant fund debt are recorded in the Plant Fund.

Capital assets are recorded at cost when purchased or at fair market value at date of gift. In its corporate capacity, the Canadian Conference of the Seventh-day Adventist Church holds legal title to the church and school properties used by local church congregations. The value of these properties is included in the Plant Fund. Depreciation of land improvements, buildings, and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation expense is recorded in the Plant Fund within various program, supporting services, and local church and school properties functions in the statement of operations and changes in net assets. The following ranges of estimated useful lives are assigned to capital assets: Land Improvements: 10 to 40 years; Buildings: 30 to 50 years; Equipment: 3 to 20 years.

(g) Cash and Equivalents: Cash equivalents are highly-liquid assets of the Operating Funds, which are readily convertible to cash and have a maturity date of three months or less from date of acquisition. Highly-liquid assets that are held for externally restricted purposes or for internally restricted long-term purposes are classified as noncurrent assets, rather than as cash or cash equivalents. The increase or decrease in noncurrent highly-liquid assets is reported in the statement of cash flows as proceeds from sale or maturity or as purchases of investments.

(h) Carrying Value of Financial Instruments: Following are the major methods and assumptions used to record investments:

The financial instruments recorded in the statement of financial position consist of cash, term deposits, accounts receivable, loans receivable, debt and equity securities, accounts payable and accrued liabilities, loans payable, and agency funds and deposits. At December 31, 2006 and 2005, the difference between fair market value and carrying value of financial instruments other than debt and equity securities was not deemed significant. The Organization does not have significant credit risk to any other entity.

Debt and equity securities classified as current assets are valued at the lower of cost or market at the reporting date. Investments classified as noncurrent are normally carried at cost unless there has been an other than temporary decline in market value, in which case they are written down to market value.

Loans receivable from related parties are valued at the amortized amount receivable at the reporting date. Allowance has been made for loans which are not expected to be repaid. All related party loans receivable, by intent and practice, are expected to be held to maturity. At December 31, 2006 and 2005, the difference between fair market value and the carrying value was not deemed to be significant.

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18B.04**(3)
Notes to the Financial Statements (LCM model)
Years ended December 31, 2006 and 2005

Note 1 - Summary of Significant Accounting Policies (continued)

(i) Current Assets & Liabilities: Assets and liabilities are classified as current or noncurrent, depending on their nature. This excludes from current assets, cash and claims to cash that are restricted for other than current operations, committee allocated for the acquisition or construction of capital assets or for the liquidation of plant fund debt, or held as agent for others. This excludes from current liabilities the long-term portion of all debt, plant fund debt payable within the next fiscal year to the extent covered by designated plant fund liquid assets, or amounts held as fiscal agent for others. Working capital (current assets less current liabilities) for the Organization usually reflects working capital of only the operating funds, since usually no assets or liabilities of the plant, endowment, annuity, or agency funds are classified as current.

(j) Investment Income: Ordinary income from investments, loans, etc., is accounted for in the fund owning the assets, except for the endowment fund. Unrestricted income on endowment fund investments is accounted for as income of the operating fund. Restricted income on endowment fund investments is accounted for as deferred contributions until spent for the restricted purpose designated by the endowment instrument. Restricted investment income that is required to be added to endowment principal is recorded as direct additions to net assets in the endowment fund.

(k) Affiliated Organizations: This Organization operates through several entities with which it is affiliated by reason of control and/or economic interest. Inter-organization transactions carried on in the ordinary course of business are handled through current accounts receivable and payable, and are settled generally on a monthly basis. Control is evidenced by authority to select a majority of the members of the respective governing committees as described below. Economic interest is evidenced by other financial transactions involving appropriations and loans, which are detailed in Notes 5 and 16.

S.D.A. Boarding Academy: A Christian secondary school, which is a separate unincorporated entity serving this Organization's territory. It is governed by a committee whose chairman is the president of this Organization, and whose members are selected by the governing committee of this Organization. It is a registered charity which is exempt from income taxes. Legal title to Academy real property is vested in Canadian Conference of the Seventh-day Adventist Church; real property values are accounted for in the financial statements of this Organization. This Organization has chosen not to consolidate its financial statements with those of the academy. Because this Organization exercises control over the academy, summarized financial data is presented in Note 16.

S.D.A. Day Academy: A Christian secondary school, which is a separate unincorporated entity serving part of this Organization's territory. It is governed by a committee that is chosen by the members of certain constituent churches within this Organization's territory. Two of this Organization's administrative staff serve on the committee. The academy is a registered charity which is exempt from income taxes. Legal title to Academy real property is vested in Canadian Conference of the Seventh-day Adventist Church; real property values are accounted for in the financial statements of this Organization. Because this Organization does not exercise control over the academy, summarized financial data is not presented in these financial statements.

Note 2 - Cash & Cash Equivalents	2006	2005
Imprest Cash	1,600	1,600
Chequing Accounts	172,879	91,365
Saving & Money Market Accounts	1,050,000	530,000
Less Cash Held for Agency	(56,806)	(49,607)
Total Operating Cash & Cash Equivalents	1,167,673	573,358

Note 3 - Investments	2006		2005	
	Cost	Market Value	Cost	Market Value
2 year Term Deposit	100,000	100,000	100,000	100,000
Government-issued Bond	235,060	233,050	235,060	236,025
General Conference Investment Fund	205,908	192,646	205,908	206,100
Total Investments at Cost and Market	540,968	525,696	540,968	542,125
The Carrying Value of Investments is Lower of Cost or Market		525,696	540,968	

The term deposit has a face value of $100,000 at 2006 and 2005, a maturity date of November 2007, and a weighted average interest rate of 6%. The government bond has a face value of $230,000 at 2006 and 2005, a maturity date of June 2009, and a weighted average interest rate of 7%. The General Conference Investment Fund is a unitized fund that holds investments primarily of government and corporate debt and equity securities (equity securities by policy never exceed 75% of the total portfolio). The Organization’s cost of units held is $205,908.

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18B.04**(4)
Notes to the Financial Statements (LCM model)
Years ended December 31, 2006 and 2005

Note 4 - Accounts Receivable

	2006 Total	2005 Total
Church Remittances	292,400	260,000
Church Schools	32,982	28,709
Adventist Book Centre	8,875	6,556
Employees' Accounts	26,085	19,276
SDA Academy	66,132	99,179
Allowance for Uncollectible	(1,000)	0
Net Accounts Receivable	425,474	413,720

Note 5 - Loans Receivable - Operating

	2006			2005		
	Current	Long Term	Total	Current	Long Term	Total
Unsecured Church & School Loans 6% interest, payments of principal and interest at $1,000 per month.	12,000	88,000	100,000	0	0	0
Unsecured Church & School Loans 6% Interest payable monthly, principal payable on demand.	130	54,070	54,200	11,260	50,000	61,260
Allowance for Uncollectible	0	(1,820)	(1,820)	(1,000)	0	(1,000)
Sub-total Unsecured	12,130	140,250	152,380	10,260	50,000	60,260
Secured Employee Home Loans 8% Interest, payments of principal and interest at $1,200 per month.	5,490	96,000	101,490	5,413	101,490	106,903
Total Loans Receivable	17,620	236,250	253,870	15,673	151,490	167,163

Loans receivable are from member organizations or employees of the Conference. Terms of the loans vary between 10 and 20 years. Collateral on the secured employee home loans consists of mortgages on the respective properties. At December 31, 2006 and 2005, the difference between market value and carrying value was not deemed to be significant.

Note 6 - Capital Assets

		Total	Accumulated		Depreciation Expense	
2006		Cost	Depreciation	Net Value	General	Capital
Conference Use:	Land	240,856	0	240,856	0	0
	Land Improvements	255,991	96,851	159,140	11,116	0
	Buildings	1,456,266	652,829	803,437	54,495	0
	Equipment & Furnishings	403,971	201,930	202,041	36,500	0
Churches & Schools:	Land	1,794,050	0	1,794,050	0	0
	Buildings	5,832,160	2,411,408	3,420,752	0	97,203
Capital Assets, 12-31-06		9,983,294	3,363,018	6,620,276	102,111	97,203
2005						
Conference Use:	Land	174,856	0	174,856	0	0
	Land Improvements	166,659	85,735	80,924	8,333	0
	Buildings	1,256,935	610,291	646,644	49,334	0
	Equipment & Furnishings	324,581	169,875	154,706	31,420	0
Churches & Schools:	Land	1,492,800	0	1,492,800	0	0
	Buildings	4,928,410	2,314,205	2,614,205	0	82,140
Capital Assets, 12-31-05		8,344,241	3,180,106	5,164,135	89,087	82,140

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18B.04**(5)
Notes to the Financial Statements (LCM model)
Years ended December 31, 2006 and 2005

Note 7 - Noncurrent Cash and Investments

	Unexpended Plant	Endowment Fund	Annuity Fund	Agency Fund	2006 Total	2005 Total
Money Market Accounts	175,274	0	22,320	52,979	250,573	325,202
Term Deposits and GIC's	330,000	100,000	470,000	0	900,000	250,000
Total Noncurrent Cash 12-31-06	505,274	100,000	492,320	52,979	1,150,573	
Total Noncurrent Cash 12-31-05	209,108	20,000	291,299	54,795		575,202

Note 8 - Accounts Payable and Accrued Liabilities

	2006 Total	2005 Total
Union Conference, Tithe & Offerings	97,500	85,800
Employee Accounts	6,510	10,409
SDA Academy	2,669	0
Commercial Accounts	143,478	236,352
Local Churches	750	0
Miscellaneous	9,697	23,546
Total Accounts Payable and Accrued Liabilities	260,604	356,107

Note 9 - Loans Payable - Operating

	2006			2005		
Operating Fund (Unsecured)	Current	Long Term	Total	Current	Long Term	Total
Security Bank; $225,000 at 9%, principal and interest payable at $4,056 per month.	33,166	191,834	225,000	0	0	0
XYZ Corp.; $100,000 at 9%, principal and interest payable at $2,076 per month.	21,744	78,256	100,000	7,500	0	7,500
National Bank; $68,000 at 9%, principal and interest payable at $996 per month.	5,471	62,529	68,000	8,409	68,000	76,409
Total Loans Payable - Operating	60,381	332,619	393,000	15,909	68,000	83,909

Note 10 - Loans Payable - Other than Operating

	2006			2005		
Plant Fund (Secured Mortgage)	Current	Long-Term	Total	Current	Long-Term	Total
National Bank; $188,000 at 8.5%, principal and interest payable at $2,706 per month.	17,146	170,854	188,000	0	0	0

For Notes 9 & 10: Amounts due on principal during the next five years are as follows:

	Operating Fund	Plant Fund
2007	60,381	17,146
2008	64,221	18,662
2009	68,416	20,312
2010	73,019	22,107
2011	78,088	24,061
Future	48,875	85,712
Total Due	393,000	188,000

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18B.04**(6)
Notes to the Financial Statements (LCM model)
Years ended December 31, 2006 and 2005

Note 11 - Transfers Between Funds	Operating Funds	Plant Funds	Other Funds	2006 Total
Depreciation / Acquisition Funding	(94,884)	94,884		0
Unrestricted Matured Annuities	70,945		(70,945)	0
Net Transfers - In (Out)	(23,939)	94,884	(70,945)	0

Note 12 - Gift Annuities Changes in Gift Portion	Externally Restricted Annuities	Unrestricted Annuities	Total Annuities 2006	Total Annuities 2005
Annuity Investment Income	20,682	31,880	52,562	33,259
Gift Portion of New Annuities Added	22,595	99,015	121,610	45,810
Actuarial Adjustment from (to) Present Value	30,657	14,912	45,569	4,266
Required Payments to Annuitants	(10,025)	(8,697)	(18,722)	(15,641)
Distributions from Matured Annuities	(46,210)	0	(46,210)	0
Increase (Decrease) for the Year	17,699	137,110	154,809	67,694
Deferred Contributions, Beginning	58,478			
Deferred Contributions, Ending	76,177			
Internally Restricted Net Assets, Beginning		95,759		
Transfer of Unrestricted Maturity to Operating Fund		(70,945)	(70,945)	0
Internally Restricted Net Assets, Ending		161,924		
Total Annuity Gift Portion, Beginning			154,237	86,543
Total Annuity Gift Portion, Ending			238,101	154,237
Changes in Liability to Annuitants				
Present Value of Liability, Beginning	89,179	76,488	165,667	128,703
Actuarial Adjustments	(30,657)	(14,912)	(45,569)	(4,266)
Liability of New Annuities Added	52,405	60,040	112,445	41,230
Present Value of Liability, Ending	110,927	121,616	232,543	165,667

Note 13 - Deferred Contributions

Unspent externally restricted contributions are available for the following purposes or periods:	Deferred Balance 12/31/05	Total Received 2006	Amount Used 2006	Deferred Balance 12/31/06
Church Program Functions	897	238,354	210,876	28,375
Educational Program Functions	50,000	205,337	205,337	50,000
Special Services Functions	31,475	42,797	48,005	26,267
Ingathering Reversion	26,410	142,038	86,632	81,816
Sub-total Operating Activity	108,782	628,526	550,850	186,458
Church Program Capital Functions	41,059	102,202	56,500	86,761
Educational Program Capital Functions	0	264,000	114,000	150,000
Sub-total Capital Functions (Note 14) *	41,059	366,202	170,500	236,761
Restricted Annuities (Note 12)	58,478	17,699	0	76,177
Total Deferred Contributions	208,319	1,012,427	721,350	499,396

* The $170,500 used for capital functions represents externally restricted contributions that were spent during the year for acquisition of new plant assets. This amount is moved from Deferred Contributions (Note 13) into Deferred Capital Contributions (Note 14), and is then amortized and recognized as revenue over the useful life of the respective plant assets.

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18B.04**(7)
Notes to the Financial Statements (LCM model)
Years ended December 31, 2006 and 2005

Note 14 - Deferred Capital Contributions

Externally restricted contributions used for acquisition of capital assets, and donated capital assets consist of the following:	Deferred Balance 12/31/05	Total Added 2006	Amount Amortized 2006	Deferred Balance 12/31/06
Spent for Church Program Functions	0	56,500	5,650	50,850
Spent for Educational Program Functions	0	114,000	11,400	102,600
Donated Church and School Properties	2,614,205	903,750	97,203	3,420,752
Total Deferred Capital Contributions	2,614,205	1,074,250	114,253	3,574,202

The amount spent from externally restricted contributions to acquire capital assets and the amount of donated assets are amortized and recognized as revenue over the useful life of the respective capital assets.

Note 15 - Components of Net Assets	Operating Funds	Plant Funds	Other Funds	2006 Total	2005 Total
Unrestricted Net Assets, Beginning	1,052,937	278,356	95,759	1,427,052	1,031,117
Excess (Deficiency) Revenues over Expenses	506,575	28,189	137,110	671,874	503,015
Capital Assets Purchased	0	(73,542)	0	(73,542)	(107,080)
Transfers Between Funds	(23,939)	94,884	(70,945)	0	0
Unrestricted Net Assets, Ending	1,535,573	327,887	161,924	2,025,384	1,427,052
Invested in Capital Assets, Beginning		2,549,930		2,549,930	2,501,662
Excess (Deficiency) Revenues over Expenses		(66,648)		(66,648)	(58,812)
Capital Assets Acquired		73,542		73,542	107,080
Church and School Properties Added		301,250		301,250	0
Invested in Capital Assets, Ending	0	2,858,074	0	2,858,074	2,549,930
Endowment Net Assets, Beginning			20,000	20,000	0
Endowment Fund Contributions			80,000	80,000	20,000
Endowment Net Assets, Ending	0	0	100,000	100,000	20,000
Total Net Assets, Ending	1,535,573	3,185,961	261,924	4,983,458	3,996,982

Note 16 - Unconsolidated Related Party

As explained in Note 1, the Organization is affiliated with SDA Boarding Academy. Balances receivable from and payable to the Academy are disclosed in Notes 4, 9, & 10. During the years 2006 and 2005, appropriations were made to the Academy as follows: operating subsidies $64,000 and $60,000, scholarship funds $6,000 and $1,000, and capital appropriations $138,000 and $70,000; for total appropriations of $208,000 and $131,000, respectively. The following represents summarized financial data for the Academy for its fiscal years ended June 30, 2006 and 2005:

	6/30/06	6/30/05
Total Assets	1,226,105	1,103,814
Total Liabilities	472,305	561,571
Total Net Assets	753,800	542,243
Total Liabilities & Net Assets	1,226,105	1,103,814

	6/30/06	6/30/05
Total Revenues	1,575,559	1,271,158
Total Expenses	(1,364,002)	(1,159,601)
Excess (Deficiency)	211,557	111,557
Total Cash provided (used):		
Operating Activities	342,434	190,332
Investing Activities	(295,082)	(168,462)
Financing Activities	(50,000)	(20,000)
Total Cash Provided (Used)	(2,648)	1,870

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18B.04**(8)
Notes to the Financial Statements (LCM model)
Years ended December 31, 2006 and 2005

Note 17 - Pension Plans

The Organization is a member of a noncontributory, defined benefit pension plan and a supplemental benefit plan known as the Seventh-day Adventist Church Retirement Plan for Canadian Employees (the Plan). The Plan covers substantially all employees who have completed at least three years of service and provides a defined benefit pension based on a benefit rate factor, pension factor, and credited service. The supplemental benefit plan provides post-employment benefits such as medical benefits.

The Plan is defined as a multi-employer plan. As such, it is not reasonably possible to determine the actuarial present value of the accumulated benefit obligation or the Plan net assets for employees of the Organization apart from other plan participants. However, based on the latest actuarial evaluation of the Plan as a whole, as of January 1, 20XX, the actuarially computed value of accumulated plan benefits was estimated to be $xxx, and the Plan net assets were estimated to be $xxx, which results in a projected funding deficit for the Plan as a whole of $xxx. The Organization as a participating employer will be asked to fund its proportionate share of the funding deficit and as a result, future contributions will increase.

The required contributions from the Organization to the Plan are recorded as expense each year. Because the supplemental benefit plan is unfunded, the cost of supplemental benefits, except for pension benefits, is charged to expense as payments are made by the Organization. The amount of required contributions from the Organization were $xxx and $xxx for the years ended December 31, 2006 and 2005, respectively.

Each member organization of the SDA Church in Canada provides a retirement allowance up to a maximum of five months of salary based on years of service. The retirement allowance is paid by the organization where the individual was employed at the time of retirement, but is calculated on the basis of service credit earned from all employers in the group. Therefore, the Organization charges retirement allowances to expense in the year they are incurred.

Note 18 - Beneficial Interest in Wills [*Use this note only if the known number of wills is significant.*]

The Organization is a remainder beneficiary of at least a portion of the assets of [*number*] wills written by some of the members within its territory. These assets are not included in the financial statements of the Organization. Also, the Organization may be a beneficiary of other wills that the Organization may not be aware of.

Note 19 - Contingent Liabilities

The Organization has guaranteed certain liabilities of local church congregations and school constituencies payable to the Seventh-day Adventist Church in Canada Revolving Fund. These loans were used to acquire some of the church and school capital assets listed in Note 6. The balance due on these loans was $1,430,500 and $1,039,750 at December 31, 2006 and 2005, respectively. None of this property is pledged as collateral for any of these guaranteed loans. Principal and interest payments on these loans are scheduled to be made by the local congregations and constituencies. At December 31, 2006, no church congregations or school constituencies were delinquent on their payment schedules.

Note 20 - Concentrations of Risk

The Organization receives most of its revenue in the form of contributions from members living within its territory. The amount of contributions are subject to economic conditions that could cause loss of income among church members. The amount of contributions could also be subject to decrease if any significant number of individuals cease to be active members.

The Organization's assets include $152,380 of loans receivable from related organizations and $101,490 of loans receivable from employees. These loans represent 10% of the Organization's total Operating Fund assets. Management's estimate of the collectability of these loans could be subject to a similar economic impact as mentioned above for contribution revenue.

CANADIAN CONFERENCE OF THE SEVENTH-DAY ADVENTIST CHURCH **Appendix 18B.04**(9)
Notes to the Financial Statements (LCM model)
Years ended December 31, 2006 and 2005

Note 21 - Working Capital and Liquidity - Operating Funds

The following is a summary of working capital and liquidity as recommended by the Working Policy of the North American Division of the General Conference of Seventh-day Adventists. Recommended working capital is defined as 25% of unrestricted revenue, plus long-term payables, deferred contributions, and any internally restricted net assets for capital functions. Liquid assets are defined as cash, short-term marketable securities, and receivables from senior organizations. Liquidity commitments are defined as current liabilities and any internally restricted net assets for capital functions.

WORKING CAPITAL	2006	2005
Total Current Assets	2,209,355	1,610,159
Total Current Liabilities	564,249	530,405
Total Working Capital	1,645,106	1,079,754
** Recommended Working Capital	1,392,497	846,889
Working Capital Excess (Deficit)	252,609	232,865
Percent of Recommended Working Capital	118%	127%
Current Ratio	3.9 to 1	3.0 to 1
LIQUIDITY		
Cash	1,167,673	573,358
Investments	525,696	540,968
Accounts Receivable-Church Remittances	292,400	260,000
Cash Held for Agency	56,806	49,607
Total Liquid Assets	2,042,575	1,423,933
Less Commitments as defined by policy:		
Current Liabilities	564,249	530,405
Capital Functions Net Assets, if any	240,622	80,000
Total Commitments	804,871	610,405
Liquid Assets Surplus (Deficit)	1,237,704	813,528
Percent Liquid Assets to Commitments	254%	233%
** Calculation of Recommended Working Capital:		
25% of Unrestricted Revenue	632,798	590,107
Long-Term Payable	332,619	68,000
Deferred Contributions - Operating	186,458	108,782
Capital Functions Net Assets	240,622	80,000
Total Recommended Working Capital	1,392,497	846,889

Section 1901 - General Concepts

1901.01 Introduction - Because of governmental, financial, and social factors in various countries, it is not practical for the denomination to operate one global retirement plan. GCWP Z 05 05 allows Divisions of the General Conference to establish retirement plans within their respective territories. Historically, each Division has established at least one defined benefit retirement plan to serve eligible employees within its territory. Some Divisions have split their general defined benefit plan into several defined benefit plans to accommodate the needs of specific union territories. Some Divisions have begun a process of “freezing” their defined benefit plans and beginning the operation of defined contribution plans.

Whether the plan is defined benefit or defined contribution, however, the denomination structures each plan as a “multi-employer” plan. That means all denominational entities within a defined geographic territory contribute to one plan, and all retirees within that territory draw benefits from that one plan.

Some Divisions and/or Unions operate in countries that have mandatory government-sponsored retirement plans. Where government-regulated plans exist, Plan administrators are expected to comply with all applicable regulations. This Manual discusses accounting and reporting procedures for retirement plans other than government-sponsored plans. If a Division and/or Union operates in a country that has its own standards for employer-sponsored retirement plans, the provisions of this Manual are subordinate to those standards.

GCWP Z 10 15 places ultimate responsibility for administration of the plan on the governing committee of the Division. In practice, because the Divisions operate in multiple countries, the disbursement of certain benefits to retirees is usually made by the respective Union Conferences/Missions, and is then reimbursed by the Division. Such delegated disbursement does not relieve the Division of the responsibility to monitor the payment of benefits to ensure compliance with the provisions of the retirement plan.

1901.02 Characteristics of Defined Benefit Plans - A defined benefit (DB) plan is designed to provide a stated amount of benefits to each eligible retiree, based on years of service and remuneration factors. The payment of such benefits is financed by current contributions from all participating employers, and by investment income from accumulated resources. The amount of required contributions can be based on a variety of criteria. Generally, employees are not allowed to contribute to DB plans.

The amount of contributions from any particular employer does not affect the amount of benefits any particular retiree may be eligible to receive. Because DB plans focus on promised future benefits, they use actuarial techniques to determine the discounted present value of the liability for those benefits. In practice, for many DB plans, the total assets are significantly less than the actuarial liability. Over time, as the number of retirees increases and the total amount of the future benefits obligation increases, the amount of contributions required from participating employers can also be expected to increase.

1901.03 Characteristics of Defined Contribution Plans - A defined contribution (DC) plan is designed to accumulate a pool of assets for each designated employee, which will be distributed at the time of retirement. Because contributions are accumulated for the account of specified employees, each employee has the right to choose what types of investment vehicles will be used to hold those contributions. Typically, DC plans require contributions to be paid by the participating employers, and allow the employees to make voluntary contributions to the plan. When voluntary employee contributions are allowed, DC plans usually also allow the employer to make some amount of matching contribution. The amount required to be contributed, whether employer basic, employee voluntary, or employer matching, is a stipulated percentage of the employee's basic remuneration.

1901.04 International Accounting Standards - An established set of accounting standards for retirement plans has been formulated by the International Accounting Standards Board. These international standards have been adopted by, or their use is allowed in, many countries, and they are illustrated in this Manual.

1901.05 Valuation of Assets - International GAAP requires financial statements to report investment assets at fair value. Please refer to Section 1004 for guidance on how to record historical cost, fair value, realized gain or loss on sale of investments, unrealized appreciation or decline in value of investments, and gain or loss during the reporting period for the investment portfolios.

Section 1902 - Financial Reporting for Retirement Plans

1902.01 Required Statements and Disclosures - International GAAP requires the following financial statements and disclosures for each distinct retirement plan.

For DB plans:

- a statement of net assets available for benefits
- a statement of changes in net assets
- a statement or a note disclosing the actuarial present value of future benefits
- a summary of significant accounting policies, and
- a description of the plan and the effect of any changes in provisions of the plan

For DC plans:

- a statement of net assets available for benefits
- a statement of changes in net assets
- a note disclosing the carrying value for each type of participant-directed investments
- a note disclosing investment return for each type of participant-directed investments
- a summary of significant accounting policies, and
- a description of the plan and the effect of any changes in provisions of the plan

1902.02 Additional Schedules for Denominational Use - For the benefit of denominational management, at least the following schedules should be included as notes to the financial statements.

For DB plans:

- a note for investments, showing cost, fair value, and the valuation account balance
- a schedule of changes in net assets, summarizing activity in each function account or group
- a schedule of benefit expense, summarizing benefits by both type and territory, and
- a comparison of actual net assets by function or group to the balances recommended by policy

For DC plans:

- a schedule of contributions by territory or type of entity

Unless exceptional circumstances make it impractical, these financial statements are to be presented in a comparative format, showing the current year and the prior year. The following sections discuss the content and format of each of these statements and notes. Also, sample financial statements and notes illustrating the accounting principles and disclosures are included in this Manual as Appendices 19A and 19B.

1902.03 Statement of Net Assets Available for Benefits - This statement presents the assets, liabilities, and net assets of the plan at a particular point in time. It should contain a heading that identifies the sponsoring organization, the name of the plan, the statement title, and the date(s) for the end of the period(s) being presented. Since the focus of the plan is on the payment of defined future benefits, this statement uses a format that shows total assets minus total liabilities equaling net assets available for benefits. (This is slightly different from the more common format that shows total assets equaling total liabilities plus net assets.) For DB plans, this statement also indicates the amounts of net assets that are unallocated and allocated, respectively.

1902.04 Statement of Changes in Net Assets - This statement presents the activity of the plan over a stated period of time. It too, should contain a heading that identifies the sponsoring organization, the name of the plan, and the statement title, and it should identify the period(s) of time being presented, rather than just the ending date(s). This statement uses a format that shows contributions and other income, benefits paid and accrued and other expenses, and the resulting net increase or decrease to net assets for the period(s) presented. Total contributions are required to be sub-totaled apart from other types of revenue. Total benefits to retirees are required to be sub-totaled apart from other types of expenses. The increase or decrease to net assets is combined with beginning net assets to arrive at ending net assets.

1902.05 Essential Notes to the Financial Statements - Informative notes are an integral part of the financial statements. They contain information that is vital to understanding the numbers that appear on the face of the financial statements. Please refer to Section 606 for general guidance about the form and content of the notes. As indicated, an organizational description should always be included as Note 1. This note should disclose the relationship of the retirement plan to the Division, and disclose the general structure and operating characteristics of the plan. Similarly, a summary of significant accounting policies should always be included as Note 2. This note should describe such concepts as the basic accounting method used, reference to the multi-currency nature of the plan's operation, if applicable, and the accounting method used for investments.

1902.06 Internal Consistency - The individual financial statements are parts of a whole report, with each one presenting some aspect of the Plan. Thus, they must agree with each other. Every amount that appears in more than one place in the statements and notes should be exactly the same in each place. For example, total net assets in the statement of net assets available for benefits should equal the ending net assets in the statement of changes in net assets. Similarly, total benefits expense in the note summarizing benefits by type and entity should equal total benefits expense in the statement of changes in net assets.

Section 1903 - Accounting Unique to Defined Benefit Plans

1903.01 Unallocated and Allocated Fund Balances - Because of the nature of a multi-employer defined benefit plan, all of its net assets are considered to be "available" for the payment of benefits to all eligible individuals. That concept does not prohibit a plan from separating its net assets for management purposes into allocated functions according to type of employer, geographic territory, or other meaningful groupings. Such an allocated structure helps management monitor funding deficiencies.

Because the allocated functions are available to account for payment of all benefits, there is some inherent flexibility regarding how to record revenue and expense. Historically, some Divisions recorded all revenue and expense in an unallocated function and then transfered net results to various allocated functions, while other Divisions recorded some or all revenue and expense directly in allocated functions. To promote uniformity and comparability, this Manual requires the use of one method globally, as described in the following paragraphs.

1903.02 Recording Revenue and Expense - Revenue and expense of DB plans should be recorded in the following manner. All contributions from participating employers should be recorded as revenue directly in the allocated functions. All benefits to retirees and beneficiaries should be recorded as expense directly in the allocated functions. Currency exchange gains and losses should be recorded as revenue or expense directly in a specific allocated function. Allocated functions can be identified by either territory or type of entity.

All investment income and net realized and unrealized gains and losses on investments should be recorded as revenue in an unallocated general function. All administrative and general expenses should be recorded as expense in an unallocated general function. The governing committee may transfer amounts that are available from the unallocated function to any allocated function as deemed necessary.

Changes to the Securities Fluctuation allocated account would not be recorded as revenue or expense. Changes to this account would be limited to a transfer, in or out, at the end of each accounting period to make it equal any positive balance in the Unrealized Appreciation (Decline) valuation account. (This is the same process as outlined for operating funds in Section 1004.)

1903.03 Classifying Expenses - Typically, DB plans describe benefits by type, such as basic retirement pay, medical benefits, education benefits, etc. On the other hand, some DB plans have reported benefits according to either geographic territory or type of participating entity. Some readers prefer to see expense information presented by type, while other readers prefer expense information presented by geographic territory.

To accommodate them, this Manual illustrates two alternate statements of changes in net assets; one with benefits listed by type, and the other by territory. Plans can elect which presentation to use. However, regardless of which alternate is used, the financial statements should include a note that summarizes the benefit expense in a table with totals for both type and territory. The SunAccount, as well as SunPlus, software is structured to record benefit expense by type within territory, so such a table can be prepared from existing reports.

1903.04 Actuarial Present Value of Future Benefits - International GAAP requires defined benefit retirement plans to disclose the actuarial present value of the liability for defined future benefits, distinguishing between vested and non-vested benefits. This disclosure can be made in a separate statement or in the notes to the financial statements. GAAP also allows disclosures regarding the bases and assumptions used in the actuarial valuation. Information regarding the actuarial valuation should be disclosed even if there has been a significant passage of time between the latest actuarial report and the current financial statement date. In practice, most of the Division DB plans have not obtained such actuarial valuations. If no actuarial valuation has ever been obtained, the notes to the financial statements should disclose that fact.

1903.05 Denominational Policies on Funding and Investments - GCWP Z 10 35 recommends that all DB plans try to maintain a net asset balance equal to at least three times the benefits paid during the current year. A Division can set a funding goal greater than the minimum recommended by this policy. Retirement plans have applied this rule to each union conference/mission or institution within their territory, and have used allocated functions identified by those entities or territories to help monitor compliance with the funding recommendations.

GCWP Appendix C Section S 45 15 requires all denominational entities to follow a number of specific investment management principles. The Plan's governing body should approve an Investment Policy Statement for the Plan, and invest the Plan's resources in accordance with GCWP. Historically, some Divisions have commingled all Plan investments with other Division investments; and the Plan then reports no assets except a large "receivable" from the Division. Such a practice does not properly reflect the fiduciary nature of the Plan assets, and should not be followed. The Plan should hold its own investments and account for them accordingly.

1903.06 Content of Supplemental Notes - The note for investments should disclose group totals for cost, fair value, and unrealized appreciation or decline for each type of investment (government bonds, unitized funds, equity mutual funds, etc.). It should also disclose total cost, fair value, and unrealized appreciation or decline for the whole portfolio.

The note for changes in net assets should have columns for beginning balance, revenue, expense, transfers between functions, and ending balance. It should have a separate line to indicate those respective amounts for each unallocated and allocated function. The note for benefits expense should have columns for each type of benefit and a line for each territory or entity. The note for comparison of actual net assets to the funding policy should have columns for benefits paid during the year, recommended net assets, actual net assets, and percentage of recommended, and a line for each unallocated and allocated function. See Appendix 19A.03.

For retirement plans that have obtained an actuarial evaluation, GAAP requires the notes to the financial statements to include the following minimum disclosures, which should be available from the actuary's report.

- The present value of the promised future benefits, distinguishing between vested and non-vested benefits,
- The date of the actuarial report,
- A brief description of the actuarial assumptions used in determining the present value amounts,
- The effects of any changes in the actuarial assumptions from any previous report,
- The relationship between the present value of future benefits and the net assets available for benefits, and
- The organization's policy for funding future benefits.

1903.07 Exchange Gains and Losses - Because most of the denomination's DB plans operate in multiple countries, they will experience currency exchange gains and losses. Section 1601 outlines various procedures to be used in accounting for such transactions. As indicated earlier, exchange gains and losses for DB plans are to be recorded as income or expense directly in a specific allocated function.

Section 1904 - Accounting Unique to Defined Contribution Plans

1904.01 Participant-directed Investment Accounts - The participating employees in a DC plan choose which financial instruments will be used to invest their voluntary and employer contributions. Therefore, a DC plan must establish individual investment accounts for each participating employee. Typically, the plan arranges for a menu of preferred investments, which are administered by professional managers, from which the employees can select their choices of investment vehicles. The DC plan has an obligation to invest the contributions according to the employees' choices. It must then account for the total investments in a manner that allows it to report the balance and activity related to each designated account to the respective employees. The plan may choose to contract with an investment management firm to perform this detailed individual account record-keeping, but the plan remains responsible to monitor the accuracy and integrity of the individual accounting process.

1904.02 Revenue From Both Employers And Employees - As indicated earlier, DC plans typically receive contributions from participating employers and from employees. Because employees are vested immediately in their voluntary contributions, GAAP requires DC plans to record employer contributions and employee contributions in separate revenue accounts. The employee voluntary contributions are typically withheld as authorized deductions from the employees' paychecks.

The total contributions, from both employer and employee, are remitted from the employers to the plan, usually within a specified number of days after the payroll is processed for each pay period. The employers send supporting data with their remittances, which identifies each employee and the respective amounts of their voluntary, basic, and matching contributions. The plan then compares and reconciles the employer-submitted data with the amount of money received to ensure the information is accurately prepared for recording in each person's individual investment account.

1904.03 Accounting for Investment Income and Expense - Because the purpose of a DC plan is to accumulate resources and identify them with individual employee accounts, all direct income, expense, gains, and losses associated with each individual's investments are recorded in that person's account. This includes interest and dividends earned, realized gains and losses on sales of investments, unrealized gains and losses in fair value of the investments, and investment portfolio management fees, if any. The balances and activity reflected in the DC plan financial statements consist primarily of just an accumulation of the corresponding balances and activity from all the participant investment accounts.

1904.04 Distribution of Account at Maturity - The purpose of the detailed record of accumulated investments by individual employee account is, of course, to arrive at a benefit amount when the employee becomes eligible for retirement (or upon death or employment termination, if that occurs prior to retirement). The amount of retirement benefit consists simply of the accumulated balance in that employee's account. At the time of retirement, the entire balance in the designated account is paid to the individual, either in a lump sum or in the form of a purchased contract that provides calculated periodic payments to the individual (monthly or quarterly) for the rest of their life. The distributions of account balances to eligible retirees is recorded as an expense of the plan, separate from administrative and general expense.

1904.05 Transfers From and To Other Plans - In some countries, employees are allowed to establish one or more individual retirement savings plans in addition to an employer-sponsored retirement plan. In some countries, the law and the plan agreements allow employees to transfer the balances from such individual accounts into an employer-sponsored defined contribution retirement plan. Also, in some countries, the law and the plan agreements allow individuals who terminate employment prior to their retirement to transfer any vested balance in their account from the former employer's plan to any other similar plan. In jurisdictions where the law and the plan agreements allow for such transfers between various defined contribution plans, the DC plan financial statement should report the total amount of such transfers on separate lines apart from other types of contribution revenue or benefit expense.

Appendix 19A

GENERAL CONFERENCE OF SEVENTH-DAY ADVENTISTS

ANONYMOUS DIVISION (or Union)

Defined Benefit Retirement Fund

Illustrative Financial Statements

31 December 2001 and 2000

The reporting currency is the [*specify the functional currency*]

GENERAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 19A.01**
ANONYMOUS DIVISION (or Union)
Defined Benefit Retirement Fund

Statements of Net Assets Available for Benefits
31 December 2001 and 2000

	2001	2000
ASSETS		
Cash and Cash Equivalents	853,552	712,931
Investments (Note 4)	89,839,455	74,214,633
Contributions Receivable	2,800,796	3,828,355
Other Assets	16,250	16,250
Total Assets	93,510,053	78,772,169
LIABILITIES		
Accounts Payable	11,460	12,804
Total Liabilities	11,460	12,804
NET ASSETS AVAILABLE FOR BENEFITS	93,498,593	78,759,365
NET ASSETS:		
Unallocated Fund (Note 6 & 8)	5,839,363	2,451,765
Allocated Funds (Notes 6 & 8)	87,659,230	76,307,600
NET ASSETS AVAILABLE FOR BENEFITS	93,498,593	78,759,365

The accompanying notes are an integral part of these statements.

GENERAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 19A.02**
ANONYMOUS DIVISION (or Union)
Defined Benefit Retirement Fund

Statements of Changes in Net Assets
For the Years Ended 31 December 2001 and 2000

Format Option #1

	2001	2000
CONTRIBUTIONS AND OTHER INCOME		
Contribution from Division (or Union)	1,781,500	975,800
Contributions from Unions (or Conferences/Fields)	32,300,491	22,484,099
Contributions from Institutions	1,262,476	1,050,070
Total Contributions	35,344,467	24,509,969
Investment Income (Interest and Dividends)	5,180,330	3,826,990
Realized Gain (Loss) on Sale of Investments	985,673	338,871
Unrealized Gain (Loss) in Value of Investments	831,477	(987,623)
Exchange Gain	0	2,049,609
Total Other Income	6,997,480	5,227,847
Total Contributions and Other Income	42,341,947	29,737,816
BENEFITS AND OTHER EXPENSES		
Basic Retirement Pay	22,077,854	14,980,384
Medical Benefits	3,124,282	1,670,238
Education Benefits	1,326,963	549,495
Death Benefits	124,227	38,329
Other Benefits	14,050	84,345
Benefits to Retirees and Beneficiaries (Note 7)	26,667,376	17,322,791
Administrative and General Expense	500,520	357,836
Exchange Loss	434,823	0
Other Expenses	935,343	357,836
Total Benefits and Other Expenses	27,602,719	17,680,627
Net Increase (Decrease) for the Year (Note 6)	14,739,228	12,057,189
Net Assets Available for Benefits, 1 January	78,759,365	66,702,176
Net Assets Available for Benefits, 31 December	93,498,593	78,759,365

The accompanying notes are an integral part of these statements.

GENERAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 19A.02**
ANONYMOUS DIVISION (or Union)
Defined Benefit Retirement Fund
Statements of Changes in Net Assets
For the Years Ended 31 December 2001 and 2000

Format Option #2

	2001	2000
CONTRIBUTIONS AND OTHER INCOME		
Contribution from Division (or Union)	1,781,500	975,800
Contributions from Unions (or Conferences/Fields)	32,300,491	22,484,099
Contributions from Institutions	1,262,476	1,050,070
Total Contributions	35,344,467	24,509,969
Investment Income (Interest and Dividends)	5,180,330	3,826,990
Realized Gain (Loss) on Sale of Investments	985,673	338,871
Unrealized Gain (Loss) in Value of Investments	831,477	(987,623)
Exchange Gain	0	2,049,609
Total Other Income	6,997,480	5,227,847
Total Contributions and Other Income	42,341,947	29,737,816
BENEFITS AND OTHER EXPENSES		
Division (or Union) Allocated	2,767,588	1,875,912
[name 1] Union (or Local) Conference/Mission	5,305,821	3,516,952
[name 2] Union (or Local) Conference/Mission	6,632,274	4,162,655
[name 3] Union (or Local) Conference/Mission	4,005,903	2,651,451
[name 4] Union (or Local) Conference/Mission	4,483,406	2,830,606
[name 5] Union (or Local) Conference/Mission	2,122,327	1,332,050
[name 1] Institution	1,098,037	786,658
[name 2] Institution	252,020	166,507
Benefits to Retirees and Beneficiaries (Note 7)	26,667,376	17,322,791
Administrative and General Expense	500,520	357,836
Exchange Loss	434,823	0
Other Expenses	935,343	357,836
Total Benefits and Other Expenses	27,602,719	17,680,627
Net Increase (Decrease) for the Year (Note 6)	14,739,228	12,057,189
Net Assets Available for Benefits, 1 January	78,759,365	66,702,176
Net Assets Available for Benefits, 31 December	93,498,593	78,759,365

The accompanying notes are an integral part of these statements.

GENERAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 19A.03**
ANONYMOUS DIVISION (or Union)
Defined Benefit Retirement Fund

Notes to the Financial Statements
31 December 2001 and 2000

Note 1 - Organizational Structure

Nature of the Organization - The Defined Benefit Retirement Fund (the Fund) is a separate, uncombined fund of the General Conference of Seventh-day Adventists, Anonymous Division (Division). The Fund is maintained specifically for the purpose of accumulating and disbursing resources for the benefit of qualifying individuals within the [*name of applicable denominational territory*]. Consequently, the financial statements of this Fund are not combined with those of other funds of the Division.

Structure of the Plan - The Fund is a multi-employer, non-contributory, defined benefit pension plan, administered by the Division for the benefit of all employees within the Division territory (except those whose retirement benefits are provided by governmental agencies), subject to fulfilling requirements as to years of service. Contributions to the Fund by the various denominational organizations comprising the Division are based on a percentage of tithe income for the Unions, Conferences, and Missions, and a percentage of salary expense for schools and other organizations. [*If applicable, add this sentence:* No actuarial evaluation has been obtained for the Fund, therefore, no disclosures can be made regarding the present value of the liability for future benefit obligations.]

Administration - The administration of and accounting for the Fund is performed by the Division. The Division receives all contributions to the Fund and invests them in accordance with policy guidelines. The disbursements of benefits are generally made by the Unions on behalf of the Fund, and are then reimbursed by the Division and recorded as expenses of the Fund. Consequently, the Fund does not operate a separate bank account.

Minimum Funding - The Working Policy of the General Conference of Seventh-day Adventists recommends a minimal level of funding for retirement net assets to be equal to at least three times the benefits paid during the current year. See Note 8 for a comparison of actual net assets to this policy recommendation.

Note 2 - Summary of Significant Accounting Policies

A. Accounting Method - The significant accounting policies of the Fund are essentially the same as those promulgated for employee benefit retirement plans by the International Accounting Standards Board, and are described below to enhance the usefulness of the financial statements. The accounting records are maintained, in all material respects, on the accrual basis of accounting at historical cost. Tithe-based contributions are accrued from monthly remittance reports, payroll-based contributions are recorded when [billed *-or-* received], and benefits expense is recorded when paid at the union level.

B. Currency - The financial statements and notes thereto are presented in [*specify the functional currency* (FC)] which is the functional currency of the Division. The accounting records involving transactions with other countries are maintained in dual currencies: [FC] and the applicable local currency. In accordance with policies of the Seventh-day Adventist denomination, the various local currencies are converted into [FC] at fixed rates of exchange, which are intended to approximate current market exchange rates.

C. Investments - Short-term investments not subject to market fluctuation and interest bearing deposits are classified as Cash and Cash Equivalents. All investments subject to market fluctuation are classified separately as Investments and are carried at fair value based on the portfolio as a whole. The difference between cost and fair value for the whole portfolio is recorded in a valuation account. The change in this valuation account from one year to the next is recorded as unrealized gain (loss).

GENERAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 19A.03**
ANONYMOUS DIVISION (or Union)
Defined Benefit Retirement Fund

Notes to the Financial Statements
31 December 2001 and 2000

Note 3 - Related Parties

The majority of transactions of the Fund are with related parties. Transactions occur regularly in the normal course of business with the following organizations and their institutions:

Anonymous Division	[name 3] Union Conference	[name 1] Institution
[name 1] Union Conference	[name 4] Union Mission	[name 2] Institution
[name 2] Union Conference	[name 5] Union Mission	

During 2001 and 2000, [*indicate how many*] and [*indicate how many*] retirees, respectively, received benefits from the Fund.

Note 4 - Investments

2001	Cost	Fair Value	Unrealized Appreciation (Decline)
GC Unitized Income Fund	31,716,859	35,688,545	3,971,686
GC Unitized Investment Fund	21,812,915	21,594,786	(218,129)
(Other) Mutual Fund	30,478,089	32,556,124	2,078,035
Totals at 31 December 2001	84,007,863	89,839,455	5,831,592
2000			
GC Unitized Income Fund	21,235,014	25,055,818	3,820,804
GC Unitized Investment Fund	23,421,541	21,787,189	(1,634,352)
(Other) Mutual Fund	24,557,963	27,371,626	2,813,663
Totals at 31 December 2000	69,214,518	74,214,633	5,000,115

Fair value is used as the carrying value of investments in the Statement of Net Assets Available for Benefits.

Note 5 - Concentrations of Risk

In accordance with decisions of the governing committee, the plan holds investments in certain mutual funds. The investment portfolio is spread over a variety of financial instruments in an effort to minimize losses from adverse economic conditions. Nevertheless, fluctuations in the value of these investments are possible. Balances that exceed five percent of total plan assets at 31 December 2001 are held in the following instruments:

	Amount	Ratio
GC Unitized Income Fund	35,688,545	38.2%
(Other) Mutual Fund	32,556,124	34.8%
GC Unitized Investment Fund	21,594,786	23.1%

GENERAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 19A.03**
ANONYMOUS DIVISION (or Union)
Defined Benefit Retirement Fund

Notes to the Financial Statements
31 December 2001 and 2000

Note 6 - Schedule of Changes in Net Assets

	Net Assets 1 January	Total Revenue	Total Expense	Transfers In (Out)	Net Assets 31 December
For the Year Ended 31 December 2001:					
Division Unallocated	2,451,765	6,997,480	500,520	(3,109,362)	5,839,363
Division Allocated	8,071,324	1,781,500	2,767,588	1,450,319	8,535,555
[name 1] Union	12,121,992	9,605,151	5,305,821	0	16,421,322
[name 2] Union	15,976,551	8,649,347	6,632,274	0	17,993,624
[name 3] Union	9,903,245	4,735,043	4,005,903	0	10,632,385
[name 4] Union	8,099,326	6,361,733	4,483,406	0	9,977,653
[name 5] Union	5,067,331	2,949,217	2,122,327	0	5,894,221
[name 1] Institution	3,101,501	1,118,193	1,098,037	560,710	3,682,367
[name 2] Institution	402,974	144,283	252,020	266,856	562,093
Securities Fluctuation	5,000,115	0	0	831,477	5,831,592
Exchange Fluctuation	8,563,241	0	434,823	0	8,128,418
Total Allocated	76,307,600	35,344,467	27,102,199	3,109,362	87,659,230
Totals for 2001	78,759,365	42,341,947	27,602,719	0	93,498,593
For the Year Ended 31 December 2000:					
Division Unallocated	249,493	3,178,238	357,836	(618,130)	2,451,765
Division Allocated	7,971,436	975,800	1,875,912	1,000,000	8,071,324
[name 1] Union	10,174,059	5,464,885	3,516,952	0	12,121,992
[name 2] Union	13,737,483	6,401,723	4,162,655	0	15,976,551
[name 3] Union	8,495,067	4,059,629	2,651,451	0	9,903,245
[name 4] Union	6,558,024	4,371,908	2,830,606	0	8,099,326
[name 5] Union	4,213,427	2,185,954	1,332,050	0	5,067,331
[name 1] Institution	2,563,345	918,811	786,658	406,003	3,101,501
[name 2] Institution	238,472	131,259	166,507	199,750	402,974
Securities Fluctuation	5,987,738	0	0	(987,623)	5,000,115
Exchange Fluctuation	6,513,632	2,049,609	0	0	8,563,241
Total Allocated	66,452,683	26,559,578	17,322,791	618,130	76,307,600
Totals for 2000	66,702,176	29,737,816	17,680,627	0	78,759,365

GENERAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 19A.03**
ANONYMOUS DIVISION (or Union)
Defined Benefit Retirement Fund

Notes to the Financial Statements
31 December 2001 and 2000

Note 7 - Schedule of Benefits Expense

	Retirement Pay	Medical Benefits	Education Benefits	Other Benefits	Total Benefits
For the Year Ended 31 December 2001:					
Division Allocated	2,207,787	312,429	145,969	101,403	2,767,588
[name 1] Union	4,415,571	624,858	265,392	0	5,305,821
[name 2] Union	5,519,463	781,071	331,740	0	6,632,274
[name 3] Union	3,311,678	468,642	225,583	0	4,005,903
[name 4] Union	3,753,235	531,127	199,044	0	4,483,406
[name 5] Union	1,766,228	249,942	106,157	0	2,122,327
[name 1] Institution	883,114	124,971	53,078	36,874	1,098,037
[name 2] Institution	220,778	31,242	0	0	252,020
Total Benefits 2001	22,077,854	3,124,282	1,326,963	138,277	26,667,376
For the Year Ended 31 December 2000:					
Division Allocated	1,498,039	167,024	120,889	89,960	1,875,912
[name 1] Union	2,996,077	334,048	186,827	0	3,516,952
[name 2] Union	3,745,096	417,559	0	0	4,162,655
[name 3] Union	2,247,057	250,535	153,859	0	2,651,451
[name 4] Union	2,546,665	283,941	0	0	2,830,606
[name 5] Union	1,198,431	133,619	0	0	1,332,050
[name 1] Institution	599,215	66,809	87,920	32,714	786,658
[name 2] Institution	149,804	16,703	0	0	166,507
Total Benefits 2000	14,980,384	1,670,238	549,495	122,674	17,322,791

GENERAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 19A.03**
ANONYMOUS DIVISION (or Union)
Defined Benefit Retirement Fund
Notes to the Financial Statements
31 December 2001 and 2000

Note 8 - Comparison of Net Assets to Recommended Funding

	Benefits Paid During Year	Recommended Net Assets	Actual Net Assets	Percent of Recommended
For the Year Ended 31 December 2001:				
Division Unallocated	n/a	n/a	5,839,363	n/a
Division Allocated	2,767,588	8,302,764	8,535,555	102%
[name 1] Union	5,305,821	15,917,463	16,421,322	103%
[name 2] Union	6,632,274	19,896,822	17,993,624	90%
[name 3] Union	4,005,903	12,017,709	10,632,385	88%
[name 4] Union	4,483,406	13,450,218	9,977,653	74%
[name 5] Union	2,122,327	6,366,981	5,894,221	92%
[name 1] Institution	1,098,037	3,294,111	3,682,367	111%
[name 2] Institution	252,020	756,060	562,093	74%
Securities Fluctuation	n/a	n/a	5,831,592	n/a
Exchange Fluctuation	n/a	n/a	8,128,418	n/a
Total Allocated	26,667,376	80,002,128	87,659,230	110%
Totals for 2001	26,667,376	80,002,128	93,498,593	117%
For the Year Ended 31 December 2000:				
Division Unallocated	n/a	n/a	2,451,765	n/a
Division Allocated	1,875,912	5,627,736	8,071,324	143%
[name 1] Union	3,516,952	10,550,856	12,121,992	114%
[name 2] Union	4,162,655	12,487,965	15,976,551	127%
[name 3] Union	2,651,451	7,954,353	9,903,245	124%
[name 4] Union	2,830,606	8,491,818	8,099,326	95%
[name 5] Union	1,332,050	3,996,150	5,067,331	126%
[name 1] Institution	786,658	2,359,974	3,101,501	131%
[name 2] Institution	166,507	499,521	402,974	80%
Securities Fluctuation	n/a	n/a	5,000,115	n/a
Exchange Fluctuation	n/a	n/a	8,563,241	n/a
Total Allocated	17,322,791	51,968,373	76,307,600	146%
Totals for 2000	17,322,791	51,968,373	78,759,365	152%

Appendix 19B

GENERAL CONFERENCE OF SEVENTH-DAY ADVENTISTS

ANONYMOUS DIVISION (or Union)

Defined Contribution Retirement Fund

Illustrative Financial Statements

31 December 2001 and 2000

The reporting currency is the [*specify the functional currency*]

GENERAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 19B.01**
ANONYMOUS DIVISION (or Union)
Defined Contribution Retirement Fund

Statements of Net Assets Available for Benefits
31 December 2001 and 2000

	2001	2000
ASSETS		
Cash and Cash Equivalents	853,552	712,931
Participant-directed Investments (Note 4)	58,953,778	25,712,457
Contributions Receivable	1,800,796	2,828,355
Other Assets	16,250	16,250
Total Assets	61,624,376	29,269,993
LIABILITIES		
Accounts Payable	11,460	12,804
Total Liabilities	11,460	12,804
NET ASSETS AVAILABLE FOR BENEFITS	61,612,916	29,257,189

The accompanying notes are an integral part of these statements.

GENERAL CONFERENCE OF SEVENTH-DAY ADVENTISTS
ANONYMOUS DIVISION (or Union)
Defined Contribution Retirement Fund

Appendix 19B.02

Statements of Changes in Net Assets
For the Years Ended 31 December 2001 and 2000

	2001	2000
CONTRIBUTIONS AND OTHER INCOME		
Employee Voluntary Contributions	5,484,613	5,511,142
Employee Rollovers From Other Plans	506,712	301,923
Employer Required Basic Contributions	19,793,943	18,779,269
Employer Matching Contributions	2,995,663	2,906,533
Total Contributions (Note 6)	28,780,931	27,498,867
Investment Income (Interest and Dividends)	3,360,365	1,887,701
Realized Gain (Loss) on Sale of Investments	985,673	338,871
Unrealized Gain (Loss) in Value of Investments	831,477	(987,623)
Total Other Income	5,177,515	1,238,949
Total Contributions and Other Income	33,958,446	28,737,816
BENEFITS AND OTHER EXPENSES		
Account Balances Distributed To Retirees and Beneficiaries	884,979	122,791
Transfers To Other Plans For Terminated Employees	30,246	0
Benefits to Retirees and Beneficiaries	915,225	122,791
Administrative Expense	308,122	196,810
Investment Management and Accounting	276,248	107,351
General Expense	103,124	53,675
Other Expenses	687,494	357,836
Total Benefits and Other Expenses	1,602,719	480,627
Net Increase (Decrease) for the Year (Note 6)	32,355,727	28,257,189
Net Assets Available for Benefits, 1 January	29,257,189	1,000,000
Net Assets Available for Benefits, 31 December	61,612,916	29,257,189

The accompanying notes are an integral part of these statements.

GENERAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 19B.03**
ANONYMOUS DIVISION (or Union)
Defined Contribution Retirement Fund

Notes to the Financial Statements
31 December 2001 and 2000

Note 1 - Organizational Structure

A. Nature of the Organization - The Defined Contribution Retirement Fund (Fund) is a separate, uncombined fund of the General Conference of Seventh-day Adventists, Anonymous Division (Division). The Fund is maintained by the Division specifically for the purpose of accumulating and disbursing resources for the benefit of qualifying employees within the [*name of applicable denominational territory*]. Consequently, the financial statements of this Fund are not combined with those of other funds of the Division.

B. Structure of the Plan - The Fund is a multi-employer, contributory, defined contribution pension plan. The Fund establishes a personal investment account for each participating employee. Each participating employer makes basic contributions to the Fund, computed as a stated percentage of the remuneration of each participating employee. Each participating employee may elect to make voluntary contributions to the Fund, and the participating employers make stated matching contributions based on those voluntary contributions. All contributions made, whether from employer or employee, are allocated to each respective employee's personal investment account. At retirement, the employee benefit is the balance in that account.

C. Vesting - Participating employees are immediately vested in their voluntary contributions plus actual earnings thereon. Participating employees are vested in the employer's contributions and actual earnings thereon according to the number of years of service. A participant is fully vested after [*state how many*] years.

D. Administration - General administration of and accounting for the Fund is performed by the Division. The Division receives all contributions to the Fund and invests them in accordance with policy guidelines and participant instructions. Custody and administration of accumulated contributions in participant accounts is performed under contract by [*name of investment management company*].

Note 2 - Summary of Significant Accounting Policies

A. Accounting Method - The significant accounting policies of the Fund are essentially the same as those promulgated for employee benefit retirement plans by the International Accounting Standards Board, and are described below to enhance the usefulness of the financial statements. The accounting records are maintained, in all material respects, on the accrual basis of accounting at historical cost.

B. Currency - The financial statements and notes thereto are presented in [*specify the functional currency* (FC)] which is the functional currency of the [*specify the territory served by the Fund*]. Because the Fund is limited to employees within that territory, it generally does not have transactions with other currencies. When such transactions do occur, the various other currencies are converted into [FC] at fixed rates of exchange, which are intended to approximate current market exchange rates.

C. Investments - Short-term investments not subject to market fluctuation are classified as Cash and Cash Equivalents. All investments subject to market fluctuation are classified separately as Investments and are carried at fair value based on the portfolio as a whole. The difference between cost and fair value for each participant's portfolio is recorded as unrealized appreciation or (decline). The change in fair value from year to year is recorded as unrealized gain or (loss) in each participant's account.

D. Participant Accounts - Each participant's account is credited with the participant's contributions, employer's contributions, gains and losses on investments, and an allocation of plan earnings and expenses. Participants may direct their voluntary and employer contributions to one or more mutual funds or other investment instruments, [*all or some of*] which are administered by [*name of investment management company*].

GENERAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 19B.03**
ANONYMOUS DIVISION (or Union)
Defined Contribution Retirement Fund

Notes to the Financial Statements
31 December 2001 and 2000

Note 3 - Related Parties

The majority of transactions of the Fund are with related parties. Transactions occur regularly in the normal course of business with the following organizations and their institutions:

Anonymous Division (or Union)	[name 4] Local Conference/Mission
[name 1] Local Conference/Mission	[name 1] Institution
[name 2] Local Conference/Mission	[name 2] Institution
[name 3] Local Conference/Mission	[name 3] Institution

During 2001 and 2000, the Fund administered participant-directed investment accounts for [*indicate how many*] and [*indicate how many*] employees, respectively.

Note 4 - Participant-directed Investments - Carrying Value

	Cost	Fair Value	Unrealized Appreciation (Decline)
31 December 2001			
GC Unitized Income Fund	7,519,929	8,843,067	1,323,138
GC Unitized Investment Fund	10,293,330	10,611,680	318,350
(Name) Government Bond Fund	10,408,663	11,790,755	1,382,092
(Name) Corporate Bond Fund	11,095,902	11,201,217	105,315
(Name) Domestic Corporate Stock Fund	9,555,301	9,432,605	(122,696)
(Name) International Corporate Stock Fund	7,132,965	7,074,454	(58,511)
Totals at 31 December 2001	56,006,090	58,953,778	2,947,688
31 December 2000			
GC Unitized Income Fund	3,095,779	3,599,743	503,964
GC Unitized Investment Fund	4,885,368	5,142,492	257,124
(Name) Government Bond Fund	4,734,500	5,656,741	922,241
(Name) Corporate Bond Fund	4,929,635	5,399,615	469,980
(Name) Domestic Corporate Stock Fund	3,934,007	3,856,869	(77,138)
(Name) International Corporate Stock Fund	2,016,957	2,056,997	40,040
Totals at 31 December 2000	23,596,246	25,712,457	2,116,211

Fair value is used as the carrying value of investments in the Statement of Net Assets Available for Benefits.

GENERAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 19B.03**
ANONYMOUS DIVISION (or Union)
Defined Contribution Retirement Fund

Notes to the Financial Statements
31 December 2001 and 2000

Note 5 - Participant-directed Investments - Investment Return

	Interest and Dividends	Realized Gain (Loss)	Unrealized Gain (Loss)	Total Return
31 December 2001				
GC Unitized Income Fund	526,395		819,174	1,345,569
GC Unitized Investment Fund	514,667		61,226	575,893
Government Bond Fund	747,806	542,120	459,851	1,749,777
Corporate Bond Fund	665,754	443,553	(364,665)	744,642
Domestic Corporate Stock Fund	477,765		(45,558)	432,207
International Corporate Stock Fund	427,978		(98,551)	329,427
Totals at 31 December 2001	3,360,365	985,673	831,477	5,177,515
31 December 2000				
GC Unitized Income Fund	216,705	186,379	189,335	592,419
GC Unitized Investment Fund	390,829		(297,661)	93,168
Government Bond Fund	426,105		105,671	531,776
Corporate Bond Fund	394,371		100,342	494,713
Domestic Corporate Stock Fund	236,040		(606,723)	(370,683)
International Corporate Stock Fund	223,651	152,492	(478,587)	(102,444)
Totals at 31 December 2000	1,887,701	338,871	(987,623)	1,238,949

GENERAL CONFERENCE OF SEVENTH-DAY ADVENTISTS **Appendix 19B.03**
ANONYMOUS DIVISION (or Union)
Defined Contribution Retirement Fund

Notes to the Financial Statements
31 December 2001 and 2000

Note 6 - Schedule of Contributions by Territory

	Employee Voluntary and Rollover	Employer Basic	Employer Matching	Total Contributions
For the Year Ended 31 December 2001:				
Anonymous Division	299,566	989,697	149,783	1,439,046
(Name 1) Local Conference/Mission	539,219	1,781,455	269,610	2,590,284
(Name 2) Local Conference/Mission	1,078,438	3,562,910	539,218	5,180,566
(Name 3) Local Conference/Mission	838,786	2,771,152	419,393	4,029,331
(Name 4) Local Conference/Mission	718,959	2,375,273	359,480	3,453,712
(Name 1) Institution	1,138,352	3,760,849	569,176	5,468,377
(Name 2) Institution	778,872	2,573,213	389,436	3,741,521
(Name 3) Institution	599,133	1,979,394	299,567	2,878,094
Totals for 2001	5,991,325	19,793,943	2,995,663	28,780,931
For the Year Ended 31 December 2000:				
Anonymous Division	338,739	963,963	169,370	1,472,072
(Name 1) Local Conference/Mission	590,197	1,795,134	295,099	2,680,430
(Name 2) Local Conference/Mission	1,080,401	3,440,269	540,201	5,060,871
(Name 3) Local Conference/Mission	862,532	2,709,098	431,266	4,002,896
(Name 4) Local Conference/Mission	653,599	2,193,512	326,797	3,173,908
(Name 1) Institution	1,034,865	3,473,061	517,433	5,025,359
(Name 2) Institution	708,067	2,376,305	354,034	3,438,406
(Name 3) Institution	544,665	1,827,927	272,333	2,644,925
Totals for 2000	5,813,065	18,779,269	2,906,533	27,498,867

Section 2001 - Accounting System

Section 2002 - Receivables and Revenue

Appendix 20A - Illustrative Financial Statements (International Model)

Appendix 20B - Accounting for Real Property (USA Model)

Appendix 20C - Illustrative Financial Statements (Standard USA Model)

Appendix 20D - Illustrative Financial Statements (Multi-fund USA Model)

Section 2001 - Accounting System

2001.01 Introduction - Denominational secondary schools vary greatly in size and complexity. Accordingly, there will be variations in sophistication of the accounting systems, including various computerized systems, and in the level of staffing of the accounting function. They should all have the same goal: accurate consistent records that produce useful and timely reports for those who need the information. To achieve this goal, all denominational secondary schools should follow the general guidance in Chapters 1 to 16 of this Manual, in addition to the material in this chapter, which covers topics unique to secondary schools.

2001.02 Flexibility - Each accounting system should be designed for the school it serves. In a day school with few activities outside of the academic program, the revenue process, for example, will record primarily charges to students. On the other hand, in a boarding school which operates auxiliaries and industries, the system must also record sales of merchandise or services to outside organizations. Such a school would need to maintain accounts for industry customers apart from student accounts receivable. Also, administration and the governing committee may want to know whether funds are available for use by each academic program and each industry. As management's need for information expands or changes, the accounting system must change.

2001.03 Timely Reports - Reports should tell management what it needs to know in order to make wise decisions, and those reports should be produced promptly and frequently enough to enable management to take appropriate action. Schedules can be established to prompt the timely inflow of information to the accounting office. Sometimes carefully-prepared estimates may have to be recorded rather than waiting too long for more-accurate information. There should be a balance between completeness and timeliness, at least for monthly and quarterly reports, if not also for annual reports.

2001.04 Financial Reports - Chapters 2, 6, and 7 discussed basic concepts of financial reports. These concepts are illustrated in Appendix 20A, an international model financial statement for a secondary school. Appendix 20C and 20D illustrate secondary school financial statements with additional detail required in the USA.

Section 2002 - Receivables and Revenue

2002.01 Sources of Revenue - Accounting for student revenue and other sources of support for a secondary school represents the main focus of its accounting system. The primary source of revenue is, of course, the student: tuition charges, various fees, dormitory and cafeteria charges, purchases of books and supplies, and so on. Many secondary schools operate industries which are not part of the academic program, but which offer opportunity for student employment and whose revenue is used to support the academic program.

Other types of revenue might include rentals of housing to staff members, miscellaneous sales of educational or auxiliary materials and services, donations, and subsidies from the affiliated conference and constituent churches. Also, refer to Appendix 15D.03 for guidance on how to distinguish revenue from certain types of agency transactions.

2002.02 Types of Revenue - Typically, several types of revenue are associated with secondary school activity. Most accounting systems are designed to track each of these types of revenue. To help achieve uniform accounting, revenue should be classified into the following categories.

Tuition - Direct charges to students for instructional classes. These are usually a fixed amount for all students in specified grade levels.

Fees - Additional instructional charges for optional or special classes. These include music fees, laboratory fees, athletic fees, etc.

Investment Income - Unrestricted earnings (interest and dividends only) on financial instruments.

Gains and Losses - Realized gains and losses on sale of investments, and Unrealized gains and losses on market value of investments.

Endowment Income - Unrestricted and temporarily restricted earnings (interest and dividends) on endowment funds that are designated for general school operations or specific school programs.

Miscellaneous Income - Unrestricted income that does not fit the above categories and is not auxiliary or industry operations revenue. This would include unrestricted donations for school operations. If donations are material, they could be placed on a separate line. This category would also include income from rental of school facilities to individuals other than students and employees if it is infrequent or relatively immaterial.

Auxiliaries - Income from activities that are not instructional in nature but which are closely related to the educational environment for either students or school employees. This category typically includes dormitory and other student housing, food service, bus or other transportation, bookstore, and faculty housing. This would not include rental income from anyone other than students or school employees.

Industry Operations - Income from businesses, industries, or programs that are intended to serve the general public or other businesses. These activities can be operated by the school or by third parties. Often this type of activity benefits the school through the employment of student labor, which provides students with the means to help pay their charges. This activity may provide services or goods for the school, such as a laundry or bakery, or may be limited simply to rental income from school-owned buildings or other facilities.

2002.03 Periodic Billing and Revenue Record - To ensure collection of revenue, schools generally prepare billings for each student at the beginning of each month or each school semester. This would include predetermined charges for tuition, fees, cafeteria, and dormitory, where applicable, for the entire period. The journal or other data entry process used to record the student billing will include student names and respective amounts. The sum of the debits to accounts receivable and discounts should equal the sum of the credits to tuition, fees, and other revenue accounts.

2002.04 Deferred Operating Revenue - If students are billed for a whole semester at the beginning of the semester, the revenue is not yet **earned** revenue. It will be earned only with the passage of time. The credits from the revenue journal should be posted to a deferred revenue account rather than to current income. This is a liability account, not revenue. The credits should be carried as liabilities until the services represented have actually been performed and the revenue earned. At the end of each month during the semester a journal entry should be made to debit the deferred revenue accounts and to credit the various unrestricted revenue accounts for that portion of the total billing which has been earned that month. At the end of the semester, of course, all the deferred revenue accounts reflecting billing for that semester will have been closed out and reflected as income.

In addition to this, many schools pre-register students in advance for the following school year. Consequently, at the end of a school year, the deferred revenue accounts will include any pre-registration or advance tuition fees that have been received for the following year. This deferred revenue liability should not be confused with the treatment of unspent donations (which are held in a net asset account). Deferred tuition is still a liability because it is payment for services that the school is obligated to render in the future.

2002.05 Variations in Amortization - Under some circumstances cafeteria or dormitory charges are not earned consistently through the period. In such cases a separate schedule of amortization should be followed. The earned revenue accounts are to be credited as the services are rendered, and the entire billed amount will be transferred from deferred revenue accounts (liabilities) into earned revenue accounts by the end of the semester.

2002.06 Interim Student Billings - Not all student charges are included in the initial billing at the beginning of the semester. It is not unusual for a student to enter school after a semester has already begun. The billing for tuition and fees will then have to be amortized at a rate which will deplete the deferred account by the end of the semester. In some schools students are permitted to make purchases of books and supplies or are charged for music lessons or other services on an individual-purchase basis. Such non-recurring transactions should be recorded entirely as current revenue of the month in which they occur.

2002.07 Conference and/or Church Subsidies - If a conference or local church has made an unconditional promise to provide an operating subsidy to the school each month, and if this arrangement is approved by formal governing committee action, the school may record these promises in the appropriate revenue account each month, with a debit to an account receivable from the provider. When the provider's payment is received, it will be receipted as a credit to the receivable. This is preferable to recording the remittance only when received, as it provides a running record in the account receivable of the payments due from the providers, regardless of the date received.

If a conference or church gives an advance to a school, which may later be voted or reclassified as a subsidy, it should **not** be credited to the revenue account until the month in which it is actually voted to be a subsidy. In this case, it would be credited to a refundable advance account similar to deferred tuition. Just as important, if the conference makes monthly appropriations or other donors make monthly contributions, but they make no promises to continue the payments on a regular basis, that revenue would be recognized only when received.

2002.08 Payroll Subsidy - Another subsidy often occurs in schools that operate a combined primary and secondary program. Typically, the school pays the full amount of secondary-related payroll. However, for primary-related payroll, either the conference pays the full amount and bills the school for only a portion of it, or the school pays the full amount and receives a subsidy from the conference for part of it. The K-12 school should record contributed services revenue, and an offsetting contributed payroll expense, for the amount of any payroll covered by the conference but not actually billed to the school. As a result, the K-12 school will report a more complete picture of its operations, including the full cost of its payroll as well as the types of revenue that cover that cost.

2002.09 Non-Cash Credits - Credits for adjustments, returned goods, errors in billing, etc. should be closely controlled, and no such credits should be entered to student or customer accounts without approval by specific individuals designated by management policy. Credits for adjustments should be authorized by an individual other than those who handle incoming cash or have access to the accounts receivable records. If an adjustment is necessary on a student or customer account because of an error in billing, the adjustment should be made by journal voucher directly against the account which received the original credit for revenue.

2002.10 Limitation on Carrying Value - Historically, the denomination has set limits on the carrying value of receivables in secondary schools. These are recommended **maximum** carrying values. If an objective analysis indicates the amount actually recoverable is less than the maximum permitted, the allowance for uncollectible accounts should be adjusted so that the net carrying value will be the estimated recoverable amount.

Educational Institutions - The carrying amount of students' accounts receivable in the statement of financial position at the end of the year shall be not more than 10% of the total student charges for the year. The difference between the gross receivable balance and the carrying amount should be recorded as an allowance for uncollectible accounts.

School Industries, Commercial Accounts - For school industries the carrying amount of accounts receivable from commercial accounts (after recording the allowance for uncollectible accounts) shall be not more than 8% of the annual business of the industry. In exceptional cases, where there is a marked seasonal fluctuation in the business of a particular industry, or where credit terms in excess of the usual 30 day terms are granted to municipalities or other public corporations, an appropriate adjustment may be made by the administration of the institution in counsel with the union officers and General Conference auditor.

2002.11 Textbooks and Library Books - Textbooks and library books have characteristics of both inventory and equipment. They may be sold to students, or they may be provided to students for a fee, and they are used during more than one accounting period. The basic accounting principles in any case are to match revenues with expenses, and to capitalize and amortize costs or expenses over multiple periods when they benefit more than one period. The denomination applies that principle in the following manner, because typically schools use textbooks and library books over multiple periods, regardless of the books' physical condition or resale value.

Textbooks sold to students at the beginning of the year and re-purchased at the end of the year:

- Record purchases from vendors and from students as inventory, at cost.
- Record books sold as revenue, at sale price.
- Reduce inventory for cost of books sold, and record it as cost of goods sold.
- Count and classify textbooks on hand at the end of each period as inventory, at cost.

Textbooks and library books provided for student use either at no extra charge or for a fee:

- Record all purchases of textbooks and library books as an asset. The organization may choose whether to classify that asset as inventory, prepaid expense, or equipment.
- In all cases, whether identified as inventory, prepaid expense, or equipment, amortize the cost of the asset over its expected useful life.
- As a practical matter, to balance the cost and benefit of record-keeping when classified as prepaid expense or equipment, textbooks and library books may be accounted for by purchased groups or sets, rather than keeping detailed listings of each title or item as is typically done with equipment.

Appendix 20A

SEVENTH-DAY ADVENTIST SECONDARY SCHOOL

Financial Statements (International Model)

30 June 20X1 and 20X0

[*This illustrated financial statement displays the denomination's standard international presentation for secondary schools, which reflects the fact that they are not required to use fund accounting. This presentation displays expenses reported by natural object.*]

The reporting currency is the [*name the reporting currency unit*].

SEVENTH-DAY ADVENTIST SECONDARY SCHOOL (International Model) **Appendix 20A.01**
Statement of Financial Position
30 June 20X1 and 20X0

	20X1 Total	20X0 Total
ASSETS		
Current Assets		
Cash (Note 2)	106,920	60,830
Accounts Receivable, net (Note 3)	197,272	185,831
Notes Receivable, Current Portion	1,000	1,000
Inventories (Note 4)	132,116	129,429
Prepaid Expense	3,000	2,000
Cash Held for Agency Accounts (Note 2)	2,000	1,000
Total Current Assets	442,308	380,090
Plant Assets, Net (Note 5)	1,416,989	1,353,516
Other Assets		
Notes Receivable, Long-term	7,000	8,000
Cash Held for Unexpended Plant (Note 2)	46,128	8,030
Total Other Assets	53,128	16,030
Total Assets	1,912,425	1,749,636
LIABILITIES		
Current Liabilities		
Accounts Payable (Note 6)	74,855	48,115
Agency Accounts	2,000	1,000
Loans Payable, Current Portion	0	0
Total Current Liabilities	76,855	49,115
Other Liabilities		
Loans Payable, Long-term (Note 7)	100,000	0
Loans Payable, Plant (Note 7)	88,000	78,000
Total Other Liabilities	188,000	78,000
Total Liabilities	264,855	127,115
NET ASSETS		
Unallocated	250,953	338,975
Allocated Operating	21,500	0
Allocated Unexpended Plant	46,128	8,030
Net Invested in Plant	1,328,989	1,275,516
Total Net Assets	1,647,570	1,622,521
Total Liabilities & Net Assets	1,912,425	1,749,636

Notes to the financial statements are an integral part of this statement.

SEVENTH-DAY ADVENTIST SECONDARY SCHOOL (International Model) **Appendix 20A.02**
Statement of Financial Activity and Changes in Net Assets
Years ended 30 June 20X1 and 20X0

Operating Activity	Actual 20X1 Total	Budget 20X1 Total	Actual 20X0 Total
Earned Income:			
Tuition	550,000	540,500	524,740
Fees	44,200	42,200	40,780
Investment Income	3,200	2,800	1,500
Miscellaneous Income	7,505	5,800	3,715
Auxiliaries	567,000	566,500	543,400
Industry Operations	1,011,277	1,007,700	903,183
Total Earned Income	2,183,182	2,165,500	2,017,318
Expenses:			
Salaries and Wages	598,112	597,500	539,750
Payroll-related Expense	99,564	99,000	93,070
Retirement Contributions	46,080	46,000	43,782
Materials and Supplies	247,281	245,000	228,850
Administrative and General	214,030	214,000	200,110
Interest Expense	4,000	4,000	3,720
Depreciation Expense	53,728	53,000	49,152
Industry Payroll & Related	516,739	515,000	479,950
Industry Materials & Supplies	325,742	320,000	298,600
Industry General Expense	103,623	102,000	95,760
Industry Depreciation Expense	25,738	25,000	25,738
Total Operating Expenses	2,234,637	2,220,500	2,058,482
Increase (Decrease) Before Subsidies	(51,455)	(55,000)	(41,164)
Unrestricted Subsidies	59,000	45,000	35,000
Increase (Decrease) from Operations	7,545	(10,000)	(6,164)
Capital Activity			
Restricted Subsidies	23,000	12,500	12,200
Non-operating Investment Income	4,874	3,500	3,130
Non-operating Interest Expense	(8,820)	(6,000)	(5,550)
Gain (Loss) on Sale of Plant Assets	(1,550)	0	(825)
Net Capital Activity	17,504	10,000	8,955
Net Increase (Decrease) for the year	25,049	0	2,791
Net Assets, Beginning	1,622,521	1,622,521	1,619,730
Net Assets, Ending	1,647,570	1,622,521	1,622,521

Notes to the financial statements are an integral part of this statement.

SEVENTH-DAY ADVENTIST SECONDARY SCHOOL (International Model) **Appendix 20A.03**
Statement of Cash Flows
Years ended 30 June 20X1 and 20X0

	20X1 Total	20X0 Total
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	25,049	2,791
Prior Period Adjustment (if any)	0	0
Adjustments to eliminate non-cash items:		
Depreciation Expense	79,466	74,890
Provision for Uncollectible Accounts Receivable	19,075	18,000
(Gain) Loss on Sale of Plant Assets	1,550	825
Adjustments to reclassify Capital Activity:		
Non-operating Subsidies	(23,000)	(12,200)
Non-operating Investment Income	(4,874)	(3,130)
Non-operating Interest Expense	8,820	5,550
(Increase) Decrease Accounts Receivable	(30,516)	(37,450)
(Increase) Decrease Inventory & Prepaid	(3,687)	(19,430)
Increase (Decrease) Accounts Payable	26,740	7,000
(Increase) Decrease Agency Cash	(1,000)	0
Increase (Decrease) Agency Liability	1,000	0
Net Cash Provided (Used) by Operating	98,623	36,846
Cash Flows from Investing Activities:		
Proceeds from Maturity of Investments	0	0
Payments Received on Notes Receivable	1,000	1,000
Purchases of Investments	(38,098)	0
Non-operating Investment Income	4,874	3,130
Proceeds from Sale of Plant Assets	550	300
Purchases of Plant Assets	(145,039)	(6,854)
Net Cash Provided (Used) by Investing	(176,713)	(2,424)
Cash Flows from Financing Activities:		
Proceeds from External Borrowing	130,000	0
Donations for Plant	23,000	12,200
Interest Paid on Plant Loans	(8,820)	(5,550)
Principal Payments on Loans Payable	(20,000)	(10,000)
Net Cash Provided (Used) by Financing	124,180	(3,350)
Increase (Decrease) Cash and Cash Equivalents	46,090	31,072
Cash and Cash Equivalents, Beginning	60,830	29,758
Cash and Cash Equivalents, Ending	106,920	60,830

Supplemental Cash Flow Data:
Cash paid during the year for interest was $4,000 on operating debt, and $8,820 on capital debt.
Notes to the financial statements are an integral part of this statement.

SEVENTH-DAY ADVENTIST SECONDARY SCHOOL (International Model) **Appendix 20A.04**
Notes to the Financial Statements
Years ended 30 June 20X1 and 20X0

Note 1 - Organization Description and Summary of Significant Accounting Policies

Organization Description

[*Name*] Seventh-day Adventist Secondary School (School) is operated by [*Name*] Conference of Seventh-day Adventists (Conference) to provide a Christian education in a day school environment to secondary students within its territory. The School is a religious not-for-profit organization, and is exempt from taxes under provisions of [*name the applicable law and/or regulations*]. The School receives most of its revenue in the form of tuition and other charges from the parents or guardians of its students. It also receives operating and capital subsidies from the Conference. In addition, the School operates a bakery and a laundry to provide employment for its students and to generate additional revenue.

Summary of Significant Accounting Policies

(a) The significant accounting policies of the School are essentially the same as generally accepted accounting principles for not-for-profit organizations as promulgated by the International Accounting Standards Board. The significant policies are described below to enhance the usefulness of the financial statements. The financial statements of the School have been prepared on the accrual basis of accounting. [Management *or* the (*governing*) committee] authorized issuance of the accompanying financial statements on [issuance date].

(b) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the financial statement date, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Provision for Uncollectible Accounts: An estimated allowance for uncollectible accounts is provided through routine additions based on charges, historical collection experience, and aging of receivables. Accounts deemed to be uncollectible are charged to the allowance.

(d) Restricted Resources: The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets.

(e) Plant Assets and Depreciation: Resources used for plant acquisitions and debt service payments are recorded as capital activity. Restricted proceeds from sale of assets and restricted income from plant-related investments are recorded as restricted gains. Interest payments on plant-related debt are recorded as non-operating expense. Plant assets are recorded at cost when purchased or at fair market value at date of gift. Plant assets that cost less than [*state a threshold amount*] are not capitalized, but are charged to expense. Depreciation of land improvements, buildings, and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation expense is recorded as operating expense.

(f) Cash and Equivalents: Cash equivalents are highly-liquid assets held for operating purposes, which are readily convertible to cash and have a maturity date of three months or less from date of acquisition. Cash equivalents held for other than operating purposes are classified as investments. The increase or decrease in non-operating investments is reported in the cash flow statement as investment proceeds or purchases.

(g) Fair Value of Financial Instruments: Short-term financial instruments are valued at their carrying amounts because those amounts are considered to be reasonable estimates of fair value due to the relatively short period to maturity of these instruments. All other financial instruments are valued at the quoted market price or other reasonably obtainable fair value estimate at the reporting date for those or similar instruments. The difference between aggregate market value and cost for each type of investment is recorded in a valuation account. The net change in this valuation account each year is recognized as gain or loss.

SEVENTH-DAY ADVENTIST SECONDARY SCHOOL (International Model) **Appendix 20A.05**
Notes to the Financial Statements
Years ended 30 June 20X1 and 20X0

Note 1 - Summary of Significant Accounting Policies (continued)

(h) Current Assets and Liabilities: Assets and liabilities are classified as current or long-term, depending on their characteristics. This excludes from current assets: cash equivalents that are restricted to use for other than current operations or committee allocated for acquisition of plant assets or for liquidation of plant-related debt. This excludes from current liabilities: long-term portion of all debt or plant-related debt payable within the next fiscal year to the extent covered by designated liquid assets. Working capital is calculated as current assets minus current liabilities.

(i) Investment Income: Income from investments that are held for operating purposes is accounted for as miscellaneous operating revenue. Income from investments that are held for plant-related purposes is accounted for as capital activity.

(j) Related Organizations: the School is an affiliate of [*Name*] Conference of Seventh-day Adventists:

1. Certain officers and other employees of the Conference are members of the School's governing committee; the Conference president being the Chairman of the committee.
2. Legal title to all real property used by the School is registered in the name of [*name of legal title-holding entity*]. Asset values and related depreciation accounts for all plant assets used by the School are maintained in the financial records of the School.
3. A significant degree of financial support for both operating and capital purposes is received by appropriation from the Conference. Amounts due from or payable to the Conference are set forth in Note 7 below. Financial statements of the School are not consolidated with those of the Conference.

(k) Concentrations of Risk: The School receives most of its revenue from student-related activity. Annual budget and employment decisions typically must be made before actual enrollment is known. There is a risk that enrollment will be less than anticipated, which would affect the School's ability to balance its budget.

(l) Classification of Net Assets: To ensure observance of limitations and restrictions placed on the use of resources available to the School, the net asset accounts are classified into components that reflect the purpose for which they are held. Net assets other than plant are separated into unallocated, allocated operating, and allocated capital amounts. The net depreciated value of plant assets, minus any plant-related debt, is classified as net invested in plant.

Note 2 - Cash

Operating Purposes	General	Industry	20X1	20X0
Imprest Cash	200	700	900	500
Checking Accounts	25,080	40,940	66,020	40,330
Saving Accounts @ 4-6%	20,000	20,000	40,000	20,000
Total Operating Cash, 20X1	45,280	61,640	106,920	
Total Operating Cash, 20X0	23,360	37,470		60,830

Other than Operating Purposes	Unex. Plant	Agency	20X1	20X0
Checking Account	11,128	2,000	13,128	4,030
Money Market Account @ 6%	35,000	0	35,000	5,000
Total Non-operating Cash, 20X1	46,128	2,000	48,128	
Total Non-operating Cash, 20X0	8,030	1,000		9,030

SEVENTH-DAY ADVENTIST SECONDARY SCHOOL (International Model) **Appendix 20A.06**
Notes to the Financial Statements
Years ended 30 June 20X1 and 20X0

Note 3 - Accounts Receivable	Education Gen & Aux	Indep. Operation	20X1 Total	20X0 Total
Current Student Accounts	144,815	0	144,815	137,600
Former Student Accounts	55,340	0	55,340	39,400
Total Student Accounts	200,155	0	200,155	177,000
Allowance for Uncollectible Accounts	(84,135)	0	(84,135)	(66,110)
Net Student Accounts	116,020	0	116,020	110,890
Faculty & Staff Accounts	350	0	350	410
Commercial Accounts - Bakery	0	50,450	50,450	56,033
Commercial Accounts - Laundry	0	40,602	40,602	27,598
Allowance for Uncollectible Accounts	0	(10,150)	(10,150)	(9,100)
Net Accounts Receivable, 20X1	116,370	80,902	197,272	
Net Accounts Receivable, 20X0	111,300	74,531		185,831

Note 4 - Inventory	Education Gen & Aux	Industry Operation	20X1 Total	20X0 Total
Instructional & Office	6,975	0	6,975	3,355
Bookstore	10,500	0	10,500	7,000
Food Service	25,000	0	25,000	30,000
Industry	0	89,641	89,641	89,074
Total Inventory, 20X1	42,475	89,641	132,116	
Total Inventory, 20X0	40,355	89,074		129,429

Note 5 - Plant Assets

20X1 Balances	Total Cost	Accumulated Depreciation	Net Value	Depreciation Expense
Land	73,000	0	73,000	0
Land Improvements	65,000	31,000	34,000	3,250
Buildings	993,900	148,900	845,000	19,878
Equipment (Educ, Gen, & Aux)	282,800	88,600	194,200	30,600
Equipment (Industry Operations)	490,329	219,540	270,789	25,738
Total Plant Assets, 20X1	1,905,029	488,040	1,416,989	79,466
20X0 Balances				
Land	73,000	0	73,000	0
Land Improvements	65,000	27,750	37,250	3,250
Buildings	904,000	129,022	774,978	18,078
Equipment (Educ, Gen, & Aux)	244,000	64,000	180,000	27,824
Equipment (Industry Operations)	484,038	195,750	288,288	25,738
Total Plant Assets, 20X0	1,770,038	416,522	1,353,516	74,890

SEVENTH-DAY ADVENTIST SECONDARY SCHOOL (International Model) **Appendix 20A.07**
Notes to the Financial Statements
Years ended 30 June 20X1 and 20X0

Note 5 - Plant Assets (continued)

20X1 Activity (Cost)	1/1/20X1	Additions	Deletions	31/12/20X1
Land	73,000	0	0	73,000
Land Improvements	65,000	0	0	65,000
Buildings	904,000	89,900	0	993,900
Equipment (Educ, Gen, & Aux)	244,000	45,800	7,000	282,800
Equipment (Industry Operations)	484,038	9,339	3,048	490,329
Total Cost, 20X1	1,770,038	145,039	10,048	1,905,029
20X1 Activity (Accumulated Depreciation)				
Land Improvements	27,750	3,250	0	31,000
Buildings	129,022	19,878	0	148,900
Equipment (Educ, Gen, & Aux)	64,000	30,600	6,000	88,600
Equipment (Industry Operations)	195,750	25,738	1,948	219,540
Total Accumulated Depreciation, 20X1	416,522	79,466	7,948	488,040

Note 6 - Accounts Payable	General	Industry	20X1	20X0
Commercial Accounts	36,945	25,355	62,300	29,685
Student Credit Balances	12,555	0	12,555	18,430
Total Accounts Payable	49,500	25,355	74,855	48,115

Note 7 - Loans Payable Operating Purposes	Current	Long-term	20X1 Total	20X0 Total
Unsecured Note Payable to Local Conference, 8% interest due quarterly, principal due 10-1-20X4.	0	100,000	100,000	0
Plant Purposes				
Unsecured Note Payable to Security Bank, $10,000 plus 9% interest due each June 30.	10,000	10,000	20,000	0
Unsecured Note Payable to Local Conference, $10,000 plus 9% interest due each June 30.	10,000	58,000	68,000	78,000
Total Plant-related Loans Payable	20,000	68,000	88,000	78,000

Payments due on principal during the next five years:	20X2	20X3	20X4	20X5	20X6	Future
For Operating Purposes:	0	0	100,000	0	0	0
For Plant Purposes:	20,000	20,000	10,000	10,000	10,000	18,000

SEVENTH-DAY ADVENTIST SECONDARY SCHOOL (International Model) **Appendix 20A.08**
Notes to the Financial Statements
Years ended 30 June 20X1 and 20X0

Note 8 - Working Capital and Liquidity

Working Capital	Education, Gen, & Aux	Industry Operation	20X1 Total	20X0 Total
Total Current Assets	260,125	182,183	442,308	380,090
Total Current Liabilities	(51,500)	(25,355)	(76,855)	(49,115)
Actual Working Capital	208,625	156,828	365,453	330,975
Recommended Working Capital *	310,920	145,776	456,696	308,772
Working Capital Excess (Deficit)	(102,295)	11,052	(91,243)	22,203
Percent of Recommended Working Capital	67%	108%	80%	107%
Current Ratio	5.2	7.2	5.9	7.9
Liquidity				
Cash and Investments	45,280	61,640	106,920	60,830
Accounts Receivable - Conference	0	0	0	0
Total Liquid Assets	45,280	61,640	106,920	60,830
Current Liabilities	51,500	25,355	76,855	49,115
Allocated Operating Net Assets	21,500	0	21,500	0
Total Commitments	73,000	25,355	98,355	49,115
Liquid Assets Surplus (Deficit)	(27,720)	36,285	8,565	11,715
Percent Liquid Assets to Commitments	62%	243%	109%	124%
* Calculation of Recommended Working				
15% of Operating Expense	189,420	145,776	335,196	308,772
Long-term Operating Loans Payable	100,000	0	100,000	0
Allocated Operating Net Assets	21,500	0	21,500	0
Total Recommended Working Capital	310,920	145,776	456,696	308,772

Note 9 - Pension and Other Post-Retirement Benefits

Defined Benefit Retirement Plan

The School participates in a non-contributory defined benefit retirement plan known as the [*name of the defined benefit retirement plan or fund*] (DB Plan). The DB Plan, which covers substantially all employees of the School, is administered by the Division. Contributions to the Plan are made by participating employers located within the Division territory. Employees do not contribute to the Plan. The required contributions from the School to the DB Plan (for retiree pension, health care, and other benefits) were FCU 44,878 and 72,090 for the years ended 30 June 20X1 and 20X0, respectively. The DB Plan and the Division together determine the amount of contributions that are required each year from the participating employers, and this amount may increase in the future.

SEVENTH-DAY ADVENTIST SECONDARY SCHOOL (International Model) **Appendix 20A.09**
Notes to the Financial Statements
Years ended 30 June 20X1 and 20X0

Note 9 - Pension and Other Post-Retirement Benefits (continued)

Defined Benefit Retirement Plan (continued)

[*For entities whose retirement plan **has not** obtained an actuarial valuation that establishes a proportionate liability amount for each participating employer, use the following paragraph.*]

This DB Plan is defined as a "multiemployer" plan. The DB Plan has concluded that it is not reasonably possible to determine the actuarial present value of accumulated benefits or plan net assets for employees of the School apart from other plan participants. [*If the Plan has obtained an actuarial evaluation, even if it was obtained in an earlier period, add the following sentence*: However, based on the latest actuarial evaluation of the DB Plan, as of [*effective date of last actuarial report*], the actuarially computed value of accumulated plan benefits exceeded the estimated market value of plan assets, for the plan as a whole.] [*If an actuarial evaluation has never been obtained, add the following sentence*: No actuarial evaluation has been obtained for the DB Plan as a whole.]

[*For entities whose retirement plan **has** been able to determine an actuarial valuation that established a proportionate liability amount for each participating employer, use the following paragraph.*]

This DB Plan is defined as a "multiemployer" plan. Based on the latest actuarial evaluation of the DB Plan, as of [*effective date of last actuarial report*], the actuarially computed value of accumulated plan benefits exceeded the estimated market value of plan assets. The School's proportionate share of the unfunded obligation was determined to be [FCU XXX,XXX], which is reported as a noncurrent liability in the accompanying statement of financial position.

[*If the reporting entity is located in a territory that has frozen its defined benefit retirement plan and started a defined contribution retirement plan, include the following paragraph for the first year of the change in plans.*]

During 20X0, the Division Executive Committee voted to freeze accrual of service credit in this DB Plan effective 31 December 20X0, except for employees who stated their intent to retire before 1 January 20X5, and to start a new defined contribution pension plan effective 1 January 20X1. The School is scheduled to continue making contributions to this frozen DB Plan after 31 December 20X0. Certain employees will continue to be eligible for future benefits under this DB Plan.

Defined Contribution Retirement Plan [*use this section for entities that participate in DC plans*]

Beginning 1 January 20X1, the [*identifier*] participates in a defined contribution retirement plan known as the [*name of the defined contribution retirement plan*] (DC Plan). The DC Plan, which covers substantially all employees of the School, is governed by a plan document developed by the Division, in coordination with the Union Conferences and Missions in its territory. This DC Plan is defined as a "multiemployer" plan. Contributions to the DC Plan are made by participating employers located within the Division territory, and voluntary contributions may be made by eligible employees of those employers.

The School contributed FCU 32,638 to the DC Plan for the year ended 30 June 20X1, based on a stated percentage of each employee's earnings and a matching percentage of certain employee voluntary contributions. Administration of the accumulated contributions designated for the future benefit of each employee is provided under an agreement between the Division, Union Conferences, and Missions and a record-keeping organization, [*name of record-keeping investment management organization, with (identifier)*]. (*Identifier of record-keeper*) receives all contributions, and invests them in accordance with portfolio profiles selected by each employee.

Appendix 20B - Accounting for Real Property in the USA

20B.01 Recording Real Property - As mentioned in Appendix 13A.11, USA GAAP requires real property to be recorded in the financial statements of the legal owner. In the absence of a written agreement stating otherwise, the owner of land improvements and buildings is considered to be the legal title-holder of the land upon which they are located. There are at least three approaches available to academies for the recording of real property. Each of these approaches involves legal transactions between related entities, so each entity must agree to the terms and be aware of the legal and accounting consequences.

a. Owned by conference corporation and used by academy - subject to written agreement.

   Property that is titled in the name of the corporation and is owned by the corporation should be reported in the corporation financial statements, not in the academy financial statements. If there were no written agreement between the corporation and academy, GAAP would require the academy to record a contribution for use of the property, and offsetting rent expense, on the basis of "fair rental value." Because of the subjective nature of fair rental value, this Manual strongly recommends that entities adopting this alternative prepare some form of property use agreement. Such an agreement would identify the corporation as the owner of at least the land, the academy as the tenant (and possibly the owner of the buildings as leasehold improvements), and would define the nature and amount of rent payments. For example, rent payments might be defined as all amounts the academy spends for materials and labor to maintain and care for the specified property. See Appendix 13F for examples of such lease agreements. To keep the accounting simple when the rental value exceeds the rent payments, the life of the use agreement should be stated in relative terms, ie: "as long as the constituents operate the school," rather than something definite like 40 or 50 years.

b. Owned and used by academy, but title held by corporation as trustee - subject to written agreement.

   The corporation and the academy could prepare a legal document establishing a relationship in which the corporation holds legal title to the academy property in only a trustee capacity. The corporation would record a long-term trust asset and an offsetting agency liability in its financial statements. The corporation would record the trust asset at fair value at the date of the agreement, review its value annually, and adjust the recorded value whenever fair value was materially different at year end. The academy would record all property cost, depreciation, and related expenses in its financial statements.

c. Owned by corporation, but included in academy records.

   Property that is used by the academy, but which is titled in the name of the conference corporation, could be included in the financial statements of the academy, as it has been recorded in the past. Although the North American Division has allowed this to be an alternative, it has also recognized that it is a departure from GAAP, and the auditors would have to report it as such and consider whether to issue non-standard opinions on the financial statements of both the corporation and the academy.
   However, if the corporation and academy were consolidated in one set of financial statements, it would not matter which of the entities carried the real property in its records. Such a consolidated financial statement could receive an unqualified audit opinion. If the academy financial statements were presented separately, with property included, they would receive at least a qualified audit opinion.

20B.02 Property Accounting Illustrated - The following sample journal entries illustrate the accounting under each of the alternatives described above. They include entries to convert from the historical presentation to the selected alternative.

Alternative a.

	Debit	Credit
Corporation: Academy real property cost	2,706,000	
Accumulated depreciation		405,900
Net assets (contributed property received)		2,300,100
Academy: Net assets (property contributed)	2,300,100	
Accumulated depreciation		405,900
Real property cost		2,706,000
To record a prior period adjustment for the movement of property assets from academy to corporation records.		
Corporation: Maintenance expense	91,950	
Rental revenue		91,950
Depreciation expense	69,600	
Accumulated depreciation		69,600
Academy: Rent expense - building maintenance	47,050	
Rent expense - groundskeeping	44,900	
Cash		91,950
To record property upkeep and related expenses according to agreement.		

Alternative b.

	Debit	Credit
Corporation: Long-term trust assets	3,000,000	
Agency liability due to academy		3,000,000
To record establishment of legal trustee agreement.		
Corporation: Long-term trust assets	100,000	
Agency liability due to academy		100,000
To increase trust asset to fair value at subsequent year end.		
Academy: Depreciation expense	69,600	
Accumulated depreciation		69,600
Maintenance expense	47,050	
Groundskeeping expense	44,900	
Cash		91,950
To record property upkeep and related expenses.		

Alternative c.

	Debit	Credit
Academy: Depreciation expense	69,600	
Accumulated depreciation		69,600
Maintenance expense	47,050	
Groundskeeping expense	44,900	
Cash		91,950
To record property upkeep and related expenses.		

Appendix 20C

SEVENTH-DAY ADVENTIST ACADEMY

Financial Statements (Standard USA Model)

June 30, 20X1 and 20X0

[*This illustrated financial statement displays the standard presentation for secondary schools in the USA, which reflects the fact that they are not required to use fund accounting. This presentation displays the multiple components of net assets required for entities in the USA, and reports expenses by functional categories, rather than by object.*]

SEVENTH-DAY ADVENTIST ACADEMY (Standard USA Model) **Appendix 20C.01**
Statement of Financial Position
June 30, 20X1 and 20X0

	20X1 Total	20X0 Total
ASSETS		
Current Assets		
Cash (Note 2)	206,920	60,830
Accounts Receivable, Net (Note 3)	197,272	185,831
Notes Receivable, Current Portion	1,000	1,000
Inventories (Note 4)	132,116	129,429
Prepaid Expense	3,000	2,000
Cash Held for Agency Accounts (Note 2)	2,000	1,000
Total Current Assets	542,308	380,090
Plant Assets, Net (Note 5)	464,989	468,288
Other Assets		
Notes Receivable, Long-term	7,000	8,000
Assets Held for Unexpended Plant (Note 2)	46,128	8,030
Assets Held for Endowment (Note 2)	30,000	0
Total Other Assets	83,128	16,030
Total Assets	1,090,425	864,408
LIABILITIES		
Current Liabilities		
Accounts Payable (Note 6)	74,855	48,115
Agency Accounts	2,000	1,000
Loans Payable, Current Portion	0	0
Total Current Liabilities	76,855	49,115
Other Liabilities		
Loans Payable, Long-term (Note 7)	100,000	0
Loans Payable, Plant (Note 7)	88,000	78,000
Total Other Liabilities	188,000	78,000
Total Liabilities	264,855	127,115
NET ASSETS		
Unrestricted: Unallocated	350,953	338,975
Unrestricted: Allocated	46,128	8,030
Unrestricted: Net Invested in Plant	376,989	390,288
Total Unrestricted	774,070	737,293
Temporarily Restricted (Note 9)	21,500	0
Permanently Restricted (Note 10)	30,000	0
Total Net Assets	825,570	737,293
Total Liabilities & Net Assets	1,090,425	864,408

Notes to the financial statements are an integral part of this statement.

SEVENTH-DAY ADVENTIST ACADEMY (Standard USA Model)
Statement of Changes in Net Assets
Years ended June 30, 20X1 and 20X0

Appendix 20C.02

Unrestricted Net Assets	Actual 20X1 Total	Budget 20X1 Total	Actual 20X0 Total
Unrestricted Revenue:			
Tuition	550,000	540,500	524,740
Fees	44,200	42,100	40,780
Investment Income	3,200	1,750	1,500
Miscellaneous Income	4,830	3,950	3,715
Educational & General Income	602,230	588,300	570,735
Auxiliaries	567,000	566,600	543,400
Independent Operations	1,011,277	936,700	903,183
Total Unrestricted Revenue	2,180,507	2,091,600	2,017,318
Released from Rest. (Note 9)	14,275	11,700	12,200
Total Unrestricted Revenue	2,194,782	2,103,300	2,029,518
Expenses:			
Educ. & Gen. Program Services			
Instructional	450,416	448,750	409,234
Student Services	44,007	40,950	37,550
Student Financial Aid	37,500	27,500	27,500
Total Program Services	531,923	517,200	474,284
Supporting Services			
Fund-raising	34,066	35,000	30,997
Institutional Support	122,378	109,300	89,929
Educ & Gen Oper Expense	688,367	661,500	595,210
Auxiliaries	563,850	566,700	496,795
Independent Operations	971,842	903,000	894,688
Total Operating Expenses	2,224,059	2,131,200	1,986,693
Inc. (Dec.) Without Subsidy	(29,277)	(27,900)	42,825
Unrestricted Subsidies from Churches	59,000	45,000	35,000
Contributed Services – Subsidized Audit Costs	12,550	12,500	11,925
Inc. (Dec.) from Operations	42,273	29,600	89,750
Non-operating Activity			
Non-operating Activity (Note 8)	(5,496)	(4,625)	(3,245)
Increase (Decrease)			
Unrestricted Net Assets	36,777	24,975	86,505

Notes to the financial statements are an integral part of this statement.

SEVENTH-DAY ADVENTIST ACADEMY (Standard USA Model) **Appendix 20C.02**
Statement of Changes in Net Assets Page 2 of 2
Years ended June 30, 20X1 and 20X0

	Actual 20X1 Total	Budget 20X1 Total	Actual 20X0 Total
Unrestricted Net Assets			
Increase (Decrease)			
Unrestricted Net Assets	36,777	24,975	86,505
Temporarily Restricted Net Assets			
Restricted Subsidies from Conference	23,000	10,000	12,200
Restricted Operating Donations	11,275	0	0
Restricted Endowment Income	1,500	0	0
Total Restricted Income (Note 9)	35,775	10,000	12,200
Released from Restrictions (Note 9)	(14,275)	(10,000)	(12,200)
Increase (Decrease)			
Temporarily Rest. Net Assets	21,500	0	0
Permanently Restricted Net Assets			
Endowment Fund Donations	30,000	0	0
Increase (Decrease)			
Permanently Rest. Net Assets	30,000	0	0
Increase (Decrease) Net Assets	88,277	24,975	86,505
Net Assets, Beginning of Year	737,293	737,293	650,788
Net Assets, End of Year	825,570	762,268	737,293

Notes to the financial statements are an integral part of this statement.

SEVENTH-DAY ADVENTIST ACADEMY (Standard USA Model) **Appendix 20C.03**
Statement of Cash Flows
Years ended June 30, 20X1 and 20X0

	20X1 Total	20X0 Total
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	88,277	86,505
Prior Period Adjustment (if any)	0	0
Adjustments to eliminate non-cash items:		
Depreciation Expense	56,338	53,562
Provision for Uncollectible Accounts Receivable	19,075	18,000
(Gain) Loss on Sale of Plant Assets	1,550	825
Adjustments to reclassify non-operating items:		
Non-operating Donations	(30,000)	0
Non-operating Investment Income	(1,500)	0
(Increase) Decrease Accounts Receivable	(30,516)	(55,450)
(Increase) Decrease Inventory & Prepaid	(3,687)	(19,430)
Increase (Decrease) Accounts Payable	26,740	7,000
(Increase) Decrease Agency Cash	(1,000)	0
Increase (Decrease) Agency Liability	1,000	0
Net Cash Provided (Used) by Operating	126,277	91,012
Cash Flows from Investing Activities:		
Proceeds from Maturity of Investments	0	0
Payments Received on Notes Receivable	1,000	1,000
Purchases of Investments	0	0
Restricted Investment Income	1,500	
Proceeds from Sale of Plant Assets	550	300
Purchases of Plant Assets	(123,237)	(41,240)
Net Cash Provided (Used) by Investing	(120,187)	(39,940)
Cash Flows from Financing Activities:		
Proceeds from External Borrowing	130,000	0
Donations for Plant & Endowment	30,000	0
Principal Payments on Notes Payable	(20,000)	(20,000)
Net Cash Provided (Used) by Financing	140,000	(20,000)
Increase (Decrease) Cash and Cash Equivalents	146,090	31,072
Cash and Cash Equivalents, Beginning	60,830	29,758
Cash and Cash Equivalents, Ending	206,920	60,830

Supplemental Cash Flow Data:
Cash paid during the year for interest was $4,000 on operating debt, and $8,820 on capital debt.

Notes to the financial statements are an integral part of this statement.

SEVENTH-DAY ADVENTIST ACADEMY (Standard USA Model) **Appendix 20C.04**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 1 - Organization Description and Summary of Significant Accounting Policies

Organization Description

[*Name*] Seventh-day Adventist Academy (Academy) is operated by the [*Name 1*] Seventh-day Adventist Church and [*Name 2*] Seventh-day Adventist Church to provide a Christian education in a day school environment to secondary students in their community.

The Academy receives most of its revenue in the form of tuition and other charges from the parents or guardians of its students. It also receives operating and capital subsidies from the Local Conference of Seventh-day Adventists, the [*Name 1*] Seventh-day Adventist Church, and the [*Name 2*] Seventh-day Adventist Church. In addition, the Academy operates a bakery and a laundry, to provide employment for its students, and to generate additional revenue.

The Academy is a religious not-for-profit organization, and is exempt from Federal, State, and Local income taxes under provisions of Section 501 (c) (3) of the Internal Revenue Code, and corresponding sections of applicable state and local codes; except for taxes on Unrelated Business Income.

Summary of Significant Accounting Policies

(a) The significant accounting policies of the Academy are essentially the same as generally accepted accounting principles for not-for-profit organizations as promulgated by the Financial Accounting Standards Board and the American Institute of Certified Public Accountants. The significant policies are described below to enhance the usefulness of the financial statements. The financial statements of the Academy have been prepared on the accrual basis of accounting. In conformity with the accrual basis of accounting, the Organization has evaluated events that occurred subsequent to the financial statement date, up to [*insert date*], which is the date the financial statements were [*insert either* "issued" *or* "available to be issued" *but not both*].

(b) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Restricted Resources: The Academy reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. The Academy reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Academy reports expirations of donor restrictions when the assets are placed in service.

(d) Plant Assets and Depreciation: Resources used for plant acquisitions and debt service payments are recorded as non-operating activity. Restricted proceeds from sale of assets and restricted income from plant-related investments are recorded as restricted gains. Interest payments on plant-related debt are recorded as non-operating expense. Plant assets are recorded at cost when purchased or at fair market value at date of gift. Plant assets that cost less than [*state a threshold amount*] are not capitalized, but are charged to expense. Depreciation of furnishings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation expense is distributed among the various instructional, auxiliary, and administrative expense functions that benefit from the respective assets.

SEVENTH-DAY ADVENTIST ACADEMY (Standard USA Model) **Appendix 20C.05**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

<u>Note 1 - Summary of Significant Accounting Policies (continued)</u>

(e) Cash and Equivalents: Cash equivalents are highly-liquid assets held for operating purposes, which are readily convertible to cash and have a maturity date of three months or less from date of acquisition. Cash equivalents held for other than operating purposes are classified as investments. The increase or decrease in nonoperating investments is reported in the cash flow statement as investment proceeds or purchases.

(f) Fair Value of Financial Instruments: Short-term financial instruments are valued at their carrying amounts because those amounts are considered to be reasonable estimates of fair value due to the relatively short period to maturity of these instruments. All other financial instruments are valued at the quoted market price or other reasonably obtainable fair value estimate at the reporting date for those or similar instruments. The difference between aggregate market value and cost for each type of investment is recorded in a valuation account. The net change in this valuation account each year is recognized as gain or loss.

(g) Current Assets and Liabilities: Assets and liabilities are classified as current or long-term, depending on their characteristics. This excludes from current assets: cash equivalents that are restricted to use for other than current operations, or committee allocated for acquisition of plant assets or for liquidation of plant-related debt. This excludes from current liabilities: long-term portion of all debt, and plant-related debt payable within the next fiscal year to the extent covered by designated liquid assets. Working capital is calculated as current assets minus current liabilities.

(h) Investment Income: Unrestricted income from investments is recorded as miscellaneous operating revenue.

(i) Related Organizations: the Academy is an affiliate of Local Conference of Seventh-day Adventists:

1. Certain officers and other employees of the Conference are members of the Academy's governing committee; the Conference education director being the Chairman of the committee.
2. Legal title to all real property used by the Academy is vested in the name of the Local Conference Corporation of Seventh-day Adventists. Asset values and related depreciation accounts for furnishings and equipment are maintained in the financial records of the Academy.
3. A significant degree of financial support for both operating and capital purposes is received by appropriation from the Local Conference and from constituent churches. Details of amounts due from or payable to the Local Conference are set forth in Note 7 below. Financial statements of the Academy are not consolidated with those of the Local Conference.

(j) Concentrations of Risk: The Academy receives most of its revenue from student-related activity. Annual budget and employment decisions typically must be made before actual enrollment is known. There is a risk that enrollment will be less than anticipated, which would affect the Academy's ability to balance its budget.

(k) Provision for Uncollectible Accounts: An estimated allowance for uncollectible accounts is provided through routine additions based on charges, historical collection experience, and aging of receivables. Accounts deemed to be uncollectible are charged to the allowance.

(l) Classification of Net Assets: To ensure observance of limitations and restrictions placed on the use of resources available to the Academy, the net asset accounts are classified for accounting and reporting purposes into components that reflect the presence or absence of donor restrictions or committee designations. Unrestricted net assets are separated into unallocated and allocated amounts. Restricted net assets are separated into temporarily restricted and permanently restricted amounts.

SEVENTH-DAY ADVENTIST ACADEMY (Standard USA Model) **Appendix 20C.06**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 1 - Summary of Significant Accounting Policies (continued)

(m) Endowment Assets – Interpretation of State Law

[*State laws vary regarding the preservation of endowment principal. Some equate it to preservation of the fair value of donated endowment assets; others equate it to preservation of the purchasing power of donated endowment assets. Adapt one of the following examples to tailor those disclosures to the reporting entity*.]

[***Example #1: Preservation of Fair Value***]
The Organization's [*name of governing committee*] has interpreted the [*name of state*] Prudent Management of Institutional Funds Act (*x*PMIFA) to require the preservation of the fair value of the original gift as of the gift date of donor-restricted endowments, unless explicit donor stipulations provide otherwise.

- As a result of this interpretation, the Organization classifies as permanently restricted net assets:
  (a) The original value of gifts donated as permanent endowments,
  (b) The original value of subsequent gifts to the permanent endowment, and
  (c) Accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment.
- The remaining portion of the donor-restricted endowments that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by *x*PMIFA.

[***Example #2: Preservation of Purchasing Power***]
The Organization's [*name of governing committee*] has interpreted the [*name of state*] Prudent Management of Institutional Funds Act (*x*PMIFA) to require the preservation of the purchasing power (inflation-adjusted real value) of donor-restricted endowments, unless explicit donor stipulations provide otherwise.

- As a result of this interpretation, the Organization classifies as permanently restricted net assets:
  (a) The original value of gifts donated as permanent endowments,
  (b) The original value of subsequent gifts to the permanent endowment,
  (c) Accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment, and
  (d) The portion of investment return added to the permanent endowment to maintain its purchasing power.
    For purposes of determining that added portion, each year the Organization adjusts permanently restricted net assets by the change in the [*name the index, such as Consumer Price Index or Higher Education Price Index, etc.*].
- If endowment assets earn investment returns beyond the amount necessary to maintain the endowment assts' purchasing value, that excess is available for appropriation and, therefore, is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization.

[***For both examples #1 and #2, add the following item at the end of the Interpretation of Law section.***]

- In accordance with *x*PMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowments:
  (1) The duration and preservation of the endowment
  (2) The purposes of the Organization and of the donor-restricted endowment
  (3) General economic conditions
  (4) The possible effect of inflation and deflation
  (5) The expected total return from income and the appreciation of investments
  (6) Other resources of the Organization
  (7) The investment policies of the Organization.

SEVENTH-DAY ADVENTIST ACADEMY (Standard USA Model) **Appendix 20C.07**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 1 - Summary of Significant Accounting Policies (continued)

(n) Endowment Investment Policies – Return Objectives, Risk Parameters, and Strategies

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the [*insert* fair value *–or-* purchasing power] of the endowment assets. Endowment assets include those assets of donor-restricted endowments that the Organization must hold in perpetuity or for a donor-specified period, as well as committee-designated (quasi) endowments.

Under this policy, as approved by the [*name of governing committee*], the endowment assets are invested in a manner that is intended to produce results that approximate the price and yield results of [*name a relevant index, such as the S&P 500*] while assuming a moderate level of investment risk. The Organization expects its total endowments, over time, to provide an average rate of return of approximately [*number*] percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. The Organization places the endowment assets into the following ranges of investment types: XX% to XX% in equity securities, XX% to XX% in government-issued securities, and XX% to XX% in other debt securities.

(o) Endowment Spending Policies and Relation to Investment Objectives

The Organization has adopted an endowment spending policy that directs it to appropriate for distribution each year an amount equal to [*number*] percent of its endowments' total average fair value [*for a period of time, such as:* over the previous (*number of quarters or years*) ending on (*date*)*; or as of a specific date, such as:* at the calendar year-end preceding the fiscal year in which the distribution is planned].

In establishing this policy, the Organization considered the long-term expected return on its endowments. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowments to grow at an average of [*number*] percent annually. This is consistent with the Organization's objective to maintain the [*insert* fair value *–or-* purchasing power] of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(p) Endowments with Deficiencies in Assets Compared to Net Assets [*Use this paragraph when applicable.*]

From time to time, the fair value of assets associated with individual donor-restricted endowments may fall below the level that the donor or *x*PMIFA requires the Organization to retain as permanently restricted net assets. In accordance with accounting principles generally accepted by the denomination, deficiencies of this nature that are reported in unrestricted net assets were [$xxx] and [$xxx] at [*financial statement date, current and prior years*], respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted donations, combined with appropriations of disbursements for programs that were deemed prudent by the [*name of governing committee*].

SEVENTH-DAY ADVENTIST ACADEMY (Standard USA Model) **Appendix 20C.08**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 2 – Cash

Operating Purposes	General	Ind. Op.	20X1 Total	20X0 Total
Imprest Cash	200	700	900	500
Checking Accounts	25,080	40,940	66,020	40,330
Savings Account @ 4%	20,000	0	20,000	20,000
Money Market Account @ 6%	100,000	20,000	120,000	0
Total Operating Cash, 20X1	145,280	61,640	206,920	
Total Operating Cash, 20X0	23,360	37,470		60,830

Other than Operating Purposes	Unex. Plant	Endowment	Agency	20X1 Total
Checking Account	11,128	0	2,000	13,128
Money Market Account @ 6%	35,000	30,000	0	65,000
Total Other Cash, 20X1	46,128	30,000	2,000	78,128
				20X0 Total
Checking Account	3,030	0	1,000	4,030
Money Market Account @ 6%	5,000	0	0	5,000
Total Other Cash, 20X0	8,030	0	1,000	9,030

Note 3 - Accounts Receivable	Education Gen & Aux	Indep. Operation	20X1 Total	20X0 Total
Current Student Accounts	144,815	0	144,815	137,600
Former Student Accounts	55,340	0	55,340	39,400
Total Student Accounts	200,155	0	200,155	177,000
Allowance for Uncollectable Accounts	(84,135)	0	(84,135)	(66,110)
Net Student Accounts	116,020	0	116,020	110,890
Faculty & Staff Accounts	350	0	350	410
Commercial Accounts - Press	0	50,450	50,450	56,033
Commercial Accounts - Laundry	0	40,602	40,602	27,598
Allowance for Uncollectable Accounts	0	(10,150)	(10,150)	(9,100)
Net Accounts Receivable, 20X1	116,370	80,902	197,272	
Net Accounts Receivable, 20X0	111,300	74,531		185,831

SEVENTH-DAY ADVENTIST ACADEMY (Standard USA Model) **Appendix 20C.09**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 4 - Inventory	Education Gen & Aux	Indep. Operation	20X1 Total	20X0 Total
Instructional	3,275	0	3,275	1,205
Office	3,700	0	3,700	2,150
Bookstore	10,500	0	10,500	7,000
Food Service	25,000	0	25,000	30,000
Bakery	0	88,403	88,403	87,561
Laundry	0	1,238	1,238	1,513
Total Inventory, 20X1	42,475	89,641	132,116	
Total Inventory, 20X0	40,355	89,074		129,429

Note 5 - Plant Assets

20X1 Balances	Total Cost	Accumulated Depreciation	Net Value	Depreciation Expense
Equipment (Educ, Gen, & Aux)	282,800	88,600	194,200	30,600
Equipment (Independent Operations)	490,329	219,540	270,789	25,738
Total Plant Assets, 20X1	773,129	308,140	464,989	56,338
20X0 Balances				
Equipment (Educ, Gen, & Aux)	244,000	64,000	180,000	27,824
Equipment (Independent Operations)	484,038	195,750	288,288	25,738
Total Plant Assets, 20X0	728,038	259,750	468,288	53,562

20X1 Activity (Cost)	1/1/20X1	Additions	Deletions	12/31/20X1
Equipment (Educ, Gen, & Aux)	244,000	45,800	7,000	282,800
Equipment (Independent Operations)	484,038	9,339	3,048	490,329
Total Cost, 20X1	728,038	55,139	10,048	773,129
20X1 Activity (Accumulated Depreciation)				
Equipment (Educ, Gen, & Aux)	64,000	30,600	6,000	88,600
Equipment (Independent Operations)	195,750	25,738	1,948	219,540
Total Accumulated Depreciation, 20X1	259,750	56,338	7,948	308,140

Note 6 - Accounts Payable	Education Gen & Aux	Indep Operation	20X1 Total	20X0 Total
Commercial Accounts	36,945	25,355	62,300	29,685
Student Credit Balances	12,555	0	12,555	18,430
Total Accounts Payable	49,500	25,355	74,855	48,115

SEVENTH-DAY ADVENTIST ACADEMY (Standard USA Model) **Appendix 20C.10**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 7 - Loans Payable	Current	Long-term	20X1 Total	20X0 Total
Operating Purposes				
Unsecured Note Payable to Local Conference, 8% interest due quarterly, principal due 10-1-20X4.	0	100,000	100,000	0
Plant Purposes				
Unsecured Note Payable to Security Bank, $10,000 plus 9% interest due each June 30.	10,000	10,000	20,000	0
Unsecured Note Payable to Local Conference, $10,000 plus 9% interest due each June 30.	10,000	58,000	68,000	78,000
Total Plant-related Loans Payable	20,000	68,000	88,000	78,000

Payments due on principal during the next five years:	20X2	20X3	20X4	20X5	20X6	Future
For Operating Purposes:	0	0	100,000	0	0	0
For Plant Purposes:	20,000	20,000	10,000	10,000	10,000	18,000

Note 8 - Non-operating Activity	20X1 Total	20X0 Total
Non-operating Revenue: Investment Income	4,874	3,130
Non-operating Expense: Interest Paid on Debt	(8,820)	(5,550)
Realized Gain (Loss) Investments Sold	0	0
Unrealized Gain (Loss) Investment Value	0	0
Net Gain (Loss) on Investments	0	0
Proceeds From Sale of Plant Assets	550	300
Net Value of Plant Assets Sold	(2,100)	(1,125)
Net Gain (Loss) on Sale of Assets	(1,550)	(825)
Current Non-operating Activity	(5,496)	(3,245)

Note 9 - Temporarily Restricted Net Assets	Balance 20X0	Restricted Income	Restrictions Released	Balance 20X1
Conference - Restricted Subsidies	0	23,000	1,500	21,500
Restricted Operating Donations	0	11,275	11,275	0
Endowment Investment Income	0	1,500	1,500	0
Total Operating Fund Temporarily Restricted	0	35,775	14,275	21,500

SEVENTH-DAY ADVENTIST ACADEMY (Standard USA Model) **Appendix 20C.11**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 10 – Endowment Net Asset Composition and Activity

Endowment Net Asset Composition As of June 30, 20X1	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted Endowments			30,000	30,000
Committee-designated Endowments				
Total Endowments	0	0	30,000	30,000
Changes in Endowment Net Assets For the year ended June 30, 20X1	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, beginning of year	0	0	0	0
Investment Income (interest, dividends)		1,500		1,500
Net Appreciation or (Decline)				
Total Investment Return		1,500		1,500
Contributions			30,000	30,000
Appropriation of assets for expenditure		(1,500)		(1,500)
Transfers to Maintain Purchasing Power				
Committee-designated Transfers in (out)				
Endowment Net Assets, end of year	0	0	30,000	30,000

Endowment Net Asset Composition As of June 30, 20X0	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted Endowments				0
Committee-designated Endowments				0
Total Endowments				0
Changes in Endowment Net Assets For the year ended June 30, 20X0	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, beginning of year				0
Reclassification based on change in law				0
Net Assets, after reclassification				0
Investment Income (interest, dividends)				0
Net Appreciation or (Decline)				0
Total Investment Return				0
Contributions				0
Appropriation of assets for expenditure				0
Transfers to Maintain Purchasing Power				0
Committee-designated Transfers in (out)				0
Endowment Net Assets, end of year	0	0	0	0

Note 10 - Composition of Restrictions on Endowment Assets

Permanently Restricted Net Assets:	20X2	20X1
Portion of perpetual endowments required to be retained permanently, either by explicit donor stipulation or by *x*PMIFA	30,000	0
Total endowment assets classified as permanently restricted net assets	30,000	0
Temporarily Restricted Net Assets:		
Term Endowments	0	0
Portion of perpetual endowments subject to time restriction by *x*PMIFA:		
Without purpose restrictions	0	0
With purpose restrictions	0	0
Total endowment assets classified as temporarily restricted net assets	0	0

SEVENTH-DAY ADVENTIST ACADEMY (Standard USA Model) **Appendix 20C.12**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 11 - Working Capital and Liquidity

Working Capital	Education, Gen, & Aux	Indep Operation	20X1 Total Operating	20X0 Total Operating
Total Current Assets	310,125	232,183	542,308	380,090
Total Current Liabilities	(51,500)	(25,355)	(76,855)	(49,115)
Actual Working Capital	258,625	206,828	465,453	330,975
Recommended Working Capital *	307,450	145,776	453,226	296,215
Working Capital Excess (Deficit)	(48,825)	61,052	12,227	34,760
Percent of Recommended Working Capital	84%	142%	103%	112%
Current Ratio	6.2	9.2	7.2	7.9
Liquidity				
Cash and Investments	145,280	61,640	206,920	60,830
Accounts Receivable - Conference	0	0	0	0
Total Liquid Assets	145,280	61,640	206,920	60,830
Current Liabilities	51,500	25,355	76,855	49,115
Allocated Operating Net Assets	0	0	0	0
Total Commitments	51,500	25,355	76,855	49,115
Liquid Assets Surplus (Deficit)	93,780	36,285	130,065	11,715
Percent Liquid Assets to Commitments	282%	243%	269%	124%
*** Calculation of Recommended Working Capital:**				
15% of Operating Expense	185,950	145,776	331,726	296,215
Long-term Payables	100,000	0	100,000	0
Temporarily Restricted Net Assets	21,500	0	21,500	0
Total Recommended Working Capital	307,450	145,776	453,226	296,215

SEVENTH-DAY ADVENTIST ACADEMY (Standard USA Model) **Appendix 20C.13**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 12 - Pension and Other Post-Retirement Benefits

Defined Benefit Plans

The Academy participates in a non-contributory, defined benefit pension plan known as the Seventh-day Adventist Retirement Plan of the North American Division. This plan, which covers substantially all employees of the Academy, is administered by_the North American Division of the General Conference of Seventh-day Adventists in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a “multiple-employer” plan of a church-related agency.

The Academy also participates in a non-contributory, defined benefit health care plan known as the Health Care Assistance Plan for Participants in the Seventh-day Adventist Retirement Plan of the North American Division. This plan, which covers substantially all employees of the Academy, is administered by_the North American Division of the General Conference of Seventh-day Adventists in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a “multiple-employer” plan of a church-related agency.

The required contributions from the Academy to these plans (for retiree pension and retiree health care benefits) were $44,878 and $54,752 for the years ended June 30, 20X0 and 19X9, respectively.

These plans are defined by the Financial Accounting Standards Board as “multiemployer” plans. As such, it is not required, nor is it possible, to determine the actuarial present value of accumulated benefits or plan net assets for employees of the Academy apart from other plan participants. However, based on the latest actuarial evaluation of the Seventh-day Adventist Retirement Plan of the North American Division, as of December 31, 1998, the actuarially computed value of accumulated plan benefits exceeded the estimated market value of plan assets, for that plan. No actuarial evaluation has been obtained for the Health Care Assistance Plan for Participants in the Seventh-day Adventist Retirement Plan of the North American Division.

The North American Division Committee voted to freeze accrual of service credit in these plans effective December 31, 1999, except for employees who chose the career completion option, and to start a new defined contribution plan effective January 1, 2000. The Academy is scheduled to continue making contributions to the frozen plans after December 31, 1999. Certain employees will continue to be eligible for future benefits under these plans.

Defined Contribution Plan

Effective January 1, 2000, the Academy participates in a defined contribution retirement plan known as The Adventist Retirement Plan. This plan, which covers substantially all employees of the Academy, is administered by_the North American Division of the General Conference of Seventh-day Adventists (GC) in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a “multiple-employer” plan of a church-related agency.

The Academy contributed $32,638 and $17,338 to the plan for the years ended June 30, 20X1 and 20X0, based on a stated percentage of each employee's earnings and a stated matching percentage of certain employee voluntary contributions. Investment management of the accumulated contributions designated for each employee is provided under an agreement between the GC and VALIC.

SEVENTH-DAY ADVENTIST ACADEMY (Standard USA Model) **Appendix 20C.14**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

(*The following note is optional, and may be used by management and the governing committee as desired.*)

Note 13 - Summary of Operating Expense by Function and Object

	Instructional	Student Svc. & Fin. Aid	Institution Support & Fundraising	Auxiliaries	Indep. Oper.	Total Actual 20X1	Total Budget 20X1
Salaries and Wages	254,345	19,100	81,390	130,255	330,915	816,005	760,600
Student Labor	29,748	3,535	15,402	64,337	67,278	180,300	163,900
Moving Allowance	5,027	0	0	2,329	0	7,356	6,800
Distributed Medical	13,169	295	1,791	6,895	29,491	51,641	48,000
Tuition Assistance	4,983	0	2,212	4,900	13,715	25,810	24,000
Travel Expense	2,546	0	2,989	2,800	5,886	14,221	13,200
Employee Insurance	7,434	0	2,471	2,615	12,704	25,224	23,500
Employer FICA Tax	19,457	1,461	6,226	9,964	25,314	62,422	58,200
Retire. Cont. – DB	13,988	1,050	4,476	7,164	18,200	44,878	41,800
Retire. Cont. – DC	10,173	764	3,255	5,210	13,236	32,638	30,400
Total Payroll Related	360,870	26,205	120,212	236,469	516,739	1,260,495	1,170,400
Materials & Supplies	26,424	6,700	2,426	211,731	325,742	573,023	532,900
Office and General	3,178	4,052	4,160	12,500	24,559	48,449	45,000
Audit Services	0	0	12,550	0	0	12,550	12,500
Bad Debt Expense	15,750	0	0	1,125	3,600	20,475	19,000
Phone and Utilities	9,817	1,650	6,713	40,110	32,758	91,048	84,700
Repair & Maint.	15,636	0	3,129	42,440	39,141	100,346	93,300
Liab. & Prop. Ins.	6,241	4,150	1,254	4,625	3,565	19,835	18,400
Student Financial Aid	0	37,500	0	0	0	37,500	33,500
Interest Expense	0	0	4,000	0	0	4,000	3,700
Depreciation Expense	12,500	1,250	2,000	14,850	25,738	56,338	117,800
Total General Exp.	89,546	55,302	36,232	327,381	455,103	963,564	960,800
Total Expense, 20X1	450,416	81,507	156,444	563,850	971,842	2,224,059	
Total Budget, 20X1	448,750	68,450	144,300	566,700	903,000		2,131,200

Appendix 20D

SEVENTH-DAY ADVENTIST ACADEMY

Financial Statements (Multi-fund USA Model)

June 30, 20X1 and 20X0

[*This illustrated financial statement displays an **optional** expansion of fund accounting for secondary schools in the USA that either own significant property or have significant endowment funds. This expanded presentation is not required, but may be used if the governing committee desires it.*]

SEVENTH-DAY ADVENTIST ACADEMY (Multi-fund USA Model) **Appendix 20D.01**
Statement of Financial Position
June 30, 20X1 and 20X0

ASSETS	Operating Fund	Plant Fund	Endowment Fund	20X1 Total	20X0 Total
Current Assets					
Cash (Note 2)	206,920	0	0	206,920	60,830
Accounts Receivable, net (Note 3)	197,272	0	0	197,272	185,831
Notes Receivable, Current Portion	1,000	0	0	1,000	1,000
Inventories (Note 4)	132,116	0	0	132,116	129,429
Prepaid Expense	3,000	0	0	3,000	2,000
Cash Held for Agency Accounts (Note 2)	2,000	0	0	2,000	1,000
Total Current Assets	542,308	0	0	542,308	380,090
Land, Buildings, & Equipment, Net (Note 5)	0	2,830,330	0	2,830,330	2,757,383
Other Assets					
Notes Receivable, Long-term	7,000	0	0	7,000	8,000
Assets Held for Unexpended Plant (Note 2)	0	246,128	0	246,128	88,030
Assets Held for Endowment (Note 2)	0	0	310,000	310,000	0
Total Other Assets	7,000	246,128	310,000	563,128	96,030
Total Assets	549,308	3,076,458	310,000	3,935,766	3,233,503
LIABILITIES					
Current Liabilities					
Accounts Payable (Note 6)	74,855	0	0	74,855	48,115
Agency Accounts	2,000	0	0	2,000	1,000
Loans Payable, Current Portion	0	0	0	0	0
Total Current Liabilities	76,855	0	0	76,855	49,115
Other Liabilities					
Loans Payable, Long-term (Note 7)	100,000	0	0	100,000	0
Loans Payable, Plant Fund (Note 7)	0	88,000	0	88,000	78,000
Total Other Liabilities	100,000	88,000	0	188,000	78,000
Total Liabilities	176,855	88,000	0	264,855	127,115
NET ASSETS					
Unrestricted: Unallocated	350,953	0	0	350,953	338,975
Unrestricted: Allocated	0	131,128	0	131,128	88,030
Unrestricted: Net Invested in Plant	0	2,742,330	0	2,742,330	2,679,383
Total Unrestricted	350,953	2,873,458	0	3,224,411	3,106,388
Temporarily Restricted (Note 10)	21,500	115,000	10,000	146,500	0
Permanently Restricted (Note 11)	0	0	300,000	300,000	0
Total Net Assets	372,453	2,988,458	310,000	3,670,911	3,106,388
Total Liabilities & Net Assets	549,308	3,076,458	310,000	3,935,766	3,233,503

Notes to the financial statements are an integral part of this statement.

SEVENTH-DAY ADVENTIST ACADEMY (Multi-fund USA Model) **Appendix 20D.02**
Statement of Changes in Net Assets Page 1 of 2
Years ended June 30, 20X1 and 20X0

Unrestricted Net Assets Unrestricted Revenue:	Operating Fund	Plant Fund	Endowment Fund	Actual 20X1 Total	Budget 20X1 Total	Actual 20X0 Total
Tuition	550,000	0	0	550,000	540,500	524,740
Fees	44,200	0	0	44,200	42,100	40,780
Investment Income	3,200	0	0	3,200	1,750	1,500
Endowment Income	0	0	0	0	0	0
Miscellaneous Income	4,830	0	0	4,830	3,925	3,715
Educational & General Income	602,230	0	0	602,230	588,275	570,735
Auxiliaries	567,000	0	0	567,000	566,575	543,400
Independent Operations	1,011,277	0	0	1,011,277	936,671	933,183
Total Unrestricted Revenue	2,180,507	0	0	2,180,507	2,091,521	2,047,318
Released from Rest. (Note 10)	12,775	0	5,000	17,775	11,700	12,200
Total Unrestricted Revenue	2,193,282	0	5,000	2,198,282	2,103,221	2,059,518
Expenses:						
Educ. & Gen. Program Services						
Instructional	437,916	30,250	0	468,166	448,662	429,159
Student Services	42,757	1,250	0	44,007	40,920	38,550
Student Financial Aid	36,000	0	5,000	41,000	27,500	27,500
Total Program Services	516,673	31,500	5,000	553,173	517,082	495,209
Supporting Services						
Fund-raising	34,066	0	0	34,066	35,000	30,997
Institutional Support	128,078	8,000	0	136,078	116,783	98,309
Educ & Gen Oper Expense	678,817	39,500	5,000	723,317	668,865	624,515
Auxiliaries	549,000	52,500	0	601,500	566,700	535,945
Independent Operations	946,104	34,233	0	980,337	902,959	903,063
Total Operating Expenses	2,173,921	126,233	5,000	2,305,154	2,138,524	2,063,523
Inc. (Dec.) Without Subsidy	19,361	(126,233)	0	(106,872)	(35,303)	(4,005)
Unrestricted Subsidies (Note 8)	116,250	0	0	116,250	112,000	110,705
Inc. (Dec.) from Operations	135,611	(126,233)	0	9,378	76,697	106,700
Non-operating Activity						
Non-operating Activity (Note 9)	(123,633)	118,278	0	(5,355)	(5,625)	(3,245)
Released from Rest. (Note 10)	0	114,000	0	114,000	107,300	60,800
Inc. (Dec.) from Non-operating	(123,633)	232,278	0	108,645	101,675	57,555
Increase (Decrease) Unrestricted Net Assets	11,978	106,045	0	118,023	178,372	164,255

Notes to the financial statements are an integral part of this statement.

SEVENTH-DAY ADVENTIST ACADEMY (Multi-fund USA Model) **Appendix 20D.02**
Statement of Changes in Net Assets Page 2 of 2
Years ended June 30, 20X1 and 20X0

	Operating Fund	Plant Funds	Endowment Fund	Actual 20X1 Total	Budget 20X1 Total	Actual 20X0 Total
Unrestricted Net Assets						
Increase (Decrease)						
Unrestricted Net Assets	11,978	106,045	0	118,023	178,372	164,255
Temporarily Restricted Net Assets						
Restricted Operating Subsidies	23,000	0	0	23,000	0	0
Restricted Operating Donations	11,275	0	0	11,275	0	0
Conference Capital Approp.	0	163,000	0	163,000	90,000	45,000
Restricted Capital Donations	0	66,000	0	66,000	29,000	28,000
Restricted Endowment Income	0	0	15,000	15,000	0	0
Total Restricted Income (Note 10)	34,275	229,000	15,000	278,275	119,000	73,000
Released from Rest.-Oper. (10)	(12,775)	0	(5,000)	(17,775)	(11,700)	(12,200)
Released from Rest.-Cap. (10)	0	(114,000)	0	(114,000)	(107,300)	(60,800)
Increase (Decrease)						
Temporarily Rest. Net Assets	21,500	115,000	10,000	146,500	0	0
Permanently Restricted Net Assets						
Endowment Fund Donations	0	0	300,000	300,000	0	0
Increase (Decrease)						
Permanently Rest. Net Assets	0	0	300,000	300,000	0	0
Increase (Decrease) Net Assets	33,478	221,045	310,000	564,523	178,372	164,255
Net Assets, Beginning of Year	338,975	2,767,413	0	3,106,388	3,106,388	2,942,133
Net Assets, End of Year	372,453	2,988,458	310,000	3,670,911	3,284,760	3,106,388

Notes to the financial statements are an integral part of this statement.

SEVENTH-DAY ADVENTIST ACADEMY (Multi-fund USA Model) **Appendix 20D.03**
Statement of Cash Flows
Years ended June 30, 20X1 and 20X0

	Operating Fund	Plant Funds	Endowment Fund	20X1 Total	20X0 Total
Cash Flows from Operating Activities:					
Increase (Decrease) in Net Assets	33,478	221,045	310,000	564,523	164,255
Prior Period Adjustment (if any)	0	0	0	0	0
Adjustments to eliminate non-cash items:					
Depreciation Expense	0	126,233	0	126,233	123,112
Provision for Uncollectible A/R	19,075	0	0	19,075	18,000
(Gain) Loss on Sale of Plant Assets	0	1,550	0	1,550	825
Adjustments to reclassify non-operating items:					
Non-operating Donations	0	(229,000)	(300,000)	(529,000)	0
Non-operating Investment Income	0	0	(10,000)	(10,000)	
(Increase) Decrease Accts Receivable	(30,516)	0	0	(30,516)	(55,450)
(Increase) Decrease Inventory/Prepaid	(3,687)	0	0	(3,687)	(19,430)
Increase (Decrease) Accounts Payable	26,740	0	0	26,740	7,000
(Increase) Decrease Agency Cash	(1,000)	0	0	(1,000)	0
Increase (Decrease) Agency Liability	1,000	0	0	1,000	0
Net Cash Provided (Used) by Operating	45,090	119,828	0	164,918	238,312
Cash Flows from Investing Activities:					
Proceeds from Maturity of Investments	0	0	0	0	0
Payments Received on Notes Rec.	1,000	0	0	1,000	1,000
Purchases of Investments	0	(158,098)	(310,000)	(468,098)	(75,000)
Restricted Investment Income	0	0	10,000	10,000	
Proceeds from Sale of Plant Assets	0	550	0	550	300
Purchases of Plant Assets	0	(201,280)	0	(201,280)	(113,540)
Net Cash Provided (Used) by Investing	1,000	(358,828)	(300,000)	(657,828)	(187,240)
Cash Flows from Financing Activities:					
Proceeds from External Borrowing	100,000	30,000	0	130,000	0
Proceeds(Payments), Interfund Debt	0	0	0	0	0
Donations for Plant & Endowment	0	229,000	300,000	529,000	0
Principal Payments on Notes Payable	0	(20,000)	0	(20,000)	(20,000)
Net Cash Provided (Used) by Financing	100,000	239,000	300,000	639,000	(20,000)
Increase (Decrease)					
Cash and Cash Equivalents	146,090	0	0	146,090	31,072
Cash and Cash Equivalents, Beginning	60,830	0	0	60,830	29,758
Cash and Cash Equivalents, Ending	206,920	0	0	206,920	60,830

Supplemental Cash Flow Data:
Cash paid during the year for interest was $4,000 on operating debt, and $8,820 on capital debt.
Notes to the financial statements are an integral part of this statement.

SEVENTH-DAY ADVENTIST ACADEMY (Multi-fund USA Model) **Appendix 20D.04**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 1 - Organization Description and Summary of Significant Accounting Policies

Organization Description

[*Name*] Seventh-day Adventist Academy (Academy) is operated by [*Name*] Conference of Seventh-day Adventists to provide a Christian education in a boarding school environment to secondary students in its territory.

The Academy receives most of its revenue in the form of tuition and other charges from the parents or guardians of its students. It also receives operating and capital subsidies from [*Name*] Conference of Seventh-day Adventists, [*Name 1*] Seventh-day Adventist Church, and [*Name 2*] Seventh-day Adventist Church. The Academy operates a commercial laundry, to provide employment for its students, and to generate additional revenue.

The Academy is a religious not-for-profit organization, and is exempt from Federal, State, and Local income taxes under provisions of Section 501 (c) (3) of the Internal Revenue Code, and corresponding sections of applicable state and local codes; except for taxes on Unrelated Business Income.

Summary of Significant Accounting Policies

(a) The significant accounting policies of the Academy are essentially the same as generally accepted accounting principles for not-for-profit organizations as promulgated by the Financial Accounting Standards Board and the American Institute of Certified Public Accountants. The significant policies are described below to enhance the usefulness of the financial statements. The financial statements of the Academy have been prepared on the accrual basis of accounting. In conformity with the accrual basis of accounting, the Organization has evaluated events that occurred subsequent to the financial statement date, up to [*insert date*], which is the date the financial statements were [*insert either* “issued” *or* “available to be issued” *but not both*].

(b) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Restricted Resources: The Academy reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

The Academy reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Academy reports expirations of donor restrictions when the respective assets are placed in service.

(d) Plant Assets and Depreciation: Uses of operating funds for plant acquisitions and debt service payments are recorded as board approved transfers to plant funds. Such transfers include depreciation funding as well as additional movements of operating funds to plant funds. Restricted proceeds from sale of assets and restricted income from plant fund investments are recorded as restricted gains. Interest payments on plant fund debt are recorded as non-operating expense. Plant assets are recorded at cost when purchased or at fair market value at date of gift. Depreciation of land improvements, buildings, and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation expense is recorded in the Net Invested in Plant Fund, and in cross-totaling is included in total operating expense reported by various Program and Supporting Services in the statement of changes in unrestricted net assets.

SEVENTH-DAY ADVENTIST ACADEMY (Multi-fund USA Model) **Appendix 20D.05**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 1 - Summary of Significant Accounting Policies (continued)

(e) Cash and Equivalents: Cash equivalents are highly-liquid assets held for operating purposes, which are readily convertible to cash and have a maturity date of three months or less from date of acquisition. Cash equivalents held for other than operating purposes are classified as investments, not cash equivalents. The increase or decrease in non-operating investments is reported in the cash flow statement as proceeds or purchases of investments.

(f) Fair Value of Financial Instruments: Short-term financial instruments are valued at their carrying amounts because those amounts are considered to be reasonable estimates of fair value due to the relatively short period to maturity of these instruments. All other financial instruments are valued at the quoted market price or other reasonably obtainable fair value estimate at the reporting date for those or similar instruments. The difference between aggregate market value and cost for each type of investment is recorded in a valuation account. The net change in this valuation account each year is recognized as gain or loss.

(g) Current Assets and Liabilities: Assets and liabilities are classified as current or long-term depending on their characteristics. This excludes from current assets, cash and claims to cash that are restricted to use for other than current operations, or committee allocated for the acquisition or construction of plant assets or for the liquidation of plant fund debt. This excludes from current liabilities the long-term portion of all debt, and plant fund debt payable within the next fiscal year to the extent covered by designated plant fund liquid assets. Working capital (current assets less current liabilities) for the Organization usually reflects working capital of only the operating funds, since usually no assets or liabilities of the plant, annuity, trust accounting, or endowment funds are classified as current.

(h) Investment Income: Unrestricted income from investments is recorded in the fund owning the assets, except for the endowment fund.

(i) Related Organizations: the Academy is an affiliate of [*Name*] Conference of Seventh-day Adventists because:

1. Certain officers and other employees of the Conference are members of the Academy Board of Trustees; the President of the Conference being the Chairman of the Board.
2. Legal title to all real property used by the Academy is vested by agreement in the name of [*Name*] Conference Corporation of Seventh-day Adventists. Asset values and related depreciation for leasehold improvements and equipment are maintained in the financial records of the Academy.
3. A significant degree of financial support for both operating and capital purposes is received by appropriation from the Conference and from constituent churches, as set forth in Notes 8 & 10 below. Details of amounts due from or payable to the Conference are set forth in Note 7 below. Financial statements of the Academy are not consolidated with those of the Conference.

(j) Concentrations of Risk: The Academy receives most of its revenue from student-related activity. Annual budget and employment decisions typically must be made before actual enrollment is known. There is a risk that enrollment will be less than anticipated, which would affect the Academy's ability to balance its budget.

(k) Provision for Uncollectible Accounts: An estimated allowance for uncollectible accounts is provided through routine additions based on charges, historical collection experience, and aging of receivables. Accounts deemed to be uncollectible are charged to the allowance.

(l) Fund Accounting: To ensure observance of limitations and restrictions placed on the use of resources available to the Academy, the accounts are maintained in accordance with the principles of fund accounting. Resources are classified into funds according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds have been combined into groups, and totals are presented for the Academy as a whole. The funds and fund groups are described below.

SEVENTH-DAY ADVENTIST ACADEMY (Multi-fund USA Model) **Appendix 20D.06**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 1 - Summary of Significant Accounting Policies (continued)

(l) Operating Funds; include unrestricted and restricted resources available for current operations. These funds reflect the educational and general, auxiliaries, and independent operations operating activities. Since the amount is not material, the operating fund also shows the total held as fiscal agent for others.

Plant Funds; include the Unexpended Plant and Net Invested in Plant Funds. The Unexpended Plant Fund represents resources which were donor restricted or board allocated for plant acquisitions. Since Operating Funds allocated by the board can be returned to the Operating Funds by action of the board, they are included in the Unrestricted section of Net Assets, and appear as Allocated Net Assets. This balance includes the unused portion of funded depreciation, additional funds transferred for plant acquisitions, proceeds from sale of plant assets, and unrestricted plant fund investment earnings. The Net Invested in Plant Fund represents plant assets acquired, respective accumulated depreciation, and respective debt.

Endowment Funds; are assets subject to restrictions of gift instruments requiring that the principal be held in perpetuity, be invested, and only the income from such investments be used. Further information about endowments is included in paragraphs (m) through (p) below.

(m) Endowment Assets – Interpretation of State Law

[*State laws vary regarding the preservation of endowment principal. Some equate it to preservation of the fair value of donated endowment assets; others equate it to preservation of the purchasing power of donated endowment assets. Adapt one of the following examples to tailor those disclosures to the reporting entity.*]

[***Example #1: Preservation of Fair Value***]
The Organization's [*name of governing committee*] has interpreted the [*name of state*] Prudent Management of Institutional Funds Act (*x*PMIFA) to require the preservation of the fair value of the original gift as of the gift date of donor-restricted endowments, unless explicit donor stipulations provide otherwise.

- As a result of this interpretation, the Organization classifies as permanently restricted net assets:
  - (a) The original value of gifts donated as permanent endowments,
  - (b) The original value of subsequent gifts to the permanent endowment, and
  - (c) Accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment.
- The remaining portion of the donor-restricted endowments that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by *x*PMIFA.

[***Example #2: Preservation of Purchasing Power***]
The Organization's [*name of governing committee*] has interpreted the [*name of state*] Prudent Management of Institutional Funds Act (*x*PMIFA) to require the preservation of the purchasing power (inflation-adjusted real value) of donor-restricted endowments, unless explicit donor stipulations provide otherwise.

- As a result of this interpretation, the Organization classifies as permanently restricted net assets:
  - (a) The original value of gifts donated as permanent endowments,
  - (b) The original value of subsequent gifts to the permanent endowment,
  - (c) Accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment, and
  - (d) The portion of investment return added to the permanent endowment to maintain its purchasing power.

    For purposes of determining that added portion, each year the Organization adjusts permanently restricted net assets by the change in the [*name the index, such as Consumer Price Index or Higher Education Price Index, etc.*].

SEVENTH-DAY ADVENTIST ACADEMY (Multi-fund USA Model) **Appendix 20D.07**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 1 - Summary of Significant Accounting Policies (continued)

- If endowment assets earn investment returns beyond the amount necessary to maintain the endowment assts' purchasing value, that excess is available for appropriation and, therefore, is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization.

[***For both examples #1 and #2, add the following item at the end of the Interpretation of Law section.***]

- In accordance with *x*PMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowments:
  (1) The duration and preservation of the endowment
  (2) The purposes of the Organization and of the donor-restricted endowment
  (3) General economic conditions
  (4) The possible effect of inflation and deflation
  (5) The expected total return from income and the appreciation of investments
  (6) Other resources of the Organization
  (7) The investment policies of the Organization.

(n) Endowment Investment Policies – Return Objectives, Risk Parameters, and Strategies

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the [*insert* fair value *–or-* purchasing power] of the endowment assets. Endowment assets include those assets of donor-restricted endowments that the Organization must hold in perpetuity or for a donor-specified period, as well as committee-designated (quasi) endowments.

Under this policy, as approved by the [*name of governing committee*], the endowment assets are invested in a manner that is intended to produce results that approximate the price and yield results of [*name a relevant index, such as the S&P 500*] while assuming a moderate level of investment risk. The Organization expects its total endowments, over time, to provide an average rate of return of approximately [*number*] percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. The Organization places the endowment assets into the following ranges of investment types: XX% to XX% in equity securities, XX% to XX% in government-issued securities, and XX% to XX% in other debt securities.

(o) Endowment Spending Policies and Relation to Investment Objectives

The Organization has adopted an endowment spending policy that directs it to appropriate for distribution each year an amount equal to [*number*] percent of its endowments' total average fair value [*for a period of time, such as:* over the previous *(number of quarters or years)* ending on *(date); or as of a specific date, such as:* at the calendar year-end preceding the fiscal year in which the distribution is planned].

In establishing this policy, the Organization considered the long-term expected return on its endowments. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowments to grow at an average of [*number*] percent annually. This is consistent with the Organization's objective to maintain the [*insert* fair value *–or-* purchasing power] of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

SEVENTH-DAY ADVENTIST ACADEMY (Multi-fund USA Model) **Appendix 20D.08**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 1 - Summary of Significant Accounting Policies (continued)

(p) Endowments with Deficiencies in Assets Compared to Net Assets [*Use this paragraph when applicable.*]

From time to time, the fair value of assets associated with individual donor-restricted endowments may fall below the level that the donor or *x*PMIFA requires the Organization to retain as permanently restricted net assets. In accordance with accounting principles generally accepted by the denomination, deficiencies of this nature that are reported in unrestricted net assets were [$xxx] and [$xxx] at [*financial statement date, current and prior years*], respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted donations, combined with appropriations of disbursements for programs that were deemed prudent by the [*name of governing committee*].

Note 2 – Cash

Operating Funds	Education Gen & Aux	Indep. Operation	20X1 Total	20X0 Total
Impresst Cash	200	700	900	500
Checking Accounts	25,080	40,940	66,020	40,330
Savings Account @ 4%	20,000	0	20,000	20,000
Money Market Account @ 6%	100,000	20,000	120,000	0
Total Operating Cash, 20X1	145,280	61,640	206,920	
Total Operating Cash, 20X0	23,360	37,470		60,830
Agency Cash in Bank, 20X1	2,000		2,000	
Agency Cash in Bank, 20X0	1,000			1,000

	Unexpended Plant			
Other than Operating Funds	Ed & Gen	Ind Oper	Endow	20X1 Total
Checking Account	75,100	26,028	0	101,128
Money Market Account @ 6%	115,000	30,000	10,000	155,000
Certificate of Deposit @ 7%	0	0	300,000	300,000
Total Other Funds Cash, 20X1	190,100	56,028	310,000	556,128
				20X0 Total
Checking Account	22,900	50,130	0	73,030
Money Market Account @ 6%	15,000	0	0	15,000
Total Other Funds Cash, 20X0	37,900	50,130	0	88,030

SEVENTH-DAY ADVENTIST ACADEMY (Multi-fund USA Model) **Appendix 20D.09**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 3 - Accounts Receivable	Education Gen & Aux	Indep. Operation	20X1 Total	20X0 Total
Current Student Accounts	144,815	0	144,815	137,600
Former Student Accounts	55,340	0	55,340	39,400
Total Student Accounts	200,155	0	200,155	177,000
Allowance for Uncollectable Accounts	(84,135)	0	(84,135)	(66,110)
Net Student Accounts	116,020	0	116,020	110,890
Faculty & Staff Accounts	350	0	350	410
Commercial Accounts - Press	0	50,450	50,450	56,033
Commercial Accounts - Laundry	0	40,602	40,602	27,598
Allowance for Uncollectable Accounts	0	(10,150)	(10,150)	(9,100)
Net Accounts Receivable, 20X1	116,370	80,902	197,272	
Net Accounts Receivable, 20X0	111,300	74,531		185,831

Note 4 - Inventory				
Instructional & Office	6,975	0	6,975	3,355
Bookstore	10,500	0	10,500	7,000
Food Service	25,000	0	25,000	30,000
Independent Operations	0	89,641	89,641	89,074
Total Inventory, 20X1	42,475	89,641	132,116	
Total Inventory, 20X0	40,355	89,074		129,429

Note 5 - Land, Buildings, & Equipment

20X1 Balances	Total Cost	Accumulated Depreciation	Net Value	Depreciation Expense
Leasehold Improvements:				
Land Improvements	245,840	37,721	208,119	8,722
Buildings	2,427,279	270,057	2,157,222	61,173
Equipment (Educ, Gen, & Aux)	282,800	88,600	194,200	30,600
Equipment (Indep Oper)	490,329	219,540	270,789	25,738
Total Land, Buildings, & Equipment, 20X1	3,446,248	615,918	2,830,330	126,233
20X0 Balances				
Leasehold Improvements:				
Land Improvements	245,340	28,999	216,341	8,722
Buildings	2,281,638	208,884	2,072,754	60,828
Equipment (Educ, Gen, & Aux)	244,000	64,000	180,000	27,824
Equipment (Indep Oper)	484,038	195,750	288,288	25,738
Total Land, Buildings, & Equipment, 20X0	3,255,016	497,633	2,757,383	123,112

SEVENTH-DAY ADVENTIST ACADEMY (Multi-fund USA Model) **Appendix 20D.10**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 5 - Land, Buildings, & Equipment (continued)

20X1 Activity (Cost)	1/1/20X1	Additions	Deletions	12/31/20X1
Land Improvements	245,340	500	0	245,840
Buildings	2,281,638	145,641	0	2,427,279
Equipment	728,038	55,139	10,048	773,129
Total Activity (Cost), 20X1	3,255,016	201,280	10,048	3,446,248
20X1 Activity (Accumulated Depreciation)				
Land Improvements	28,999	8,722	0	37,721
Buildings	208,884	61,173	0	270,057
Equipment	259,750	56,338	7,948	308,140
Total Activity (Accumulated Depreciation), 20X1	497,633	126,233	7,948	615,918

Note 6 - Accounts Payable

	Education Gen & Aux	Indep Operation	20X1 Total	20X0 Total
Commercial Accounts	36,945	25,355	62,300	29,685
Student Credit Balances	12,555	0	12,555	18,430
Total Accounts Payable	49,500	25,355	74,855	48,115

Note 7 - Loans Payable

	Current	Long-term	20X1 Total	20X0 Total
Operating Fund				
Unsecured Note Payable to Local Conference, 8% interest due quarterly, principal due 10-1-20X4.	0	100,000	100,000	0
Plant Fund				
Unsecured Note Payable to Security Bank, $10,000 plus 9% interest due each June 30.	10,000	10,000	20,000	0
Unsecured Note Payable to Local Conference, $10,000 plus 9% interest due each June 30.	10,000	58,000	68,000	78,000
Total Plant Fund Notes Payable	20,000	68,000	88,000	78,000

Payments due on principal during the next five years:	20X2	20X3	20X4	20X5	20X6	Future
For Operating Purposes:	0	0	100,000	0	0	0
For Plant Purposes:	20,000	20,000	10,000	10,000	10,000	18,000

SEVENTH-DAY ADVENTIST ACADEMY (Multi-fund USA Model) **Appendix 20D.11**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 8 - Subsidies Received	Operating Fund	Plant Fund	20X1 Total	20X0 Total
Local Conference - Operating Subsidies	46,000	0	46,000	44,000
Constituent Churches - Operating Subsidies	50,000	0	50,000	47,500
Contributed Services – Subsidized Audit Costs	20,250	0	20,250	19,205
Total Unrestricted Subsidies Received	116,250	0	116,250	110,705
Local Conference - Restricted Subsidies	0	163,000	163,000	45,000
Constituent Churches - Restricted Subsidies	23,000	0	23,000	0
Total Restricted Subsidies Received	23,000	163,000	186,000	45,000

Note 9 - Non-operating Activity	Operating Fund	Plant Fund	20X1 Total	20X0 Total
Non-operating Revenue: Investment Income	0	5,015	5,015	3,130
Non-operating Expense: Interest Paid on Debt	0	(8,820)	(8,820)	(5,550)
Realized Gain (Loss) Investments Sold				
Unrealized Gain (Loss) Investment Value				
Net Gain (Loss) on Investments	0	0	0	0
Proceeds From Sale of Plant Assets		550	550	300
Net Value of Plant Assets Sold		(2,100)	(2,100)	(1,125)
Net Gain (Loss) on Sale of Assets	0	(1,550)	(1,550)	(825)
Funding of Depreciation and Plant Acquisition	(123,633)	123,633	0	0
Current Non-operating Activity	(123,633)	118,278	(5,355)	(3,245)

Note 10 - Temporarily Restricted Net Assets	Balance 20X0	Restricted Income	Restriction Released	Balance 20X1
Constituent Churches - Restricted Subsidies	0	23,000	1,500	21,500
Restricted Operating Donations	0	11,275	11,275	0
Total Operating Fund Temporarily Restricted	0	34,275	12,775	21,500
Conference Capital Appropriations, Educ. & Gen.	0	138,000	23,000	115,000
Restricted Capital Donations, Educ. & Gen.	0	61,000	61,000	0
Conference Capital Appropriations, Ind. Oper.	0	25,000	25,000	0
Restricted Capital Donations, Ind. Oper.	0	5,000	5,000	0
Total Plant Fund Temporarily Restricted	0	229,000	114,000	115,000
Endowment Fund Investment Income	0	15,000	5,000	10,000

SEVENTH-DAY ADVENTIST ACADEMY (Multi-fund USA Model) **Appendix 20D.12**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 11 – Endowment Net Asset Composition and Activity

Endowment Net Asset Composition **As of June 30, 20X1**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted Endowments		10,000	300,000	310,000
Committee-designated Endowments				0
Total Endowments	0	10,000	300,000	310,000
Changes in Endowment Net Assets **For the year ended June 30, 20X1**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, beginning of year	0	0	0	0
Investment Income (interest, dividends)		15,000		15,000
Net Appreciation or (Decline)				
Total Investment Return		15,000		15,000
Contributions			300,000	300,000
Appropriation of assets for expenditure		(5,000)		(5,0000
Transfers to Maintain Purchasing Power				
Committee-designated Transfers in (out)				
Endowment Net Assets, end of year	0	10,000	300,000	310,000

Endowment Net Asset Composition **As of June 30, 20X0**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted Endowments				0
Committee-designated Endowments				0
Total Endowments				0
Changes in Endowment Net Assets **For the year ended June 30, 20X0**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, beginning of year				0
Reclassification based on change in law				0
Net Assets, after reclassification				0
Investment Income (interest, dividends)				0
Net Appreciation or (Decline)				0
Total Investment Return				0
Contributions				0
Appropriation of assets for expenditure				0
Transfers to Maintain Purchasing Power				0
Committee-designated Transfers in (out)				0
Endowment Net Assets, end of year				0

Note 10 - Composition of Restrictions on Endowment Assets

Permanently Restricted Net Assets:	20X2	20X1
Portion of perpetual endowments required to be retained permanently, either by explicit donor stipulation or by *x*PMIFA	300,000	0
Total endowment assets classified as permanently restricted net assets	300,000	0
Temporarily Restricted Net Assets:		
Term Endowments	0	0
Portion of perpetual endowments subject to time restriction by *x*PMIFA:		
Without purpose restrictions	0	0
With purpose restrictions	10,000	10,000
Total endowment assets classified as temporarily restricted net assets	10,000	10,000

SEVENTH-DAY ADVENTIST ACADEMY (Multi-fund USA Model) **Appendix 20D.13**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 12 - Working Capital and Liquidity - Operating Funds

Working Capital	Education, Gen, & Aux	Indep Operation	20X1 Total Operating	20X0 Total Operating
Total Current Assets	310,125	232,183	542,308	380,090
Total Current Liabilities	(51,500)	(25,355)	(76,855)	(49,115)
Actual Working Capital	258,625	206,828	465,453	330,975
Recommended Working Capital *	316,435	147,051	463,486	306,648
Working Capital Excess (Deficit)	(57,810)	59,777	1,967	24,327
Percent of Recommended Working Capital	82%	141%	100%	108%
Current Ratio	6.2	9.2	7.2	7.9
Liquidity				
Cash and Investments	145,280	61,640	206,920	60,830
Accounts Receivable - Conference	0	0	0	0
Total Liquid Assets	145,280	61,640	206,920	60,830
Current Liabilities	51,500	25,355	76,855	49,115
Allocated Net Assets	0	0	0	0
Total Commitments	51,500	25,355	76,855	49,115
Liquid Assets Surplus (Deficit)	93,780	36,285	130,065	11,715
Percent Liquid Assets to Commitments	282%	243%	269%	124%
* Calculation of Recommended Working Capital:				
15% of Operating Expense	194,935	147,051	341,986	306,648
Long-term Payables	100,000	0	100,000	0
Temporarily Restricted Net Assets	21,500	0	21,500	0
Total Recommended Working Capital	316,435	147,051	463,486	306,648

SEVENTH-DAY ADVENTIST ACADEMY (Multi-fund USA Model) **Appendix 20D.14**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

Note 13 - Pension and Other Post-Retirement Benefits

Defined Benefit Plans

The Academy participates in a non-contributory, defined benefit pension plan known as the Seventh-day Adventist Retirement Plan of the North American Division. This plan, which covers substantially all employees of the Academy, is administered by the North American Division of the General Conference of Seventh-day Adventists in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a “multiple-employer” plan of a church-related agency.

The Academy also participates in a non-contributory, defined benefit health care plan known as the Health Care Assistance Plan for Participants in the Seventh-day Adventist Retirement Plan of the North American Division. This plan, which covers substantially all employees of the Academy, is administered by the North American Division of the General Conference of Seventh-day Adventists in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a “multiple-employer” plan of a church-related agency.

The required contributions from the Academy to these plans (for retiree pension and retiree health care benefits) were $44,878 and $54,752 for the years ended June 30, 20X0 and 19X9, respectively.

These plans are defined by the Financial Accounting Standards Board as “multiemployer” plans. As such, it is not required, nor is it possible, to determine the actuarial present value of accumulated benefits or plan net assets for employees of the Academy apart from other plan participants. However, based on the latest actuarial evaluation of the Seventh-day Adventist Retirement Plan of the North American Division, as of December 31, 1998, the actuarially computed value of accumulated plan benefits exceeded the estimated market value of plan assets, for that plan. No actuarial evaluation has been obtained for the Health Care Assistance Plan for Participants in the Seventh-day Adventist Retirement Plan of the North American Division.

The North American Division Committee voted to freeze accrual of service credit in these plans effective December 31, 1999, except for employees who chose the career completion option, and to start a new defined contribution plan effective January 1, 2000. The Academy is scheduled to continue making contributions to the frozen plans after December 31, 1999. Certain employees will continue to be eligible for future benefits under these plans.

Defined Contribution Plan

Effective January 1, 2000, the Academy participates in a defined contribution retirement plan known as The Adventist Retirement Plan. This plan, which covers substantially all employees of the Academy, is administered by the North American Division of the General Conference of Seventh-day Adventists (GC) in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a “multiple-employer” plan of a church-related agency.

The Academy contributed $32,638 and $17,338 to the plan for the years ended June 30, 20X1 and 20X0, respectively, based on a stated percentage of each employee's earnings and a stated matching percentage of certain employee voluntary contributions. Investment management of the accumulated contributions designated for each employee is provided under an agreement between the GC and VALIC.

SEVENTH-DAY ADVENTIST ACADEMY (Multi-fund USA Model) **Appendix 20D.15**
Notes to the Financial Statements
Years ended June 30, 20X1 and 20X0

(*The following note is optional, and may be used by management and the governing committee as desired.*)

Note 14 - Summary of Operating Expense by Function and Object

	Instructional	Student Svc. & Fin. Aid	Institution Support & Fundraising	Auxiliaries	Indep. Oper.	Total Actual 20X1	Total Budget 20X1
Salaries and Wages	254,345	19,100	81,390	130,255	330,915	816,005	760,620
Student Labor	29,748	3,535	15,402	64,337	67,278	180,300	163,880
Moving Allowance	5,027	0	0	2,329	0	7,356	6,845
Health Care Assist.	13,169	295	1,791	6,895	29,491	51,641	48,024
Tuition Assistance	4,983	0	2,212	4,900	13,715	25,810	24,000
Travel Expense	2,546	0	2,989	2,800	5,886	14,221	13,225
Employee Insurance	7,434	0	2,471	2,615	12,704	25,224	23,450
Employer FICA Tax	19,457	1,461	6,226	9,964	25,314	62,422	58,187
Retire. Cont. - DB	13,988	1,050	4,476	7,164	18,200	44,878	41,834
Retire. Cont. - DC	10,173	764	3,255	5,210	13,236	32,638	30,425
Total Payroll Related	360,870	26,205	120,212	236,469	516,739	1,260,495	1,170,490
Materials & Supplies	26,424	6,700	2,426	211,731	325,742	573,023	532,910
Office and General	3,178	4,052	4,160	12,500	24,559	48,449	45,060
Audit Services	0	0	20,250	0	0	20,250	20,000
Bad Debt Expense	15,750	0	0	1,125	3,600	20,475	19,040
Phone and Utilities	9,817	1,650	6,713	40,110	32,758	91,048	84,674
Repair & Maint.	15,636	0	3,129	42,440	39,141	100,346	93,320
Liab. & Prop. Ins.	6,241	4,150	1,254	4,625	3,565	19,835	18,440
Student Financial Aid	0	41,000	0	0	0	41,000	33,480
Interest Expense	0	0	4,000	0	0	4,000	3,720
Depreciation Expense	30,250	1,250	8,000	52,500	34,233	126,233	117,390
Total General Exp.	107,296	58,802	49,932	365,031	463,598	1,044,659	968,034
Total Expense, 20X1	468,166	85,007	162,144	601,500	980,337	2,305,154	
Total Budget, 20X1	448,662	68,420	151,783	566,700	902,959		2,138,524

Section 2101 - General Guidelines

Section 2102 - Sales and Cost of Goods Sold

Appendix 21A - Illustrative Special-purpose Financial Schedules (International Model)

Appendix 21B - Illustrative Special-purpose Financial Schedules (USA Model)

Section 2101 - General Guidelines

2101.01 Introduction - Chapters 1 to 16 of this Manual (including Chapter 12 about inventories) discussed accounting principles that should be followed by all denominational entities. In addition, this Chapter covers some topics that are unique to retail merchandise stores (commonly called Adventist Book Centers).

2101.02 Self-Supporting Basis - The Adventist Book Center (ABC) has been known from its inception as a denominational service organization. Its mission is to supply church members and denominational entities with Christ-centered books and related products. This mission is normally expected to be achieved on a self-supporting basis. The margin of profit on its sales of merchandise is expected to cover all operating expense, to permit the ABC to operate free of debt, and to provide funds for periodic improvements and expansion.

2101.03 Part of Conference Program - The self-support concept should not lead to an impression that the ABC is an organization apart from the conference. It does have its manager and staff; it makes its own day-to-day operating decisions; it maintains its own accounting records; it pays its own bills; but not without accountability. In a few situations the ABC may be a separate organization, but in most cases it is a department of a conference or another larger entity. The ABC must operate together with other conference activities so that the whole organization is successful. The fact that the ABC manager is responsible for the sale of merchandise at a profit does not negate his/her stewardship responsibility. For all ABC's that are a department of a larger entity, the ABC financial information should be included in the financial statements of the larger entity.

2101.04 Payroll Billings from Conference - A significant expense of most ABC's is reflected in the monthly billing received from the conference. This covers salaries and allowances for ABC staff that are processed through the conference payroll and charges for other services provided by the conference. Accounting for salaries and allowances presents few problems, as these are set by policy and by committee action. In the case of an individual who works part time in the ABC and part time in another conference department, an accurate record should be kept of the individual's time in each place, and the total cost related to that employee should be distributed accordingly.

2101.05 Other Billings from Conference - Similar record-keeping applies to other expenses charged by the conference to the ABC; rent, use of copying or printing facilities, postage and mailing services, telephone, and any other services shared between the ABC and the rest of the conference. The bases for distribution of these charges should be as objective as possible, recognizing that the two accounting entities operate so closely together that it is not always possible to account for every envelope, postage stamp, or telephone call. It is usually possible to arrive at a fair rental value for premises which the conference furnishes to the ABC, and rent expense should be recorded at this value, rather than only a token amount. The ABC should be charged a fair and reasonable price for all its legitimate operating expenses; the conference should not lessen these charges simply to "give the ABC a break." If the ABC is not able to realize sufficient margin on sales to cover its legitimate operating expenses, the conference could consider an operating subsidy to the ABC. If so, the financial reports should reflect it as revenue, not as an understatement of operating expense.

2101.06 Recording the Conference Billing - The conference billing should be received and recorded regularly each month, especially since it may include a major portion of the total operating expense of the ABC. If the conference is unable to present the bill to the ABC in time to be included in the month's business, the ABC manager should estimate as closely as possible the expected amount, and record the estimate. The ABC should record the liability to the conference and debits to the appropriate expense accounts. This should be done so the expense and liability are recorded when they are incurred, regardless of when the bill is paid.

2101.07 Sole Custody of Cash - As mentioned in Chapter 9, each imprest cash fund should be in the custody of a single individual. The practice of having a single change fund at the cash register, with several sales clerks adding to it the proceeds of their cash sales, and all making change out of the same fund, seriously reduces any meaningful control over the cash fund. Each sales clerk should and must be the custodian of a separate fund. Refer back to Section 902 for discussion of these principles.

2101.08 Assets of Branch Locations - For ABC's with multiple locations, it is usually not necessary for every asset account to be identified so closely that a separate statement of financial position would be prepared for each branch location. The account structure is flexible enough so that separate cash and bank accounts, separate inventory accounts, and if desirable, separate accounts for equipment and furnishings can be maintained for any branch locations. On the other hand, a separation of accounts receivable into separate subsidiary ledgers for customers of the branches is not ordinarily recommended. While individual accounts for branch assets are provided for, it is not contemplated that such accounts will be used in the overall financial reports, but only in supporting schedules or notes.

Section 2102 - Sales and Cost of Goods Sold

2102.01 Categories of Sales - The account structure gives ABC managers the flexibility to separate sales into a number of product categories. For example, sales could be separated into SDA publications, non-SDA publications, multi-media products, and food products. Whenever sales are separated into categories, there must also be corresponding categories in inventory, purchases, and related accounts that constitute the cost of goods sold. The account structure is designed to enable such a system, so that ultimately the gross profit on each desired product line may be determined and reported.

2102.02 Changes in Sales Mix - It is common for the gross profit margins (markup) on various types of merchandise to vary. For example, periodicals typically have a smaller margin than SDA books. If the sales mix or relative percentages in various categories change during the current year from what they were the prior year, it is obvious that gross profit will fluctuate accordingly. To help management monitor the varying components of activity, the financial information should be both timely and informative. Sales and related cost elements should be divided into a number of categories appropriate to the circumstances of each ABC.

2102.03 Credit Card Sales - Most ABC's in countries with appropriate banking systems accept one or more of the major credit cards, as well as debit cards. For accounting purposes, credit card and debit card sales are recorded much like cash sales. Evidence of the credit card or debit card transaction which the customer approves should be handled as cash, and should be turned in (separately listed on the daily cash report) along with the daily cash summary. The general cashier may deposit these separately in the bank; practices vary, but ordinarily they are deposited at full face value, and a charge is made by the bank at the end of the month for the stated handling fee. The cashier will record this monthly charge as a bank disbursement when notified of the charge by the bank.

2102.04 Billings for Periodicals - Billings for periodicals represent some differences from those for the shipment of merchandise. Typically, a different form is used for billing periodicals, or in other cases the individual who prepares the billing uses the same sales invoice form, but has a separate block of numbers for this use. In those cases where billing of periodical subscriptions is based on an invoice from the publishing house, every item on the publishing house billing should be covered by a sales invoice. If this is not done, the charge to purchases (and hence cost of goods sold) does not have a corresponding credit to a revenue account, and revenue is then understated. The converse is equally true, and arises when billings are sent directly to the subscriber in advance of any billing from the publishing house. If the subscriber pays the advance bill in cash, and the cash is recorded immediately as a sale, revenue is overstated until the bill from the publishing house is received.

2102.05 Deferred Periodical Revenue - The correct way to account for such situations is to record any advance payment as a deferred revenue, not as a sale. When the billing is received from the publishing house, and properly recorded as a purchase, the corresponding credit in the deferred revenue account is transferred to

Periodical Sales. The only permissible exception to this procedure is: **if** experience has shown that publishing house billings for such items are received promptly, and **if** a close and constant supervision over these types of transactions is maintained, then recording the cash received in advance of publishing house billing as an immediate sale may be justified. Even in such cases, at the close of a fiscal period (month or year) any items so recorded as sales, but on which billing has not been received, should be transferred out of sales and credited to a deferred revenue account. This entry can be reversed as of the beginning of the next fiscal period.

2102.06 Recording Taxes on Sales (VAT) - The process of accounting for both sales and cash receipts should use separate accounts to record taxes based on sales (known as value added tax, VAT, sales tax, or similar names). The amount of tax collected should never be credited to a revenue account. Collection of the tax is an agency function: the proceeds do not belong to the organization, but to the government entity that assesses the tax. It is a liability, and must be credited to an appropriate account until it is paid to the government entity.

2102.07 Legal Requirements - The preceding section referred to necessary accounting for sales-type taxes. There may be other types of taxes or government-mandated fees that the ABC is obligated to pay. The ABC manager is responsible to keep aware of laws and regulations and ensure that the ABC is in compliance with them.

2102.08 Income of Branch Locations - In ABC's that operate branch locations, the accounting system may be expanded if desired to record sales, costs of goods sold, and to some extent operating expenses, so that separate financial reports for each branch are possible. In the account structure, this can be accomplished by using separate function designations for those revenue and cost accounts which can be identified as related to a specific branch. Thus, an income statement for each branch can be produced. Of course the income statement for the ABC as a whole will simply add all similar object accounts together and present a single statement of changes in net assets for the entire organization.

2102.09 Expenses of Branch Locations - As with sales, expenses ideally should be separated by branch location. This is more practical in some ABC's than in others. Where this is feasible, the function segment of the account structure will be used to accomplish it. Typically, it is not possible to distribute all expenses objectively between the main outlet and the branch or branches. For most general expenses, it is usually felt that no distribution at all is better than a distribution on a purely subjective basis. In many ABC's, though, it is not difficult to identify and separate the elements of cost of goods sold, and therefore gross profit, between the various branch locations. Application of the principle beyond the point of gross profit must be left to the determination of the individual ABC. If it is done, such a distribution would produce a schedule similar to Note 11 illustrated at Appendix 21B.09.

2102.10 Unrelated Business - In the USA, NADWP I 55 85 requires the ABC operating board to periodically review the regulations for reporting unrelated business income, and ensure compliance with them. Any merchandise that is not inherently religious in character has the potential to be classified as unrelated. If an ABC determines that it has more than the specified threshold amount of unrelated business income, an unrelated business income return must be filed with the IRS. This does not necessarily mean that there will be any unrelated business income tax to pay. There is provision for offsetting the revenue with appropriate costs and expenses. The ABC manager and conference treasurer should work closely with legal and accounting professionals to prepare these reports where required, and pay any tax that may be due.

Appendix 21A

ADVENTIST BOOK CENTER
(*or similar retail store name*)

Special-purpose Financial Schedules (International Model)

31 December 20X1 and 20X0

(*This illustrates presentation of an ABC as part of a larger entity, because most ABC's are organized in this manner.*)

ADVENTIST BOOK CENTER (International Model)
Special-purpose Schedule of Financial Position
31 December 20X1 and 20X0

Appendix 21A.01

	20X1 Total	20X0 Total
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	57,456	7,807
Accounts Receivable, net (Note 3)	79,018	87,544
Inventory (Note 4)	230,636	220,734
Prepaid Expense	542	262
Total Current Assets	367,652	316,347
Other Assets		
Equipment, at Cost (Note 5)	107,112	85,808
Accumulated Depreciation (Note 5)	(29,309)	(19,141)
Equipment, Net	77,803	66,667
Cash Held for Purchase of Equipment	5,150	12,375
Total Other Assets	82,953	79,042
Total Assets	450,605	395,389
LIABILITIES		
Current Liabilities		
Accounts Payable (Note 6)	132,999	113,106
Accrued Expenses	34,810	35,743
Current Portion, Capital Lease (Note 7)	2,813	2,597
Total Current Liabilities	170,622	151,446
Other Liabilities		
Capital Lease (Note 7)	7,211	10,024
Total Liabilities	177,833	161,470
NET ASSETS		
Unallocated	199,843	167,498
Allocated Capital (Note 8)	5,150	12,375
Net Invested in Plant	67,779	54,046
Total Net Assets	272,772	233,919
Total Liabilities & Net Assets	450,605	395,389

Notes to the financial schedules are an integral part of this schedule.

ADVENTIST BOOK CENTER (International Model) **Appendix 21A.02**
Special-purpose Schedule of Financial Activity
Years ended 31 December 20X1 and 20X0

Operating Activity	20X1 Total	Percent of Sales	20X0 Total	Percent of Sales
Revenue from Operations:				
Total Sales	1,238,323	100.0%	1,168,079	100.0%
Total Cost of Goods Sold	(965,155)	-77.9%	(927,021)	-79.4%
Gross Profit on Sales	273,168	22.1%	241,058	20.6%
Shipping and Handling Income	22,153	1.8%	18,530	1.6%
Investment Income	884	0.1%	251	0.0%
Finance Charges	2,547	0.2%	2,491	0.2%
Gross Revenue from Operations	298,752	24.1%	262,330	22.5%
Operating Expenses:				
Salaries and Wages	134,238	10.8%	126,173	10.8%
Payroll-related Expense	21,853	1.8%	19,350	1.7%
Retirement Contributions	19,461	1.6%	20,612	1.8%
Advertising and Selling Expense	13,769	1.1%	11,082	0.9%
Shipping and Postage Expense	19,824	1.6%	16,282	1.4%
General and Administrative Expense	26,203	2.1%	21,947	1.9%
Rent Expense	12,700	1.0%	11,054	0.9%
Depreciation Expense	10,627	0.9%	9,023	0.8%
Total Operating Expense	258,675	20.9%	235,523	20.2%
Net Revenue from Operations	40,077	3.2%	26,807	2.3%
Capital Activity				
Restricted Capital Donations Received	1,000		15,000	
Interest Expense on Capital Lease	(916)		(818)	
Loss on Sale of Equipment	(1,308)		0	
Net Capital Activity	(1,224)		14,182	
Increase (Decrease) in Net Assets	38,853		40,989	
Net Assets at Beginning of Year	233,919		192,930	
Net Assets at End of Year	272,772		233,919	

Notes to the financial schedules are an integral part of this schedule.

ADVENTIST BOOK CENTER (International Model) **Appendix 21A.03**
Special-purpose Schedule of Cash Flows
Years ended 31 December 20X1 and 20X0

	20X1 Total	20X0 Total
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	38,853	40,989
Adjustments to eliminate non-cash items:		
Depreciation Expense	10,627	9,023
(Gain) Loss on Sale of Plant Assets	1,308	0
Assets Acquired by Capital Lease	0	(14,437)
Adjustments to reclassify non-operating items:		
Non-operating Donations	(1,000)	(15,000)
(Increase) Decrease Accounts Receivable	8,526	(13,724)
(Increase) Decrease Inventory & Prepaid	(10,182)	6,619
Increase (Decrease) Accounts Payable	18,960	(7,560)
Net Cash Provided (Used) by Operating Activities	67,092	5,910
Cash Flows from Investing Activities:		
Proceeds from Maturity of Investments	7,225	0
Purchases of Investments	0	(12,375)
Proceeds from Sale of Equipment	50	0
Purchases of Equipment	(23,121)	(5,213)
Net Cash Provided (Used) by Investing Activities	(15,846)	(17,588)
Cash Flows from Financing Activities:		
Donations for New Equipment	1,000	15,000
Principal Payments on Capital Lease	(2,597)	(1,816)
Net Cash Provided (Used) by Financing Activities	(1,597)	13,184
Net Increase (Decrease) Cash and Cash Equivalents	49,649	1,506
Cash and Cash Equivalents, Beginning of Year	7,807	6,301
Cash and Cash Equivalents, End of Year	57,456	7,807

Supplemental Cash Flow Data: Cash paid during the year for interest was $916.

Notes to the financial schedules are an integral part of this schedule.

ADVENTIST BOOK CENTER (International Model) **Appendix 21A.04**
Notes to the Special-purpose Schedules
Years ended 31 December 20X1 and 20X0

Note 1 - Organization Description and Summary of Significant Accounting Policies

Organization Description

Adventist Book Center (ABC) is a department of [*Name*] Conference of Seventh-day Adventists (Conference). The ABC is operated to sell and distribute Christian literature and related merchandise to the Conference's constituents and congregations. Since the ABC is a department of a religious not-for-profit organization, it is exempt from taxes under provisions of [*name the applicable law and/or regulations*]. The ABC receives most of its revenue in the form of sales of its merchandise. It also receives a subsidy from the Conference in the form of reduced rental rates for the space it occupies in the Conference building.

The ABC manager is appointed by the Conference executive committee, and certain officers and other employees of the Conference are members of the ABC governing committee. The ABC payroll is included in total payroll processed by the Conference. The ABC reimburses the Conference Operating Fund for its share of the total payroll cost, which is then recorded as expense by the ABC (see Note 10). The ABC's main store is located in a building that is owned by the [*Name of legal title-holding entity*] (*Identifier*). The ABC pays a negotiated amount to the (*Identifier*) for rent and utilities (see Note 10). Details of amounts due from or payable to other departments or funds of the Conference or (*Identifier*) are in Notes 3 and 5 below.

Summary of Significant Accounting Policies

(a) The significant accounting policies of the ABC are essentially the same as generally accepted accounting principles for not-for-profit organizations as promulgated by the International Accounting Standards Board. The significant policies are described below to enhance the usefulness of the financial schedules. The financial schedules of the ABC have been prepared on the accrual basis of accounting.

(b) The preparation of special-purpose financial schedules in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Basis of Special Presentation: The accompanying special purpose schedules include only the accounts and activity of the ABC, which is a department of the Conference. The Conference believes this special presentation is useful to analyze this department apart from the rest of the entity.

(d) Restricted Resources: The ABC reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets.

(e) Equipment and Depreciation: Resources used for equipment acquisitions and debt service payments are accounted for as capital activity. Restricted proceeds from the sale of equipment and restricted income from plant related investments are recorded as restricted gains. Interest payments on plant-related debt are recorded as non-operating expense. Equipment is recorded at cost when purchased or at fair market value at date of gift. Depreciation of equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation expense is recorded as operating expense.

(f) Cash and Equivalents: Cash equivalents are highly-liquid assets held for operating purposes, which are readily convertible to cash and have a maturity date of three months or less from date of acquisition. Cash equivalents held for other than operating purposes are classified as investments. The increase or decrease in non-operating investments is reported in the cash flow statement as investment proceeds or purchases.

ADVENTIST BOOK CENTER (International Model) **Appendix 21A.05**
Notes to the Special-purpose Schedules
Years ended 31 December 20X1 and 20X0

Note 1 - Summary of Significant Accounting Policies (continued)

(g) Fair Value of Financial Instruments - Methods and Assumptions: Short-term financial instruments are valued at their carrying amounts included in the statement of financial position. Carrying values of these instruments are considered to be reasonable estimates of fair value due to the relatively short period to maturity of the instruments. Investments are valued at the quoted market price or other reasonably obtainable fair value estimate at the reporting date for those or similar instruments. The difference between aggregate market value and cost for each type of investment is recorded in a valuation account. The change in this account each year is recognized as gain or loss.

(h) Current Assets and Liabilities: Assets and liabilities are classified as current or long-term, depending on their characteristics. This excludes from current assets: cash equivalents that are restricted to use for other than current operations, committee allocated for acquisition of plant assets or for liquidation of plant-related debt. This excludes from current liabilities: long-term portion of all debt, plant-related debt payable within the next fiscal year to the extent covered by designated liquid assets. Working capital is calculated as current assets minus current liabilities.

(i) Investment Income: Income from investments that are held for operating purposes is accounted for as miscellaneous operating revenue. Income on investments that are held for plant-related purposes is accounted for as capital activity.

(j) Concentrations of Risk: The ABC receives most of its revenue from sales of merchandise. It is subject to the effect of economic trends that may decrease the ability of customers to purchase its merchandise. Also, it purchases most of its inventory from [*number*] major suppliers; [*Name of Publishing House and Name(s) of other vendor(s)*]. There is a risk that suppliers' pricing and product decisions could conflict with the ABC's sales objectives.

(k) Provision for Uncollectible Accounts: An allowance for uncollectable accounts is provided through routine additions based on sales, historical collection experience, and aging of receivables. Accounts deemed to be uncollectible are charged to the allowance.

(l) Inventory: Inventory is stated at the lower of cost or fair value, under the first-in, first-out method.

(m) Classification of Net Assets: To ensure observance of limitations and restrictions placed on the use of resources available to the ABC, the net asset accounts are classified into components that reflect the purpose for which they are held. Net assets other than plant are separated into unallocated, allocated operating, and allocated capital amounts. The net depreciated value of plant assets, minus any plant-related debt, is classified as net invested in plant.

Note 2 - Cash

	20X1	20X0
Unrestricted Funds		
Imprest Cash	2,000	2,000
Checking Account	4,392	5,807
Money Market Account at 5%	51,064	0
Total Unrestricted Cash	57,456	7,807
Restricted Funds		
Money Market Account at 5%	5,150	12,375

ADVENTIST BOOK CENTER (International Model) **Appendix 21A.06**
Notes to the Special-purpose Schedules
Years ended 31 December 20X1 and 20X0

Note 3 - Accounts Receivable	20X1	20X0
Church Accounts	38,113	41,402
School Accounts	45,007	50,125
Miscellaneous Accounts	1,398	2,017
Allowance for Uncollectable Accounts	(5,500)	(6,000)
Net Accounts Receivable	79,018	87,544

Note 4 – Inventory	Branch A	Branch B	20X1 Total	20X0 Total
SDA Literature	62,612	27,371	89,983	85,949
Non-SDA Literature	24,685	16,457	41,142	45,652
Multi-media Merchandise	22,489	16,621	39,110	36,218
Food Products	31,261	29,140	60,401	52,915
Total Inventory	141,047	89,589	230,636	220,734

Note 5 - Equipment	Cost	Accum. Depreciation	Net Value	Depr. Expense
Balances at 31 December 20X1	107,112	29,309	77,803	10,627
Balances at 31 December 20X0	85,808	19,141	66,667	9,023
	1/1/20X0	Additions	Deletions	31/12/20X1
Changes in Cost	85,808	23,121	1,817	107,112
Changes in Accumulated Depreciation	19,141	10,627	459	29,309

Note 6 - Accounts Payable	20X1	20X0
SDA Vendors	63,202	54,661
Non-SDA Vendors	49,911	42,346
Local Conference	19,886	16,099
Total Accounts Payable	132,999	113,106

Note 7 - Leased Equipment and Capital Lease Payable

Equipment was acquired during 20X0 under the terms of a capital lease (see detail below). The cost of the equipment was recorded at the net present value of the lease at the time of acquisition, which was $14,437. This amount is included in total equipment cost in the schedule of financial position. At December 31, 20X1 and 20X0, accumulated amortization on this equipment was $5,053 and $2,166, respectively. For the years ended December 31, 20X1 and 20X0, amortization expense was $2,887 and $2,166, respectively.

Payable to XYZ Corporation:	Current	Long-term	20X1 Total	20X0 Total
Payments of $293/month for 60 months, at 8% interest, beginning April 1, 20X0.	2,813	7,211	10,024	12,621

Amounts due in each of the next 5 years:	20X2	20X3	20X4	20X5	20X6
Imputed Interest	703	470	218	12	0
Net Present Value of Principal	2,813	3,046	3,298	867	0
Total Lease Payments	3,516	3,516	3,516	879	0

ADVENTIST BOOK CENTER (International Model) **Appendix 21A.07**
Notes to the Special-purpose Schedules
Years ended 31 December 20X1 and 20X0

Note 8 - Allocated Capital Account

Donor-restricted net assets are available for the following purposes or periods:	Balance 20X0	Restricted Income	Amount Spent	Balance 20X1
New Branch Equipment	12,375	1,000	8,225	5,150

Note 9 - Working Capital and Liquidity

Working Capital	Total 20X1	Total 20X0
Total Current Assets	367,652	316,347
Total Current Liabilities	(170,622)	(151,446)
Actual Working Capital	197,030	164,901
Recommended Working Capital *	309,654	308,278
Working Capital Excess (Deficit)	(112,624)	(143,377)
Percent of Recommended Working Capital	64%	53%
Current Ratio	2.2	2.1
Liquidity		
Cash and Investments	57,456	7,807
Accounts Receivable - Conference	0	0
Total Liquid Assets	57,456	7,807
Current Liabilities	170,622	151,446
Allocated Net Assets	0	0
Total Commitments	170,622	151,446
Liquid Assets Surplus (Deficit)	(113,166)	(143,639)
Percent Liquid Assets to Commitments	33.7%	5.2%
* Calculation of Recommended Working Capital:		
Accounts Receivable, net	79,018	87,544
Inventory	230,636	220,734
Total Recommended Working Capital	309,654	308,278

Note 10 - Pension and Other Post-Retirement Benefits

Defined Benefit Retirement Plan

The Conference of which the ABC is a department participates in a non-contributory defined benefit retirement plan known as the [*name of the defined benefit retirement plan or fund*] (DB Plan). The DB Plan, which covers substantially all employees of the ABC, is administered by the Division. Contributions to the Plan are made by participating employers located within the Division territory. Employees do not contribute to the Plan. The required contributions from the ABC to the DB Plan (for retiree pension, health care, and other benefits) were FCU 14,093 and 20,612 for the years ended 31 December 20X1 and 20X0, respectively. The DB Plan and the Division together determine the amount of contributions that are required each year from the participating employers, and this amount may increase in the future.

ADVENTIST BOOK CENTER (International Model) **Appendix 21A.08**
Notes to the Special-purpose Schedules
Years ended 31 December 20X1 and 20X0

Note 10 - Pension and Other Post-Retirement Benefits (continued)

[*For entities whose retirement plan* ***has not*** *obtained an actuarial valuation that establishes a proportionate liability amount for each participating employer, use the following paragraph.*]

This DB Plan is defined as a "multiemployer" plan. The DB Plan has concluded that it is not reasonably possible to determine the actuarial present value of accumulated benefits or plan net assets for employees of the ABC apart from other plan participants. [*If the Plan has obtained an actuarial evaluation, even if it was obtained in an earlier period, add the following sentence*: However, based on the latest actuarial evaluation of the DB Plan, as of [*effective date of last actuarial report*], the actuarially computed value of accumulated plan benefits exceeded the estimated market value of plan assets, for the plan as a whole.] [*If an actuarial evaluation has never been obtained, add the following sentence*: No actuarial evaluation has been obtained for the DB Plan as a whole.]

[*For entities whose retirement plan* ***has*** *been able to determine an actuarial valuation that established a proportionate liability amount for each participating employer, use the following paragraph.*]

This DB Plan is defined as a "multiemployer" plan. Based on the latest actuarial evaluation of the DB Plan, as of [*effective date of last actuarial report*], the actuarially computed value of accumulated plan benefits exceeded the estimated market value of plan assets. The ABC's proportionate share of the unfunded obligation was determined to be [FCU XXX,XXX], which is reported as a noncurrent liability in the accompanying schedule of financial position.

[*If the reporting entity is located in a territory that has frozen its defined benefit retirement plan and started a defined contribution retirement plan, include the following paragraph for the first year of the change in plans.*]

During 20X0, the Division Executive Committee voted to freeze accrual of service credit in this DB Plan effective 31 December 20X0, except for employees who stated their intent to retire before 1 January 20X5, and to start a new defined contribution pension plan effective 1 January 20X1. The ABC is scheduled to continue making contributions to this frozen DB Plan after 31 December 20X0. Certain employees will continue to be eligible for future benefits under this DB Plan.

Defined Contribution Retirement Plan [*use this section for entities that participate in DC plans*]

Beginning 1 January 20X1, the Conference of which the ABC is a department participates in a defined contribution retirement plan known as the [*name of the defined contribution retirement plan*] (DC Plan). The DC Plan, which covers substantially all employees of the ABC, is governed by a plan document developed by the Division, in coordination with the Union Conferences and Missions in its territory. This DC Plan is defined as a "multiemployer" plan. Contributions to the DC Plan are made by participating employers located within the Division territory, and voluntary contributions may be made by eligible employees of those employers.

The ABC contributed FCU 5,368 to the DC Plan for the year ended 31 December 20X1, based on a stated percentage of each employee's earnings and a matching percentage of certain employee voluntary contributions. Administration of the accumulated contributions designated for the future benefit of each employee is provided under an agreement between the Division, Union Conferences, and Missions and a record-keeping organization, [*name of record-keeping investment management organization, with (identifier)*]. (*Identifier of record-keeper*) receives all contributions, and invests them in accordance with portfolio profiles selected by each employee.

Appendix 21B

ADVENTIST BOOK CENTER
(*or similar retail store name*)

Special-purpose Financial Schedules (USA Model)

December 31, 20X1 and 20X0

(*This illustrates presentation of an ABC as part of a larger entity, because most ABC's within NAD that are not owned by a publishing house are organized in this manner.*)

ADVENTIST BOOK CENTER (USA Model)
Special-purpose Schedule of Financial Position
December 31, 20X1 and 20X0

Appendix 21B.01

	20X1 Total	20X0 Total
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	57,456	7,807
Accounts Receivable, net (Note 3)	79,018	87,544
Inventory (Note 4)	230,636	220,734
Prepaid Expense	542	262
Total Current Assets	367,652	316,347
Other Assets		
Equipment, at Cost (Note 5)	107,112	85,808
Accumulated Depreciation (Note 5)	(29,309)	(19,141)
Equipment, Net	77,803	66,667
Cash Held for Purchase of Equipment	5,150	12,375
Total Other Assets	82,953	79,042
Total Assets	450,605	395,389
LIABILITIES		
Current Liabilities		
Accounts Payable (Note 6)	132,999	113,106
Accrued Expenses	34,810	35,743
Current Portion, Capital Lease (Note 7)	2,813	2,597
Total Current Liabilities	170,622	151,446
Other Liabilities		
Capital Lease (Note 7)	7,211	10,024
Total Liabilities	177,833	161,470
NET ASSETS		
Unrestricted: Unallocated	199,843	167,498
Unrestricted: Net Invested in Plant	67,779	54,046
Total Unrestricted	267,622	221,544
Temporarily Restricted (Note 8)	5,150	12,375
Total Net Assets	272,772	233,919
Total Liabilities & Net Assets	450,605	395,389

Notes to the financial schedules are an integral part of this schedule.

ADVENTIST BOOK CENTER (USA Model) **Appendix 21B.02**
Special-purpose Schedule of Changes in Financial Position
Years ended December 31, 20X1 and 20X0

Changes in Unrestricted Net Assets	20X1 Total	Percent of Sales	20X0 Total	Percent of Sales
Revenue from Operations:				
Total Sales (Note 10)	1,238,323	100.0%	1,168,079	100.0%
Total Cost of Goods Sold (Note 10)	(965,155)	-77.9%	(927,021)	-79.4%
Gross Profit on Sales (Note 10)	273,168	22.1%	241,058	20.6%
Shipping and Handling Income	22,153	1.8%	18,530	1.6%
Finance Charges	2,547	0.2%	2,491	0.2%
Gross Revenue from Operations	297,868	24.1%	262,079	22.4%
Operating Expenses:				
Program Function:				
Merchandising Expense (Note 10)	153,401	12.4%	141,107	12.1%
Supporting Services Function:				
Administrative Expense (Note 10)	105,274	8.5%	94,416	8.1%
Total Operating Expense	258,675	20.9%	235,523	20.2%
Net Revenue from Operations	39,193	3.2%	26,556	2.3%
Investment Income	884	0.1%	251	0.0%
Interest Expense on Capital Lease	(916)	-0.1%	(818)	0.1%
Loss on Sale of Equipment	(1,308)	-0.1%	0	0.0%
Released from Restrictions (Capital)	8,225	0.7%	2,625	0.2%
Net Non-operating Activity	6,885	0.6%	2,058	0.2%
Increase (Decrease) Unrestricted Net Assets	46,078	3.7%	28,614	2.4%
Changes in Temporarily Restricted Net Assets				
Restricted Capital Donations Received	1,000		15,000	
Released from Restrictions (Note 7)	(8,225)		(2,625)	
Increase (Decrease) Temporarily Restricted Net Assets	(7,225)		12,375	
Increase (Decrease) in Net Assets	38,853		40,989	
Net Assets at Beginning of Year	233,919		192,930	
Net Assets at End of Year	272,772		233,919	

Notes to the financial schedules are an integral part of this schedule.

ADVENTIST BOOK CENTER (USA Model)
Special-purpose Schedule of Cash Flows
Years ended December 31, 20X1 and 20X0

Appendix 21B.03

	20X1 Total	20X0 Total
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	38,853	40,989
Adjustments to eliminate non-cash items:		
Depreciation Expense	10,627	9,023
(Gain) Loss on Sale of Plant Assets	1,308	0
Assets Acquired by Capital Lease	0	(14,437)
Adjustments to reclassify non-operating items:		
Non-operating Donations	(1,000)	(15,000)
(Increase) Decrease Accounts Receivable	8,526	(13,724)
(Increase) Decrease Inventory & Prepaid	(10,182)	6,619
Increase (Decrease) Accounts Payable	18,960	(7,560)
Net Cash Provided (Used) by Operating Activities	67,092	5,910
Cash Flows from Investing Activities:		
Proceeds from Maturity of Investments	7,225	0
Purchases of Investments	0	(12,375)
Proceeds from Sale of Equipment	50	0
Purchases of Equipment	(23,121)	(5,213)
Net Cash Provided (Used) by Investing Activities	(15,846)	(17,588)
Cash Flows from Financing Activities:		
Donations for New Equipment	1,000	15,000
Principal Payments on Capital Lease	(2,597)	(1,816)
Net Cash Provided (Used) by Financing Activities	(1,597)	13,184
Net Increase (Decrease) Cash and Cash Equivalents	49,649	1,506
Cash and Cash Equivalents, Beginning of Year	7,807	6,301
Cash and Cash Equivalents, End of Year	57,456	7,807

Supplemental Cash Flow Data: Cash paid during the year for interest was $916.

Notes to the financial schedules are an integral part of this schedule.

ADVENTIST BOOK CENTER (USA Model) **Appendix 21B.04**
Notes to the Special-purpose Schedules
Years ended December 31, 20X1 and 20X0

Note 1 - Organization Description and Summary of Significant Accounting Policies

Organization Description

Adventist Book Center (ABC) is a department of [*Name*] Conference of Seventh-day Adventists (Conference). The ABC is operated to sell and distribute Christian literature and related merchandise to the Conference's constituents and congregations. The ABC receives most of its revenue in the form of sales of its merchandise. It also receives a subsidy from the Conference in the form of reduced rental rates for the space it occupies in the Conference building.

The ABC manager is appointed by the Conference executive committee, and certain officers and other employees of the Conference are members of the ABC governing committee. The ABC payroll is included in total payroll processed by the Conference. The ABC reimburses the Conference Operating Fund for its share of the total payroll cost, which is then recorded as expense by the ABC (see Note 10). The ABC's main store is located in a building that is owned by the [*Name*] Conference Corporation of Seventh-day Adventists (Corporation). The ABC pays a negotiated amount to the Corporation for rent and utilities (see Note 10). Details of amounts due from or payable to other departments or funds of the Conference or Corporation are set forth in Notes 3 and 5 below.

Since the ABC is a department of a religious not-for-profit organization, it is exempt from federal, state, and local income taxes under provisions of Section 501 (c) (3) of the Internal Revenue Code, and corresponding sections of applicable state and local codes; except for taxes on unrelated business income as described in Sections 511-514 of the Internal Revenue Code.

Summary of Significant Accounting Policies

(a) The significant accounting policies of the ABC are essentially the same as generally accepted accounting principles for not-for-profit organizations as promulgated by the Financial Accounting Standards Board and the American Institute of Certified Public Accountants. The significant policies are described below to enhance the usefulness of the financial schedules. The financial schedules of the ABC have been prepared on the accrual basis of accounting. In conformity with the accrual basis of accounting, the Organization has evaluated events that occurred subsequent to the financial statement date, up to [*insert date*], which is the date the financial statements were [*insert either* "issued" *or* "available to be issued" *but not both*].

(b) The preparation of special-purpose financial schedules in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Basis of Special Presentation: The accompanying special purpose schedules include only the accounts and activity of the ABC, which is a department of the Conference. Compliance with Statement of Financial Accounting Standards No. 117 of the Financial Accounting Standards Board requires the whole organization to be included in general use financial statements. The Conference believes this special presentation is useful to analyze this department apart from the rest of the entity.

(d) Restricted Resources: The ABC reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted and reported as net assets released from restrictions.

ADVENTIST BOOK CENTER (USA Model) **Appendix 21B.05**
Notes to the Special-purpose Schedules
Years ended December 31, 20X1 and 20X0

Note 1 - Summary of Significant Accounting Policies (continued)

(d) Restricted Resources (continued): The ABC reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the ABC reports expirations of donor restrictions when the respective assets are placed in service.

(e) Equipment and Depreciation: Resources used for equipment acquisitions and debt service payments are accounted for as non-operating activity. Restricted proceeds from the sale of equipment and restricted income from plant related investments are recorded as restricted gains. Interest payments on plant-related debt are recorded as non-operating expense. Equipment is recorded at cost when purchased or at fair market value at date of gift. Depreciation of equipment is provided over the estimated useful lives of the respective assets on a straight-line bases. Depreciation expense is recorded as operating expense.

(f) Cash and Equivalents: Cash equivalents are highly-liquid assets held for operating purposes, which are readily convertible to cash and have a maturity date of three months or less from date of acquisition. Cash equivalents held for other than operating purposes are classified as investments. The increase or decrease in non-operating investments is reported in the cash flow statement as investment proceeds or purchases.

(g) Fair Value of Financial Instruments - Methods and Assumptions: Short-term financial instruments are valued at their carrying amounts included in the statement of financial position. Carrying values of these instruments are considered to be reasonable estimates of fair value due to the relatively short period to maturity of the instruments. Investments are valued at the quoted market price or other reasonably obtainable fair value estimate at the reporting date for those or similar instruments. The difference between aggregate market value and cost for each type of investment is recorded in a valuation account. The change in this account each year is recognized as gain or loss.

(h) Current Assets and Liabilities: Assets and liabilities are classified as current or long-term, depending on their characteristics. This excludes from current assets: cash equivalents that are restricted to use for other than current operations or committee allocated for acquisition of plant assets or for liquidation of plant-related debt. This excludes from current liabilities: long-term portion of all debt and plant-related debt payable within the next fiscal year to the extent covered by designated liquid assets. Working capital is calculated as current assets minus current liabilities.

(i) Investment Income: Unrestricted investment income is accounted for as other operating revenue. Restricted income on investments is accounted for as restricted support and temporarily restricted net assets until spent for the restricted purpose designated by the donor.

(j) Concentrations of Risk: The ABC receives most of its revenue from sales of merchandise. It is subject to the effect of economic trends that may decrease the ability of customers to purchase its merchandise. Also, it purchases most of its inventory from three major suppliers; Pacific Press Publishing Association, Review and Herald Publishing Association, and Worthington Foods. There is a risk that suppliers' pricing and product decisions could conflict with the ABC's sales objectives.

(k) Provision for Uncollectible Accounts: An allowance for uncollectible accounts is provided through routine additions based on sales, historical collectability experience, and aging of receivables. Accounts deemed to be uncollectible are charged to the allowance.

(l) Inventory: Inventory is stated at the lower of cost or fair value, under the first-in, first-out method.

ADVENTIST BOOK CENTER (USA Model) **Appendix 21B.06**
Notes to the Special-purpose Schedules
Years ended December 31, 20X1 and 20X0

Note 1 - Summary of Significant Accounting Policies (continued)

(m) Classification of Net Assets: To ensure observance of limitations and restrictions placed on the use of resources available to the ABC, the net asset accounts are classified for accounting and reporting purposes into components that reflect the presence or absence of donor restrictions or committee designations. Unrestricted net assets are separated into unallocated and allocated amounts. Restricted net assets are separated into temporarily restricted and permanently restricted amounts.

Note 2 - Cash	20X1 Total	20X0 Total
Unrestricted Funds		
Imprest Cash	2,000	2,000
Checking Account	4,392	5,807
Money Market Account at 5%	51,064	0
Total Unrestricted Cash	57,456	7,807
Restricted Funds		
Money Market Account at 5%	5,150	12,375

Note 3 - Accounts Receivable		
Church Accounts	38,113	41,402
School Accounts	45,007	50,125
Miscellaneous Accounts	1,398	2,017
Allowance for Uncollectable Accounts	(5,500)	(6,000)
Net Accounts Receivable	79,018	87,544

Note 4 - Inventory	Branch A	Branch B	20X1 Total	20X0 Total
SDA Literature	62,612	27,371	89,983	85,949
Non-SDA Literature	24,685	16,457	41,142	45,652
Multi-media Merchandise	22,489	16,621	39,110	36,218
Food Products	31,261	29,140	60,401	52,915
Total Inventory	141,047	89,589	230,636	220,734

Note 5 - Equipment	Cost	Accum. Depreciation	Net Value	Depr. Expense
Balances at 31 December 20X1	107,112	29,309	77,803	10,627
Balances at 31 December 20X0	85,808	19,141	66,667	9,023
	1/1/20X0	Additions	Deletions	31/12/20X1
Changes in Cost	85,808	23,121	1,817	107,112
Changes in Accumulated Depreciation	19,141	10,627	459	29,309

Note 6 - Accounts Payable	20X1	20X0
SDA Vendors	63,202	54,661
Non-SDA Vendors	49,911	42,346
Local Conference	19,886	16,099
Total Accounts Payable	132,999	113,106

ADVENTIST BOOK CENTER (USA Model) **Appendix 21B.07**
Notes to the Special-purpose Schedules
Years ended December 31, 20X1 and 20X0

Note 7 - Leased Equipment and Capital Lease Payable

Equipment was acquired during 20X0 under the terms of a capital lease (see detail below). The cost of the equipment was recorded at the net present value of the lease at the time of acquisition, which was $14,437. This amount is included in total equipment cost in the schedule of financial position. At December 31, 20X1 and 20X0, accumulated amortization on this equipment was $5,053 and $2,166, respectively. For the years ended December 31, 20X1 and 20X0, amortization expense was $2,887 and $2,166, respectively.

Payable to XYZ Corporation:				20X1	20X0
Payments of $293/month for 60 months,		Current	Long-term	Total	Total
at 8% interest, beginning April 1, 20X0.		2,813	7,211	10,024	12,621
Amounts due in each of the next 5 years:	20X2	20X3	20X4	20X5	20X6
Imputed Interest	703	470	218	12	0
Net Present Value of Principal	2,813	3,046	3,298	867	0
Total Lease Payments	3,516	3,516	3,516	879	0

Note 8 - Temporarily Restricted Net Assets Available for the following purposes or periods:	Balance 20X0	Restricted Income	Restriction Released	Balance 20X1
New Branch Equipment	12,375	1,000	8,225	5,150

Note 9 - Working Capital and Liquidity	Total	Total
Working Capital	20X1	20X0
Total Current Assets	367,652	316,347
Total Current Liabilities	(170,622)	(151,446)
Actual Working Capital	197,030	164,901
Recommended Working Capital *	309,654	308,278
Working Capital Excess (Deficit)	(112,624)	(143,377)
Percent of Recommended Working Capital	64%	53%
Current Ratio	2.2	2.1
Liquidity		
Cash and Investments	57,456	7,807
Accounts Receivable - Conference	0	0
Total Liquid Assets	57,456	7,807
Current Liabilities	170,622	151,446
Allocated Net Assets	0	0
Total Commitments	170,622	151,446
Liquid Assets Surplus (Deficit)	(113,166)	(143,639)
Percent Liquid Assets to Commitments	33.7%	5.2%
* Calculation of Recommended Working Capital:		
Accounts Receivable, net	79,018	87,544
Inventory	230,636	220,734
Total Recommended Working Capital	309,654	308,278

ADVENTIST BOOK CENTER (USA Model) **Appendix 21B.08**
Notes to the Special-purpose Schedules
Years ended December 31, 20X1 and 20X0

Note 10 - Pension and Other Post-Retirement Benefits

Defined Benefit Plans

The Conference of which the ABC is a department participates in a non-contributory, defined benefit pension plan known as the "Seventh-day Adventist Retirement Plan of the North American Division." This plan, which covers substantially all employees of the ABC, is administered by_the North American Division of the General Conference of Seventh-day Adventists in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a multiple-employer plan of a church-related agency.

The Conference of which the ABC is a department also participates in a non-contributory, defined benefit health care plan known as the "Health Care Assistance Plan for Participants in the Seventh-day Adventist Retirement Plan of the North American Division." This plan, which covers substantially all employees of the ABC, is administered by_the North American Division of the General Conference of Seventh-day Adventists in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a multiple-employer plan of a church-related agency.

The required contributions from the ABC to these plans (for retiree pension and retiree health care benefits) were $14,093 and $15,565 for the years ended December 31, 20X1 and 20X0, respectively.

These plans are defined by the Financial Accounting Standards Board as multiemployer plans. As such, it is not required, nor is it possible, to determine the actuarial present value of accumulated benefits or plan net assets for employees of the Organization apart from other plan participants. However, based on the latest actuarial evaluation of the Seventh-day Adventist Retirement Plan of the North American Division, as of December 31, 1998, the actuarially computed value of accumulated plan benefits exceeded the estimated market value of plan assets, for that plan. No actuarial evaluation has been obtained for the Health Care Assistance Plan for Participants in the Seventh-day Adventist Retirement Plan of the North American Division.

The North American Division Committee voted to freeze accrual of service credit in these plans effective December 31, 1999, except for employees who choose the career completion option, and to start a new defined contribution plan effective January 1, 2000. The ABC is scheduled to continue making contributions to the frozen plans after December 31, 1999. Certain employees will continue to be eligible for future benefits under these plans.

Defined Contribution Plan

Effective January 1, 2000, the Conference of which the ABC is a department participates in a defined contribution retirement plan known as "The Adventist Retirement Plan." This plan, which covers substantially all employees of the ABC, is administered by_the North American Division of the General Conference of Seventh-day Adventists (GC) in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a multiple-employer plan of a church-related agency.

The ABC contributed $5,368 and $5,047 to the plan for the years ended December 31, 20X1 and 20X0, respectively, based on a stated percentage of each employee's earnings and a stated matching percentage of certain employee voluntary contributions. Investment management of the accumulated contributions designated for each employee is provided under an agreement between the GC and VALIC.

ADVENTIST BOOK CENTER (USA Model) **Appendix 21B.09**

Notes to the Special-purpose Schedules for Years ended December 31, 20X1 and 20X0

Note 11 - Revenue, Expense, and Budget Comparisons

Sales:	Branch A	Branch B	20X1 Actual	20X1 Budget	20X0 Actual
SDA Literature	309,197	140,413	449,610	445,000	439,198
Non-SDA Literature	180,993	106,521	287,514	280,000	274,499
Multi-media Merchandise	113,121	87,153	200,274	195,000	184,556
Food Products	150,828	150,097	300,925	275,000	269,826
Total Sales	754,139	484,184	1,238,323	1,195,000	1,168,079
Cost of Goods Sold:					
SDA Literature	233,028	100,447	333,475	335,000	330,506
Non-SDA Literature	152,261	89,478	241,739	240,000	235,796
Multi-media Merchandise	93,913	70,032	163,945	160,000	153,078
Food Products	113,551	112,445	225,996	210,000	207,641
Total Cost of Goods Sold	592,753	372,402	965,155	945,000	927,021
Gross Profit on Sales:					
SDA Literature	76,169	39,966	116,135	110,000	108,692
Non-SDA Literature	28,732	17,043	45,775	40,000	38,703
Multi-media Merchandise	19,208	17,121	36,329	35,000	31,478
Food Products	37,277	37,652	74,929	65,000	62,185
Total Gross Profit on Sales	161,386	111,782	273,168	250,000	241,058
Shipping, Handling, and Finance Charges	18,047	6,646	24,700	22,000	21,021
Gross Revenue from Operations	179,433	118,428	297,868	272,000	262,079
Operating Expenses:					
Sales Program Function:					
Salaries and Wages	58,260	35,707	93,967	91,000	88,051
Payroll-related Expense	9,484	5,813	15,297	14,700	13,144
Retirement Contribution - DB Plan	6,117	3,749	9,866	9,555	10,896
Retirement Contribution - DC Plan	2,330	1,428	3,758	3,640	3,522
Advertising and Selling	6,903	6,866	13,769	11,905	11,082
Building Rent Expense	7,560	3,870	11,430	10,800	9,900
Depreciation Expense	2,923	2,391	5,314	5,250	4,512
Total Program Expenses	93,577	59,824	153,401	146,850	141,107
Admin. Support Svcs. Function:					
Salaries and Wages	24,968	15,303	40,271	39,000	38,122
Payroll-related Expense	4,065	2,491	6,556	6,300	6,206
Retirement Contribution - DB Plan	2,621	1,606	4,227	4,095	4,669
Retirement Contribution - DC Plan	998	612	1,610	1,560	1,525
Postage and Shipping	13,914	5,910	19,824	17,745	16,282
General and Administrative	16,002	10,201	26,203	23,200	21,947
Building Rent Expense	840	430	1,270	1,200	1,154
Depreciation Expense	2,922	2,391	5,313	5,250	4,511
Total Supporting Expenses	66,330	38,944	105,274	98,350	94,416
Total Operating Expense	159,907	98,768	258,675	245,200	235,523
Net Revenue from Operations	19,526	19,660	39,193	26,800	26,556
Non-operating Revenue (Expense)	654	(1,994)	(1,340)	500	(567)
Released from Restrictions	0	8,225	8,225	7,500	2,625
Increase (Decrease) Unrestricted Net Assets	20,180	25,891	46,078	34,800	28,614

Section 2201 - General Matters

2201.01 Introduction - The SDA Church has a well-developed world-wide program of distributing Christian literature and related products to the general public through what has become known as the “publishing ministry” and the work of “literature evangelists.” GCWP allows this program to be carried out by a number of organizational and distribution arrangements, subject to the working policies of each GC Division. Administrators of each entity engaged in such activity should be aware of the policies and procedures applicable to them.

2201.02 Accounting Principles - To supplement the general guidance in Chapters 1 to 16 of this Manual, this Chapter discusses matters that are unique to the literature ministry. This will apply to any SDA organization that distributes subscription literature and related products to or for the general public, whether it sells on time contracts or for cash. Because of the structural flexibility allowed, this Chapter refers to Literature Evangelism Organizations (LEOs) rather than locally-traditional terms like UPM, LFPM, HHES, or FHES.

2201.03 Relationship to Senior Organization - Every LEO will be an extension of some senior organization, whether it be a union or local conference, publishing house, or a combination of such entities. Because the nature of this relationship may vary from one LEO to another, it is important that the details be clearly spelled out in the LEO's constitution and bylaws. These details should include, but are not limited to, the membership of the LEO governing committee, the membership and duties of any executive or operating sub-committee, the titles and duties of all LEO officers or administrators, and the delegation of authority to set prices, commissions, and benefits.

Section 2202 - Sales and Related Accounts

2202.01 Focus of the System - Since the purpose of an LEO is to sell or distribute literature and related products to the general public, the primary focus of its accounting system will be on the sales cycle. A secondary focus will be on commissions and other selling expenses. For LEOs that sell on time contracts, the sales cycle will include accounting for contracts submitted by literature evangelists (LEs), processing and shipping inventory, accounting for returns, adjustments and write-offs, and collection and valuation of accounts receivable. For LEOs that sell primarily on a cash basis, the sales cycle will include accounting for total sales made by LEs to the general public, processing inventory, and accounting for movements of cash and inventory to and from the LEs.

2202.02 Sales Categories - The management of an LEO may desire to account for sales activity by type of merchandise. If this is done, the account structure should be expanded enough to account for cost of goods sold and direct selling expense in categories that match those of the sales. This will allow management to analyze profitability on each indicated type of merchandise.

2202.03 Weekly LE Reports - Most LEOs work with the LEs on a weekly schedule. There is a definite deadline for the end of the sales week and for the submitting of completed sales documents to the LEO. Sales documents are then processed, shipments are made, and LE settlements are computed on a fixed schedule. This allows the LEs to follow an organized schedule of operation, permits scheduling of various functions at the LEO in a most efficient way, and gives the LEs a feeling of security in anticipation of prompt weekly settlement of their accounts. It also helps ensure that all documented sales are recorded promptly and without exception.

2202.04 Sales Processing - The sales documents received from each LE are ordinarily accompanied by a summary of all sales documents for the week. As the report goes to processing personnel, the initial step must be to check sales documents against the summary report, and to check cash received against the individual sales documents and the report summary. Further processing of the cash should follow the guidance in Chapter 9. The processing personnel should sequentially number all sales documents received from every LE, and this number should carry through to all subsequent transactions relating to that specific sale. It is vital that this numbering process take place at the beginning of the processing cycle, so that any given sales document can be traced throughout the accounting system.

2202.05 Processing Steps - The specific procedures followed to record sales documents and process merchandise may vary from one LEO to another. In general, though, as soon as the sales documents are verified and numbered, a chain of activity is set in motion. If the merchandise is not left with the customer by the LE, a copy of each sales document or some other kind of authorization form should be given to the shipping department to initiate movement of inventory to the customer. (If the original sales document is a time contract, it should be kept in the processing office, since it is an important legal document.) If the sale is on a time-payment plan, information about the customer and the sale are entered in the accounting records, and trigger the beginning of accounts receivable activity and computations of LE commission and benefits. Whether manual or computerized, the system should produce weekly reports that summarize all sales processed. This summary should include sales document numbers, sales amounts (by product type, by LE, and/or by territory), amounts financed, and cash received. The person responsible for reconciling cash and bank accounts should use this report of cash received to compare with the sales document processor's record of weekly cash received and the record of bank deposits.

2202.06 Cash Sales to the General Public - In many LEOs, most sales are by cash rather than by a time-payment plan. Even though sales may be on a cash basis, the LEs should use sales documents and report weekly cash sales made to the general public. Thus, the weekly LE report will be supported by some form of receipt or invoice for each sale. The LEs may initiate the shipping of merchandise after receiving cash from the customer, or the LEs may leave merchandise with the customer immediately upon receiving cash. In any case, the processing and recording of sales should follow a similar procedure as outlined previously.

In those jurisdictions where LEs are legally, and by denominational policy, employees of the LEO, a record should be kept of the total retail sales to the general public (using some form of individual sales documents). In addition, a record should be kept of the amount of inventory in the custody of the LEs. Without this documentation, there is no support for the gross sales amount, or the amount retained as a commission by the LE. Further, without such a trail, there is a risk that the LEO's financial statements and the tax reporting of the LE's commission could be either inaccurate or misleading because the amounts cannot be verified.

2202.07 Cash Sales to Resellers - In those jurisdictions where LE's are legally, and by policy, independent contractors, the record-keeping should be just as diligent, but the sale amount will be defined differently. In these situations, the LEO sales revenue is not the ultimate retail amount paid by the consumer, but only the amount actually paid to the LEO by the LE, who acts as a reseller. (This would usually approximate a wholesale, not retail, amount.)

In some jurisdictions, the distinction between employee and independent contractor results in very different tax and reporting requirements for the LEO, as well as potential penalties for making the wrong distinction. For illustrative guidance on how one jurisdiction deals with this issue, refer to Appendix 22C. CFO's should be aware of the laws and regulations of their particular territory, and monitor their activities to ensure compliance.

2202.08 Cost of Goods Sold - A basic accounting principle consists of recording reductions in inventory, and the corresponding cost of goods sold, only when actual sales are recorded. If inventory is taken by LE leaders from the LEO to district or branch locations, it should remain classified as inventory until sales are recorded. Separate inventory accounts should be used to keep track of inventory that exists in various locations in addition to the LEO main office. When sales are recorded, the appropriate inventory account should be reduced.

2202.09 Credit for Returns and Corrections - Credits for adjustments, returned goods, errors in billing, etc., should be closely controlled. No such credits should be made to customer accounts without approval by specific individuals designated by LEO policy. For example, credit for returned goods should be granted only upon evidence that the goods have actually been received back into inventory. In the case of returned goods, the amount should not be debited to the sales account, but rather to a separate contra-account for returns and allowances. The amount would be credited to either customer accounts receivable or refunds payable. On the other hand, adjustments to customer accounts for accounting errors in billing should be recorded in the regular sales account.

2202.10 Repossessed Merchandise - Merchandise that has been repossessed from customers is once again property of the LEO, and must be recorded as inventory. Immediately upon receipt of such items from the customer or the LE, they should be examined as to condition, and a value placed upon them consistent with their condition. The value set on the books should provide for a margin for the necessary expenses of resale, as well as a reasonable profit, when the books are resold. This value should be debited to a specific inventory account for repossessed merchandise, and credited to cost of goods sold. It should also be debited to sales returns and allowances (not the regular sales account), and credited to customer accounts receivable.

2202.11 Sales Tax / VAT - The matter of sales tax (or value-added tax or similar names) requires special consideration. The CFO should be well acquainted with the sales tax regulations in effect in each jurisdiction served by the LEO, and institute appropriate procedures to be sure all LEs abide by them. If sales tax is added to the sales price, the debit to cash and accounts receivable will, of course, equal the total of merchandise price plus sales tax. The sales tax, however, must not be included in the credit to sales income; it must be credited to a liability account, because the LEO is merely acting as a collection agent for the respective government agency.

Section 2203 - Literature Evangelist Compensation (International Standard)

2203.01 General Concepts - Generally, the Division, Union Conference, Local Conference, and Publishing House share to some agreed extent in setting policies, training and supervising the LE's, and financing the administrative expense of the program. In most cases, the LE's are associated with either a local conference or a publishing house. The LE's compensation usually consists of two elements: a commission based on some formula applied to actual sales, and health care and other benefits, if eligible, provided by the local or union conference. The portion of the sales amount defined as the cost of the materials ultimately is remitted to the publishing house, and the rest of the sales amount is divided among the LE and the other entities according to applicable Division policy.

2203.02 Computation of Commission - Sometimes LEO's develop complex or creative commission systems to encourage LE's to be productive. Any formula that works is acceptable, as long as the commission formulas are applied fairly and consistently to all LE's, and as long as any amounts defined as components of sales commissions are recorded as such in the accounting records. Because commissions are a form of compensation to the LE's, the CFO should monitor the system to ensure that all applicable components of commissions are properly reported to the appropriate government agencies. Further, since retirement contributions for eligible LE's in many jurisdictions are based on commissions, the CFO should monitor the system to ensure that the correct amounts are being used to calculate and remit such contributions.

Appendix 22A

LITERATURE EVANGELISM ORGANIZATION

Illustrative Special-purpose Financial Schedules (International Model)

31 December 20X1 and 20X0

(*This illustrates presentation of an LEO as part of a larger entity, because most LEO's are organized in this manner. Generally, the LEO keeps its own accounting records apart from the larger entity. The LEO may report separately as illustrated in this Appendix, and it may also be included as a department or segment in the financial statements of the larger entity.*)

The reporting currency is [*indicate the reporting currency*].

LITERATURE EVANGELISM ORGANIZATION (International Model) **Appendix 22A.01**
Schedule of Financial Position
31 December 20X1 and 20X0

ASSETS	20X1	20X0
Current Assets		
Cash and Cash Equivalents (Note 2)	85,034	67,723
Trade Accounts Receivable, net (Note 3)	498,331	420,606
Other Accounts Receivable, net (Note 4)	76,706	69,903
Inventory (Note 5)	185,415	197,087
Prepaid Expense	11,838	6,566
Total Current Assets	857,324	761,885
Equipment		
Equipment, at Cost (Note 6)	121,742	132,693
Accumulated Depreciation (Note 6)	(44,906)	(30,297)
Equipment, Net	76,836	102,396
Total Assets	934,160	864,281
LIABILITIES		
Current Liabilities		
Accounts Payable (Note 8)	184,587	165,266
Accrued Expenses	7,614	4,227
LE Deposit Accounts	31,901	22,112
Loans Payable, Current Portion (Note 9)	48,000	40,000
Total Current Liabilities	272,102	231,605
Other Liabilities		
Loans Payable, Long-term Portion (Note 9)	94,000	110,000
Total Liabilities	366,102	341,605
NET ASSETS		
Unallocated	542,222	488,280
Net Invested in Plant	25,836	34,396
Total Net Assets	568,058	522,676
Total Liabilities & Net Assets	934,160	864,281

The accompanying notes are an integral part of these schedules.

LITERATURE EVANGELISM ORGANIZATION (International Model) **Appendix 22A.02**
Schedule of Financial Activity
Years ended 31 December 20X1 and 20X0

Operating Activity	20X1 Total	Percent of Sales	20X0 Total	Percent of Sales
Revenue from Operations:				
Total Sales (Note 11)	2,591,460	100.0%	2,109,293	100.0%
Total Cost of Goods Sold (Note 11)	(598,907)	-23.1%	(497,338)	-23.6%
Gross Profit on Sales	1,992,553	76.9%	1,611,955	76.4%
Finance Charges	292,837	11.3%	213,888	10.1%
Other Operating Revenue	36,979	1.4%	18,515	0.9%
Subsidies from Unions (Notes 1i, 11)	160,169	6.2%	182,055	8.6%
Gross Revenue from Operations	2,482,538	95.8%	2,026,413	96.1%
Operating Expenses:				
Selling Expense				
LE Commissions on Sales (Note 11)	1,106,204	42.7%	910,947	43.2%
LE Benefits	313,131	12.1%	273,512	13.0%
Bad Debt Expense	133,768	5.1%	107,827	5.1%
LE Retirement Contributions - DB Plan (Note 10)	22,124	0.9%	18,220	9.0%
LE Retirement Contributions - DC Plan (Note 10)	26,626	1.0%	0	0.0%
District Leader Payroll & Related	296,888	11.5%	218,473	10.4%
Shipping and Handling	40,387	1.6%	31,498	1.5%
Advertising and Promotion	60,606	2.3%	59,577	2.8%
Total Selling Expense	1,999,734	77.2%	1,620,054	76.8%
General & Administrative				
General Payroll & Related	229,967	8.9%	207,016	9.8%
Retirement Contributions - DB Plan (Note 10)	19,624	0.7%	21,349	1.0%
Retirement Contributions - DC Plan (Note 10)	7,476	0.3%	0	0.0%
Supplies & General Expense	147,145	5.6%	133,386	6.3%
Interest Expense, Operating Debt	6,560	0.3%	8,400	0.4%
Building Rent	12,600	0.5%	12,000	0.6%
Depreciation Expense	14,609	0.6%	12,952	0.6%
Total General & Administrative	437,981	16.9%	395,103	18.7%
Total Operating Expense	2,437,715	94.1%	2,015,157	95.5%
Net Revenue from Operations	44,823	1.7%	11,256	0.5%
Nonoperating Activity:				
Nonoperating Revenue - Investment Income	5,999	0.2%	7,001	0.3%
Nonoperating Expense - Interest Paid on Debt	(5,440)	-0.2%	(6,800)	-0.3%
Net Gain (Loss) Sale of Plant Assets (Note 7)	0	0.0%	1,657	0.1%
Net Nonoperating Activity	559	0.10%	1,858	0.10%
Increase (Decrease) Net Assets	45,382	1.8%	13,114	0.6%
Net Assets at Beginning of Year	522,676		509,562	
Net Assets at End of Year	568,058		522,676	

The accompanying notes are an integral part of these schedules.

LITERATURE EVANGELISM ORGANIZATION (International Model) **Appendix 22A.03**
Schedule of Cash Flows
Years ended 31 December 20X1 and 20X0

	20X1	20X0
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	45,382	13,114
Adjustments to reconcile change in net assets to net cash provided:		
Depreciation Expense	14,609	12,952
Gain (Loss) on Sale of Plant Assets	0	1,657
(Increase) Decrease Accounts Receivable	(84,528)	15,550
(Increase) Decrease Inventory & Prepaid	6,400	(14,957)
Increase (Decrease) Accounts Payable	22,708	4,089
Increase (Decrease) LE Deposits	9,789	(10,464)
Net Cash Provided (Used) by Operating Activities	14,360	21,941
Cash Flows from Investing Activities:		
Proceeds from Maturity of Investments	0	0
Purchases of Investments	0	0
Proceeds from Sale of Plant Assets	10,951	1,657
Purchases of Plant Assets	0	0
Net Cash Provided (Used) by Investing Activities	10,951	1,657
Cash Flows from Financing Activities:		
Donations for Plant Assets	0	0
Proceeds from New Borrowing	32,000	0
Principal Payments on Notes Payable	(40,000)	(40,000)
Net Cash Provided (Used) by Financing Activities	(8,000)	(40,000)
Net Increase (Decrease) Cash and Cash Equivalents	17,311	(16,402)
Cash and Cash Equivalents, Beginning of Year	67,723	84,125
Cash and Cash Equivalents, End of Year	85,034	67,723

Supplemental Cash Flow Data: Cash paid during the year for interest was $6,560 on operating debt, and $5,440 on capital debt.

The accompanying notes are an integral part of these schedules.

LITERATURE EVANGELISM ORGANIZATION (International Model) **Appendix 22A.04**
Notes to the Special-purpose Schedules
Years ended 31 December 20X1 and 20X0

Note 1 - Organization Description and Summary of Significant Accounting Policies

Organization Description

Literature Evangelism Organization (LEO) is operated as a department of [*Name of the larger entity, whether a conference or a publishing house or some other entity*] (*Identifier of larger entity, such as Conference*). The LEO is operated to sell and distribute Christian literature and related merchandise to members of the general public within its territory. Since the LEO is a department of a religious not-for-profit organization, it is exempt from taxes under provisions of [*name the applicable laws and/or regulations*].

The LEO receives most of its revenue in the form of sales of its merchandise. It also receives operating subsidies from the Conference, including a subsidy in the form of reduced rental rates for the space it occupies in the Conference building.

The LEO manager is appointed by the [*Name of larger entity governing committee*], and certain officers and other employees of the Conference are members of the LEO governing committee. The LEO payroll is included in total payroll processed by the Conference. The LEO reimburses the Conference Operating Fund for its share of the total payroll cost, which is then recorded as expense by the LEO (see Note 10). The LEO's office is located in a building that is owned by the [*Name*] Conference Corporation of Seventh-day Adventists (Corporation). The LEO pays a negotiated amount to the Corporation for rent and utilities (see Note 10). Details of amounts due from or payable to other departments or funds of the Conference or Corporation are set forth in Notes 3 and 5 below.

Summary of Significant Accounting Policies

(a) The significant accounting policies of the LEO are essentially the same as generally accepted accounting principles for not-for-profit organizations as promulgated by the International Accounting Standards Board. The significant policies are described below to enhance the usefulness of the financial schedules. The financial schedules of the LEO have been prepared on the accrual basis of accounting.

(b) The preparation of special-purpose financial schedules in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Basis of Special Presentation: The accompanying special purpose schedules include only the accounts and activity of the LEO, which is a department of the Conference. The Conference believes this special presentation is useful to analyze this department apart from the rest of the entity.

(d) Restricted Resources: The LEO reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. The LEO reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

LITERATURE EVANGELISM ORGANIZATION (International Model) **Appendix 22A.05**
Notes to the Special-purpose Schedules
Years ended 31 December 20X1 and 20X0

Note 1 - Summary of Significant Accounting Policies (continued)

(e) Equipment and Depreciation: Resources used for equipment acquisitions and debt service payments are accounted for as non-operating activity. Restricted proceeds from the sale of equipment and restricted income from plant related investments are recorded as restricted gains. Interest payments on plant-related debt are recorded as non-operating expense. Equipment is recorded at cost when purchased or at fair market value at date of gift. Depreciation of equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation expense is recorded as operating expense.

(f) Cash and Equivalents: Cash equivalents are highly-liquid assets held for operating purposes, which are readily convertible to cash and have a maturity date of three months or less from date of acquisition. Cash equivalents held for other than operating purposes are classified as investments. The increase or decrease in non-operating investments is reported in the cash flow statement as investment activity.

(g) Fair Value of Financial Instruments: Short-term financial instruments are valued at their carrying amounts because those amounts are considered to be reasonable estimates of fair value due to the relatively short period to maturity of the instruments. All other financial instruments are valued at the quoted market price or other reasonably obtainable fair value estimate at the reporting date for those or similar instruments. The difference between aggregate market value and cost for each type of investment is recorded in a valuation account. The net change in this valuation account each year is recognized as gain or loss.

(h) Current Assets and Liabilities: Assets and liabilities are classified as current or long-term, depending on their characteristics. This excludes from current assets: cash equivalents that are restricted to use for other than current operations, or committee allocated for acquisition of plant assets or for liquidation of plant-related debt. This excludes from current liabilities: long-term portion of all debt, and plant-related debt payable within the next fiscal year to the extent covered by designated liquid assets. Working capital is calculated as current assets minus current liabilities.

(i) Investment Income: Unrestricted investment income is accounted for as other operating revenue. Restricted income on investments is accounted for as restricted support.

(j) Concentrations of Risk: The LEO receives most of its revenue from sales of merchandise. It is subject to the effect of economic trends that may decrease the ability of customers to purchase its merchandise. Also, it purchases most of its inventory from [*number*] major suppliers; [*Insert Names of publishing house(s) or other suppliers*]. There is a risk that suppliers' pricing and product decisions could conflict with the LEO's sales objectives.

(k) Revenue Recognition: Time contract sales are recognized as income at the date of acceptance of customer contracts. Cash sales generated by Literature Evangelists (LE's) who are employees are recognized as income when merchandise is transferred to the LE, and are recorded as sales at full retail price, with offsetting charges representing LE's commissions realized from sale to the ultimate consumers. Cash sales to LE's who are independent contractors are recognized as income when merchandise is transferred to the LE, and are recorded at the amount paid by the LE, which approximates the wholesale price.

(l) Contracts: Contract sales by LE's to ultimate customers are handled on a recourse basis, with a stated responsibility for collection resting with the LE. Contract sales are apportioned according to stated policy to (a) literature evangelist commission, (b) provision for estimated uncollectible accounts, and (c) contribution to the [*Name*] Retirement Plan.

LITERATURE EVANGELISM ORGANIZATION (International Model) **Appendix 22A.06**
Notes to the Special-purpose Schedules
Years ended 31 December 20X1 and 20X0

Note 1 - Summary of Significant Accounting Policies (continued)

(m) Finance Charges: Finance charges added to customer accounts in compliance with the contract terms are shown separately as other operating income. These charges are made currently on a monthly basis, computed on the unpaid balance of the contract, and no deferral of earned income is involved.

(n) Provision for Uncollectible Accounts: An allowance for uncollectible accounts is provided through routine additions based on sales, historical collection experience, and aging of receivables. Accounts deemed to be uncollectible are charged to the allowance.

(o) Inventory: Inventory is stated at the lower of cost or fair value, under the first-in, first-out method.

(p) Classification of Net Assets: To ensure observance of limitations and restrictions placed on the use of resources available to the LEO, the net asset accounts are classified into components that reflect the purpose for which they are held. Net assets other than plant are separated into unallocated, allocated operating, and allocated capital amounts. The net depreciated value of plant assets, minus any plant-related debt, is classified as net invested in plant.

Note 2 - Cash and Equivalents	20X1	20X0
Imprest Cash	700	700
Checking Accounts	29,304	27,003
Money Market Account at 5%	55,030	40,020
Total Cash and Equivalents	85,034	67,723

Note 3 - Trade Accounts Receivable		
Customer Accounts, District X	370,932	315,435
Customer Accounts, District Y	342,399	291,171
Allowance for Doubtful Accounts	(215,000)	(186,000)
Trade Accounts Receivable, Net	498,331	420,606

Note 4 - Other Accounts Receivable		
LE Accounts	76,996	72,365
Allowance for Doubtful Accounts	(15,399)	(14,474)
Union Conferences	10,094	7,054
Miscellaneous	5,015	4,958
Other Accounts Receivable, Net	76,706	69,903

Note 5 - Inventory	District X	District Y	20X1 Total	20X0 Total
New Merchandise	82,598	67,580	150,178	155,183
Repossessed Books	6,285	5,142	11,427	12,018
Promotional Materials	10,138	8,295	18,433	20,894
General Supplies	2,957	2,420	5,377	8,992
Total Inventory	101,978	83,437	185,415	197,087

LITERATURE EVANGELISM ORGANIZATION (International Model) **Appendix 22A.07**
Notes to the Special-purpose Schedules
Years ended 31 December 20X1 and 20X0

Note 6 - Equipment

	Cost	Accum. Depreciation	Net Value	Depr. Expense
Balances at 31 December 20X1	121,742	44,906	76,836	14,609
Balances at 31 December 20X0	132,693	30,297	102,396	12,952
	1/1/20X0	Additions	Deletions	31/12/20X1
Changes in Cost	132,693	0	10,951	121,742
Changes in Accumulated Depreciation	30,297	14,609	0	44906

Note 7 - Net Gain (Loss) Sale of Plant Assets

	20X1	20X0
Proceeds From Sale of Plant Assets	10,951	1,657
Net Value of Plant Assets Sold	-10,951	0
Net Gain (Loss)	0	1,657

Note 8 - Accounts Payable

	20X1	20X0
SDA Publishing Houses	108,320	108,238
Non-SDA Vendors	16,427	14,581
Sales & Payroll Taxes	14,413	12,089
Union Conferences	38,223	28,020
Retirement Plan	7,204	2,338
Total Accounts Payable	184,587	165,266

Note 9 - Loans Payable

Loans payable to XX and YY Union Conferences for operating and capital purposes.
Interest is payable monthly on each loan at a rate of 8% per annum.
Principal on each loan is payable in five (5) equal annual installments, due December 31.

	Current	Long-term	20X1 Total	20X0 Total
XX Union Conference, operating (90,000)	18,000	36,000	54,000	72,000
XX Union Conference, operating (32,000)	8,000	24,000	32,000	0
YY Union Conference, operating (25,000)	5,000	0	5,000	10,000
YY Union Conference, capital (85,000)	17,000	34,000	51,000	68,000
Total Loans Payable	48,000	94,000	142,000	150,000

Amounts due on principal in each of the next five years are:	20X1	48,000
	20X2	43,000
	20X3	43,000
	20X4	8,000
	20X5	0
	Future	0
	Total	142,000

LITERATURE EVANGELISM ORGANIZATION (International Model) **Appendix 22A.08**
Notes to the Special-purpose Schedules
Years ended 31 December 20X1 and 20X0

Note 10 - Working Capital and Liquidity	20X1	20X0
Working Capital		
Total Current Assets	857,324	761,885
Total Current Liabilities	(272,102)	(231,605)
Actual Working Capital	585,222	530,280
Recommended Working Capital *	760,452	687,596
Working Capital Excess (Deficit)	(175,230)	(157,316)
Percent of Recommended Working Capital	77%	77%
Current Ratio	3.2	3.3
Liquidity		
Cash and Equivalents	85,034	67,723
Accounts Receivable - Unions	10,094	7,054
Total Liquid Assets	95,128	74,777
Current Liabilities	(272,102)	(231,605)
Liquid Assets Surplus (Deficit)	(176,974)	(156,828)
Percent Liquid Assets to Commitments	35%	32%
* Recommended Working Capital: Accounts Receivable, net	575,037	490,509
Inventories	185,415	197,087
Total Recommended Working Capital	760,452	687,596

Note 11 - Pension and Other Post-Retirement Benefits

Defined Benefit Plan

The Conference of which the LEO is a department participates in a non-contributory defined benefit retirement plan known as the [*name of the defined benefit retirement plan or fund*] (DB Plan). The DB Plan, which covers substantially all employees of the LEO, is administered by the Division. Contributions to the Plan are made by participating employers located within the Division territory. Employees do not contribute to the Plan. The required contributions from the LEO to the DB Plan (for retiree pension, health care, and other benefits) were FCU 41,748 and 39,569 for the years ended 31 December 20X1 and 20X0, respectively. The DB Plan and the Division together determine the amount of contributions that are required each year from the participating employers, and this amount may increase in the future.

[*For entities whose retirement plan* ***has not*** *obtained an actuarial valuation that establishes a proportionate liability amount for each participating employer, use the following paragraph.*]

This DB Plan is defined as a “multiemployer” plan. The DB Plan has concluded that it is not reasonably possible to determine the actuarial present value of accumulated benefits or plan net assets for employees of the LEO apart from other plan participants. [*If the Plan has obtained an actuarial evaluation, even if it was obtained in an earlier period, add the following sentence*: However, based on the latest actuarial evaluation of the DB Plan, as of [*effective date of last actuarial report*], the actuarially computed value of accumulated plan benefits exceeded the estimated market value of plan assets, for the plan as a whole.] [*If an actuarial evaluation has never been obtained, add the following sentence*: No actuarial evaluation has been obtained for the DB Plan as a whole.]

LITERATURE EVANGELISM ORGANIZATION (International Model) **Appendix 22A.09**
Notes to the Special-purpose Schedules
Years ended 31 December 20X1 and 20X0

Note 10 - Pension and Other Post-Retirement Benefits (continued)

[*For entities whose retirement plan* ***has*** *been able to determine an actuarial valuation that established a proportionate liability amount for each participating employer, use the following paragraph.*]

This DB Plan is defined as a "multiemployer" plan. Based on the latest actuarial evaluation of the DB Plan, as of [*effective date of last actuarial report*], the actuarially computed value of accumulated plan benefits exceeded the estimated market value of plan assets. The LEO's proportionate share of the unfunded obligation was determined to be [FCU XXX,XXX], which is reported as a noncurrent liability in the accompanying schedule of financial position.

[*If the reporting entity is located in a territory that has frozen its defined benefit retirement plan and started a defined contribution retirement plan, include the following paragraph for the first year of the change in plans.*]

During 20X0, the Division Executive Committee voted to freeze accrual of service credit in this DB Plan effective 31 December 20X0, except for employees who stated their intent to retire before 1 January 20X5, and to start a new defined contribution pension plan effective 1 January 20X1. The LEO is scheduled to continue making contributions to this frozen DB Plan after 31 December 20X0. Certain employees will continue to be eligible for future benefits under this DB Plan.

Defined Contribution Retirement Plan [*use this section for entities that participate in DC plans*]

Beginning 1 January 20X1, the Conference of which the LEO is a department participates in a defined contribution retirement plan known as the [*name of the defined contribution retirement plan*] (DC Plan). The DC Plan, which covers substantially all employees of the LEO, is governed by a plan document developed by the Division, in coordination with the Union Conferences and Missions in its territory. This DC Plan is defined as a "multiemployer" plan. Contributions to the DC Plan are made by participating employers located within the Division territory, and voluntary contributions may be made by eligible employees of those employers.

The LEO contributed FCU 34,102 to the DC Plan for the year ended 31 December 20X1, based on a stated percentage of each employee's earnings and a matching percentage of certain employee voluntary contributions. Administration of the accumulated contributions designated for the future benefit of each employee is provided under an agreement between the Division, Union Conferences, and Missions and a record-keeping organization, [*name of record-keeping investment management organization, with (identifier)*]. (*Identifier of record-keeper*) receives all contributions, and invests them in accordance with portfolio profiles selected by each employee.

LITERATURE EVANGELISM ORGANIZATION (International Model) **Appendix 22A.10**
Notes to the Special-purpose Schedules
Years ended 31 December 20X1 and 20X0

Note 11 - District and Budget Comparisons

Sales:	District X	District Y	20X1 Actual	20X1 Budget	20X0 Actual
Contract Sales	833,075	681,607	1,514,682	1,400,000	1,274,663
Cash Sales	591,501	483,955	1,075,456	950,000	833,554
Repossessed Books	7,996	6,542	14,538	12,000	11,833
Returns & Allowances	-7,269	-5,947	-13,216	-12,000	-10,757
Total Sales	1,425,303	1,166,157	2,591,460	2,350,000	2,109,293
Cost of Goods Sold:					
Contract Sales	185,852	154,334	340,186	334,000	296,451
Cash Sales	135,122	112,826	247,948	216,000	192,118
Repossessed Books	5,925	4,848	10,773	9,000	8,769
Total Cost of Goods Sold	326,899	272,008	598,907	559,000	497,338
Gross Profit on Sales:					
Contract Sales	639,954	521,326	1,161,280	1,054,000	967,455
Cash Sales	456,379	371,129	827,508	734,000	641,436
Repossessed Books	2,071	1,694	3,765	3,000	3,064
Total Gross Profit on Sales	1,098,404	894,149	1,992,553	1,791,000	1,611,955
Finance Charges and Other Income	181,399	148,417	329,816	290,000	232,403
Subsidies from Unions	88,093	72,076	160,169	165,000	182,055
Gross Income from Operations	1,367,896	1,114,642	2,482,538	2,246,000	2,026,413
Selling Expenses:					
LE Commissions on Contract Sales	366,111	299,545	665,656	600,000	552,367
LE Commissions on Cash Sales	242,301	198,247	440,548	400,000	358,580
LE Benefits	177,174	144,961	313,131	275,000	273,512
Bad Debt Expense	73,572	60,196	133,768	125,000	107,827
LE Retirement Contributions - DB Plan	12,169	9,955	22,124	20,000	18,220
LE Retirement Contributions - DC Plan	9,692	7,930	26,626	25,000	0
District Leader Payroll & Related	163,289	133,599	296,888	265,000	218,473
Shipping and Handling	22,213	18,174	40,387	36,000	31,498
Advertising and Promotion	33,333	27,273	60,606	60,000	59,577
Total Selling Expense	1,099,855	899,880	1,999,734	1,806,000	1,620,054
General & Administrative Expenses:					
Salaries and Wages	102,795	84,105	186,900	177,000	174,280
Payroll Related Expense	23,687	19,380	43,067	41,000	32,736
Retirement Contributions - DB Plan	10,793	8,831	19,624	18,585	21,349
Retirement Contributions - DC Plan	4,112	3,364	7,476	7,080	0
Supplies and General Expense	80,930	66,215	147,145	138,335	133,386
Interest Expense, Operating	3,936	2,624	6,560	6,560	8,400
Building Rent	7,200	5,400	12,600	12,600	12,000
Depreciation Expense	8,035	6,574	14,609	13,000	12,952
Total General Expense	241,488	196,493	437,981	414,160	395,103
Total Operating Expense	1,341,343	1,096,373	2,437,715	2,220,160	2,015,157
Net Income from Operations	26,553	18,269	44,823	25,840	11,256
Investment Income	3,809	2,190	5,999	7,000	7,001
Net Capital Additions (Deductions)	-3,040	-2,400	-5,440	-5,000	-5,143
Increase (Decrease) Net Assets	27,322	18,059	45,382	27,840	13,114

Appendix 22B - Literature Evangelist Compensation (USA Standard)

22B.01 General Concepts - Historically, LEs have received compensation consisting of two distinct components. First, all LEs receive a commission based by formula on the actual sale amount. Where retail sales are by cash, the LEs may be allowed to keep part of the gross receipts as their commission. Second, LEs who qualify receive health care assistance and other benefits according to denominational policy and LEO policy.

22B.02 Computation of Commission - The rate and method of calculation of the commission may vary based on a number of criteria; time-payment term, status of LE's customer accounts, amount of the sale, etc. Some LEOs may increase the commission rate to include incentives or rewards for sales volume. Whatever the formula is, it must be applied uniformly to each contract or sale that is recorded, and the resulting commissions should be recorded as an expense at the same time as the weekly sales data. As a result, the weekly summary reports generated by the accounting system will include sales data and related commission data.

22B.03 Allowance for Doubtful Accounts - For all LEOs that sell on time-payment contracts, there must be a provision for customers who ultimately will not pay their accounts. The common way to establish this allowance is to record an addition to it based on a percentage of each contract sale. The amount of the addition is typically based on such criteria as each LE's history of customer collections, the credit rating of each customer who is extended credit, or similar predictors of collectability. The accounting system should be able to track the collection history for each LE's sales, to assist management in monitoring and controlling the collection of accounts. Some LEOs pay a higher commission rate to LEs who have good collection histories.

22B.04 Income Tax Reporting - For employees who earn salaries and wages, the LEO should follow the general guidance in Chapter 14, Section 1405. This will include withholding appropriate taxes from gross wages, and reporting total taxable compensation on Forms W-2. For LEs, special rules apply. As mentioned earlier, for legal and organizational purposes, LEs are employees of the LEO. However, for federal tax reporting purposes only, in the United States they can be treated as if they were self-employed, provided substantially all of their remuneration is related to sales rather than hours worked and the work is performed pursuant to a written contract that specifies the LE will not be treated as an employee for federal tax purposes. This means: (1) Taxes are not withheld from LE compensation; (2) Total taxable compensation is reported on Forms 1099 instead of W-2; and (3) The LEs are personally responsible for reporting their income and paying both income tax and social security tax. The CFO should follow all applicable regulations to be sure all elements of compensation that are taxable are reported on the W-2's and 1099's. For example, regardless of how it is computed, anything that is defined by the accounting system as sales commissions should be reported as taxable compensation.

22B.05 Retirement Plan Contributions - As mentioned in Section 1403.05, certain organizations make retirement contributions based on a stated percentage of basic payroll. In addition, LEOs make retirement contributions based on a percentage of commissions paid to LEs. NADWP Z 10 25 indicates this is based on **all** commissions paid to LEs (excluding students). Whether the commission is a simple percentage of a time-payment sale, a percentage retained on a cash sale, or any other formula, if it is paid to the LE based on a sale made, it is part of the base for retirement contributions. As mentioned in Section 1403.05, all retirement contributions should be accrued as a liability each month, regardless of when they are actually paid.

22B.06 Truth in Lending Act (1968) - All LEO's that sell on time contracts in the USA are subject to the federal Truth in Lending Act (1968). Regulations require the following information to be furnished to the customer:

When the account is opened:

1. The conditions under which the finance charge may be imposed and the period in which payment can be made without incurring a finance charge.
2. The method used in determining the balance on which the finance charge is to be imposed.
3. How the actual finance charge is calculated.
4. The periodic rates used and the range of balances to which each applies.
5. The conditions under which additional charges may be made along with details of how they are calculated.
6. Descriptions of any lien which you may acquire on a customer's property.
7. The minimum payment that must be made on each billing.
8. A statement of the customer's rights under the Fair Credit Billing Act.

With each monthly statement:

1. The debit or credit balance at the start of the billing period.
2. A copy of the sales voucher or written identification of the transaction.
3. Amounts and dates of payments made by a customer, as well as other credits, including returns, rebates and adjustments.
4. The finance charge, shown in dollars and cents.
5. The rates used in calculating the finance charges plus the range of balances to which they apply, the corresponding annual percentage rate in each case calculated by multiplying the rate for the time period by the number of periods you use each year, and any minimum charge.
6. The annual percentage rate, when a finance charge is imposed.
7. The unpaid balance on which the finance charge was calculated.
8. The closing date of the billing cycle and the debit or credit balance at the time.
9. A statement of the customer's rights under the Fair Credit Billing Act.
10. An address to which billing error inquiries may be sent.

CFOs are urged to secure a copy of the applicable regulations and to monitor the LEO to ensure compliance.

Appendix 22C - Employee versus Independent Contractor (USA Standard)

22C.01 Common Law Factors - LEO's sometimes wonder whether to classify an LE as an employee or as an independent contractor. The greater the degree of control, the more likely it is that the LE is an employee, not an independent contractor. The following factors are used by the IRS to evaluate the degree of control:

Factor	**Indicator of Greater Degree of Control** Individual more likely to be an employee.	**Indicator of Lesser Degree of Control** Individual more likely to be independent contractor.
Instructions	Individual is required to follow instructions on when, where, and how to perform the job.	Individual is allowed to choose when, where, and how to perform the job.
Training	Individual is required to attend training or to learn specific techniques for the job.	Individual has discretion to determine whether and to what extent training is needed.
Integration	Individual's service or performance is integral to the operation or success of the entity.	Individual's service or performance can be duplicated or replaced by someone else.
Services	Individual must render services personally.	Personal services are not a major part of the job.
Assistants	Entity for which individual works hires, supervises, and pays assistants to help the individual.	Individual has discretion to hire, supervise, and pay assistants as needed.
Continuation	Individual performs work on a continuing basis; frequent and recurring, even if irregular.	Individual performs work only occasionally, or on a specific-job or contract basis.
Set Hours	Individual is required to work during set hours.	Individual has discretion to determine work hours.
Full-time	Individual must devote substantially full-time effort to accomplish the work assigned.	Individual has discretion to work when and for whom he/she chooses.
Premises	Entity has the right to require the work to be performed on the entity's premises.	Individual has discretion to perform the work at any location he/she chooses.
Sequence	Individual is required to perform the work in an established or directed order or sequence.	Individual has discretion to determine order or sequence of work performed.
Reports	Individual is required to submit periodic oral or written reports about work performed.	Individual is not required to submit any reports about the work performed until all is complete.
Payment	Individual is paid on the basis of time, whether hourly, weekly, or monthly.	Individual is paid when the job is completed or is paid a commission based on sale or other factors.
Expenses	Entity for which work is performed reimburses the individual for travel and other job-related expense.	Individual does not receive reimbursement for separate job-related expense.
Tools	Entity provides tools, materials, or equipment.	Individual provides own tools, materials, etc.
Investment	Entity provides facilities for work to be done.	Individual provides facilities for work to be done.
Profit or Loss	Individual is at risk for only basic wage or salary.	Individual is at risk for unlimited economic loss.
Multiple Jobs	Individual works for only one entity.	Individual works for more than one entity.
Available	Individual not available to the general public.	Individual is available to the general public.
Terminate	Entity has the right to fire the individual.	Individual cannot be fired if performing to contract.
Terminate	Individual has the right to quit at any time.	Individual cannot quit without penalty per contract.

22C.02 Independent Contractors - The preceding discussion does not preclude an LEO from allowing individuals to purchase books or magazines for resale. Any individual can purchase books or magazines from an ABC or LEO and attempt to resell them. In this situation the ABC or LEO would record the sale at the price sold to the reseller (which approximates wholesale), would record no commission expense, and would have no further involvement with the merchandise sold to the reseller. The LEO would not record any assumed retail equivalent or retained commission expense for wholesale sales. Essentially, this is the typical sale of publishing houses and ABCs. The selling organization provides no supervision or control, and provides no commission or employment benefits. In the United States, the only tax reporting obligation is to report the total amount of merchandise the independent contractor purchased for resale.

22C.03 Effects of Classification - Whether an individual is determined to be an employee or independent contractor has numerous consequences. The table below compares some of these differences:

Characteristic	**Employee**	**Independent Contractor**
Sales Date	When sold to consumer	When sold to reseller
Sales Amount	Amount sold to consumer	Amount sold to reseller
Incentives (typically)	Commissions & benefits	Deeper discounts
Service Credit for Retirement	Eligible to earn	Not eligible to earn
Adherence to “list price”	Can be required	Cannot be required
Discuss pricing with LE	Permitted	Possible violation of Antitrust Act
Must Check Immigration Status	Yes	No

As shown above, it is imperative that each individual is properly classified as either an employee or an independent contractor. In the USA, LEs are denominational employees, as stated previously. It should be fairly easy to properly classify any other individuals who resell merchandise. If a relationship is hard to classify, competent legal counsel should be consulted. This will minimize the risk of errors and the potential costs (penalties and fines) that could result from misclassification.

Appendix 22D

LITERATURE EVANGELISM ORGANIZATION

Illustrative Special-purpose Financial Schedules (USA Model)

December 31, 20X1 and 20X0

(*This illustrates presentation of an LEO as part of a larger entity, because most LEO's are organized in this manner.*)

LITERATURE EVANGELISM ORGANIZATION (USA Model) **Appendix 22D.01**
Schedule of Financial Position
December 31, 20X1 and 20X0

ASSETS	20X1	20X0
Current Assets		
Cash and Cash Equivalents (Note 2)	85,034	67,723
Trade Accounts Receivable, net (Note 3)	498,331	420,606
Other Accounts Receivable, net (Note 4)	76,706	69,903
Inventory (Note 5)	185,415	197,087
Prepaid Expense	11,838	6,566
Total Current Assets	857,324	761,885
Equipment		
Equipment, at Cost	121,742	132,693
Accumulated Depreciation	(44,906)	(30,297)
Equipment, Net	76,836	102,396
Total Assets	934,160	864,281
LIABILITIES		
Current Liabilities		
Accounts Payable (Note 6)	184,587	165,266
Accrued Expenses	7,614	4,227
LE Deposit Accounts	31,901	22,112
Loans Payable, Current Portion (Note 7)	48,000	40,000
Total Current Liabilities	272,102	231,605
Other Liabilities		
Loans Payable, Long-term Portion (Note 7)	94,000	110,000
Total Liabilities	366,102	341,605
NET ASSETS		
Unrestricted: Unallocated	542,222	488,280
Unrestricted: Net Invested in Plant	25,836	34,396
Total Net Assets	568,058	522,676
Total Liabilities & Net Assets	934,160	864,281

The accompanying notes are an integral part of these schedules.

LITERATURE EVANGELISM ORGANIZATION (USA Model) **Appendix 22D.02**
Schedule of Changes in Net Assets
Years ended December 31, 20X1 and 20X0

Changes in Unrestricted Net Assets	20X1 Total	Percent of Sales	20X0 Total	Percent of Sales
Revenue from Operations:				
Total Sales (Note 11)	2,591,460	100.0%	2,109,293	100.0%
Total Cost of Goods Sold (Note 11)	(598,907)	-23.1%	(497,338)	-23.6%
Gross Profit on Sales	1,992,553	76.9%	1,611,955	76.4%
Finance Charges	292,837	11.3%	213,888	10.1%
Other Operating Revenue	36,979	1.4%	18,515	0.9%
Subsidies from Unions (Notes 1i, 11)	160,169	6.2%	182,055	8.6%
Gross Revenue from Operations	2,482,538	95.8%	2,026,413	96.1%
Operating Expenses:				
Selling Expense				
LE Commissions on Sales (Note 11)	1,106,204	42.7%	910,947	43.2%
LE Benefits	313,131	12.1%	270,880	12.8%
Bad Debt Expense	133,768	5.1%	97,827	4.6%
LE Retirement Contributions - DB Plan (Note 10)	22,124	0.9%	18,220	0.9%
LE Retirement Contributions - DC Plan (Note 10)	26,626	1.0%	22,632	1.1%
District Leader Payroll & Related	296,888	11.5%	218,473	10.4%
Shipping and Handling	40,387	1.6%	31,498	1.5%
Advertising and Promotion	60,606	2.3%	49,577	2.3%
Total Selling Expense	1,999,734	77.2%	1,620,054	76.8%
General & Administrative				
General Payroll & Related	229,967	8.9%	207,016	9.8%
Retirement Contributions - DB Plan (Note 10)	19,624	0.7%	21,349	1.0%
Retirement Contributions - DC Plan (Note 10)	7,476	0.3%	6,355	0.3%
Supplies & General Expense	147,145	5.6%	127,031	6.0%
Interest Expense, Operating Debt	6,560	0.3%	8,400	0.4%
Building Rent	12,600	0.5%	12,000	0.6%
Depreciation Expense	14,609	0.6%	12,952	0.6%
Total General & Administrative	437,981	16.9%	395,103	18.7%
Total Operating Expense	2,437,715	94.1%	2,015,157	95.5%
Net Revenue from Operations	44,823	1.7%	11,256	0.5%
Non-operating Activity:				
Non-operating Revenue - Investment Income	5,999	0.2%	7,001	0.3%
Non-operating Expense - Interest Paid on Debt	(5,440)	-0.2%	(6,800)	-0.3%
Net Gain (Loss) Sale of Plant Assets (Note 8)	0	0.0%	1,657	0.1%
Net Non-operating Activity	559	0.10%	1,858	0.10%
Increase (Decrease) Net Assets	45,382	1.8%	13,114	0.6%
Net Assets at Beginning of Year	522,676		509,562	
Net Assets at End of Year	568,058		522,676	

The accompanying notes are an integral part of these schedules.

LITERATURE EVANGELISM ORGANIZATION (USA Model) **Appendix 22D.03**
Schedule of Cash Flows
Years ended December 31, 20X1 and 20X0

	20X1	20X0
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	45,382	13,114
Adjustments to reconcile change in net assets to net cash provided:		
Depreciation Expense	14,609	12,952
Gain (Loss) on Sale of Plant Assets	0	1,657
(Increase) Decrease Accounts Receivable	(84,528)	15,550
(Increase) Decrease Inventory & Prepaid	6,400	(14,957)
Increase (Decrease) Accounts Payable	22,708	4,089
Increase (Decrease) LE Deposits	9,789	(10,464)
Net Cash Provided (Used) by Operating Activities	14,360	21,941
Cash Flows from Investing Activities:		
Proceeds from Maturity of Investments	0	0
Purchases of Investments	0	0
Proceeds from Sale of Plant Assets	10,951	1,657
Purchases of Plant Assets	0	0
Net Cash Provided (Used) by Investing Activities	10,951	1,657
Cash Flows from Financing Activities:		
Donations for Plant Assets	0	0
Proceeds from New Borrowing	32,000	0
Principal Payments on Notes Payable	(40,000)	(40,000)
Net Cash Provided (Used) by Financing Activities	(8,000)	(40,000)
Net Increase (Decrease) Cash and Cash Equivalents	17,311	(16,402)
Cash and Cash Equivalents, Beginning of Year	67,723	84,125
Cash and Cash Equivalents, End of Year	85,034	67,723

Supplemental Cash Flow Data: Cash paid during the year for interest was $6,560 on operating debt, and $5,440 on capital debt.

The accompanying notes are an integral part of these schedules.

LITERATURE EVANGELISM ORGANIZATION (USA Model) **Appendix 22D.04**
Notes to the Special-purpose Schedules
Years ended December 31, 20X1 and 20X0

Note 1 - Organization Description and Summary of Significant Accounting Policies

Organization Description

Literature Evangelism Organization (LEO) is operated as a department of [*Name of the larger entity, whether a conference or a publishing house or some other entity*] (*Identifier of larger entity, such as Conference*). The LEO is operated to sell and distribute Christian literature and related merchandise to members of the general public within its territory. The LEO receives most of its revenue in the form of sales of its merchandise. It also receives operating subsidies from the Conference, including a subsidy in the form of reduced rental rates for the space it occupies in the Conference building.

The LEO manager is appointed by the [*Name of larger entity governing committee*], and certain officers and other employees of the Conference are members of the LEO governing committee. The LEO payroll is included in total payroll processed by the Conference. The LEO reimburses the Conference Operating Fund for its share of the total payroll cost, which is then recorded as expense by the LEO (see Note 10). The LEO's office is located in a building that is owned by the [*Name*] Conference Corporation of Seventh-day Adventists (Corporation). The LEO pays a negotiated amount to the Corporation for rent and utilities (see Note 10). Details of amounts due from or payable to other departments or funds of the Conference or Corporation are set forth in Notes 3 and 5 below.

Since the LEO is a department of a religious not-for-profit organization, it is exempt from federal, state, and local income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code, and similar sections of applicable state and local codes; except for taxes on unrelated business income.

Summary of Significant Accounting Policies

(a) The significant accounting policies of the LEO are essentially the same as generally accepted accounting principles for not-for-profit organizations as promulgated by the Financial Accounting Standards Board and the American Institute of Certified Public Accountants. The significant policies are described below to enhance the usefulness of the financial schedules. The financial schedules of the LEO have been prepared on the accrual basis of accounting. In conformity with the accrual basis of accounting, the Organization has evaluated events that occurred subsequent to the financial statement date, up to [*insert date*], which is the date the financial statements were [*insert either* "issued" *or* "available to be issued" *but not both*].

(b) The preparation of special-purpose financial schedules in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Basis of Special Presentation: The accompanying special purpose schedules include only the accounts and activity of the LEO, which is a department of the Conference. Compliance with Statement of Financial Accounting Standards No. 117 of the Financial Accounting Standards Board requires the whole organization to be included in general use financial statements. The Conference believes this special presentation is useful to analyze this department apart from the rest of the entity.

(d) Restricted Resources: The LEO reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted and reported as net assets released from restrictions.

LITERATURE EVANGELISM ORGANIZATION (USA Model) **Appendix 22D.05**
Notes to the Special-purpose Schedules
Years ended December 31, 20X1 and 20X0

Note 1 - Summary of Significant Accounting Policies (continued)

(d) Restricted Resources (continued): The LEO reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the LEO reports expirations of donor restrictions when the respective assets are placed in service.

(e) Equipment and Depreciation: Resources used for equipment acquisitions and debt service payments (including interest) are accounted for as non-operating activity. Restricted proceeds from the sale of equipment and restricted income from plant related investments are recorded as restricted gains. Equipment is recorded at cost when purchased or at fair market value at date of gift. Depreciation of equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation expense is recorded as operating expense.

(f) Cash and Equivalents: Cash equivalents are highly-liquid assets held for operating purposes, which are readily convertible to cash and have a maturity date of three months or less from date of acquisition. Cash equivalents held for other than operating purposes are classified as investments. The increase or decrease in non-operating investments is reported in the cash flow statement as investment activity.

(g) Fair Value of Financial Instruments: Short-term financial instruments are valued at their carrying amounts because those amounts are considered to be reasonable estimates of fair value due to the relatively short period to maturity. All other financial instruments are valued at the quoted market price or other reasonably obtainable fair value estimate at the reporting date for those or similar instruments. The difference between aggregate market value and cost for each type of investment is recorded in a valuation account. The net change in this valuation account each year is recognized as gain or loss.

(h) Current Assets and Liabilities: Assets and liabilities are classified as current or long-term, depending on their characteristics. This excludes from current assets: cash equivalents that are restricted to use for other than current operations or committee allocated for acquisition of plant assets or for liquidation of plant-related debt. This excludes from current liabilities: long-term portion of all debt, and plant-related debt payable within the next fiscal year to the extent covered by designated liquid assets. Working capital is calculated as current assets minus current liabilities.

(i) Investment Income: Unrestricted investment income is accounted for as other operating revenue. Restricted income on investments is accounted for as restricted support and temporarily restricted net assets until spent for the restricted purpose designated by the donor.

(j) Concentrations of Risk: The LEO receives most of its revenue from sales of merchandise. It is subject to the effect of economic trends that may decrease the ability of customers to purchase its merchandise. Also, it purchases most of its inventory from two major suppliers; Pacific Press Publishing Association and Review and Herald Publishing Association. There is a risk that suppliers' pricing and product decisions could conflict with the LEO's sales objectives.

(k) Revenue Recognition: Time contract sales are recognized as income at the date of acceptance of customer contracts. Cash sales generated by Literature Evangelists (LE's) who are employees are recognized as income when merchandise is transferred to the LE, and are recorded as sales at full retail price, with offsetting charges representing LE's commissions realized from sale to the ultimate consumers. Cash sales to LE's who are independent contractors are recognized as income when merchandise is transferred to the LE, and are recorded at the amount paid by the LE, which approximates the wholesale price.

LITERATURE EVANGELISM ORGANIZATION (USA Model) **Appendix 22D.06**
Notes to the Special-purpose Schedules
Years ended December 31, 20X1 and 20X0

Note 1 - Summary of Significant Accounting Policies (continued)

(l) Contracts: Contract sales by LE's to ultimate customers are handled on a recourse basis, with a stated responsibility for collection resting with the LE. Contract sales are apportioned according to stated policy to (a) literature evangelist commission, (b) provision for estimated uncollectible accounts, and (c) contribution to the Adventist Retirement Plan.

(m) Finance Charges: Finance charges added to customer accounts in compliance with the contract terms are shown separately as other operating income. These charges are made currently on a monthly basis, computed on the unpaid balance of the contract, and no deferral of earned income is involved.

(n) Provision for Uncollectible Accounts: An allowance for uncollectible accounts is provided through routine additions based on sales, historical collection experience, and aging of receivables. Accounts deemed to be uncollectible are charged to the allowance.

(o) Inventory: Inventory is stated at the lower of cost or fair value, under the first-in, first-out method.

(p) Classification of Net Assets: To ensure observance of limitations and restrictions placed on the use of resources available to the LEO, the net asset accounts are classified for accounting and reporting purposes into components that reflect the presence or absence of donor restrictions or committee designations. Unrestricted net assets are separated into unallocated and allocated amounts. Restricted net assets are separated into temporarily restricted and permanently restricted amounts.

Note 2 - Cash and Equivalents	20X1	20X0
Imprest Cash	700	700
Checking Accounts	29,304	27,003
Money Market Account at 5%	55,030	40,020
Total Cash and Equivalents	85,034	67,723

Note 3 - Trade Accounts Receivable	20X1	20X0
Customer Accounts, District X	370,932	315,435
Customer Accounts, District Y	342,399	291,171
Allowance for Doubtful Accounts	(215,000)	(186,000)
Trade Accounts Receivable, Net	498,331	420,606

Note 4 - Other Accounts Receivable	20X1	20X0
LE Accounts	76,996	72,365
Allowance for Doubtful Accounts	(15,399)	(14,474)
Union Conferences	10,094	7,054
Miscellaneous	5,015	4,958
Other Accounts Receivable, Net	76,706	69,903

Note 5 - Inventory	District X	District Y	20X1 Total	20X0 Total
New Merchandise	82,598	67,580	150,178	155,183
Repossessed Books	6,285	5,142	11,427	12,018
Promotional Materials	10,138	8,295	18,433	20,894
General Supplies	2,957	2,420	5,377	8,992
Total Inventory	101,978	83,437	185,415	197,087

LITERATURE EVANGELISM ORGANIZATION (USA Model) **Appendix 22D.07**
Notes to the Special-purpose Schedules
Years ended December 31, 20X1 and 20X0

Note 6 - Equipment

	Cost	Accum. Depreciation	Net Value	Depr. Expense
Balances at 31 December 20X1	121,742	44,906	76,836	14,609
Balances at 31 December 20X0	132,693	30,297	102,396	12,952

	1/1/20X0	Additions	Deletions	31/12/20X1
Changes in Cost	132,693	0	10,951	121,742
Changes in Accumulated Depreciation	30,297	14,609	0	44,906

Note 7 - Net Gain (Loss) Sale of Plant Assets

	20X1	20X0
Proceeds From Sale of Plant Assets	10,951	1,657
Net Value of Plant Assets Sold	-10,951	0
Net Gain (Loss)	0	1,657

Note 8 - Accounts Payable

	20X1	20X0
SDA Publishing Houses	108,320	108,238
Non-SDA Vendors	16,427	14,581
Sales & Payroll Taxes	14,413	12,089
Union Conferences	38,223	28,020
Retirement Plan	7,204	2,338
Total Accounts Payable	184,587	165,266

Note 9 - Loans Payable

Loans payable to XX and YY Union Conferences for operating and capital purposes.
Interest is payable monthly on each loan at a rate of 8% per annum.
Principal on each loan is payable in five (5) equal annual installments, due December 31.

	Current	Long-term	20X1 Total	20X0 Total
XX Union Conference, operating (90,000)	18,000	36,000	54,000	72,000
XX Union Conference, operating (32,000)	8,000	24,000	32,000	0
YY Union Conference, operating (25,000)	5,000	0	5,000	10,000
YY Union Conference, capital (85,000)	17,000	34,000	51,000	68,000
Total Loans Payable	48,000	94,000	142,000	150,000

Amounts due on principal in each of the next five years are:

20X1	48,000
20X2	43,000
20X3	43,000
20X4	8,000
20X5	0
Future	0
Total	142,000

LITERATURE EVANGELISM ORGANIZATION (USA Model) **Appendix 22D.08**
Notes to the Special-purpose Schedules
Years ended December 31, 20X1 and 20X0

Note 10 - Working Capital and Liquidity	20X1	20X0
Working Capital		
Total Current Assets	857,324	761,885
Total Current Liabilities	(272,102)	(231,605)
Actual Working Capital	585,222	530,280
Recommended Working Capital *	760,452	687,596
Working Capital Excess (Deficit)	(175,230)	(157,316)
Percent of Recommended Working Capital	77%	77%
Current Ratio	3.2	3.3
Liquidity		
Cash and Equivalents	85,034	67,723
Accounts Receivable - Unions	10,094	7,054
Total Liquid Assets	95,128	74,777
Current Liabilities	(272,102)	(231,605)
Liquid Assets Surplus (Deficit)	(176,974)	(156,828)
Percent Liquid Assets to Commitments	35%	32%
* Recommended Working Capital: Accounts Receivable, net	575,037	490,509
Inventories	185,415	197,087
Total Recommended Working Capital	760,452	687,596

Note 11 - Pension and Other Post-Retirement Benefits

Defined Benefit Plans

The Conference of which the LEO is a department participates in a non-contributory, defined benefit pension plan known as the "Seventh-day Adventist Retirement Plan of the North American Division." This plan covers substantially all employees of the LEO, is administered by the North American Division of the General Conference of Seventh-day Adventists in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a multiple-employer plan of a church-related entity.

The Conference of which the LEO is a department also participates in a non-contributory, defined benefit health care plan known as the "Health Care Assistance Plan for Participants in the Seventh-day Adventist Retirement Plan of the North American Division." This plan, which covers substantially all employees of the LEO, is administered by the North American Division of the General Conference of Seventh-day Adventists in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a multiple-employer plan of a church-related entity.

The required contributions from the LEO to these plans (for retiree pension and retiree health care benefits) were $41,748 and $39,569 for the years ended December 31, 20X1 and 20X0, respectively.

These plans are defined by the Financial Accounting Standards Board as multiemployer plans. As such, it is not required, nor is it possible, to determine the actuarial present value of accumulated benefits or plan net assets for employees of the LEO apart from other plan participants. However, based on the latest actuarial evaluation of the Seventh-day Adventist Retirement Plan of the North American Division, as of December 31, 1998, the actuarially computed value of accumulated plan benefits exceeded the estimated market value of plan assets, for that plan. No actuarial evaluation has been obtained for the Health Care Assistance Plan for Participants in the Seventh-day Adventist Retirement Plan of the North American Division.

LITERATURE EVANGELISM ORGANIZATION (USA Model) **Appendix 22D.09**
Notes to the Special-purpose Schedules
Years ended December 31, 20X1 and 20X0

Note 11 - Pension and Other Post-Retirement Benefits (continued)

Defined Benefit Plans (continued)

The North American Division Committee voted to freeze accrual of service credit in these plans effective December 31, 1999, except for employees who choose the career completion option, and to start a new defined contribution plan effective January 1, 2000. The LEO is scheduled to continue making contributions (at a reduced rate) to the frozen plans after December 31, 1999. Certain employees will continue to be eligible for future benefits under these plans.

Defined Contribution Plan

Effective January 1, 2000, the Conference of which the LEO is a department participates in a defined contribution retirement plan known as "The Adventist Retirement Plan." This plan, which covers substantially all employees of the LEO, is administered by the North American Division of the General Conference of Seventh-day Adventists (GC) in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a multiple-employer plan of a church-related entity.

The LEO contributed $34,102 and $28,987 to the plan for the years ended December 31, 20X1 and 20X0, respectively, based on a stated percentage of each employee's earnings and a stated matching percentage of certain employee voluntary contributions. Investment management of the accumulated contributions designated for each employee is provided under an agreement between the GC and VALIC.

LITERATURE EVANGELISM ORGANIZATION (USA Model) **Appendix 22D.10**
Notes to the Special-purpose Schedules
Years ended December 31, 20X1 and 20X0

Note 11 - District and Budget Comparisons

Sales:	District X	District Y	20X1 Actual	20X1 Budget	20X0 Actual
Contract Sales	833,075	681,607	1,514,682	1,400,000	1,274,663
Cash Sales	591,501	483,955	1,075,456	950,000	833,554
Repossessed Books	7,996	6,542	14,538	12,000	11,833
Returns & Allowances	(7,269)	(5,947)	(13,216)	(12,000)	(10,757)
Total Sales	1,425,303	1,166,157	2,591,460	2,350,000	2,109,293
Cost of Goods Sold:					
Contract Sales	185,852	154,334	340,186	334,000	296,451
Cash Sales	135,122	112,826	247,948	216,000	192,118
Repossessed Books	5,925	4,848	10,773	9,000	8,769
Total Cost of Goods Sold	326,899	272,008	598,907	559,000	497,338
Gross Profit on Sales:					
Contract Sales	639,954	521,326	1,161,280	1,054,000	967,455
Cash Sales	456,379	371,129	827,508	734,000	641,436
Repossessed Books	2,071	1,694	3,765	3,000	3,064
Total Gross Profit on Sales	1,098,404	894,149	1,992,553	1,791,000	1,611,955
Finance Charges and Other Income	181,399	148,417	329,816	290,000	232,403
Subsidies from Unions	88,093	72,076	160,169	165,000	182,055
Gross Income from Operations	1,367,896	1,114,642	2,482,538	2,246,000	2,026,413
Selling Expenses:					
LE Commissions on Contract Sales	366,111	299,545	665,656	600,000	552,367
LE Commissions on Cash Sales	242,301	198,247	440,548	400,000	358,580
LE Benefits	177,174	144,961	313,131	275,000	270,880
Bad Debt Expense	73,572	60,196	133,768	125,000	97,827
LE Retirement Contributions - DB Plan	12,169	9,955	22,124	20,000	18,220
LE Retirement Contributions - DC Plan	9,692	7,930	26,626	25,000	22,632
District Leader Payroll & Related	163,289	133,599	296,888	265,000	218,473
Shipping and Handling	22,213	18,174	40,387	36,000	31,498
Advertising and Promotion	33,333	27,273	60,606	60,000	49,577
Total Selling Expense	1,099,855	899,880	1,999,734	1,806,000	1,620,054
General & Administrative Expenses:					
Salaries and Wages	102,795	84,105	186,900	177,000	174,280
Payroll Related Expense	23,687	19,380	43,067	41,000	32,736
Retirement Contributions - DB Plan	10,793	8,831	19,624	18,585	21,349
Retirement Contributions - DC Plan	4,112	3,364	7,476	7,080	6,355
Supplies and General Expense	80,930	66,215	147,145	138,335	127,031
Interest Expense, Operating	3,936	2,624	6,560	6,560	8,400
Building Rent	7,200	5,400	12,600	12,600	12,000
Depreciation Expense	8,035	6,574	14,609	13,000	12,952
Total General Expense	241,488	196,493	437,981	414,160	395,103
Total Operating Expense	1,341,343	1,096,373	2,437,715	2,220,160	2,015,157
Net Income from Operations	26,553	18,269	44,823	25,840	11,256
Investment Income	3,809	2,190	5,999	7,000	7,001
Net Capital Additions (Deductions)	(3,040)	(2,400)	(5,440)	(5,000)	(5,143)
Increase (Decrease) Net Assets	27,322	18,059	45,382	27,840	13,114

Section 2301 - General Concepts

2301.01 Like a Business but Not-for-profit - As the title of this Chapter implies, "industries" may look like regular businesses, but they are operated by, or affiliated with, church organizations. Globally, this includes approximately 30 food factories and 65 publishing houses, which are operated by GC Divisions or by Union Conferences. This also includes a variety of other industries that are operated by colleges and secondary schools, such as bakeries, dairy farms, vegetable farms, laundry services, and other enterprises. In spite of appearances, however, unless legally organized as a for-profit business, these industries are operated as part of the denominational not-for-profit entities with which they are affiliated. Any net profit or increase such enterprises realize is shared with, or held for the benefit of, the parent entity or other affiliated not-for-profit entities.

2301.02 Purpose of the Entity - Historically, the purpose for such industry enterprises may be attributed to several general objectives.

- The potential to generate a steady source of auxiliary revenue not dependent on donations.
- The desire to control the production of certain products intrinsic to denominational beliefs.
- The opportunity to provide employment to students of educational institutions.
- The opportunity to apply business management techniques to help ensure positive cash flow.

A challenge for the management of such enterprises is to remain true to the non-profit nature of the parent entity, while using common business practices to remain viable in a competitive economic environment. A secondary challenge is to avoid operating any enterprise that does not have a reasonable relationship to the charitable tax-exempt purpose and mission of the affiliated denominational entity.

2301.03 Financial Statements - Because of the variety of industries, it is not practical for this Manual to illustrate financial statements for each one. Each enterprise should prepare financial statements which present relevant information based on the characteristics of that organization and the needs of its governing committee. At a minimum, however, the financial statements should contain the core elements required by GAAP, as described in Chapter 6, Sections 601 and 606. Appendix 23A contains an illustrative financial statement that displays these elements. For illustration, this appendix also displays possible additional details for certain types of industries.

Section 2302 - Sales and Related Accounts

2302.01 Cash Sales - Generally, the smaller an enterprise, the more likely it will focus on cash sales rather than on credit sales or sales on account. Because of the nature of cash, management should implement internal controls, so that sales are recorded accurately and that assets which belong to the enterprise are in the custody of the enterprise. Refer to Chapter 9 for more guidance on accounting for cash. Also refer to Section 2102.06 for guidance about taxes related to sales.

2302.02 **Sales on Account** - Generally, the larger an enterprise, or the more it operates in a competitive environment, the more likely it is to have significant sales on credit. Because of the time delay in collecting accounts, management should implement procedures for granting credit, billing customers, and collecting on accounts. See Chapters 11 and 21 for more guidance on accounting for credit sales and accounts receivable.

2302.03 **Sales Over the Internet** - Many publishing houses and book centers offer merchandise to customers over the internet. Because of the "paper-less" nature of such sales, management should establish appropriate controls and procedures to be able to create accurate and complete accounting records of such transactions. Management must also ensure that the information system contains adequate controls to address security issues, including the ability to track sales revenue from the electronic transactions to deposits in appropriate bank accounts.

2302.04 **Subsidies From Related Entities** - By definition, an industry enterprise focuses on revenue from other businesses or from the general public, and it generally is expected to provide some degree of financial support for its parent non-profit entity. However, there are some forms of "hidden" subsidies which the parent entity may provide to the industry. These could include below-market rates for rental of land or buildings, and billing at less than full cost for shared administrative personnel. If the parent entity has a stated policy that it will not seek payment or reimbursement from the industry for the subsidized portion of these items, the industry is not obligated to pay them and is not required to record them as expense. However, because of the relationship between the entities, the industry is required to disclose the nature and amount of such transactions in the notes to its financial statements.

Section 2303 - Costs and Expenses

2303.01 **Cost of Goods Sold** - Similar to the process described in Chapter 21, an industry that operates in either a sales, manufacturing, or processing environment should design its accounting system to track inventory, purchases, cost of goods sold, and gross profit related to specific sales or product categories. Depending on the kind of product, there could be as many as four distinct types of inventory. Each of these groups of inventories will enter into the calculation of the cost of goods sold for the related sales or product categories.

Raw materials that will be used to create or process other goods or products.
Work in process (items being processed but not yet finished).
Finished goods or products that are ready to sell.
Purchased merchandise that is ready to resell.

2303.02 Employee-related Expenses - All industries have at least some employees. All payroll costs that are directly associated with producing inventory should be added to that inventory, which will result in appropriate portions being included in cost of goods sold, not in general expense. Compensation and related expenses for general employees should be reported separately from other types of expenses in the statement of financial activity. Management should ensure that the enterprise complies with all government-required payroll-related taxes and information reporting. As discussed in Chapter 14, any payroll-related costs and taxes that are due but not yet paid should be recorded as liabilities.

2303.03 General and Administrative - All enterprises will have general expense that is attributable to the entity as a whole rather than to any one product line or department. To the extent practical, depending on the nature of the enterprise, such general expenses should be distributed among the major product line costs of goods sold, or operating departments. For example, depreciation expense and employee health care benefits are two items that typically can be distributed on a rational consistent basis to other cost groupings or departments. Any expenses so general that it is not practical to distribute them among other areas should be reported as general expense.

2303.04 Appropriations To Related Entities - As stated earlier, one of the reasons for existence of an industry enterprise is to provide auxiliary cash flow to the parent non-profit entity. Such resources may be provided on a regular budgeted basis or they may be provided only as voted on a specific item basis. Whatever the method, the amounts should be reported as a separate item in the industry's financial statements, after all other regular operating activity.

Section 2304 - Biological Assets

2304.01 General Concepts for Biological Assets - There are specific accounting principles for the class of assets known as biological assets. There are certain principles for the basic assets and for the harvested products gleaned from them. Following are the most basic definitions.

Biological Assets are any plants or animals which are grown or developed for harvest, production, or sale. (Biological assets would include such items as trees, vines, plants, cows, sheep, goats, etc.)

Harvested produce or products are the elements gleaned from biological assets. The harvested products may be sold in their harvested condition or be processed further for later sale. (Harvested products would include such items as apples, bananas, rice, wheat, milk, wool, cotton, timber, etc.)

2304.02 International GAAP - The basic accounting principles may be summarized as follows.

- Biological assets that are being grown or developed for future harvest or production are to be classified as non-current assets, displayed as a sub-category with property, plant, and equipment.
- Biological assets are to be carried at their fair value, less estimated costs to sell, at the end of each reporting period.
- The increase or decrease in fair value of biological assets from one period to the next is to be recorded as a gain or loss in activity of the period.
- If fair value cannot be measured reliably, the biological asset is to be carried at its accumulated cost, less any recognized impairment loss.

- Produce or products harvested or gleaned from biological assets are to be classified as inventory. Harvested produce or products are to be carried at their fair value, less estimated costs to sell, at the date of harvest, and adjusted for impairment loss, if any, at the end of each reporting period.
- Additional costs incurred to process or prepare the harvested items for sale (such as grinding grain into flour or processing milk into butter) are to be capitalized with the inventory, similar to any manufacturing process.

2304.03 USA GAAP - The basic accounting principles may be summarized as follows.

- Growing crops: all direct and indirect costs of growing crops shall be accumulated, similar to inventory or prepaid expense, until time of harvest.
- Growing crops shall be reported at the lower of cost or market at each financial statement date.
- Harvested crops are classified as inventory and shall be valued at the lower of cost or market (otherwise known as net realizable value).

- Trees, vines, orchards, and vineyards: all direct and indirect costs of growing and developing shall be accumulated and capitalized in a manner similar to property, plant, and equipment.
- When groups of trees or vines are placed into production, their cost shall be depreciated over the estimated useful lives of the orchard or vineyard.

- Breeding animals and all livestock, except those with short lives, are to be capitalized in a manner similar to property, plant, and equipment.
- Animals with short productive lives, such as poultry, may be classified as inventory.

- All direct and indirect costs of developing animals shall be accumulated until the animals reach maturity and are transferred to a productive function or are available for sale.
- Costs involved in production of feed crops grown for consumption by the producer's own animals shall be accounted for as maintenance costs of the livestock. Those costs associated with developing animals shall be capitalized, and those costs associated with production animals shall be charged to expense.
- At the point that breeding and production animals are placed into service, the accumulated costs are to be depreciated over the animals' estimated production lives.

- Growing animals that are not yet mature or ready for sale shall be valued at lower of cost or market.
- Animals that are available and held for sale are classified as inventory and shall be valued at the lower of cost or market (otherwise known as net realizable value).
- Costs related to procreation (such as for cows and calves, sheep and lambs, etc) may be allocated as joint costs of the respective animals, based on the relative values of each.

Appendix 23A

CHURCH-OPERATED INDUSTRY

Illustrative Financial Statements (International Model)

31 December 20X1 and 20X0

The reporting currency is [*indicate the reporting currency*]

CHURCH-OPERATED INDUSTRY (International Model) **Appendix 23A.01**
Statement of Financial Position
31 December 20X1 and 20X0

	20X1 Total	20X0 Total
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	57,456	7,807
Accounts Receivable, net (Note 3)	79,018	87,544
Inventory (Note 4)	230,636	220,734
Prepaid Expense	542	262
Total Current Assets	367,652	316,347
Other Assets		
Buildings and Equipment, Net (Note 5)	577,803	578,667
Cash Held for Purchase of Equipment	5,150	12,375
Total Other Assets	582,953	591,042
Total Assets	950,605	907,389
LIABILITIES		
Current Liabilities		
Accounts Payable (Note 6)	132,999	113,106
Accrued Expenses	34,810	35,743
Current Portion, Capital Lease (Note 7)	2,813	2,597
Total Current Liabilities	170,622	151,446
Other Liabilities		
Capital Lease (Note 7)	7,211	10,024
Total Liabilities	177,833	161,470
NET ASSETS		
Unallocated	199,843	167,498
Allocated Capital	5,150	12,375
Net Invested in Plant	567,779	566,046
Total Net Assets	772,772	745,919
Total Liabilities & Net Assets	950,605	907,389

The accompany notes are an integral part of this financial statement.

CHURCH-OPERATED INDUSTRY (International Model) **Appendix 23A.02**
Statement of Financial Activity
Years ended 31 December 20X1 and 20X0

Operating Activity	20X1 Total	20X1 Budget	20X0 Total
Revenue from Operations:			
Sales - [*Name of product #1*]	449,610	445,000	439,198
Sales - [*Name of product #2*]	487,788	475,000	459,055
Sales - [*Name of product #3*]	300,925	275,000	269,826
Total Sales	1,238,323	1,195,000	1,168,079
Cost of Goods Sold [*Product #1*]	333,475	335,000	330,506
Cost of Goods Sold [*Product #2*]	405,684	400,000	388,874
Cost of Goods Sold [*Product #3*]	225,996	210,000	207,641
Total Cost of Goods Sold	965,155	945,000	927,021
Gross Profit - [*Product #1*]	116,135	110,000	108,692
Gross Profit - [*Product #2*]	82,104	75,000	70,181
Gross Profit - [*Product #3*]	74,929	65,000	62,185
Gross Profit on Sales	273,168	250,000	241,058
Shipping and Handling Income	23,037	22,000	21,021
Investment Income	2,547	500	251
Gross Revenue from Operations	298,752	272,500	262,330
Operating Expenses:			
Salaries and Wages (General)	134,238	130,000	126,173
Payroll-related Expense	21,853	21,000	19,350
Retirement Contributions	19,461	18,850	20,612
Advertising and Selling Expense	13,769	11,900	11,082
Shipping and Postage Expense	19,824	17,750	16,282
General and Administrative Expense	25,203	23,200	21,947
Rent Expense	12,700	12,000	11,054
Depreciation Expense	22,627	21,500	21,023
Total Operating Expense	269,675	256,200	247,523
Net Revenue from Operations	29,077	16,300	14,807
Capital Activity			
Interest Expense on Capital Lease	(916)	(900)	(818)
Loss on Sale of Equipment	(1,308)	0	0
Net Capital Activity	(2,224)	(900)	(818)
Increase (Decrease) in Net Assets	26,853	15,400	13,989
Net Assets at Beginning of Year	745,919	745,919	731,930
Net Assets at End of Year	772,772	761,319	745,919

The accompanying notes are an integral part of this financial statement.

CHURCH-OPERATED INDUSTRY (International Model) **Appendix 23A.03**
Statement of Cash Flows
Years ended 31 December 20X1 and 20X0

	20X1 Total	20X0 Total
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	26,853	13,989
Adjustments to eliminate non-cash items:		
Depreciation Expense	22,627	21,023
(Gain) Loss on Sale of Plant Assets	1,308	0
Assets Acquired by Capital Lease	0	(14,437)
Adjustments to reclassify non-operating items:		
Non-operating Donations	0	0
(Increase) Decrease Accounts Receivable	8,526	(13,724)
(Increase) Decrease Inventory & Prepaid	(10,182)	6,619
Increase (Decrease) Accounts Payable	18,960	(7,560)
Net Cash Provided (Used) by Operating Activities	68,092	5,910
Cash Flows from Investing Activities:		
Proceeds from Maturity of Investments	7,225	0
Purchases of Investments	0	(12,375)
Proceeds from Sale of Equipment	50	0
Purchases of Equipment	(23,121)	(5,213)
Net Cash Provided (Used) by Investing Activities	(15,846)	(17,588)
Cash Flows from Financing Activities:		
Donations for New Equipment	0	0
Principal Payments on Capital Lease	(2,597)	(1,816)
Net Cash Provided (Used) by Financing Activities	(2,597)	(1,816)
Net Increase (Decrease) Cash and Cash Equivalents	49,649	(13,494)
Cash and Cash Equivalents, Beginning of Year	7,807	21,301
Cash and Cash Equivalents, End of Year	57,456	7,807

Supplemental Cash Flow Data: Cash paid during the year for interest was $916.

Notes to the financial schedules are an integral part of this schedule.

CHURCH-OPERATED INDUSTRY (International Model) **Appendix 23A.04**
Notes to the Financial Statements
Years ended 31 December 20X1 and 20X0

Note 1 - Organization Description and Summary of Significant Accounting Policies

Organization Description

[*Name of industry enterprise*] (*identifier, either an acronym or "Industry"*) is a [*describe the type of business, such as publishing house, dairy farm, etc.*] that is operated by [*Name of parent entity, whether that is a Division, Union, College, etc.*] (*identifier of parent entity*). One of the objectives of the Industry is to provide auxiliary revenue to support the charitable not-for-profit programs of the Division. Because the Industry is affiliated with a religious not-for-profit organization, it is exempt from [*describe the type of tax*] under provisions of [*name the applicable law*]. Because the Industry operates in a commercial environment, it collects and pays [*describe the type of tax, such as VAT*] to appropriate government agencies. The Industry receives most of its revenue in the form of sales of its products and services.

The Industry is affiliated with [*Name of parent entity, with identifier*], as evidenced by the following:
Certain officers and other employees of the Division are members of the Industry's governing committee.
Legal title to all real property used by the Industry is registered in the name of [*name of legal title-holding entity*]. Asset values and related depreciation accounts for all buildings used by the Industry are maintained in the financial records of the Industry. The Industry leases land owned by the Division for FCU 1,000 per month, which is considered to be a discounted rental rate: the fair rental value of the land is estimated to be between FCU 1,200 and 1,500 per month. Amounts due from or payable to the Division are set forth in Notes 3 and 6 below.
Financial statements of the Industry are not consolidated with those of the Division.

Summary of Significant Accounting Policies

(a) The significant accounting policies of the Industry are essentially the same as generally accepted accounting principles for not-for-profit organizations as promulgated by the International Accounting Standards Board. The significant policies are described below to enhance the usefulness of the financial statements. The financial statements of Industry have been prepared on the accrual basis of accounting. [Management *or* the (*governing*) committee] authorized issuance of the accompanying financial statements on [issuance date].

(b) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Provision for Uncollectible Accounts: An estimated allowance for uncollectible accounts receivable is provided through routine additions based on sales, historical collection experience, and aging of receivables. Accounts deemed to be uncollectible are charged to the allowance.

(d) Cash and Equivalents: Cash equivalents are highly-liquid assets held for operating purposes, which are readily convertible to cash and have a maturity date of three months or less from date of acquisition. Cash equivalents held for other than operating purposes are classified as investments. The increase or decrease in non-operating investments is reported in the cash flow statement as investment activity.

(e) Fair Value of Financial Instruments: Short-term financial instruments are valued at their carrying amounts because those amounts are considered to be reasonable estimates of fair value due to the relatively short period to maturity. All other financial instruments are valued at the quoted market price or other reasonably obtainable fair value estimate at the reporting date for those or similar instruments. The difference between aggregate market value and cost for each type of investment is recorded in a valuation account. The net change in this valuation account each year is recognized as gain or loss.

CHURCH-OPERATED INDUSTRY (International Model) **Appendix 23A.05**
Notes to the Financial Statements
Years ended 31 December 20X1 and 20X0

Note 1 - Summary of Significant Accounting Policies (continued)

(f) Inventory: Inventory is stated at the lower of cost or fair value, under the first-in, first-out method.

(g) Current Assets and Liabilities: Assets and liabilities are classified as current or long-term, depending on their characteristics. This excludes from current assets: cash equivalents that are restricted to use for other than current operations or committee allocated for acquisition of plant assets or for liquidation of plant-related debt. This excludes from current liabilities: long-term portion of all debt, and plant-related debt payable within the next fiscal year to the extent covered by designated liquid assets. Working capital is calculated as current assets minus current liabilities.

(h) Plant Assets and Depreciation: Resources used for plant asset acquisitions and debt service payments are accounted for as capital activity. Restricted proceeds from the sale of plant assets and restricted income from plant related investments are recorded as restricted gains. Interest payments on plant-related debt are recorded as non-operating expense. Plant assets are recorded at cost when purchased or at fair market value at date of gift. Depreciation of plant assets is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation expense is recorded as operating expense.

(i) Investment Income: Income from investments that are held for operating purposes is accounted for as miscellaneous operating revenue. Income from investments that are held for plant-related purposes is accounted for as capital activity.

(j) Concentrations of Risk: The Industry receives most of its revenue from sales of products and services. It is subject to the effect of economic trends that may decrease the ability of customers to purchase its products or services.

(k) Classification of Net Assets: To ensure observance of limitations and restrictions placed on the use of resources available to the Industry, the net asset accounts are classified into components that reflect the purpose for which they are held. Net assets other than plant are separated into unallocated, allocated operating, and allocated capital amounts. The net depreciated value of plant assets, minus any plant-related debt, is classified as net invested in plant.

Note 2 - Cash

	20X1	20X0
Operating Cash		
Imprest Cash	2,000	2,000
Checking Account	4,392	5,807
Money Market Account at 5%	51,064	0
Total Operating Cash	57,456	7,807
Plant Cash		
Money Market Account at 5%	5,150	12,375

Note 3 - Accounts Receivable	20X1	20X0
Accounts Receivable from SDA Entities	38,113	41,402
Accounts Receivable from Other Entities	45,007	50,125
Accounts Receivable from Employees	1,398	2,017
Allowance for Uncollectible Accounts	(5,500)	(6,000)
Net Accounts Receivable	79,018	87,544

CHURCH-OPERATED INDUSTRY (International Model) **Appendix 23A.06**
Notes to the Financial Statements
Years ended 31 December 20X1 and 20X0

Note 4 - Inventory

	20X1 Total	20X0 Total
Raw Materials to be Used in Production of [*Product #1*]	89,983	85,949
[*Product 1*] Manufactured or Processed Finished Goods	41,142	45,652
[*Product 2*] Merchandise Purchased for Resale	39,110	36,218
[*Product 3*] Merchandise Purchased for Resale	60,401	52,915
Total Inventory	230,636	220,734

Note 5 - Plant Assets

	Cost	Accum. Depreciation	Net Value	Depr. Expense
Buildings	600,000	96,000	504,000	12,000
Equipment	107,112	33,309	73,803	10,627
Balances at 31 December 20X1	707,112	129,309	577,803	22,627
Buildings	600,000	84,000	516,000	12,000
Equipment	85,808	23,141	62,667	9,023
Balances at 31 December 20X0	685,808	107,141	578,667	21,023

	1/1/20X1	Additions	Deletions	31/12/20X1
Buildings	600,000	0	0	600,000
Equipment	85,808	23,121	1,817	107,112
Changes in Cost	685,808	23,121	1,817	707,112
Buildings	84,000	12,000	0	96,000
Equipment	23,141	10,627	459	33,309
Changes in Accumulated Depreciation	107,141	22,627	459	129,309

Note 6 - Accounts Payable

	20X1	20X0
[*Major Vendor Name #1*]	63,202	54,661
[*Major Vendor Name #2*]	49,911	42,346
Miscellaneous Accounts	19,886	16,099
Total Accounts Payable	132,999	113,106

Note 7 - Leased Equipment and Capital Lease Payable

Certain equipment was acquired during 20X0 under the terms of a capital lease. The cost of the equipment was recorded at the net present value of the lease at the time of acquisition, which was $14,437. This amount is included in total equipment cost reported in the schedule of financial position. At December 31, 20X1 and 20X0, accumulated amortization on this equipment was $5,053 and $2,166, respectively. For the years ended December 31, 20X1 and 20X0, amortization expense was $2,887 and $2,166, respectively.

CHURCH-OPERATED INDUSTRY (International Model) **Appendix 23A.07**
Notes to the Financial Statements
Years ended 31 December 20X1 and 20X0

Note 7 - Leased Equipment and Capital Lease Payable (continued)

The lease terms are as follows:

Payable to XYZ Corporation:				20X1	20X0
Payments of 293 per month, for 60 months,		Current	Long-term	Total	Total
at 8% interest, beginning April 1, 20X0		2,813	7,211	10,024	12,621
Amounts due each of the next 5 years:	20X2	20X3	20X4	20X5	20X6
Imputed Interest	703	470	218	12	0
Net Present Value of Principal	2,813	3,046	3,298	867	0
Total Lease Payments	3,516	3,516	3,516	879	0

Note 8 - Working Capital and Liquidity	20X1	20X0
Working Capital		
Total Current Assets	367,652	316,347
Total Current Liabilities	(170,622)	(151,446)
Actual Working Capital	197,030	164,901
Recommended Working Capital *	309,654	308,278
Working Capital Excess (Deficit)	(112,624)	(143,377)
Percent of Recommended Working Capital	64%	53%
Current Ratio	2.2	2.1
Liquidity		
Total Liquid Assets: Cash and Investments	57,456	7,807
Current Liabilities	170,622	151,446
Allocated Operating Net Assets	0	0
Total Commitments	170,622	151,446
Liquid Assets Surplus (Deficit)	(113,166)	(143,639)
Percent Liquid Assets to Commitments	33.7%	5.2%
* Calculation of Recommended Working Capital:		
Accounts Receivable, net	79,018	87,544
Inventory	230,636	220,734
Total Recommended Working Capital	309,654	308,278

Note 10 - Pension and Other Post-Retirement Benefits

Defined Benefit Retirement Plan

The Industry participates in a non-contributory defined benefit retirement plan known as the [*name of the defined benefit retirement plan or fund*] (DB Plan). The DB Plan, which covers substantially all employees of the Industry, is administered by the Division. Contributions to the Plan are made by participating employers located within the Division territory. Employees do not contribute to the Plan. The required contributions from the Industry to the DB Plan (for retiree pension, health care, and other benefits) were FCU 14,093 and 20,612 for the years ended 31 December 20X1 and 20X0, respectively. The DB Plan and the Division together determine the amount of contributions that are required each year from the participating employers, and this amount may increase in the future.

CHURCH-OPERATED INDUSTRY (International Model) **Appendix 23A.08**
Notes to the Financial Statements
Years ended 31 December 20X1 and 20X0

Note 10 - Pension and Other Post-Retirement Benefits (continued)

[*For entities whose retirement plan* ***has not*** *obtained an actuarial valuation that establishes a proportionate liability amount for each participating employer, use the following paragraph.*]

This DB Plan is defined as a "multiemployer" plan. The DB Plan has concluded that it is not reasonably possible to determine the actuarial present value of accumulated benefits or plan net assets for employees of the Industry apart from other plan participants. [*If the Plan has obtained an actuarial evaluation, even if it was obtained in an earlier period, add the following sentence*: However, based on the latest actuarial evaluation of the DB Plan, as of [*effective date of last actuarial report*], the actuarially computed value of accumulated plan benefits exceeded the estimated market value of plan assets, for the plan as a whole.] [*If an actuarial evaluation has never been obtained, add the following sentence*: No actuarial evaluation has been obtained for the DB Plan as a whole.]

[*For entities whose retirement plan* ***has*** *been able to determine an actuarial valuation that established a proportionate liability amount for each participating employer, use the following paragraph.*]

This DB Plan is defined as a "multiemployer" plan. Based on the latest actuarial evaluation of the DB Plan, as of [*effective date of last actuarial report*], the actuarially computed value of accumulated plan benefits exceeded the estimated market value of plan assets. The Industry's proportionate share of the unfunded obligation was determined to be [FCU XXX,XXX], which is reported as a noncurrent liability in the accompanying statement of financial position.

[*If the reporting entity is located in a territory that has frozen its defined benefit retirement plan and started a defined contribution retirement plan, include the following paragraph for the first year of the change in plans.*]

During 20X0, the Division Executive Committee voted to freeze accrual of service credit in this DB Plan effective 31 December 20X0, except for employees who stated their intent to retire before 1 January 20X5, and to start a new defined contribution pension plan effective 1 January 20X1. The Industry is scheduled to continue making contributions to this frozen DB Plan after 31 December 20X0. Certain employees will continue to be eligible for future benefits under this DB Plan.

Defined Contribution Retirement Plan [*use this section for entities that participate in DC plans*]

Beginning 1 January 20X1, the Industry participates in a defined contribution retirement plan known as the [*name of the defined contribution retirement plan*] (DC Plan). The DC Plan, which covers substantially all employees of the Industry, is governed by a plan document developed by the Division, in coordination with the Union Conferences and Missions in its territory. This DC Plan is defined as a "multiemployer" plan. Contributions to the DC Plan are made by participating employers located within the Division territory, and voluntary contributions may be made by eligible employees of those employers.

The Industry contributed FCU 5,368 to the DC Plan for the year ended 31 December 20X1, based on a stated percentage of each employee's earnings and a matching percentage of certain employee voluntary contributions. Administration of the accumulated contributions designated for the future benefit of each employee is provided under an agreement between the Division, Union Conferences, and Missions and a record-keeping organization, [*name of record-keeping investment management organization, with (identifier)*]. (*Identifier of record-keeper*) receives all contributions, and invests them in accordance with portfolio profiles selected by each employee.

24.01 Denominational Terminology - The SDA Church uses many terms that have particular meaning within the denominational context. Many of those terms are described below, in alphabetical sequence.

Allocated	resources whose use has been designated for a particular purpose by the governing committee, with the authority to change it at any later date
Appropriation	a budgeted or authorized payment of money from a larger geographic organizational unit to a smaller geographic organizational unit or to an affiliated specific-purpose entity
Capital Activity	transactions related to acquisition and disposal of land, buildings, and equipment
Church or Congregation	an organized group of individual believers in a local geographic area
Constituents	individuals to whom an entity is ultimately responsible for governance
Distributed	expense total, such as depreciation or health care, which has been divided among a number of functions or departments on a systematic and rational basis
General Conference	the largest organizational unit, comprising all union conferences/missions, and divided into Divisions for administration in defined geographic areas
Local Conference, Mission, or Field	an organized group of churches or congregations in a defined geographic area
Non-operating Activity	financial activity that is not related to an organization's primary mission or routine functions (includes items that are infrequent or unusual)
Non-tithe	all sources of revenue for denominational activities, excluding tithe; for example, school tuition and fees, sales of various goods and materials, donations designated by the donor for use in specific projects or programs
Operating Activity	financial activity related to an organization's primary mission or routine functions (such as tithe or tuition income, remuneration expense, etc.)
Remittance	a payment from a smaller geographic unit to a larger geographic unit, consisting of donated resources received for use and distribution according to denominational working policy
Restricted	resources that are provided by donors or other outside providers, with specific instructions to use them for a particular purpose or project
Tithe	the primary source of revenue for church ministry operations, received in the form of donations from individual church members
Trust Fund	an obsolete term for resources held for use under the direction of individuals or entities that are not directed by the reporting entity (see Agency Account for the new term)
Unallocated	resources that are available for the general purposes of the organization, without any designation by the governing committee
Union Conference or Mission	an organized group of local conferences, missions, and fields in a defined geographic area
Unrestricted	resources that are available for the general purposes of the organization, without any designation placed upon them by donors or other providers
Recommended Working Capital	a minimum amount prescribed by denominational working policy, which organizations are expected to maintain for current operations and liquidity
Working Policy	an authorized set of procedures to be followed by all denominational entities within a defined geographic area

24.02 Professional Standards Terminology - All organizations use certain terms that have meaning within the context of professional accounting and reporting standards. Simplified definitions of some of these terms are given below, in alphabetical sequence. More complete definitions are given in related sections of this Manual.

Accounting Records	documents that give evidence of financial transactions that have taken place and then summarize those transactions, whether prepared manually or electronically
Agency Account	a liability related to resources held by the entity subject to directions for use from those who provided the resources, who are not under the direction of the reporting entity
Appreciation or (Decline) in Value	the difference (whether positive or negative) between cost and fair value of a marketable financial instrument held as of the end of an accounting period
Assets	things an organization owns, possesses, or has control over the use of
Audit	an examination of an entity's financial records, with the goal of rendering an opinion on whether they are fairly presented in accordance with GAAP
Cash Equivalents	financial instruments, such as time certificates, that are due to be converted to cash within three months or less from the date they were acquired
Current	assets that are available for use or for conversion to cash, and liabilities that will be paid, within the immediate operating cycle, usually the next 12 months
Expense	a class of transactions, separate from "gains" or "losses," which arise from the normal activities of the organization and which represent decreases to net assets, such as payroll, utilities, supplies, etc.
Fair Value	the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction
Financial Instrument	any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity
Financial Reports	documents that portray the financial condition of an entity at a given date, and the performance or activity of the entity over a stated period of time
Fraud	an intentional act involving the use of deception to gain an illegal or unjust advantage at the expense of an organization (fraud can consist of either misappropriation of assets or misrepresentation of data in financial reports)
GAAP	generally accepted accounting principles, the official pronouncements of accounting standards by designated standard-setting organizations
Gains and Losses	a class of transactions, separate from expense, which relate to distinct non-recurring transactions, such as the sale of specific assets or other unique events
General Ledger	an accounting record that gives beginning balance, activity for a period, and ending balance for each account within a set of financial reports
Impairment	a condition that results in the recoverable amount of an asset being less than its carrying value
Internal Control	policies and procedures used by an entity to ensure the orderly and efficient conduct of its activities and to safeguard its assets
Investments	resources held for production of passive income, rather than for active use in current operations (including but not limited to financial instruments)
Liabilities	obligations of an organization to pay or give assets to another entity

24.02 Professional Standards Terminology (continued)

Material Weaknesses	matters noted by the auditor which represent deficiencies in an entity's internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis
Net Assets	the residual of resources available to an entity after subtracting its liabilities from its assets; also referred to as Fund Balance or as Equity
Noncurrent	assets that will be used over more than one operating cycle, usually more than 12 months, and liabilities that are due to be paid after more than 12 months
Realized Gain or (Loss)	the difference between sale proceeds and carrying value (whether positive or negative) resulting from the sale of financial instruments
Revenue	a class of transactions, separate from gains and losses, which arise from the normal activities of the organization and which represent increases to net assets, such as donations, sales, fees, etc.
Significant Deficiencies	matters noted by the auditor which represent deficiencies in an entity's internal control that are less severe than material weaknesses, but important enough to merit attention by those charged with governance
Source Documents	original documents related to individual transactions; which could be kept on paper or in electronic media
Subsidiary Ledger	an accounting record that gives balance or activity details for selected groups of accounts that add up to a single "control" account in a general ledger
Unrealized Gain or (Loss)	the net change (whether positive or negative) in the balance of Unrealized Appreciation or (Decline) in value of investments from the end of one accounting period to the end of the next accounting period
Working Capital	an amount that represents discretionary resources available for operations, calculated simply as the result of total current assets minus total current liabilities

24.03 List of Acronyms and Abbreviations - This Manual makes reference to many organizations or publications. To minimize repetition, the following abbreviations (listed alphabetically) are used:

AICPA	American Institute of Certified Public Accountants; the national body in the USA responsible for standards on auditing related to services performed for entities which are not publicly-traded
CICA	Canadian Institute of Chartered Accountants; the standard-setting body in Canada that is responsible for all standards on accounting, financial reporting, and auditing
CFO	Chief Financial Officer; the individual primarily responsible for direction, control, and reporting of the finances of an organization (title varies: treasurer, vice president, controller, etc.)
FASB	Financial Accounting Standards Board; the standard-setting body in the USA responsible for standards on accounting and financial reporting related to non-publicly-traded entities
FASC	FASB Accounting Standards Codification, which redrafted and replaced FAS and SOP accounting standards effective after September 15, 2009
FAS	Statement of Financial Accounting Standards, issued by the FASB
GCAS	General Conference Auditing Service; preferred provider of audit services for the SDA Church
IAASB	International Audit and Attest Standards Board; the body responsible for issuing international standards on auditing and attestation services, with headquarters in London, England
IASB	International Accounting Standards Board; the body responsible for issuing international standards on accounting and financial reporting, with headquarters in London, England
IAS	International Accounting Standard, issued by the IASB (before January 1, 2001)
IFRS	International Financial Reporting Standard, issued by the IASB (after January 1, 2001)
IS	Information Systems; the processing of financial information through a computerized system
SOP	Statement of Position, issued by the AICPA
GC	General Conference of Seventh-day Adventists
ECD	General Conference of Seventh-day Adventists, East-Central Africa Division
ESD	General Conference of Seventh-day Adventists, Euro-Asia Division
EUD	General Conference of Seventh-day Adventists, Euro-Africa Division
IAD	General Conference of Seventh-day Adventists, Inter-American Division
NAD	General Conference of Seventh-day Adventists, North American Division
NSD	General Conference of Seventh-day Adventists, Northern Asia-Pacific Division
SAD	General Conference of Seventh-day Adventists, South American Division
SID	General Conference of Seventh-day Adventists, Southern Africa-Indian Ocean Division
SPD	General Conference of Seventh-day Adventists, South Pacific Division
SUD	General Conference of Seventh-day Adventists, Southern Asia Division
SSD	General Conference of Seventh-day Adventists, Southern Asia-Pacific Division
TED	General Conference of Seventh-day Adventists, Trans-European Division
WAD	General Conference of Seventh-day Adventists, West-Central Africa Division
xxxWP	Working Policy of the GC or xx Division, such as GCWP, ECDWP, NADWP, etc.

This guide is a highly-condensed presentation of international accounting and financial reporting standards generally accepted by the Seventh-day Adventist denomination. For further guidance, refer to the complete SDA Accounting Manual.

The Objective of Financial Statements

Relevant reliable information, about financial position and performance of an entity, useful to various readers in making economic decisions.

Source: IASB Framework
SDAAM Section 201.02

Accrual Basis

Use of the accrual basis of accounting produces the most relevant reliable information.

Recognise the effects of transactions and events when they occur (not merely when cash is received or paid).

Record transactions in accounting records of the period to which they relate.

Source: IASB Framework
SDAAM Section 201.04

Recognition

Recognise items in the accounting records if both:

1. it is probable that future economic benefits associated with the item will flow to or from the entity, and

2. the item has a cost or value that can be measured with reliability.

Source: IASB Framework
SDAAM Section 502.01

Required for General-use Financial Statements

Financial Position
Financial Activity
Changes in Net Assets
Cash Flows
Notes to the Statements

Source: IAS 1.8
SDAAM Section 202.01

Assets

The resources an entity owns, possesses, or has the right to use or control.
**Assets represent potential to create inflows of cash.

Liabilities

The obligations of an entity to transfer assets, or to provide other economic benefits, to another entity.
**Liabilities represent potential outflows of cash.

Net Assets

The resources that remain available to an entity after subtracting its total liabilities from its total assets.

Definitions:
Source: IASB Framework
SDAAM Chapter 24

Income

Revenue from normal operations, and gains (both realized and unrealized).
**Income increases assets or provides economic benefits.

Expenses

Outflows or depletions of assets from normal operations, and losses (both realized and unrealized).
**Expenses decrease assets.

Normal Operations

Activity related to the entity's primary purpose or reason for existence, defined by the entity, applied consistently.

Definitions:
Source: IASB Framework
SDAAM Chapter 24

Current Classification

Classify assets as current if:
They are cash equivalents, or
They are expected to be sold or consumed in the entity's normal operations within the next fiscal year.

Source: IAS 1.57
SDAAM Section 2402

Classify liabilities as current if they are expected to be settled in the entity's normal operations, or if they will require the use of cash, within the next fiscal year.

Source: IAS 1.60
SDAAM Section 2402

Financial Position

Current Assets
Land, Buildings, & Equipment
Other Assets
  Total Assets
Current Liabilities
Other Liabilities
  Total Liabilities
Net Assets – Unallocated
Net Assets – Allocated & Restricted
  Total Net Assets
  Total Liabilities & Net Assets

SDAAM Appendix 17A

Financial Activity

Income:
  Revenue from Operations
  Net Gains and Losses
Expenses:
  Employee-related Expense
  Administrative Expense
  Other Operating Activity
Appropriations:
  Received
  Disbursed
Capital Activity
Net Increase (Decrease)

SDAAM Appendix 17A

This guide is a highly-condensed presentation of international accounting and financial reporting standards generally accepted by the Seventh-day Adventist denomination. For further guidance, refer to the complete SDA Accounting Manual.

Cash

Cash is: Currency, coin, and instruments that can be deposited in a bank account.

Source: IAS 7.6
SDAAM Section 901.01

Cash Equivalents are: short-term, highly-liquid, financial instruments, convertible to cash in three months or less from the date acquired.

Source: IAS 7.6, 7.7
SDAAM Section 901.01

Classify and report cash and cash equivalents as current assets, unless the account is held for other than operating purposes, such as for plant acquisition.

Source: IAS 7.7, 7.48
SDAAM Section 901.01

Classify accounts that are held for either agency or fiduciary purposes, which would otherwise be cash and cash equivalents, as current assets, but report them on a separate line as cash held for other purposes, apart from cash and cash equivalents.

Source: IAS 7.48
SDAAM Appendix 9A

Disclose the components of cash and cash equivalents in the notes to the financial statements.

Source: IAS 7.45, 7.48

In accordance with accrual basis of accounting, record cash receipts & disbursements as of the accounting period in which they occur.

Source: IAS Framework
SDAAM Section 201.04

Investments

Investments consist of all financial instruments that are not cash equivalents.

Source: IAS 32.11
SDAAM Section 1001.01

Place all investments into one of the following four classes.
Class A. Selected for Fair Value
Class B. Held to Maturity
(subject to limits)
Class C. Loans Receivable
Class D. Available for Sale

Source: IAS 39.9

Value and report investments of each class as follows.
Class A. Fair Value
Class B. Amortised Cost
Class C. Amortised Cost
Class D. Complex Fair Value

Source: IAS 39.46
Valuation: SDAAM Section 1004

For investments carried at fair value, record the difference between fair value and cost in separate valuation accounts; typically called "Unrealised Appreciation or (Decline)."

SDAAM Section 1004.04

Record the net change in the valuation account each period as "Unrealised Gain or (Loss)" in the statement of activity.

Source: IAS 39.55
SDAAM Section 1004.04

For each type of financial instrument, disclose:
Cost,
Fair value and valuation amount,
Concentrations, and
Other risks,
in the notes to the financial statements.

Source: IFRS 7

Accounts Receivable

If it is probable that a receivable is collectible, recognize it as an asset.

Source: IAS Framework

If it is probable that a receivable has become uncollectible, recognize net realizable value by use of a valuation account. Record increases to this valuation account as expense.

Source: IAS Framework

This valuation account is typically called "Allowance for Uncollectible Accounts."

SDAAM Sections 1101, 1103

Loans Receivable

Loans are: financial assets with fixed or determinable payments, but which are not traded on an open market.

Source: IAS 39.9

Report appropriate portions as current and as noncurrent, according to the payment terms of the loan instruments.

Source: IAS Framework

Record risk of uncollectibility similarly to the process for accounts receivable.

Source: IAS 39.63
SDAAM Section 1104

In the notes, disclose:
Valuation method applied.
Amounts due from affiliated entities and key employees.
Changes in the allowance.
Impairment loss, if any.
Total interest income.

Source: IFRS 7

This guide is a highly-condensed presentation of international accounting and financial reporting standards generally accepted by the Seventh-day Adventist denomination. For further guidance, refer to the complete SDA Accounting Manual.

Inventory

Things that have been acquired or produced to be sold or transferred to other entities or individuals.

Source: IAS 2.6
SDAAM Section 1201.01

Value inventory at the lower of cost or net realizable value. Include in cost all elements necessary to acquire and bring the item to its present location and condition.

Source: IAS 2.9, 2.10
SDAAM Section 1201.09

When inventory is sold or disposed of, remove its carrying amount from assets, and record the amount as cost of goods sold or as expense, as of the same period in which the related revenue is recognized.

Source: IAS 2.34
SDAAM Section 1201.03

In the notes, disclose:
The valuation method.
Carrying amount by type.
Amount charged to expense

Source: IAS 2.36

Prepaid Expense

Goods or services acquired or produced for the purpose of the entity's own consumption or benefit over time.

SDAAM Section 1201.01

Remove from prepaid, and record as expense, portions used during the period.

Source: IAS Framework
SDAAM Section 1204

Property & Equipment

Property and tangible things that are held by the entity for:
**Use in the production or supply of goods or services,
**Rental to others, or
**Administrative use, and
**Are expected to be used during more than one year.

Source: IAS 16.6
SDAAM Section 1302.01

Recognise the cost of an item as an asset only if:
*A. it is probable that future economic benefits from the item will flow to the entity, and
*B. the cost of the item can be measured reliably.

Source: IAS 16.7

Include in cost all elements necessary to acquire and bring the item to the location and condition for it to be placed in service.

Source: IAS 16.16
SDAAM Section 1302

Distribute cost of buildings and equipment to periods of use by depreciating it on a systematic basis over the item's useful life.

Record depreciation taken each year as expense.

Source: IAS 16.48, 16.50
SDAAM Section 1303.01

In the notes, for each class of plant asset, disclose:
**Measurement basis, useful life, and depreciation method.
**Balance at beginning and end of period, and additions and deletions, for cost and accumulated depreciation.

Source: IAS 16.73
SDAAM Section 606.03

Current Liabilities

In accordance with accrual basis of accounting, record obligations that relate to the reporting period but which have not yet been paid.

Source: IAS Framework

Current liabilities consist of:
Accounts payable
(Obligations incurred, currently payable, but not yet paid.)
Accrued payables
(Obligations incurred, currently payable, but not yet invoiced.)
Agency accounts
(Money provided by others to be used only as directed.)
Current loan payments
(Scheduled payments on loans which are due over the next twelve months.)

Source: IAS Framework
SDAAM Chapter 14

Loans Payable

Loans payable consist of:
Formal notes payable
Informal loans payable
Capital leases
Loans from affiliated entities

Source: IAS Framework
SDAAM Section 1401

Report as noncurrent, the portion of scheduled loan payments which are due after more than twelve months.

Source: IAS Framework
SDAAM Section 1401.04

In the notes, disclose the terms of all loans payable.

Source: IFRS 7

This guide is a highly-condensed presentation of international accounting and financial reporting standards generally accepted by the Seventh-day Adventist denomination. For further guidance, refer to the complete SDA Accounting Manual.

Net Assets

International accounting standards allow entities to create categories within net assets that are useful for the financial statement readers.

Source: IAS Framework
SDAAM Section 1501.01

For the SDA denomination, net assets are separated into the following categories:
Unallocated Tithe
Unallocated Non-tithe
Allocated (by committee)
Allocated (donor restricted)
Unexpended Plant
Invested in Plant

Illustrated: SDAAM Chapter 15

Financial Activity

International accounting standards allow entities to create categories of financial activity that reflect the economic characteristics of the entity's operations in a manner that is useful for the financial statement readers.

Source: IAS Framework, IAS 1.83
SDAAM Section 1501.01

For the SDA denomination, financial activity is reported in two different statements:

**The statement of financial activity reports income, expense, and other activity in an overall summary form.

**The statement of changes in net assets reports income, expense, and transfers for each unallocated and allocated net asset function.

Illustrated: SDAAM Appendix 17A

Multiple Currencies

Standardized terminology:
Functional (Base) Currency
Foreign (Account) Currency
Presentation (Report) Currency
Spot (Current) Exchange Rate
Average (Fixed) Exch. Rate

Source: IAS 21.8
SDAAM Section 1601.02

Record transactions by applying to the foreign currency amount the current exchange rate between it and the functional currency as of the date of the transaction.

Source: IAS 21.21
SDAAM Section 1601.02

The date of the transaction is the date on which it first qualifies for recognition.

Source: IAS 21.22
SDAAM Section 1601.02

At financial position date, convert all monetary items from foreign currency into functional currency using exchange rate at that date.

Source: IAS 21.23

At financial position date, convert all non-monetary items measured at historical cost in foreign currency into functional currency using exchange rates from original underlying transactions.

Source: IAS 21.23
SDAAM Section 1601.02

Record as exchange gain or loss the effects of changes in exchange rates between original transaction dates and financial position date.

Source: IAS 21.28
SDAAM Section 1601.08

Disclosures

In addition to the various disclosures mentioned earlier, disclose the following in notes to the financial statements.

SDAAM Section 606

A description of the reporting entity, including its location, organizational structure, and the nature of its operations.

Source: IAS 1.128

A summary of the significant accounting policies used in preparing the entity's financial statements.

Source: IAS 1.108

A summary of management assumptions and judgments about balances that represent estimates or uncertainty.

Source: IAS 1.113, 1.116

Information that enables users of the financial statements to evaluate the significance of financial instruments on the entity's financial position and financial activity.

Source: IFRS 7

Information that enables users of the financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the financial statement date.

Source: IFRS 7

On the face of the financial statements, cross-reference to relevant information in the notes to the financial statements.

Source: IAS 1.104

This page of the guide is a highly-condensed presentation of specific USA accounting standards for not-for-profit entities, generally accepted by the Seventh-day Adventist denomination, which differ from international financial reporting standards generally accepted by the Seventh-day Adventist denomination. For further guidance, refer to the complete SDA Accounting Manual, Appendixes 6B to 6D, 6F, 7A to 7E, 10C, 14A, 15A to 15E, 17C to 17E, 20B to 20D, 21B, and 22B to 22D.

Investments

Place all debt and equity securities into one of the following three classes.

*A. All debt securities
*B. All equity securities for which fair value is readily determinable
*C. Equity securities that are not traded on an open market

Value and report investments of each class as follows.

*A. Fair value, using quoted price or best estimate
*B. Fair value, using quoted price or best estimate
*C. Equity method or consolidation

Source: FAS 124
SDAAM Appendix 10C

Liabilities

Specific classification and reporting requirements related to compensation of ministers.

SDAAM Appendix 14A

Net Assets

Financial activity and related net assets are classified according to the absence or presence of donor restrictions.

Source: FAS 116, 117

For the SDA denomination, net assets are separated into the following categories:

Unrestricted Unallocated:
- Tithe
- Non-tithe

Unrestricted Allocated:
- Operating
- Unexpended Plant

Unrestricted Invested in Plant

Temporarily Restricted:
- Operating
- Plant
- Other Funds

Permanently Restricted

Source: FAS 116, 117
SDAAM Appendix 15A

Specific accounting and reporting standards for beneficial interest in split-interest agreements

Source: AICPA AAG-NPO
SDAAM Appendix 15C

Financial Position

Current Assets
Land, Buildings, and Equipment
Other Assets
  Total Assets
Current Liabilities
Other Liabilities
  Total Liabilities
Net Assets:
  Unrestricted Unallocated
  Unrestricted Allocated
  Unrestricted Invested in Plant
  Temporarily Restricted
  Permanently Restricted

Source: FAS 117
SDAAM Appendix 17C, 17D

Financial Activity

Income:
  Revenue from Operations
  Net Gains and Losses
  Released from Restrictions
Expenses:
  Programs and Services
  Supporting Functions
Non-operating Activity
Increase (Decrease) in
  Unrestricted Net Assets
Increase (Decrease) in
  Temporarily Restricted Net Assets
Increase (Decrease) in
  Permanently Restricted
Increase (Decrease) in
  Total Net Assets

Source: FAS 117
SDAAM Appendix 17C, 17D

Paragraph number key: Digits prior to decimal refer to the chapter and section; digits after refer to the individual paragraph number in that section, i.e., **101.03** is chapter 1, section 101, paragraph number 3; **1405.02** is chapter 14, section 1405, paragraph number 2; and **3A.02** is chapter 3, appendix A, paragraph number 2.

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