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KHACHKAR STUDIOS
EMPOWERING GOOD NEWS

Pilot Churches Financial Statements – Accounting Assumptions

Re: Comparable accounting assumptions for GAAP financial statements for pilot churches

General:
1. Books and accounting records must balance each year (total debits = total credits).
2. The number of "Faithful" pre-2024 should be assumed as "not available" unless there are credible numbers collected during that period.

Balance Sheet:
1. **Non-Financial Assets:**
   a. The cost of a long-lived asset should be stated at acquisition cost, including all costs necessary to configure and position the asset at the location at which it will be used. Long-lived assets should not be written up to reflect appraisal, market, or current values that are above cost.
   b. When Property, Plant and Equipment ("PP&E"), e.g. church building, is not on the books, the acquisition cost should be estimated using the average of the last 5 years' Capital Expenditures and multiplying it times a 40x multiplier (assumes an asset useful life of 40 years).
   c. No annual depreciation of property assets is recognized.

2. **Accruals:** Considering that pilot churches usually use "cash accounting", accruals should be immaterial or nonexistent, unless a specific item is noted and confirmed to be accounted for correctly.

Income Statements:
1. All Donations are recorded as income.
2. Gains or losses in financial assets are recorded as income or loss.

Projections:
1. **Financial Assets:** Annual change in Financial Assets should result from the annual Net Income/ Loss, deducting other changes in Balance Sheet items.

2. **Building Reserve Fund:** Each year, there should be an accrued expense to account for a building maintenance reserve fund. This should be recorded in Spending and as an accrual in Non-Financial Debts.

3. **Khachkar Studios related income:** Income should have one specific line for projected revenue from Khachkar Studios. This line item should be classified as Church-Related Income.

4. **Increase in "Faithful":** The variable cost of the increase in "Faithful" is negligible and should be similar to the increase in income; therefore, no impact on net income is expected.

References:

Richard F. Larkin, Marie DiTommaso, and Warren Ruppel, *Wiley Not-for-Profit GAAP 2020: Interpretation and Application of Generally Accepted Accounting Principles* (Hoboken, NJ: Wiley, 2020)