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G. A. Swanson

John Consul Gardner

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G. A. Swanson
TENNESSEE TECH UNIVERSITY
and
John C. Gardner
UNIVERSITY OF WISCONSIN AT LA CROSSE

THE INCEPTION AND EVOLUTION OF FINANCIAL REPORTING IN THE PROTESTANT EPISCOPAL CHURCH IN THE UNITED STATES OF AMERICA

Abstract: This research documents the emergence of accounting procedures and concepts in a centrally controlled not-for-profit organization during a period of change and consolidation. The evolution of accounting as prescribed by the General Canons is identified and its implementation throughout the church conferences is examined.

Introduction

Accounting has been called the language of business and finance. It is a universal language which is applicable to all cultures and historical periods. Basic cost accounting or financial procedures are applicable in Japan or America and have their chronological antecedents in the Near East and Western Europe. Institutions such as the Christian church, military groups, and even feudal governments contributed to the development of accounting procedures, auditing practices and new theories. Each of these institutions was also joined by the nascent capitalistic enterprises which began to emerge in the early modern era in places such as the Italian city states. These city states, with their commercial interests helped to stimulate the development of new free enterprise accounting practices.

Historically, the Western church has played a central role in the development of capitalism and accounting. During the Middle Ages the Roman Catholic Church provided literate people who maintained primitive sets of books during the feudal period. Pacioli, who is often credited with being the father of accounting, was a church trained scholar. His *Summa* includes a summary of double entry bookkeeping practices in the fifteenth century.

*Incipient Accounting in the Protestant
Episcopal Church in the United States*

The historical development of accounting in the United States has grown from a variety of sources including European tradition since Pacioli, commercial practices in the United States, and various not-for-profit centers such as the churches and other charitable institutions. Since the "Church" has played such a critical role in American society, it seems appropriate to trace the historical development of financial reporting as it evolved in the new nation from 1780 to 1860. This eighty year period was critical for the development of the nation and was central to the adjustment of ecclesiastical institutions in an independent, free market society.

The Protestant Episcopal church, which was originally founded as part of the Anglican communion in the Seventeenth century, had come to play a vital role in American society. Although it was a hierarchical church in England, it was only nominally supervised by the Bishop of London during the colonial era from 1607 to 1776. Church governance was actually controlled by the vestry which consisted of wealthy Americans and was supported to various degrees by involuntary tax contributions which paid the salary of the 250 clergymen in 300 parishes from Maine to Georgia [Marty; Addison].

During the period 1780-1820 the Episcopal Church underwent both economic and constitutional changes. First, it ceased to be an established church which was supported by tax contributions: "even in the South the Church at once became chiefly dependent for support upon the voluntary contributions of its members. With varying degrees of success that system was gradually adopted in all the states . . ." [Addison, p. 57]. In addition to the change in the source of Church financing, the Episcopacy began to be consolidated through the appointment of bishops and the creation of new canons as well as other church law on topics ranging from financial reporting to demographics.

Efforts at consolidation of the Episcopacy continued from 1820 to 1860 as the Church underwent new challenges. Greater efforts were taken to heighten the power of the bishops over particular dioceses and to strengthen the general power of the Church. There were also increased financial demands to fund missionary work and to create seminaries for the training of Episcopal clergy. All of these demands, as well as societal problems such as heightened race relations, were increasing the need for reporting. The very structures of the church (e.g., the Episcopacy and three year general conferences) also demanded better financial reporting on both the local

and national church levels which influenced the growth of accounting within this part of the private sector.

The new canons enacted during this transition period reflect the consensus of the church on key issues. Consequently, it is appropriate to chronicle the development of financial reporting in the canons. The evolution of reporting throughout the Church may then be viewed with reference to the evolution of Church consensus on the matter.

Accounting Prescribed by the General Canons

The constitution and canons of the General Convention of the Protestant Episcopal Church in the United States of America form the code by which the Episcopal Church is governed. Canon 5 entitled, "Of the Mode of Securing an Accurate View of the State of this Church," provides the accounting methodology and processes to be used in the governance of the church. Exhibit 1 identifies key elements in its evolution.

The first legislation of the General Convention on the subject of Canon 5 was by the convention of 1804 [Canon 11, 1804]. The idea of an accurate view of the state of the church was formulated in this incipient canon and has persisted to the present. The "accurate view" was considered both highly useful and highly necessary.

The report process instituted by the 1804 convention is depicted in Exhibit 2. Each minister was to report on the state of his parish to the annual convention of the diocese. From the various diocese conventions, the reports went to the general convention where they were processed to become part of a "pastoral letter" from the House of Bishops for the general information of the church. Apparently, this incipient reporting process was designed to gather information of a general nature to be distributed to all participating members of the church. The process provided for the interpretation of the data by the House of Bishops before the information was generally distributed. The initial canon did not call specifically for either statistical or financial data. Neither did it offer advice on how to measure the "state" of the church.

Within a few years, the General Convention specifically designated certain measurements of the state of the church and expanded the entity being measured to include the activities of the diocese itself. The 1808 convention designated the number of baptisms, marriages, funerals, and communicants for inclusion in the report [Canon 45, 1808]. This is the first codification to the use of statistics in the reporting system. It would be forty-five years be-

Exhibit 1

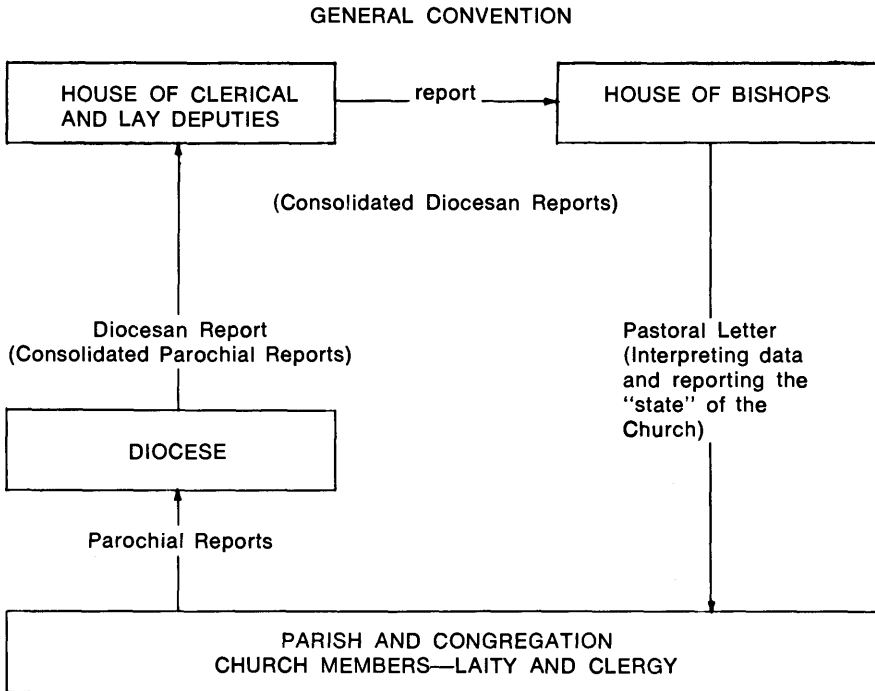
The Evolution of Accounting in the General Canons
1804-1862

Initial reporting system Parochial reports required	1804	To provide "full and accurate" view of the "state of the church" Parish is reporting entity
Requires number of baptisms, marriages, etc.	1808	Specific measures of "state" identified, first statistics
Diocese-level reports required		Reporting entity expanded to include diocese activities
Condensed report required "Tabular view" of "state" required	1820	Data reduction-summarization
All clergymen required to report activities	1835	Reporting entity expanded
Requires amounts of contribu- tions be reported	1853	First required financial statistics
Requires amounts to be included in tabulations		
Requires that schools, hospitals and etc. managed by members report	1862	Reporting entity expanded
The requirement for diocese reporting changed from a recommendation to a duty		Upward flow of information to the General Convention now mandatory

fore financial statistics were brought into the canons. Why this lag occurred is not apparent, because many of the diocesan reports submitted during this period of time contain financial statistics.

The 1808 convention emphasized that the ultimate users of the report information were expected to be laity as well as clergy by stating that the published pastoral letter should be "to the members of the Church." [Canon 45, 1808] The attitude that report information was useful and necessary for members of local congregations apparently intensified through 1820. In that year the General Convention provided that the pastoral letter be read to congregations at some occasion of public worship. The accounting information process continued to loop back to the members of local parishes until 1910 when the provision for the pastoral letter was deleted from the canons.

Exhibit 2
The Incipient Report Process
1804



The definition of the reporting entity expands over time from its inception as the parish in 1804 to include the diocese in 1808, ministers without parishes in 1835 [Canon 51, 1835], and “. . . [a]ll incorporated schools, all parochial schools, all academies and colleges, and all hospitals, asylums for orphans or other children, of either sex, maintained at the expense or conducted under the management of members of this church” in 1862 [Canon 15, 1862]. The 1862 expansion sought to consolidate entities that for the most part did not comply so this provision was dropped in 1904 [Canon 47, 1904].

Throughout the period from 1804 to the present, the canons relating to the accounting process have become more specific in defining the responsibility for reporting as well as the contents of

reports. Initially, the canon simply stipulated the order of conventions through which the reports should be processed. In 1808 provision was made for a committee to be appointed in the House of Clerical and Lay Deputies to draw up a report on the state of the church from the various parochial and diocesan reports. This was the first committee to be established by the General Convention. The 1832 convention instituted the recommendation that the "ecclesiastical authority" at the diocese level prepare a condensed report for the General Convention [Canon 51, 1832]. This responsibility was designated specifically to the Bishop and Standing Committee of the Church in 1841 [Canon 51, 1841]. It would not become a "duty" until 1874 [Canon 17, 1874]. It would be another thirty-nine years before the Joint Commission on Business Methods in Church Affairs was appointed and three more years before a "uniform form of report" was adopted.

The specificity of statistical content required by the 1808 convention was expanded to include "a tabular view" by the 1832 canon. Still no financial statistics were mandated. It was not until 1853 that the canons required the submission of financial data. At the same time, this data was required to be entered in the condensed report and the "tabular view."

The Implementation of Canonical Accounting

The requirements for reporting contained in the canons apparently lead the development of diocesan level reporting of statistical and demographic information. In New Hampshire, for example, statistical and demographic information first appeared with the eleventh annual convention in 1811 [New Hampshire Proceedings 1811, pp. 28-29]. This conformance lagged the canon requirement by three years. The information included a general listing of communicants as well as descriptive statistics such as births, deaths, and marriages. Instances of tabular summaries of the same data did not appear in New Hampshire until 1822, two years following its requirement by the canons [New Hampshire Proceedings, 1822].

On the other hand, the diocesan reporting of financial data in Vermont predates the canon requirement by twelve years. The canon required financial data in 1853 and Vermont was reporting it by 1841 [Vermont Proceedings, 1841, pp. 50-51].

During the period 1819-1850, the reports begin to indicate an increasing use of financial data. A detailed Treasurer's report existed by the early 1840's in Indiana along with tabular summaries of the assessments required of the local parishes [Indiana Proceedings,

1840, p. 37; Indiana Proceedings, 1841, p. 6]. Financial data first appeared in Maryland in 1814 and very detailed Treasurer's reports appeared from 1841-1860 [Maryland Proceedings, 1841, pp. 61-76; Maryland Proceedings, 1814, Appendix pp. 10-11]. The attest function apparently began to emerge during this same period. For example, in Massachusetts, an internal procedure for verifying accounts for the annual conference was developed by 1834. In that conference, two delegates stated "We hereby certify that we have examined the above account, with the vouchers and feel the items duly charged and cast." [Massachusetts Proceedings, 1834, p. 41].

By 1860, on the eve of the Civil War, several trends had emerged in the reporting of financial information in the Protestant Episcopal Church. First, almost all of the dioceses required the reporting of a wide variety of financial and demographic data. Some of the diocesan conventions were utilizing a basic system of debits and credits in order to list the disbursements and receipts from the various funds which were needed to support the Episcopacy. A voucher system had emerged in some dioceses and the convention treasurers were making very complete reports on the condition of the dioceses based on the parochial accounts which were made available from the local rectors [Louisiana Proceedings, 1857; Illinois Proceedings, 1853; Ohio Proceedings, 1860].

During the incipient period, the trend towards more complete financial data in the General Church reports was apparently influenced by both the growth of the strength of the Episcopacy and the practices which had emerged in many of the local dioceses. This duality of top-down and bottom-up influence may be broadly characteristic of accounting development in general.

The roughly seventy year period following the incipient period was characterized by both continuity and change. The fundamental requirements of the canons remained intact while two trends emerged at both the general and diocesan convention levels. First, there was a growth in the detail and sophistication of the financial data which appeared in the tri-annual general convention and annual convention reports. For example, balance sheets began to appear in the first two decades of the twentieth century [Indiana Proceedings, 1910, pp. 56-57]. A more significant trend was the expansion of the audit function at both the national and local diocesan levels as evidenced in the financial reports. By 1910, in the Diocese of Ohio, separate reports were issued by the Treasurer, an Auditor, and a separate (though non-professional) audit committee [Ohio Proceedings, 1910, pp. 113-135]. Independent audits began to appear by the 1920s. As early as 1927, for example, in California

a CPA's audit report stated that ". . . we have audited the accounts of your Treasurer, . . . and we certify that . . . his accounts . . . [are] . . . correct." [California Proceedings, 1927, pp. 158-159]. No pattern of use of outside auditors was found in other states, but their reports were well accepted at both the General Conference and diocesan levels by mid-century.

Conclusion

The history of the use of financial data in the Episcopal Church is an interesting phenomenon in the United States. The data reflects the growing complexity of American free enterprise and was based on the internal needs of a church which was moving from being state supported to being financially more a part of the private sector. Thus, the church had to be aware of the need for more financial data and clarity in financial reporting. Additionally, the church had to expand both the internal and external audit function as it attempted to cope with a more complex world in which financial security insured its economic viability and actual survival.

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A standard title format was established for the various state conventions in the interest of uniformity of citation.