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Accounting and Financial Reporting by a Late 18th Century American Charity

Abstract: Empirical research to date has neglected accounting and external financial reporting among 18th century American charitable institutions. Contemporary understanding of 18th century American practices is supported by evidence relating to commercial transactions primarily among colonial merchants. Our study examines the accounting and financial reporting of the Charleston Orphan House, the first municipal orphanage in America, from its inception in 1790 through its first five years of operations. The institution was established by city ordinance in 1790 which required the institution "to keep a book of fair and regular accounts of all receipts and expenditures which will be subject at all times to the inspection of the Commissioners." The ordinance charged the orphanage's Committee on Accounts to "audit" its accounts.The City Council required the institution's board chairman to countersign the financial statements in 1792 before subjecting them to a second "audit." The Orphan House employed a system of account books that recorded and facilitated the reporting of expenditures and sources of funds. Accounting and external reporting may have been legitimizing factors to overcome the "liability of newness" by promoting a sense of propriety and transparency among benefactors.

"I visited the Orphan House at which there were one hundred and seven boys and girls. This appears to be a charitable organization and under good management."
[President George Washington, diary entry, Saturday, May 7, 1791]

INTRODUCTION

Following the American Revolutionary War, a period of economic hardship descended upon the colonies as retreating

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British troops took with them much of the commerce that had initially benefited a young America. The effect was especially felt in the southern states where, "South Carolina and Virginia had felt the severity of the ravages of the war in the later years... and...found business stagnant and conditions depressed" [Faulkner, 1960, p. 139].

The limited economic resources had implications for America's approach to managing its social issues, including the caretaking of orphans. The British model for orphan caring through privately funded sources that had emerged in the colonies was particularly sensitive to unfavorable economic trends. One study concludes: "Orphans were another familiar category of dependency. Their care in England had been provided by binding them out to foster parents and this method was readily employed in America. Novel uncertainties, however, sometimes threw upon the traditional system a weight it could scarcely bear" [Bremner, 1970, p. 29].

The Revolutionary War left orphans throughout America and placed a strain on the traditional foster-parent system which was unsustainable because of the dire economic conditions of the period. This was particularly true in Charleston, South Carolina during the late 1700s as affluent citizens had taken the lead in orphan caretaking, relying on personal funding. These philanthropists found this financial responsibility overwhelming and sought broader assistance from their fellow Charlestonians [Lucas, 1991]. The subsequent institutionalization of orphan caretaking via the establishment of the Charleston Orphan House provides a unique setting in which to observe the early accounting and financial-reporting practices utilized by a charity before the advent of promulgated standards.

This study examines accounting and financial reporting in the formative years (1790-1795) of the Charleston Orphan House, the first municipal orphanage in the U.S. [Jones, 1961, p. 203]. The data came from multiple sources including the minutes of the Charleston Orphan House Board of Commissioners, minutes of the Charleston City Council, and published newspaper reports of the period. The findings contribute to a largely neglected topic in the accounting literature regarding the nature and function of accounting and external reporting by an 18th century American charity. Our findings suggest that financial reporting and accounting were used for financial and operational control and may have served as a legitimizing factor by promoting a sense of financial propriety and transparency during the 1790s.

ESTABLISHMENT OF THE CHARLESTON ORPHAN HOUSE

The Charleston Orphan House was created by an act of the Charleston City Council on October 18, 1790 to care for the orphan population of South Carolina that resulted from the American Revolutionary War. The Act was initiated by John Robertson, a successful merchant and City Council member who had privately supported a number of children orphaned by the war [Lucas, 1991]. The ordinance established the Orphan House "for the purpose of supporting and educating poor orphan children and those of poor and disabled parents who are unable to support them" [City Council minutes, October, 18, 1790]. Charleston's *City Gazette* published the ordinance in its entirety the following week.

EXHIBIT ONE

Charleston *City Gazette*
Ocotber 25, 1790 – Excerpt
Orphan House Ordinance

State of South-Carolina City of Charleſton

An ORDINANCE for the eſtabliſhment of an Orphan-Houſe in the city of Charleſton, for the purpoſe of ſupporting and educating poor orphan children, and thoſe of poor diſtreſſed and diſabled parentſ who are unable to ſupport and maintain them.

WHEREAS the preſent mode of ſupporting and educating poor children at different ſchoolſ, haſ been found by experience to be attended with heavy expenſe and many inconveniencеſ, and the eſtabliſhment of an orphan-houſe, properly organized and conducted, will be attended with leſſ expenſe, more convenience and benefit, and may tend to give general ſatiſfaction to the citizenſ, and induce the benevolent and aſſiſt in the ſupport of ſo charitable and laudable an inſtitution.

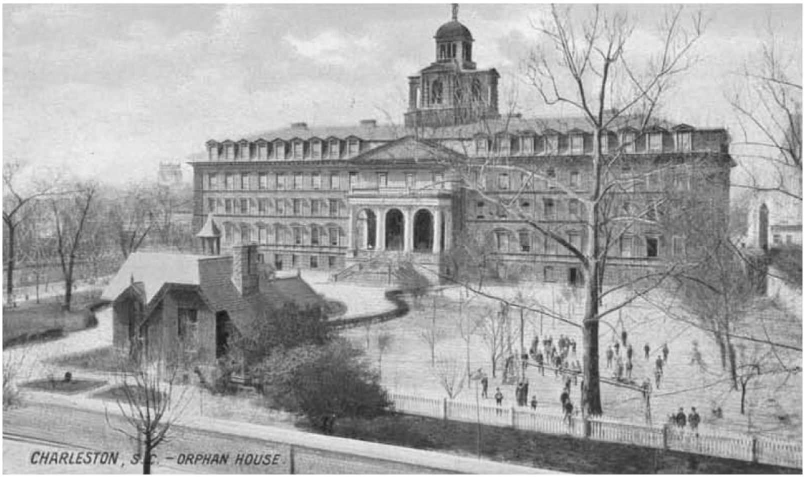
Source: Charleston Library Society Archives, *City Gazette* Collection

Lucas [1991] suggests that Robertson and other prominent citizens were driven by economic motive in establishing the Orphan House as the American Revolution had created economic hardship for those left caring for the children. Throughout the former British colonies, a disproportionate number of the wealthy bore the economic burden of caring for homeless children before 1790. As the problems became increasingly costly, the Orphan House emerged as an institution to allocate the burden more evenly. As was the case across most of post-war America, "novel uncertainties…created homeless orphans in large numbers. The only response was to consider some form of institutional care" [Bremner, 1970, p. 29]. The motive to mitigate the expense of the orphan problem to society is clear in the ordinance. From its inception, the Orphan House was overseen by a Board of Commissioners who reported to the City Council. The Board consisted of 12 prominent men appointed by the City Council. Its members included prominent planters, physicians, attorneys, merchants, and clergy. Daily operations were carried out by two agents of the board, the steward and the head matron.

From 1790-1794, the orphans were housed in a building rented from the city that was once used by British troops and abandoned following the end of the Revolution. In 1791, property was acquired for the construction of an Orphan House by the city. Construction was completed in three years at a cost of nearly $10,000. The imposing five-story Greek revival and federalist building, which spanned nearly a city block and is illustrated in Exhibit Two, may have served as a legitimizing factor among Charlestonians. The ubiquitous Orphan House was as a landmark in the city for over two centuries until it was demolished in the 1950's.

EXHIBIT TWO

Charleston Orphan House
Completed in 1794



Source: Roger B. Daniels' Collection

The city's decision to build an elaborate and ornate structure appears to have been based upon the belief that such visibility would enhance the standing of the institution among potential donors. As Mallgrave [2005, p.39] notes, "buildings not only have the capacity to speak,…in such a way that a rapport is established with the spectator." Lucas [1991, p. 3] explains:

> To care for the children as a group would be less expensive than paying boarding fees to individuals and to schools. Moreover, a visible orphan house would attract charitable contributions, and the process began at once. Until an orphan house could be built a large house on Market Street was rented…. It was during the time that the children were housed in this way that George Washington visited them and congratulated the City on what it was doing for its children. It was reported that he "very pathetically" blessed the children before leaving.

The Board of Commissioners functioned as a sub-entity of the City Council. Its members established policies for the institution, hired and monitored staff, oversaw accounting and reporting, conducted routine inspections, admitted children, and managed the process of bonding them out for apprenticeships. As early as age 12, children were apprenticed for the purpose of learning a trade or skill that would allow them to be self-sufficient as adults. The board was active in each placement, including trades in agriculture, milling, tailoring, culinary arts, brick masonry, and carpentry. Those accepting the children into apprenticeships would provide a "bond" to the city through a legal process in which the court would grant custodianship to those providing the apprenticeship. The city would transfer the bonds to the Orphan House which would receive the funds when paid. These financial instruments accrued interest and were expected to be paid in full by the end of the apprenticeship when the apprentice reached age 21. These bonds were accounted for as receivables and were disclosed in the accounts of the institution, identified by the individual issuing the bond.

The head matron was primarily responsible for the welfare, care, and education of the children. The board required that she be a "woman of good moral capacity and character." She was primarily responsible for maintaining a physical and moral environment for the children that closely correlated to existing social norms of the community. Matrons were elected by the City Council and reported to the Board of Commissioners. The institution also employed matron's assistants, nurses, laundresses, groundskeepers, cooks, and a physician.

THE INSTITUTIONAL FORM

Contemporary institutional theory may aid in the understanding the formation of the Charleston Orphan House and its subsequent accounting and financial-reporting endeavors. The institutional formation that occurred as part of the effort to transfer the responsibility of orphan caretaking from the wealthier citizens of Charleston to the municipality lends itself to several underlying premises of institutional economic theories. For example, Demsetz [1967, pp. 348, 354-359] describes the evolution of institutions as an effort to realign social responsibilities in order to "internalize" (or resolve) externalities (i.e., problems that are imposed upon society). The organizational or institutional form that results will minimize the transaction costs associated with internalizing the externality [Coase, 1937, pp. 393-395, 404; 1960, pp.16-17]. Demsetz [2002, p. 664] also argues that the institutional form that arises will be relatively "specialized" to minimize transaction costs most effectively and align responsibilities.

This theoretical construct can be easily observed as Charleston's traditional foster system became institutionalized. The externality facing the post-war American society was, among others, the abnormal level of orphans that were directed toward the foster system as a result of war casualties. Such was the case in Charleston where the cost of this responsibility became so burdensome that the traditional foster care system (i.e., wealthy caretakers) sought to internalize these costs by turning to an institutional form that most effectively reduced the transaction costs (i.e., cost of caring for an orphan). As theory would predict, the institutional form that resulted was the public orphanage. An orphanage, by definition, specializes in caretaking and thus provided the most effective means of reducing transaction costs as the local community sought to deal with this burden placed upon it by the Revolutionary War.

Institutionalization of Orphan House Financial-Reporting Practices: Covaleski and Dirsmith [1988] were among the first to apply institutional theory to accounting and financial reporting. Institutional theory allows for a more robust understanding of the broader organizational and societal implications of accounting and financial reporting. Institutional theorists posit that an organization's viability and survival are dependent upon its constituents' perceptions of its conformity to a variety of social norms including the use of acceptable accounting and reporting rules [Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Covaleski and Dirsmith, 1988; Covaleski et al., 1993; Irvine, 2002].

North [1990, pp. 36-45] describes the adoption of socially accepted practices as a response to society's "informal constraints." Institutions will conform to informal constraints as they seek to reduce transaction costs as they internalize externalities and find it cost-beneficial by conforming to established practices. The adoption of established accounting and auditing practices reduces the information search costs incurred by outside parties who seek to contract with the institution [North, 1990]. The institution's compliance with social norms more efficiently facilitates the relief of externalities. By complying with constituencies' expectations and conforming to social norms, institutions may be exhibiting strategic motives that reflect an effort to preserve long-term solvency [Suchman, 1995; Deegan, 2002].

Dent [1991] provides support for the idea that entities will adopt rational accounting techniques so as to instill confidence among resource providers. Irvine [2002, p. 3] contends that this notion is particularly important in understanding the behavior of not-for-profit entities. She notes:

> Any organization that does not conform to societal expectations about how accounting ought to be performed, and about the accountability and transparency required in financial reporting, risks showing to disadvantage against its competitors, losing legitimacy and ultimately funding. Financial reporting, therefore, and the accountability it purports to exhibit, is an institution whose legitimizing power organizations must recognize if they are to survive.

Institutions tend to conform to the "societal expectation of appropriate organizational behavior" and will exhibit "rule-like status in social thought and action" [Covaleski and Dirsmith, 1988, p. 562]. Adoption of socially acceptable practices assists in establishing social prestige and ensures the inflow of funds from constituencies [Meyer and Rowan, 1977; Oliver, 1991; Carruthers, 1995].

Conformity to societal norms generally results in institutional isomorphism and organizational homogeneity [Covaleski et al., 1993; DiMaggio and Powell, 1993]. Institutions with a specific mission will tend to be organized according to what society expects. Research on this subject is particularly important to not-for-profit entities, including charities, in that it has been demonstrated that organizations tend to strive for "social fitness rather than economic efficiency" [Powell, 1985, p. 565].

Organizational Legitimacy: The concept of organizational legitimacy is fundamental to legitimacy theory [O'Donovan, 2000]. Dowling and Pfiefer [1975, p. 122] define organizational legitimacy as "a condition or status which exists when an entity's value system is congruent with the value system of a larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy."

For emerging institutions, the incentive to engage in legitimizing behavior often stems from the desire to minimize what Suchman [1995, p. 586] calls the "liability of newness." To win acceptance by the community and establish itself as viable, organizations must proactively engage in legitimizing behavior. Institutional theorists posit that an organization's viability and survival are dependent upon its constituents' perceptions of its conformity to a variety of social norms including the use of acceptable accounting and reporting rules [Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Covaleski and Dirsmith, 1988; Covaleski et al., 1993; Irvin, 2002]. Societal expectations force organizations into this legitimizing behavior to remain solvent [Deegan, 2002].

Suchman [1995] describes legitimacy as a process that solicits unique responses at various stages of the organization's existence. The first task is to engage in activities that are designed to obtain legitimacy, which includes conforming to current practices deemed acceptable to potential stakeholders, seek out stakeholders that accept the organization's existing practices, or influence potential stakeholders by establishing unique legitimizing behavior. The second stage of the process involves maintaining legitimacy that has been created, including the monitoring of the organization's operations in order to avoid problems and establishing defensible operational accounts. By accounting for its activity, the organization positions itself to repair legitimacy in the event that events compromise its solvency.

Attention is focused on maintaining legitimacy as it is more efficient to engage in behavior that preserves past and current legitimizing efforts than re-establishing it once stakeholders' perceptions of the organization's legitimacy wanes [Suchman, 1995; O'Donovan, 2000]. A key approach to maintaining legitimacy is to inform stakeholders of the organization's legitimizing efforts [Lindblom, 1994].

Legitimacy theory focuses on strategies that management chooses to remain legitimate. Such strategies may involve making charitable donations, acts of altruism, voluntary disclosure, etc. [Patten, 1992; Roberts, 1992; Suchman, 1995; Gray et al., 1995; Deegan et al., 2000]. For these strategies to be effective, organizations must engage in targeted disclosures that improve constituents' perceptions of legitimacy that have been previously established [Deegan, 2002].

EIGHTEENTH CENTURY AMERICAN ACCOUNTING PRACTICES

Although no major empirical studies have examined accounting and financial reporting for charities per se in 18th century America, several studies have examined such practices in the commercial sector. Voke [1926] and Baxter [1946, 1956] were among the first to observe accounting practices in an era characterized by the scarcity of money, barter transactions, and use of a system of books including the wastebook, journals, and ledgers. Baxter [1956] concludes that accounting methods emerged in olonial America to support the mercantile trade and the bi-lateral barter transactions of the period. Coleman et al. [1974] observed the use of financial statements with an inherent audit component among 18th century Virginia merchants, although the study admits that the account books have been lost to history. Thomas Jefferson's accounts were found to support managerial decision making in a study by Shenkir et al. [1972].

In commercial ventures, early 18th century accounting techniques have been described as "elaboration" of those from earlier periods [Levy and Sampson, 1962, p. 64]. Previts and Merino [1998, p. 15] citing an unpublished letter from [1976] Yamey characterized these early methods:

> Yamey (1976) advises that these accounts were not in double-entry form but advises, 'whether one calls it "incomplete double entry" or single entry is a matter of taste. I would not use a description including the words "double entry." But it is not "single entry" either, if one implies by that a system. Incidentally, there is no capital account in the ledger, and no indication that there was a secret ledger with such account.'

As the complexities of commerce and culture progressed, so did the need for specialized accounting. The creation of joint ventures and the need to account for invested capital led to the limited use of double-entry in colonial America, although its use was relatively rare in comparison to its use in Britain [Yamey, 1981]. Edwards [1960, p. 5] observes that American practices were directly linked with those of England and Scotland: "Just as customs, common law, and commercial practices came to the United States from England and Scotland, so did the practice of accountancy, either through books or through accountants themselves. Direct links with countries other than England and Scotland are not very clear."

Baxter [1956] found that single-entry accounting methods were primarily used to track debts among 18th century New England merchants. Account books mostly contained accounts of persons (both debtors and creditors) and permitted differentiation among customers and suppliers. Double-entry was not widely used as there was no informational need to calculate profit. More recently, Baxter [2004, p. 132] concluded that 18th century American accounting techniques were largely "a slipshod system of single entry." Accounts for the typical colonial trader were generally limited to "debts due to and by him." The barter system and the scarcity of money defined the American colonial economy where there was little need for profit-and-loss information or a balance sheet.

Schultz and Hollister [2004, p. 171] found single-entry accounting to be a facilitator of asynchronous trade in 18th century New York. The lack of trained bookkeepers, the scarcity of money, and barter transactions were identified as having shaped the nature of accounting among colonial merchants. Although double-entry was widely written about in 18th century British texts that made their way into America, colonists generally disregarded its complexity and chose simpler single-entry methods as they generally had no need to measure profit and loss of the "triangular" transactions of barter.

Systematic accounting methods were employed as a consequence of trade. The use of the wastebook permitted the proprietor to capture transactions as they occurred. Yamey [1981, p. 130] refers to a "wastebook-journal" described in an early 18th century literature. A leading accounting text of the period, John Mair's *Bookkeeping Moderniz'd* [1793, p. 2] describes the purpose of the wastebook in systems of accounting.

The wastebook allowed proprietors to capture daily transactions as they occurred and permitted a later, more thoughtful, and deliberate transfer to the journal or ledger [Mair, 1793; Voke, 1926; Previts and Merino,1998]. After the transfer of the information, the wastebook had no purpose, thus providing its name. Notations in the wastebook were entered into the journal,

ILLUSTRATION ONE

Mair's Bookkeeping Moderniz'd 1793 (Excerpt)

To a perſon deliberating in his mind by what means he might attain the end propoſed in book-keeping, that which probably would firſt offer to his thoughts would be, to keep an exact record of all tranſactions in order of time as they happen; which is indeed a neceſſary ſtep, and a thing that muſt be done by every accountant: and ſuch a record is called the *Waſte-book*; which doubtleſs was the firſt book in uſe among merchants; and probably the method of keeping accounts was carried to no greater perfection for ſome conſiderable time.

Source: Mair's *Bookkeeping Moderniz'd* (1793), R.B. Daniels' Collection

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or in certain systems, directly to the ledger. In some cases, the daybook was used in place of the wastebook and journal, and generally served a similar function as the wastebook. In his text, Mair [1793, p. 7] explains the origins of the name wastebook: "After the journal is filled up and corrected, the wastebook is of little further use and probably on this account it has got the name it bears." When the complexities of commerce dictated, cash books, sales books, and expense books were employed [Voke, 1926].

Baxter [1946, 1956] demonstrated that the scarcity of money and the barter system in America influenced the nature of accounting in the 18th century. These factors were unique to America and led to distinctively different accounting practices from those of the British. The scarcity of coinage and paper money gave rise to the practice of keeping single-entry accounts that focused on individual debtors and creditors, often with no distinction between the two groups. Double-entry was not found to be common among 18th century American merchants as the determination of profit and loss was seldom required. The stockholders' equity account was not relevant to many business owners whose accounts were kept according to expenses of doing business and receipts of cash and goods from transactions.

Accounts often remained open for many years as barter transactions were commonly bilateral. Barter transactions were often complex and required sufficient detail in the account books. Baxter [1956, pp. 273-274] explained:

> Barter became plain sailing when traders could appraise goods in common terms, and still more when they could stretch the exchange over a long time.

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> Money – even though it was too scarce to be always available as a unit of exchange – provided the common unit of value, and book-keeping gave the means for remembering and providing the details of a lengthy exchange. Thus, the farmer of Colonial New England was able to sell his pig in Boston for a money-credit in the storekeeper's books; he could then take supplies as and when he wanted them, while the storekeeper charged up his account. If the farmer could also on occasion assign his credit to the third person – so that the storekeeper acted in effect as his bank – the barter became a tolerably flexible and efficient means of trading.

Ledger accounts of the 18th century were books containing consecutively numbered pages or "folios" [Mair, 1793; Voke, 1926; Baxter, 1946]. Folio references permitted tracking of accounts over time. When pages in the ledger where filled, the accounts were tallied and the balances transferred to a new folio. Accounts on the left page (Dr.) of the open ledger were characterized as "To" and represented the expenses. The right page (Cr.) represented inflows of cash, bonds, bills of exchange, or goods and designed "By." When all the ledger folios were completely filled, the ledger was closed as indicated by a line and the balances were transferred to a new ledger.

ACCOUNTING SYSTEM OF THE ORPHAN HOUSE

The 1790 ordinance establishing the Orphan House mandated that the institution keep a system of account books to include a cash book, expense book, and wages book [Exhibit Three]. The steward was charged with keeping "a book of fair and regular accounts of all receipts and expenditures." Notations concerning these transactions were kept in a wastebook. From the wastebook, entries were transferred to the cash book, expense book, or wages book which were also maintained by the steward. The wastebook included daily descriptions and notes on donations (both monetary and non-monetary) and use of funds for operations, including food, clothing, supplies, and wages. The steward controlled the cash used for daily operations, while the treasurer controlled the funds held by the board for capital expenditures, including construction of the building, furniture, and fixtures.

The treasurer, a member of the Board of Commissioners, oversaw the accounting performed by the steward and maintained the ledgers. The treasurer signed the ledgers as they were completed and provided them for inspection by the Committee

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EXHIBIT THREE

Charleston *City Gazette*
October 25, 1790 – Excerpt
Orphan House Ordinance

The Steward - Shall exercife the general fuperintendence, direction, and control over all and every department...; He fhall ... keep a book of fair and regular accountf of all receiptf and expendituref, which fhall be fubject at all timef to the examination of the Commiffionerf. And he fhall keep the following bookf according to the formf prefcribed therefore, and lay the fame upon the table of the Board at each meeting, for the infpection and information of the Commiffionerf: Cafh Book of Receiptf and Difburfementf, Expenfe Book of Officerf' Tablef, Wagef Book of Servantf and Affiftantf.

The Matron--Shall watch over the moralf and conduct of the children, direct the affiftantf and nurfef, and fee that they difcharge their dutief faithfully. Take care that the food and clothing provided for the children are wholefome and fuitable; preferve order and decorum at table and elfewhere; attend the children at worfhip on the Sabbath, and obey all the directionf of the Commiffionerf.

Source: Charleston Library Archives, *City Gazette* Collection

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on Accounts on the Board of Commissioners annually. In addition, the treasurer controlled the funds held by the commissioners and accounted for their balance periodically. The 1790 ordinance charged the Committee "to examine annually the books of the Treasurer, and personally inspect the securities in which the capital of the private fund is invested, and the vouchers for the disbursement of the income of said fund" (Exhibit Nine).

Periodically, transactions from the three account books were transferred to the ledgers maintained by the treasurer. The wastebooks were not retained after the transactions were transferred to the ledgers. The wastebook is referenced in several ledger entries although none have survived. Their absence is consistent with Mair's [1793] observation that there was no need to keep the wastebooks once the entries to the ledger had been accomplished.

Transactions were entered in a single-entry type method that allowed for balancing of expenses of the institution with its resources provided through various individuals, religious congregations, the City Council, and any other sources. Alternatively and consistent with Yamey's [1976] observations, the method may be described as "incomplete double-entry" as it is neither purely double-entry nor single-entry as the duality of accounts inherent in double-entry accounting is absent.

The entries contained in the cash, expense, and wages books were periodically summarized and the totals transferred to the ledger which was organized into folios that contained specific accounts. The ledger accounts were summarized either annually to comply with the treasurer's report or when the ledger was completely filled so that the balances could be transferred to a new book.

The folios were consecutively numbered pages (or leaves). The open ledger consisted of a left folio and a right folio. The left folio was numbered and marked as Debit (Dr.) and contained the expenses of the Orphan House, labeled as "To." The right folio contained the accounts detailing the support of the institution and indentified each funding source individually. The right was characterized "By." Outflows of funds related "To" a specific ledger account (bread, clothing, blankets, individual salaries, etc.). Funds on the credit side were identified as "By" the specific source.

As the folios in the ledger filled, their balances were transferred to a new folio. When the last set of folios in a ledger was completed, the expenses (left folio) were brought into balance with the institution's funding for a particular period. A new ledger, consecutively numbered, was opened with the final balances of the previous ledger "brought over" as illustrated in Exhibits Four and Five.

These two exhibits contain account balances for expenses incurred by the orphanage and monetary donations from bond proceeds and donations from individuals and religious organizations. Although debit and credit balances are indicated, the absence of pure double-entry bookkeeping is consistent with 18th century American practices [Mair, 1793; Voke, 1926; Baxter, 1946; Previts and Merino, 1998]. Balancing of the expenditures and sources of funds took place whenever the accounts were summarized.

The 1790-1793 account activity reflects the orphanage's routine operations, documenting expenditures relating to food (bread and beef), wood, clothing, employee salaries, and rent on its temporary facility. The increase in operating costs reflected in the accounts is consistent with the growing orphan burden assumed by the institution during these years. The number of orphans taken in by the institution rose from 107 at its opening in 1791 to approximately 160 by the end of 1795.

During 1793 folios 164 and 165 were completed, and the debit and credit balances were totaled. At that point, funding of £3,798.12.2 had been recorded with corresponding expenditures of £1,278.1.8. This "surplus" of funding over expenditures was diminished by September 1793 as the building of the elaborate Orphan House facility was underway. Cash outlays for building materials and labor, along with increasing operating costs, likely led the Board of Commissioners to diversify funding sources as support from the City Council was not adequate. After 1793, the city did not substantially increase its funding while individual and religious institution donations increased. Donations of labor, materials, and furniture by individuals alleviated problems associated with the cost of completing the structure by 1794.

EXHIBIT FOUR

Charleston Orphan House – 1793 Ledger (Folios 164 and 165)

164 Dr. *N.2* *Cr. 165*

General account of the Expenſeſ attending the building of the Orphan Houſe and ſupport of itſ Inſtitution, from the firſt appointment of the Commiſſionerſ in October 1790 to the 1st of September 1793. Collected from the accountſ of the Corporation and Commiſſionerſ; giving a view of the whole during that time.

1793	To Sundrieſ charged to the Orphan Houſe by the			
Sept 1	Corporation from October 1790 to September 1791, viz			
	Bread		£ 31. 14. 7	
	Beef		89. 6	
	Wood		27. 11	
	Blanketſ, Sweeping Chimneyſ		9. 7. 4	
	Rent of Orphan houſe, half year due 1 May 1791		50.	
	Clothing		96. 15. 10	
	John Wedderſpoon Steward three-quarterſ ſalary to 18 Auguſt 1791		30.	
	Sarah Bricken Miſtreſſ ¾ do-to 1 Aug		30	£ 364. 15
	To do- from Auguſt 1791 by Sept 1792, viz			
	Wood		65. 18	
	Bread		43. 7. 10	
	Beef		96. 10. 6	
	Clothing		167. 15. 10	
	Blanketſ		18.	
	Sarah Bricken, one quarterſ ſalary to 1 November 1791	£ 10.		
	John Wedderſpoon 3 quarterſ do- to 18 May 1792	30.		
	Sarah Hatfield (Miſtreſſ) ¾ ſalary to 1 Auguſt 1792	30.	70.	
	One yearſ rent due May 1792		100.	
	Leveling Orphan houſe lot £2 & Sweeping chimneyſ		4. 10. 10	566. 3
	To do- from Auguſt 1792 by September 1793, viz			
	Beef		115. 4. 2	
	Bread		50. 0. 8	
	Half yearſ rent due 1 Nov 1792		50.	
	Wood		46. 18. 10	
	John Wedderſpoon ¼ ſalary due by Aug 1793	£ 50.		
	Sarah Hatfield do-	25.		
	Sarah Wellſ do-	10.	85.	347. 3. 8
				£ 1278. 1. 8

1793	By Caſh ſupplied by the City Council from October 1790 to		
Sept 1	September 1791		£ 664. 15
	By do- from Auguſt 1791 to 1 September 1792		766. 3
	By do- from Auguſt 1792 to 1 September 1793		1475. 25. 5
	By do- the following Bondſ tranſferred by the City Council to the Commiſſionerſ of the Orphan houſe, viz		
	Alexander Chaveſſ bond	243. 17	
	Peter B. Mathewſ do-	90. 19	
	Harry Grantſ do-	406. 5	
	Chriſtopher Williamſ do-	90. 12. 6	
	Robert Howardſ do-	60. 1. 3	891. 14. 9
	Tranſferred to Folioſ 166 and 167		
			£ 3798. 12. 2

Source: Charleston City Archives

EXHIBIT FIVE

Charleston Orphan House – 1793 Ledger (Folios 166 and 167)

66 Dr. N. 2 *Continued and Brought Over* Cr. 167

Dr.			
793 To Amount from folio 164			£1278. 1. 8
To Clothing from Aug 1792 to Sept 1793		£139. 14. 2	
Chimney Sweeping		15. 7	
Lime for the Orphan Houfe	£ 43. 9. 1		
Fencing in the Lot	109. 2. 10		
Paid Cannon & Bennet for carpentry work	271. 18. 6		
Anthony Tomer Brickwork	100.		
Negro labour in filling the moat, leveling the tabby work fundry expenfef attending the garden	89. 4. 2	613. 14. 7	768. 15.9
To Commiffionerf for furniture, affiftantf, grocery, butter, molaffef, foap, candlef, cookf and other neceffarief for the children and fhown, from Oct 1790 to Sept 1791 per particularf in Book kept at the Orphan Houfe			294. 4. 1/2
To do- from Aug 1791 to Sept 1792			242. 2. 8
To do- from Aug 1792 to Sept 1793			323. 13. 3 1/2
To do- fundry expenfef for labour & materialf for building the Orphan Houfe, particularized in account No. 1 amounting to			2030. 18. 4 1/2
To balancef on fundry bondf, notef remaining in the handf of the Commiffionerf, particularized in account No. 1 amounting to		525. 15. 11	
To balance in bank remaining in the handf of the Commiffionerf		184. 2. 8	709. 18. 7
			£ 5647. 14. 4 1/2

Cr.			
1793 By amount from folio 165			£3798. 12. 2
By Intereft received on the following bondf, vif:			
On Alexander Chaveff	£ 4. 5		
Peter B. Mathewf	1. 14. 11		
Chriftopher Williamf	1. 12		
Robert Howardf	2. 6. 6		9. 18. 5
By Collectionf at religiouf congregationf, from 28 Oct 1790 to 1 Sept 1793 per book of donationf and collectionf kept at the Orphan Houfe for the infpection of all perfonf whomfoever		872. 13. 11	
By Donationf from Societief & Individualf, during the fame time, per fame book		966. 9. 10 ½	1839. 3. 91/2
			£ 5647. 14. 4 1/2
By balancef af per Contra			£ 709. 18. 7

Orphan houfe, Charlefton 18 September 1793
Thomaf Corbett, Treafurer of the Orphan houfe

Source: Charleston City Archives

The Orphan House, as a charitable institution, had no need to determine profit as no distribution of earnings was to take place. Furthermore, there was no informational need to capitalize expenditures in the form of buildings or fixtures. The focus of the accounting system was on expenses and funding sources. The summarized ledger accounts essentially served as financial statements.

The account books were kept at the Orphan House for "inspection of all persons whomsoever." This availability to the public was noted in many of the institution's early financial statements, including those published in 1793. [Exhibit Twelve]. Of course it is unknown the degree to which the information was actually accessed by those visiting the facility. Plausibly, the availability may have fostered a sense of transparency and offered assurance of financial propriety to benefactors.

President Washington's visit in 1791 was widely publicized. The publication of this visit describing his "perusal" of the Orphan House documents and subsequent laudatory comments, clearly served to boost the prestige of the institution. As an emerging institution, the legitimizing effects of the attention paid to Washington's visit could have contributed to mitigating the orphanage's "liability of newness" [Suchman, 1995].

The Charleston *City Gazette* [1791, p. 1] reported Washington's visit on May 23:

> The President of the United States George Washington…visited the Orphan House where…the Commissioners laid the Ordinance for establishing the Orphan House, Rules of the Orphan House, the Journals of the proceedings of the Board and the Registrar before the President for his perusal, he was pleased to express the highest approbation of the Institution. The children being assembled in the Breakfast Room, to the number of one hundred and seven, with the Mistress, Steward, assistant and nurses, in their proper places, his Honor the Indendant, and the other Commissioners, conducted the president and the gentlemen who attended him, to the room, on taking leave of the children, he very pathetically pronounced his benediction on them.

The Board and City Council made the account books publicly available since the inception of the Orphan House, although it was not approved as official policy until March 1793, when the commissioners resolved that the treasurer purchase three accounts books: "One to keep his own accounts in, and in which to enter in regular order the accounts of all treasurers, heretofore; one as a duplicate or complete copy of the above to always be lodged with the Commissioners; and, the third in which to enter all the charitable donations that have been or may be given to the institution with the names of the donors…; That it shall be the duty of the Treasurer to keep the said Book regularly filled up, and that it be lodged in the Orphan House for the inspection of any person whomsoever."

The Board of Commissioners routinely solicited donations for the Orphan House. Commissioners would collect the donations and present them to the board at its weekly meeting. The funds were entrusted to the treasurer who would hold the cash receipts in his personal accounts until the board authorized their expenditure or investment. The donations were used either for operating expenses of the orphanage, put towards the building of the facility between 1791 and 1794, or held for future use. Donated funds were reported at each board meeting and reflected in the minutes, as illustrated in Exhibit Six.

EXHIBIT SIX

Donor Funds Entrusted to the Treasurer
October 27, 1791

Col Mitchell prefented donationf from the following gentlemen for the benefit of the Orphan Houfe, viz:

Jamef Watfon	£ 4. 10.
Childf McIver & Co	5. 6. 4
Edward North	2. 2.
Daniel Cobia	2. 8.
Jacob Cohen	2.
Ann Timothy	1. 17. 4
Abraham Lyon	1. 10.
William Lee	1. 2. 6
Doctor Robert Wilfon, Sr.	9. 4

Amounting to £21.5.6. which waf put into Thomaf Corbetff Efq. Handf.

Source: Charleston City Archives

The treasurer controlled the cash account of the commissioners. These funds were used for more significant purchases and were held either in the bank or by the treasurer. The cash used for operations was under the control of the steward who accounted for expenditures and receipts to the treasurer through the cash book. The treasurer provided monthly reports to the commissioners, including his accounts reflecting the funds he held "in his hands" [Exhibit Seven]. Expenses and sources of funds were presented yearly to the commissioners and contained detail of the operations. The annual reports contained the balanced ledger accounts of expenses and sources of funds.

The Orphan House's Committee on Accounts was presented the account books, where it was charged with the responsibility to "audit the accounts" with supporting vouchers. After approval of the accounts by the committee, the Board of Commissioners submitted the reports to the City Council where their Committee on Accounts would examine and "certify"them. Since there is no evidence in the commissioners' minutes describing the procedures undertaken by the Committee on Accounts in its audit of the accounts, it is impossible to determine the nature of the process that they used in its evaluation. Therefore, any comparisons to the modern usage of "audit," "auditing," or "attestation" are hypothetical.

EXHIBIT SEVEN

Treasurer's Report
August 15, 1793

The Treaſurer reportſ a ſtate of hiſ accountſ, from which it appearſ that he haſ in hiſ handſ

In Caſh			£123. 18. 6
In Bondſ Noteſ & C aſ followſ, viz			
John McCall'ſ Note	£50.		
Ditto	80.		
Ditto	100.	£230.	
Alexander Crawford'ſ . . . do		2.	
George Bampfield'ſ . . . . . do		10.	
Commiſſionerſ Eaſt Bay Acceptance		16. 10	
Thomaſ Horry'ſ order on do- for what may be due . . .			
Franciſ Ley'ſ Note		5.	
Harry Grant'ſ Bond		75. 15	
John Robertſon'ſ Account		351. . 11	
Iſaac DaCoſta'ſ Note		5.	
John William'ſ Note		60. 13. 4	755. 19. 3
			£879. 17 .9

Signed *Thomaſ Corbett*
Treaſurer

Source: Charleston City Archives

The August 15, 1793 treasurer's report was presented to the Board of Commissioners and approved by its Committee on Accounts [Exhibit Seven]. The report was published in the *City Gazette* on August 22, 1793 and contained the details of £879.17.9 held by Thomas Corbett, the board's treasurer. Both cash and receivables were in the physical custody of Corbett, who was responsible for collecting the interest on the notes and bonds. The bonds represented amounts to be paid by those taking in the orphan apprentices. The obligations were expected to be paid in full to the orphanage by the time that the apprenticeship was finished, usually when the apprentice attained the age 21.

By 1795, the treasurer's report provided detail of operating expenditures of the Orphan House. While the accounts for operating expenses, including salaries, were maintained by the steward, the treasurer incorporated this information into his reports. This additional reporting was likely in response to several financial crises that arose during the building of the 1794 facility that depleted cash and required the commissioners either to

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loan money to the Orphan House from their personal funds or to seek additional funds from benefactors and/or the city. This is illustrated in the treasurer's report published on November 12, 1795 [Exhibit Eight].

EXHIBIT EIGHT

Treasurer's Report
November 12, 1795

The Treaſurer reported an account of Salarieſ and Expenditureſ attending the Orphan Houſe for the monthſ of Auguſt, September, and October 1795 certified by John Champneyſ and Thomaſ Roper, Eſqſ. Committee of Accountſ amounting to £ 252. 4. 5 for which an order iſ given in the following wordſ-

Orphan Houſe 12 Nov 1795

Sir

The above account amounting to Two hundred and fifty two poundſ four ſhillingſ and five pence iſ examined approved and recommended to be paid to Thomaſ Corbett, Eſq. Treaſurer.

By Order of the Board
Charleſ Lining
Chairman

John Edwardſ Eſq, Intendant

Source: Charleston City Archives

Committee on Accounts: The 1790 ordinance that created the Orphan House required the Board of Commissioners to appoint a Committee on Accounts. This committee was charged with the responsibility "to audit and report upon all accounts, bills and claims" of the Orphan House [Exhibit Nine]. Its charge extended to the books kept by the steward as well as those maintained by the treasurer. The committee consisted of three members of the board who would inspect or audit the books and provide approval of the account balances to the other board members. While it is unknown the degree or extent of the audits conducted by the committee, such an oversight mechanism provided an internal control over the accounts and financial reports. Again, no modern inference of "audit" is intended.

The orphanage's Committee on Accounts was to "superintend" the preparation of the financial reports to be presented to the City Council by the Board of Commissioners. These statements were then examined by a similar committee of the Charleston City Council. The Committee on Accounts of the City Council had a parallel charge to audit the financial reports of the city's agencies. Thus, the financial reports were subjected to two layers of oversight aimed at determining their propriety.

EXHIBIT NINE

Charleston City Gazette
October 25, 1790 Excerpt
Orphan House Ordinance

Committee on Accountſ- To audit and report upon all accountſ, billſ and claimſ. To examine annually the bookſ of the Treaſurer, and perſonally inſpect the ſecuritieſ in which the capital of the private fundſ iſ inveſted, and the voucherſ for the diſburſementſ of the income of ſaid fund. To examine quarterly the caſh account of the Steward, and verify the receiptſ and diſburſementſ of hiſ department. To ſuperintend the preparation of and ſubmit to the Board the quarterly accountſ for the City Council, which accountſ ſhall exhibit a ſtatement in detail of the expenſeſ and liabilitieſ incurred for the Inſtitution during the paſt quarter, and the receiptſ and payment on account of ſaid expenſeſ; alſo, the annual account of the appropriationſ and diſburſementſ by the Board of the income of the private fund. To make an annual report of the official affairſ of the Inſtitution, with ſuch fact and ſuggeſtionſ in reſpect thereto aſ ſhall be deemed of intereſt and importance.

Source: Charleston Library Society, *City Gazette* Collection

In August 1792, the City Council passed a resolution that required the "certification" of the Orphan House's accounts by its Committee on Accounts. The statements were to be countersigned by the board chairman who was responsible for submitting the statements to the City Council. The Resolution mandating this financial-reporting structure is illustrated in Exhibit Ten.

EXHIBIT TEN

Charleston City Council Minutes
August 11, 1792

On motion, Reſolved that the Commiſſionerſ of the Orphan Houſe do hereafter render quarterly ſtatementſ of their expenditureſ, that their accountſ ſhall be certified by their Committee on Accountſ, allowed by their board and counterſigned by their chairman, who ſhall tranſmit ſuch audited accountſ to the Intendant to be laid before Council, after whoſe financial examination and approbation: The Intendant will give an order for their immediate diſcharge.

Source: Charleston City Archives

On September 15, 1793, Charles Lining, the board chairman, submitted to the City Council the ledger accounts of the Orphan House kept by Thomas Corbett and audited by the institution's Committee on Accounts. Following that, the corresponding City Council's committee was charged with the responsibility to "examine" the accounts. Upon determination that the accounts were "right," they were then certified by the city's committee. Minutes of the September 19, 1793 Board of Commissioners meeting acknowledges the process and includes the "certification" of its accounts by the city. The report of the city's Committee on Accounts was published in the *City Gazette* the following week, along with details of the Orphan House's building fund [Exhibit Eleven]. The two levels of assurance provided by the Committees on Accounts for the Orphan House and the Charleston City Council plausibly provided assurance to the benefactors of the propriety of the institution's financial affairs.

EXHIBIT ELEVEN

Committee on Accounts Report
September 17, 1793

By an order from the City Council, we have examined the above account with the City Treafurer's Bookf and bookf kept by the Commiffionerf of the Orphan Houfe. Alfo, the Voucherf for the refpective changef in faid account and find the fame right,

Certified by *Thomaf Legare*
Robert Haxlhurft
Jamef Gregory

Source: Charleston City Archives

Contained in Lining's September 15, 1793 letter to the City Council is a request by the board that the accounts of the Orphan House be published. His letter explains the commissioners' opinion that publication of the accounts will better position the institution among benefactors:

> The Commissioners beg leave to suggest to your honorable board, that in their opinion, it would afford great satisfaction to those charitable persons, who have by their donations contributed...to the establishment and support of the Orphan house and the inhabitants at large, if the foregoing accounts were published.

External Financial Reporting: At the request of the Board of Commissioners, the accounts of the Orphan House were published on September 20, 1793 (Exhibit Twelve). In absence of a legal requirement to do so, coupled with the stated motive of the commissioners, this voluntary disclosure was an endeavor to gain legitimacy among potential benefactors. The commissioners belief that the publication of the accounts would enhance the standing of the Orphan House within the community seems to establish their motive of seeking legitimacy.

The published financial statements presented in Exhibit Twelve include the expenditures and funding sources for the building fund. The operating accounts, similar to those presented in Exhibit Five, were also published as financial statements on September 20, 1793. The financial statements are essentially reproductions of the balanced ledger folios as the accounts and format for both the building fund (Exhibit Twelve) and the accounts of the operations are identical to those contained in the institution's ledger.

The receipts and expenditures of the building account included the purchase of bricks, lime, timber, stone work, painting, and other expenditures associated with construction of the new facility. The notes and bonds "in the hands of the commissioners" were reported by the individual debtor. Specific individuals and firms were named as suppliers of materials and labor. The statement identified the collections from the city and from "religious congregations, societies and individuals." Bonds received for apprenticeships for the children were transferred from the city and held by the Orphan House. Through the accounts, the commissioners provide detail of the receipt and expenditure of £2,740. 16. 11 ½ that had been provided for the purpose of building the Orphan House.

Following their initial publication in 1793, the financial statements or accounts of the Orphan House were published yearly, although in various forms. Their publication appears to have coincided with the annual submission of the accounts by the Board of Commissioners to the City Council. Their regular publication in newspapers of the day was at the discretion of the board as there was no legal mandate for it to do so.

CONCLUSION

The study of the Charleston Orphan House provides insights into a late 18th century American charity's accounting and external financial reporting. Contemporary understanding of the practices of this period is supported by studies relating to commercial transactions, mostly among merchants. The scarcity of money and the barter system did not result in widespread need for double-entry. Predominantly, accounting in colonial America has been described as neither double-entry, nor single-entry. Yamey [1976] referred to the various techniques of the period as "incomplete double entry."

Transactions of the Orphan House were entered into a system of books maintained by the steward and the treasurer. The steward was responsible for recording the operating transactions in three books of account (cash, expense, and wages). The wastebook provided the basis for transferring the transactions to

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EXHIBIT TWELVE

Orphan House Financial Statements
Charleston City Gazette
September 20, 1793

Dr. No. 1 Cr.

ACCOUNT of the Receipts and Expenditures of the Funds Arifing from Donations of charitable Perfons, placed in the hands of the Commiffioners for the purpofe of building an ORPHAN - HOUSE.

1792.	To cafh paid Daniel Martin for cleaning and carting 400648 bricks from the barracks, and carting lime timber, &c.		£. 170 3 7
	To do, paid John Langflaf's account for cedar pods		25 0 0
			195 3 7
1793.	To cafh paid Cannon & Bennet, for lumber delivered from 17th November, 1792, to 22d May, 1793, per agreement.		251 5 3
	To do, paid the commiffioners of the college, part of 397£ for purchafe of fundry brick remnants of the old barracks r(the reft due 1ft January, 1794)		339 13 9
May	To cafh paid for bricks, carting, etc.		45 2 7
July	To do, paid for carting lime, bricks, ftones, &c.		96 10 5
Auguft	To do, paid captain Strong for ftone work for the Orphan-Houfe, coft in Philadelphia 1300 dollars; exchange 5f per dollar,		325 0 0
	To do, paid him freight of do, in go boxes, at 7f		31 10 0
	To invoice by the Weftbury from Briftol of glaff, paints, oil, nails, locks, & c.	232 11 5	
	Duties and cuftom houfe fees,	37 15 6	
			270 6 1
	To invoice of Sundry locks per the Sophia, and 100000 flate per the Andromache	190 1 8	
	To freight, duties, &c	78 10 4	
			268 12 0
	To cafh paid for lime		207 13 10 1/2
			£. 2030 18 4 1/2
	To the balance in the hands of commiffioners, as follows:		
	Alexander Crawford's note,	£. 2 0 0	
	George Bampfield's do,	10 0 0	
	Commiffioners Eaft-Bay,	16 10 0	
	Francif Ley's Note	5 0 0	
	Hary Grant's bond,	146 5 0	
	John Roberfon's account,	341 0 11	
	Ifaac Da Cofta's note,	5 0 0	
	In bonds, &c	£. 525 15 11	
	In cafh,	184 2 8	
			709 18 7
			£. 2740 16 11 1/2

1793.	By collectionf at relgiouf congregations, from the 18th October, 1790, to 1ft September, 1793, per book of donations and collections, kept at the Orphan-Houfe for the infpection of all perfons whomfoever,	£. 872 13 11	
	By donations from focieties and individuals, during the fame period, per fame book,	966 9 10 1/2	
			1839 3 9 1/2
	By the following bonds received from the City Council, viz.		
	Alexander Cheves, bond and intereft,	243 17 0	
	Peter Mathew's do.	90 19 0	
	Harry Grant's do.	406 5 0	
	Chriftopher William's do.	90 12 6	
	Robert Howard's do.	60 1 3	
			891 14 9
	By intereft received on the above bonds, viz.		
	On Chavef's,	4 5 0	
	On P.B. Mathews,	1 14 11	
	On Chriftopher William's	1 12 0	
	On Robert Howard's	2 6 6	
			9 18 5
			£. 2740 16 11 1/2

Source: Charleston City Archives

the account books. The treasurer of the Board of Commissioners was responsible for the ledgers which he used for his reporting to the board. The board was legally required to report to the City Council, and both bodies had their respective Committees on Accounts. These committees were charged with an "audit" responsibility for the financial reports of the Orphan House. Following approval by the Committee on Accounts, the Board of Commissioners rendered the financial statements to the City Council. The council's Committee on Accounts performed an "audit" and "certified" the statements to the City Council.

The financial reports of the Orphan House were first published in their entirety in 1793, initially at the request of the

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commissioners. In absence of a legal requirement to do so, coupled with the stated intent of the commissioners, voluntary disclosure was an endeavor aimed at improving the esteem of the institution among donors and potential benefactors. Periodic publication of the financial statements may have promoted a sense of propriety and transparency.

Several modern institutional theories may be appropriate to understand the practices of the Orphan House. It emerged as an institution in 1790 to minimize the social cost of the post-Revolutionary War orphan population. As a public institution, the orphanage could operate more efficiently and assist in evenly distributing the orphan burden among the population.

Voluntary disclosure by the Board of Commissioners was plausibly a legitimizing endeavor aimed at fostering a sense of propriety and transparency among donors. Assurance, whether real or perceived, about the propriety of the institution's accounts through the two Committees on Accounts may have contributed to the Orphan House's success in securing private funds. Although, the audits by the individual Committees of Accounts of the Board of Commissioners and the City Council were legally mandated and not voluntary, they may have served a legitimizing function for the Orphan House as it sought to establish itself and secure private sources of funding.

In the early years of the institution, accounting and external financial reporting may have served to assist the Orphan House to overcome its "liability of newness." Legitimacy theory suggests that emerging institutions will engage in legitimizing behavior to establish themselves. Securing future operating resources is, therefore, dependent upon the perceived legitimacy on the part of those who provide the means for the institution to fulfill its purpose. Institutional and legitimacy theories, composed of modern ideas, may be useful in understanding human behavior of earlier periods, such as that reflected by operations at the Charleston Orphan House in the late 18th century.

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