# Manual of Business Methods in Church Affairs

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*In accordance with Title I, Canon 7, "Of Business Methods in Church Affairs", and Resolution D-147 (1979 GC): "Accounting Principles and Practices for Dioceses, Parishes, and Other Congregations"*

July 2007

**The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the USA**

The General Convention of The Episcopal Church

To the members of the Episcopal Church:

The Canons of the Episcopal Church set forth the general responsibility and accountability for the stewardship of the Church's money and property. Title I, Canon 7 (pages i2 – i3 in this Manual) specifically addresses the business methods prescribed for every diocese, parish, mission, and institution subject to the authority of the Episcopal Church.

This *Manual* identifies requirements and seeks to provide helpful advice on sound, practical internal controls, accounting guidelines and business practices. We believe that it can be a tool that will support your efforts to perform the duties and responsibilities of your office. Sections of the *Manual* are updated regularly. The date of the latest update appears at the final page of each chapter.

As always, we welcome your comments, which help us with any future updates. Thank you for the opportunity to serve you and our Church.

Faithfully,

N. Kurt Barnes, Treasurer

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# MANUAL OF BUSINESS METHODS IN CHURCH AFFAIRS

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# INTRODUCTION: GENERAL INFORMATION

## CHAPTER CONTENTS



## Introduction

This manual identifies requirements and seeks to provide helpful advice on sound, practical internal controls, accounting guidelines and business practices. We believe that it can be a tool that will support your efforts to perform the duties and responsibilities of your office.

The format and design of this manual should assist you in fulfilling the responsibilities for the financial oversight of a diocese or congregation. The accounting principles and practices described in this manual should be understandable to most readers. The concepts and terminology have been kept simple yet consistent with the demands of professional accounting principles.

Practical internal controls are the cornerstone to proper financial management. Management of financial resources is an important element of stewardship. The Church has entrusted us with the funds placed in its hands for mission and ministry. We honor this trust by caring for detail and acting accountably. Treasurers at all levels in the Church are custodians of this trust. This manual is a guide that will assists in preserving the trust.

This manual has been designed for the use of dioceses and congregational elements of the Episcopal Church. The guidance in this manual may not be appropriate for use by other church controlled or related institutions, such as hospitals, colleges, universities, and health and welfare organizations.

The general responsibility and accountability for the stewardship of the Church's money and property is delineated in the Canons of the Episcopal Church. Title I, Canon 7, specifically addresses the business methods prescribed for every diocese, parish, mission, and institution subject to the authority of the Episcopal Church. This Canon is produced in its entirety on the following pages.

## Section A. Constitution and Canons for the Government of the Protestant Episcopal Church in the USA: Title I, Canon 7: — Of Business Methods in Church Affairs

### CANON 7: Of Business Methods in Church Affairs

**Section 1.** In every Province, Diocese, Parish, Mission and Institution connected with this Church, the following standard business methods shall be observed:

**(a)** All accounts of Provinces shall be audited annually by an independent certified public accountant, or independent licensed accountant or such audit committee as shall be authorized by the Provincial Council. The Audit Report shall be filed with the Provincial Council not later than September 1 of each year, covering the preceding calendar year.

**(b)** Funds held in trust, endowment and other permanent funds, and securities represented by physical evidence of ownership or indebtedness, shall be deposited with a National or State Bank, or a Diocesan Corporation, or with some other agency approved in writing by the Finance Committee or the Department of Finance of the Diocese, under a deed of trust, agency or other depository agreement providing for at least two signatures on any order of withdrawal of such funds or securities. But this paragraph shall not apply to funds and securities refused by the depositories named as being too small for acceptance. Such small funds and securities shall be under the care of the persons or corporations properly responsible for them. This paragraph shall not be deemed to prohibit investments in securities issued in book entry form or other manner that dispenses with the delivery of a certificate evidencing the ownership of the securities or the indebtedness of the issuer.

**(c)** Records shall be made and kept of all trust and permanent funds showing at least the following:

(1) Source and date.
(2) Terms governing the use of principal and income.
(3) To whom and how often reports of condition are to be made.
(4) How the funds are invested.

**(d)** Treasurers and custodians, other than banking institutions, shall be adequately bonded; except treasurers of funds that do not exceed five hundred dollars at any one time during the fiscal year.

**(e)** Books of account shall be so kept as to provide the basis for satisfactory accounting.

**(f)** All accounts of the Diocese shall be audited annually by an independent Certified Public Accountant. All accounts of Parishes, Missions or other institutions shall be audited annually by an independent Certified Public Accountant, or independent Licensed Public Accountant or such audit committee as shall be authorized by the Finance Committee, Department of Finance, or other appropriate diocesan authority.

**(g)** All reports of such audits, including any memorandum issued by the auditors or audit committee regarding internal controls or other accounting matters, together with a summary of action taken or proposed to be taken to correct deficiencies or implement recommendations contained in any such memorandum, shall be filed with the Bishop or Ecclesiastical Authority not later than 30 days following the date of such report, and in no event, not later than September 1 of each year, covering the financial reports of the previous calendar year.

**(h)** All buildings and their contents shall be kept adequately insured.

**(i)** The Finance Committee or Department of Finance of the Diocese may require copies of any or all accounts described in this Section to be filed with it and shall report annually to the Convention of the Diocese upon its administration of this Canon.

**(j)** The fiscal year shall begin January 1.

**Section 2.** The several Dioceses shall give effect to the foregoing standard business methods by the enactment of Canons appropriate thereto, which Canons shall invariably provide for a Finance Committee, a Department of Finance of the Diocese, or other appropriate diocesan body with such authority.

**Section 3**. No Vestry, Trustee, or other Body, authorized by Civil or Canon law to hold, manage, or administer real property for any Parish, Mission, Congregation, or Institution, shall encumber or alienate the same or any part thereof without the written consent of the Bishop and Standing Committee of the Diocese of which the Parish, Mission, Congregation, or Institution is a part, except under such regulations as may be prescribed by Canon of the Diocese.

**Section 4.** All real and personal property held by or for the benefit of any Parish, Mission or Congregation is held in trust for this Church and the Diocese thereof in which such Parish, Mission or Congregation is located. The existence of this trust, however, shall in no way limit the power and authority of the Parish, Mission or Congregation otherwise existing over such property so long as the particular Parish, Mission or Congregation remains a part of, and subject to, this Church and its Constitution and Canons.

**Section 5.** The several Dioceses may, at their election, further confirm the trust declared under the foregoing Section 4 by appropriate action, but no such action shall be necessary for the existence and validity of the trust.

## Section B. Uniform Business Methods and Accounting Principles

For many years there were no separate, formal or uniform accounting principles for any type of not-for-profit organization (NFPO), including churches. In June 1993 the Financial Accounting Standards Board (FASB) issued two comprehensive statements, Numbers 116 and 117, which established the basis for generally accepted accounting principles for not-for-profit organizations.

The two statements issued by the FASB amended or superseded many of the Statements, Opinions, Statements of Position and Interpretations previously issued. Not-for-profit organizations should follow the guidance in the effective provisions of FASB Statements and Interpretations unless the specific pronouncement explicitly exempts not-for-profit organizations or the subject matter precludes such applicability. Subsequent pronouncements issued by the FASB apply to not-for-profit organizations unless those pronouncements explicitly exempt not-for-profit organizations or the subject matter precludes their applicability.

**Sources of authoritative guidance in not-for-profit organizations are:**

- FASB Statement No. 116 (Accounting for Contributions Received and Contributions Made)
- FASB Statement No. 117 (Financial Statements of Not-for-Profit Organizations).
- FASB Statement No. 124 (Accounting for Certain Investments Held by Not-for-Profit Organizations)
- FASB Statement No. 133 (Accounting for Derivative Instruments and Hedging Activities)
- FASB Statement No. 136 (Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others)
- FASB Statement No. 144 (Accounting for the Impairment or Disposal of
- Long-Lived Assets)
- Additional Guidance: Related FASB Staff Positions or questions and answers previously issued as FASB Staff Implementation Guides

Compliance with those sources is required in order to be in accordance with Generally Accepted Accounting Principles (GAAP). Most financial institutions and other users of financial statements, including government and private granting sources, require that church financial statements be presented in accordance with GAAP. Please be aware that when financial statements are not in accordance with GAAP, auditors must note those exceptions in their auditor's opinion.

**Method of Accounting.** The use of the accrual method of accounting is required by GAAP and is the preferred method. Many congregations, however, continue to use the Cash Basis method of accounting, in which receipts are recorded when received and expenses are recognized when they are paid. Although this method is not in accordance with GAAP, it is considered an "Other Comprehensive Basis of Accounting" (OCBOA) and is an acceptable method for use by congregations. The Cash Basis may be modified to accrue some, but not all, activities or to record depreciation. **Dioceses should use the accrual method of accounting.**

**Financial Statements**

In general, GAAP requires not-for-profit organizations to issue a statement of financial position, a statement of activities, and a statement of cash flows.

**Statement of Financial Position (SFP)** – is the primary financial statement that provides information about an organization's assets, liabilities and net assets and about their relationship to each other at a particular point in time. This statement, which is frequently referred to as the Balance Sheet or Statement of Assets and Liabilities, assists donors, creditors, members of the organization itself, and others to determine the organization's ability to continue to provide services. The SFP also allows for the assessment of the organization's liquidity, solvency, and financial flexibility needed to obtain external financing and satisfy its day-to-day debts.

The SFP should classify accounts as current or non-current; by sequencing assets according to their nearness to conversion to cash; and liabilities according to their maturity and resulting use of cash.

The SFP should present three classes of net assets: permanently restricted; temporarily restricted; and unrestricted. Each of these classifications is discussed below:

- *Permanently restricted net assets* are that part of an NFPO's net assets that results from:
    - — Contributions and other inflows of assets whose use by the organization is limited by donor-imposed restrictions that do not expire or cannot be satisfied by actions taken by the organization;
    - — Other asset increases and reductions that are so restricted; or
    - — Reclassifications from or to other net asset classifications as a result of donor-imposed terms.

- *Temporarily restricted net assets* are the part of an NFPO's net assets that results from:
    - — Contributions and other inflows of assets whose use by the organization is limited by donor-imposed restrictions that either expire with the passage of time or can be satisfied or removed by actions taken by the organization;
    - — Other asset increases and reductions that occur from such conditions; or
    - — Reclassifications from or to other net asset classifications as a result of donor-imposed terms, passage of time, or satisfaction and removal by actions of the organization.

- *Unrestricted net assets* are that part of the NFPO's net assets that are neither permanently nor temporarily restricted by requests of the donor.

Information relating to the nature and amounts of varying permanent restrictions or temporary restrictions should be shown by reporting their amounts either in the body of the SFP or in footnotes to the organization's financial statements.

Unrestricted net assets are generally constrained only by the broad limits resulting from the mission of the organization, its operating environment, articles of incorporation, or specific business contracts. Any such contractual and self-imposed limits should be shown in the notes of the financial statements.

**Statement of Activities (SOA) –** is commonly referred to as the Income Statement or Statement of Cash Receipts and Disbursements (or, in for-profit organizations, Profit and Loss Statement). The SOA enables donors, creditors, and other readers to:

- Determine the entity's performance during a given period of time
- Gauge the organization's service efforts and its ability to continue to perform services
- Appraise management's performance.

Specifically, the SOA presents: (1) the effects of transactions and other events and circumstances that change the amount and nature of net assets, (2) the relationship of those transactions or other events to each other and (3) how the organization's resources are used in providing various programs and services.

**Statement of Cash Flows (SCF) –** provides information about the cash receipts and disbursements during the year. The flows are classified according to whether they resulted from investing, financing or operating activities. The SCF is normally only prepared at year-end.

**Report Preparation Frequency.** Financial reports should be prepared for the Vestry at least quarterly and should include all funds of the congregation, specifically the restricted funds. The reports should contain enough detail to enable the Vestry members to exercise their fiduciary responsibility for church funds, to make informed financial decisions, and to determine how they are doing in relationship to the budget.

> *Meeting the Needs of the Church: Churches are organizations whose revenues are derived from those whom they serve. Proper stewardship and accountability require that comprehensive financial standards and practices are adopted and consistently applied. Compliance with standard accounting and reporting standards and practices should generate financial information that is reliable, uniform, and comparable to previous reporting.*
>
> *The uniform application of accounting principles and practices should assure that similar transactions are recorded in a consistent and accurate manner. This will generate valid and reliable information which is used by management in the decision making process.*

**Section C. Introduction to Fund Accounting**

Not-for-profit organizations' classification of net assets, revenues, expenses, gains, and losses are based on whether there are restrictions imposed by donors. Fund accounting is a system of recording the organization's resources based on those donor-imposed restrictions. Assets in the SFP are categorized as being permanently restricted, temporarily restricted, or unrestricted. To maintain records of these restrictions for internal purposes or for reporting back to the donor and grantor, some not-for-profit organizations maintain separate funds for specific purposes. Each fund consists of a self-balancing set of asset, liability and net asset accounts. While fund accounting is not required by generally accepted accounting principles, organizations may use fund accounting for internal purposes.

*Terminology can be confusing, especially when the same word is used to describe different things. Two potentially confusing words often encountered are "fund" and "account".*

*The word "fund" is often used as a synonym for "money". It may also be used as a title for each of the segregated reporting categories of the fiscal operation. When the terminology is used in this manual as a title or description of a reporting category, it will be capitalized – "Fund".*

*"Account" is used both to describe the basic units of double-entry bookkeeping and to describe bank accounts or accounts at other financial intermediaries. In this manual, we will always explicitly refer to "bank accounts" when referring to the financial intermediary.*

*It is important to note that the segregation of assets into "Funds" and "Accounts" does not automatically create a need for multiple bank accounts for each Fund or Account.*

## Section D. Calendar of Important Due Dates

Note: The following calendar does not include due dates that may be imposed by diocesan, local or state governmental requirements.

| | |
|---|---|
| January 31 | Form W-2: Employee's Wage and Tax Statement Form provided to all employees, including parochial clergy. |
| January 31 | Form 941: Employer's Quarterly Payroll Tax Return File return with the Internal Revenue Service for quarter ending December 31. |
| January 31 | Form 1098: Mortgage Interest Copy of form provided to recipient (for any mortgages held by churches or dioceses). |
| January 31 | Form 1099: INT & MISC. Copy of form provided to recipient. |
| January 31 | Substantiation of Contributions statements provided to donors of gifts over $250. |
| February 28 | Form W-2: Employee's Wage and Tax Statement Forms remitted to the Social Security Administration along with Transmittal Form W-3. |
| February 28 | Form 1099: INT & MISC Forms remitted to Internal Revenue Service along with Transmittal Form 1096 |
| March 1 | Episcopal Church Parochial Report to be filed with Diocesan Office |
| April 30 | Form 941: Employer's Quarterly Payroll Tax Return File return with the Internal Revenue Service for quarter ending March 31 |
| July 31 | Form 941: Employer's Quarterly Payroll Tax Return File return with the Internal Revenue Service for the quarter ending June 30 |
| September 1 (or sooner, as required by Diocesan Canons) | Audited Financial Statements of all congregations and institutions to be filed with the Diocesan Office |
| September 1 | Annual Diocesan Report to be filed by all dioceses with the Executive Council/General Convention Office |
| October 31 | Form 941: Employer's Quarterly Payroll Tax Return File return with the Internal Revenue Service for the quarter ending September 30 |

# CHAPTER I: FINANCIAL MANAGEMENT

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**Introduction**

Budgeting is the allocation of the church's resources, in accordance with a plan, for the achievement of its objectives and goals. The church budget is one of the most effective tools available for the proper stewardship of the church's assets.

The bookkeeping and accounting system, along with the related internal controls and procedures, the budgeting process, the financial audit, and the management oversight provided by the Vestry should be viewed as a single system. No part stands alone; each supports the other. This entire system enables the Vestry to fulfill its obligation of fiduciary responsibility and proper stewardship.

**Section A. Budget Methods**

The most frequently used budgeting methods are Incremental; Program; and Zero-based.

<u>Incremental Budgeting</u>

Most congregations adopt incremental budgeting (sometimes called line item or traditional budgeting). Incremental budgeting uses this year's budget as the basis for next year's budget and makes adjustments to each line item. It is an easy method to use and to understand, but problems can arise if the budgeted amounts become routine. Prior programs and costs may not be re-evaluated. The budget and programs become reliant on the past and may not incorporate new ideas.

<u>Program Budgeting</u>

Costs are identified with the specific programs (activities/ministries) being carried out by the congregation. This budget method requires the congregation to do its planning before preparing the budget. This method begins by requiring the appropriate committees and groups to identify each program it conducts along with needs and objectives of each program. Each program chair and/or staff member examines his/her own program in terms of how well it is achieving its goals. If improvements are indicated, the chair makes an assessment of the benefits to the congregation as well as the cost implications. Finally, an estimate of the resources needed to operate the program for the next year is developed. Each program chair then compiles the data into a program budget format that includes a statement on the purpose of the program, a description of the services provided, program goals and objectives, the amount of money needed, and the benefits and costs of any requested program change.

Zero-Base Budgeting

Zero-based budgeting is very time- and paperwork-intensive; it is not recommended annually but periodically (e.g., once every five years).

Each program chair and/or staff member is asked to assume the program is new and has received no funding. This means that program groups must take an in-depth look at their programs and how their activities are conducted.

Other Budgeting Methods

Other budget methods exist, including:

- Scenario Budgeting – which involves the creation of multiple versions of a budget by making variations to a base (or most likely budget). The most frequent variations are **optimistic**, **realistic (base)** and **pessimistic** scenarios. The different budget scenarios enable you to test and analyze the alternatives before adapting a final budget;
- Dynamic Budgeting – which involves revising and adopting a budget as circumstances change. This can be done periodically or constantly, though the process becomes less meaningful as the frequency of revisions increases; and
- Contingency budgeting – which allows management the flexibility of reacting to uncertainties without seeking additional approval from the board. Management may typically be allowed a certain percentage (e.g., 5%) over the adopted. An advantage of a contingency budget is that it may encourage managers not to exaggerate their budgets and may discourage the ‘use it or loose it’ spending mentality at year end.

## Section B. Budget Process

Each year, using information provided by the finance and stewardship committees, the Vestry should establish a plan and timeline for its budget process and stewardship campaign.

Budget preparation will always involve estimates, especially estimates of income and contributions. If the congregation conducts its stewardship campaign before preparing and voting a balanced budget, budget preparation is made easier.

Discerning the congregation's mission and ministry is the foundation of budget building and should involve all members of a parish, where possible. When many people share ideas and opinions about congregation-sponsored programs their acceptance and support for the budget will likely be enhanced. When members of the congregation participate in the formulation of the budget, they are also more inclined to make sure that the budgeted programs are implemented.

Following the mission discernment phase, the finance committee drafts a tentative budget to present to the Vestry, which reviews, discusses, makes changes and presents a proposed budget to the congregation.

Effective communication and explanation of the budget requires different techniques designed to address the different ways that people learn. Some people learn through pictures. For them, a graphic presentation of the budget is useful; pie charts, bar graphs and line graphs are helpful. Other people love numerical detail; a line by line presentation of the numbers along with a brief narrative description of each line could be ideal.

Any budget presentation should include amounts and sources of income, line item expenditures with narrative descriptions, summary page, the timeline of the budget process, and a roster of finance committee and Vestry members.

The budget presentation goal is to have the congregation consider and embrace the budget as its own – not the Vestry's budget or the rector's budget.

**Section C. Budget Implementation and Review**

As the financial year begins, the treasurer should prepare a month-by-month budget, incorporating as much information about the timing of receipts and expenditures as possible (e.g., Is income expected in 12 equal amounts or does income decline during the summer months? Are utilities payments higher during January and February than in July and August or *vice versa*?). The result of this exercise is a cash flow forecast which is used by the treasurer and finance committee (see Section E of this Chapter 1).

The approved budget should be integrated into the monthly financial statements presented to the Vestry. Each line item should show the budgeted amount and the actual receipts or expenditures (see the example in Chapter III).

An approved budget serves as authorization to expend funds for the purposes allocated within it. Individuals or committees responsible for line items should not exceed the budgeted amount without the Vestry's approval. Adjustments during the year may be necessary due to unanticipated costs, changes in income and new programs. All modifications to the budget should be approved by and included in the Minutes of the Vestry.

The budget should be a flexible document, which reflects the sources and uses of resources in order to accomplish the mission and ministry of the congregation. Periodic reviews assure that the budget reflects current financial conditions. Any deviations from budgeted amounts should be fully understood. A budget that is consistently “on target” may indicate that programs are static (or worse, uninspiring for program directors and the program beneficiaries) and that unnecessary expenditures are being made just to conform to the budget.

**Section D. Capital Budgeting**

Every financial plan should include consideration of the need to acquire, replace or renovate long-lived assets. The congregation‘s overall mission plan should support the reasonable anticipation of all but the most unusual future needs.
Planning for these “capital needs” is often reflected in the operating budget each year (e.g., a reserve or allowance for depreciation and replacement of plant and equipment). When capital items are budgeted through the operating budget, however, there is a tendency to plan only for the next year, rather than for longer periods of time. An alternative is to have a separate capital budget to fund future expenditures for such items as building renovation or a balloon mortgage repayment.

**Section E. Cash Management**

Cash inflow and outflow rarely occur in equal amounts in the same time period. Because no organization wants to jeopardize its reputation as a result of unpaid legitimate bills, it is critical that the organization’s treasurer maintain adequate cash to facilitate bill payments in periods when cash inflow is less than outflow. Forecasts of cash flows can be made either by comparing the monthly expense budgets to the monthly cash flow estimates or by analyzing activity from prior years or quarters.

The amount of cash a treasurer plans to keep in the checking account may depend upon the following factors:

1. Timing of the cash flows, pledge payments, investment or endowment income versus expenses, monthly bills, and, more particularly, large expenditures and quarterly bills;
2. Available borrowing power of the congregation to meet emergencies; and
3. Maintenance of a good banking relationship by complying with minimum balance requirements.

Interest-bearing checking accounts make it possible for every treasurer to see that funds on deposit earn money. The treasurer should be aware of the minimum balance required in an interest-bearing checking account, the bank‘s fee structure and interest rate, and whether investing monies in the same bank will be rewarded with special banking services. Good banking relationships bear fruit when the congregation is seeking a long-term loan. Banks will often work creatively with good customers to develop favorable loan packages, which might include a line of credit.

Money that will not be called upon for short-term cash flow can be invested for the long term, generally earning a higher return.

## Section F. Long-Term Financing

Long-term financing may be derived from loans from individuals, financial institutions and foundations. Bond sales in the public market are another source of long-term financing.

Before the congregation undertakes any long-term financing, the finance committee and Vestry should conduct a careful and thorough study of financing options and implications. Then the Vestry, by resolution, should authorize long-term debt before the commitment is undertaken. Congregations should pay careful attention to diocesan and General Convention canons, as well as state laws, relating to long-term financing and the encumbrance of property.

## Section G. Investment Management

<u>Short-term Needs</u>

Funds that are needed in the near term (say within 12 months) for operations are generally held in checking accounts that may or may not earn interest or in money market accounts typically invested in government securities and other high-grade fixed-income securities. Bonds, treasury securities and certificates of deposit pay interest, but the original investment remains essentially unchanged.

<u>Longer-term Needs</u>

Good stewardship of church assets suggests the longer term investment of funds that will not be needed until a future date, primarily to ensure that the future purchasing power of those funds will not be eroded by inflation. Assets that are prudently invested can provide a sustainable and increasing level of income to support the ministries of the congregation while preserving the real (inflation-adjusted) purchasing power of the funds. In order for the level of income distribution to increase, however, the portfolio must grow at a rate faster than the rate of inflation. To achieve this, the types of securities in the portfolio are diversified (i.e., not all eggs are in the same basket) but are typically focused on equities, with smaller percentages invested in fixed income securities.

Congregations should not be fearful of investing for the long term, but there are some basic factors that should be considered, including:

- What are our investment objectives, policies and strategies for the management of the portfolio?
- How much risk (variation of returns) will we tolerate? What will our asset allocation be? How will we diversify the assets among different classes/types of investments?
- What will the spending rate/dividend distribution policy be? What percentage of the total return (i.e., dividends, interest and price appreciation) can we use each year consistent line with objectives to: i.) preserve long term purchasing power; ii.) provide a reasonably stable and predictable revenue stream to support the operating budget; and iii.) protect the investment portfolio from repeated withdrawals for ad hoc operating needs?

Long-term investment is best managed by institutions with proven investment expertise. Many dioceses as well as The Domestic and Foreign Missionary Society provide professionally-managed balanced investment funds. Any Episcopal parish, diocese or other Episcopal-affiliated organization is welcome to place funds in custody in the DFMS Endowment Portfolio.

Regardless of the type of investment, the congregation treasurer is responsible for reporting on a regular basis to the Vestry such specifics of the invested monies as:

- The source of the funds;
- The conditions under which the funds can be used;
- Where they are invested;
- Interest earned compared with past performance;
- Total portfolio return compared with past performance;
- Fund balances;
- Additions and withdrawals since the last report; and
- Investment costs and fees.

# CHAPTER II: INTERNAL CONTROLS

## CHAPTER CONTENTS

## Introduction

What type of bookkeeping system should we use? How many bank accounts do we need? Who should be able to sign checks? Who should deposit the weekly receipts in the bank, and how? These are just some of the questions to be answered when setting up an accounting system for a congregation. Such questions should be periodically reviewed.

Often, many of these decisions are made without adequate thought. Others may require more deliberate consideration. Altogether, the decisions that we make become the policies and procedures of the accounting system, and are referred to as internal controls.  Good internal controls will ease the treasurer‘s job by providing greater assurance that transactions are recorded properly and result in more reliable records and protection of church assets, as well as compliance with civil laws, church canons, and organizational policies.

*A system of internal controls consists of all measures used by an organization to safeguard its resources and ensure accuracy, efficiency and reliability in accounting and operating information.*

Internal controls are designed to prevent or identify inadvertent errors as much as they are intended to prevent the deliberate theft or misuse of funds.  Without an appropriate system, it is not possible to assure the reliability and integrity of the records or reports generated by an organization.

An effective control system ensures that procedures are in place to meet the following objectives:

- Adequately safeguard the cash, property and other assets of the office;
- Ensure that all financial transactions are appropriately documented and approved by authorized staff;
- Expend funds in accordance with donor requirements and limits;
- Provide financial reporting that is accurate, timely and conforms to approved policies.

The overriding objective of all controls is to reduce the risk of loss or misuse of funds or property to a tolerable level.  Not all of the controls will be applicable to or cost-effective for all types of operations.

## Section A. Internal Control Concepts & Considerations

### Segregation of Duties

Proper segregation of duties is essential for an effective control system.

Every financial transaction includes five basic steps.

| *Step* | *Example* |
|---|---|
| Request | Request to purchase |
| Approval | Approval by authorized personnel |
| Authorization | Review and approval to purchase or issue purchase order |
| Execution | Physical purchase, receiving and payment |
| Recording | Accounting |

No individual should handle every step of a single transaction. The responsibility for authorizing purchase, accounting for and custody/distribution of the related assets must be separate.

| | |
|---|---|
| Separate custody of assets from accounting for assets | • The person who maintains the inventory records should not also be receiving or issuing goods.<br>• Someone who does not have access to or responsibility for payroll accounting should perform the distribution of payroll checks or cash.<br>• A Cashier should not have responsibility for recording or entering the accounting entries in the ledger |
| Separate authorization of transaction from custody of assets | • Warehouse staff distributing goods should not also approve the distribution of goods<br>• Cashiers cannot approve cash disbursements<br>• Program staff approving purchase of supplies may not also keep the program supplies inventory |
| Separate authorization of transactions from accounting for transactions | • Check signers should not approve accounting entries<br>• Staff authorized to hire personnel should not approve the payroll accounting entries |

## Authority Levels

A control system can only function effectively when all employees know which personnel have the responsibility and authority to initiate or approve expenditures or to use assets.

Authorized employees should be notified in writing of their authority levels and limits and be fully conversant with the procedures and documentation that are required before they give approval to a commitment or expenditure.

*Authorization List:* A written Authorization List, regularly reviewed and updated by senior management, should identify:

- The personnel authorized to approve various types of transactions
- Dollar limits for each authorized approver

The Authorization List should be readily available so that all staff are aware of the required approvals and authorized signatories.

Authorization Lists should be prepared for approving:

- Purchases
- Payments & Cash Disbursements (requires confirmation that goods or services and supporting documentation have been received)
- Accounting Transactions (Note: Finance staff should not authorize the transactions they are responsible for recording.)

## Documentation & Record Keeping Standards

It is essential that financial activities and transactions are clearly and appropriately documented and recorded.

Documents must be safely stored to prevent loss or damage. A systematic filing and storage system for historical records will ensure that documents can be located when required.

To maintain uniform standards of documentation and record keeping systematic procedures need to be in place, which incorporate standard forms, approval processes and accounting procedures. A regularly updated policy and procedures manual, which clearly specifies these procedures, is essential for adequate documentation and record keeping.

## Independent Reviews

Regardless of how rigorous a system of internal controls has been put in place, the potential for error exists. To ensure timely identification of errors and the need for modification to the system, each element of the control system should be independently reviewed by an individual **not** involved with the specific element. For example:

- Someone not involved with cash or accounting should perform periodic surprise cash counts;
- Program staff and management should review monthly expenditure reports;
- Inventory, or supplies, should be independently counted and verified to the bin cards/logistics system & accounting records

A formal review of the controls in place, authority levels and procedure manuals should be implemented annually.

**Cash**

Because cash is the asset most likely to be misappropriated, internal controls for cash receipt, maintenance and disbursement are critical. Basic controls to remember are:

- Physically protect against the theft or loss of cash;
- Do not disburse cash without proper document or authorization;
- Ensure that cash receipts and disbursements are charged to the correct source codes or accounts;
- Verify and Reconcile cash regularly:
    - The Cashier should count cash weekly and balance to the Ledger of Cashbook balance
    - The Cashier's supervisor should count cash every two months and balance to the Ledger or Cashbook
    - Other management staff should regularly conduct surprise cash counts
    - All cash counts should be recorded and filed
    - An independent person should confirm the presence of all official receipts, blank checks and disbursement vouchers.

**Payroll**

The major risks associated with payroll are:

- Overpayment to legitimate employees
- Payment of fictitious employees
- Failure to recover advances
- Misappropriation of payroll funds
- Under or over withholding of taxes

Clear and consistently documented activities provide good internal control over the payroll process. The following forms are recommended:

- Employee Employment Letter
- Employee Timesheets – for recording hours worked, by grant, and absences
- Employee Leave Form – for requesting and approving leave time
- Employee Action/Change Form – for recording changes in salary, benefits or other pay related actions
- Employee Termination Form – for recording the termination of a person from the payroll
- Salary Advance Form – for requesting salary advances, repayment date should be specified (i.e. next payroll date)

### Personnel

Competent, trustworthy personnel are essential for an effective control system. Pre-employment background checks are useful. Select employees based on qualifications and whose relationships can be expected to avoid perceived or actual conflicts of interest.

### Purchasing

The major risks associated with procurement are:

- The wrong items are purchased;
- Items are purchased at a price that is higher than necessary (either through error or through improper dealings with vendors);
- Items of inferior quality are purchased;
- Purchases are made without sufficient budgeted funds;
- Purchases are not in compliance with donor or grantor restrictions.

Every organization should make use of the following **standard purchasing forms**:

- Purchase Requisitions
- Standard Bid Requests
- Bid Summary Worksheets
- Purchase Orders
- Receiving Reports

*Using a regularly updated **Vendor List** can assist in providing a transparent purchasing process that avoids conflicts of interest and favoritism.*

1. A reasonable vendor list:
   a. Will include the names of vendors and types of services provided;
   b. Will include at least three vendors for each type of good or service. If fewer reliable vendors are identified, the staff should confirm in writing that fewer reliable vendors exist;
   c. Should be reviewed at least annually.

2. The employee who develops and maintains the approved vendor list should not be the same employee who solicits bids or who selects a wining bidder.

*Typical Purchasing Process:*

1. A Purchase Requisition form, signed by the requester and approved by his or her supervisor or next higher level employee with sufficient authority to approve, must be prepared for all purchases.
2. The requestor should not approve the Purchase Requisition.
3. The employee approving the requisition must ascertain that the purchase is necessary to achieve program objectives and that sufficient funds remain in the budget to fund the purchase.

4. Purchasing personnel must confirm that the personnel approving the Purchase Requisition have sufficient authority according to the established Authorization List.
5. Purchasing personnel will, ideally, obtain multiple written independent bids for purchases above a certain amount.
6. The person who solicits the bids should not also approve the final selection of vendor.
7. Sealed bids may be considered for large value purchases.
8. A bid summary worksheet should be completed for all procurement requiring bids. The worksheet should document the reason for selection of the vendor and should be signed by an authorized employee as evidence of review and approval.
9. Requestors should be discouraged from making purchases themselves. Purchasing personnel should purchase as many items as possible and all items over large value purchases (as determined by the organization).
10. Centralized purchasing and blanket purchase orders of office supplies, spare parts, etc. are highly encouraged in order to take advantage of quantity discounts from vendors.

*Procurement Personnel:*

No employee, and especially no Purchasing personnel, shall receive anything of financial value from vendors or potential vendors.

All employees, especially Purchasing personnel, shall be required to sign "conflict of interest" statements which state that neither they nor their immediate family members have any ownership or beneficial financial interest in an existing or potential vendor.

*Commitment tracking:*

Most financial systems do not track commitments. As an alternative, a system to track outstanding purchase orders and contracts should be implemented. As part of the approval of new purchases, outstanding commitments must be considered to avoid over expenditures on budgets.

**Advances**

Advances of funds provided to employees so that they can directly pay for project expenses or travel expenses should be settled/liquidated in a timely manner and with proper documentation.
Project advances are typically provided to an employee when cash is not readily available where the disbursements are ultimately made. The person receiving the advance liquidates the advance by providing receipts in the amount of the advance and/or repaying in the original currency received.

Advances in anticipation of employee travel are typically settled upon submission of a Travel Expense Report along with supporting documentation.

Procedures to ensure adequate basic control would include:

1. No employee should be given a second advance until an outstanding advance is settled.

2. Outstanding advances should be reviewed monthly to identify advances outstanding for more than 30 days.
3. Employees with advances outstanding on December 31st should be a.) issued an IRS Form 1099-Misc. recognizing the unsettled advance as income to the employee or b.) be subject to salary withholding in the amount of the unsettled advance.

**Telephones**

Long distance telephone usage can represent a significant expense. Control of that expense may be achieved as follows:

1. Employees may be required to reimburse the organization for personal calls.
2. Long-distance access may be restricted to phones of only those employees whose usual work involved long distance calls.
3. Special access codes may be assigned to authorized users.

**Section B. Internal Control Questionnaire**

The following Internal Control Questionnaire is intended to provide guidance for setting up an accounting system and a checklist for periodic review and evaluation of an existing system. The questionnaire is designed also to assist a congregation‘s internal audit committee. The format is a series of questions, most of which refer to some recommended internal control. The normative answer to a question will be positive. A negative response suggests an area of the system that could be strengthened.

Developing a narrative description is suggested, to provide documentation of the current review. This narrative should be retained for reference in future evaluations.

*General:* The following items are intended to provide general information to aid understanding of the overall accounting and internal control system.

1. Are prior internal control questionnaires and auditors' recommendations available? ☐Yes ☐No
2. Have recommendations of prior reports on internal controls been implemented? ☐Yes ☐No
3. Is a complete and current chart of accounts, listing all accounts and their respective account numbers, available? ☐Yes ☐No
4. Is there an accounting policy and procedure manual? ☐Yes ☐No
5. Is it up to date? ☐Yes ☐No
6. Is a current edition of this manual available? ☐Yes ☐No
7. Is the accounting system using a double-entry bookkeeping method? ☐Yes ☐No
8. Have the findings of external auditors been reported to the Vestry? ☐Yes ☐No

*Budget:* The development and use of a budget is a critical management tool that will aid in the stewardship and administration of church resources and program.

1. Is the budget approved by the Vestry? ☐Yes ☐No
2. Are all changes to the budget authorized by the Vestry and ☐Yes ☐No

recorded in the minutes of the meetings?

3. Is there a periodic review of the budget by the Vestry? ☐Yes ☐No

*Reporting:* The best accounting system is of little value unless it communicates the information it contains to those responsible. Although there may be variations, certain minimum standards exist to assure adequate communication of the financial information.

1. Is a Treasurer's report submitted to the Vestry or accounting committee each month? ☐Yes ☐No
2. Is the Treasurer's report presented in sufficient detail to inform the reader about the nature of the various income and disbursement items? ☐Yes ☐No
3. Does the report present the current actual financial data compared with the approved budget? ☐Yes ☐No
4. Is there periodic reporting, at least quarterly, of all other funds And activities, including designated or restricted funds? ☐Yes ☐No

*Cash Receipts:* Clearly stated policies and procedures regarding the handling of cash and other receipts help not only to protect from loss, but assure that all receipts are properly recorded in the records.

1. Are there safeguards to protect the collections from theft or misplacement from the time of receipt until the time the funds are counted and deposited? ☐Yes ☐No
2. Are the collection receipts counted and deposited so that the deposit equals the entire amount of receipts on a timely basis, i.e., at least weekly? ☐Yes ☐No
3. Are there at least two unrelated persons responsible for counting and depositing the collections? ☐Yes ☐No
4. Are the persons responsible for counting receipts rotated on a periodic basis? ☐Yes ☐No
5. Do the counters have a standardized form for recording the deposit information? ☐Yes ☐No
6. Are the counters' sheets retained and reconciled with actual deposits, and are all discrepancies investigated? ☐Yes ☐No
7. Is there a control prohibiting the cashing of checks from the currency received? ☐Yes ☐No
8. Are all of the pledge envelopes or other memoranda retained and reconciled to the recorded amounts? ☐Yes ☐No
9. Are all other cash receipts recorded and deposited on a timely basis? ☐Yes ☐No
10. Are all checks received restrictively endorsed "for deposit only" immediately upon receipt? ☐Yes ☐No
11. Are all cash receipts deposited into the general operating checking account? ☐Yes ☐No
12. Are there procedures that will highlight, or bring to someone's attention, the fact that all receipts or income have not been received or recorded? ☐Yes ☐No

13. Are periodic statements provided to donors of record (i.e. at least quarterly)? ☐Yes ☐No
14. Do acknowledgments of contributions in excess of $250 include a receipt from the recipient organization which states that it is "the contemporaneous acknowledgment required by the Internal Revenue Code, and states that, in accordance with Section 170(F)(8)(B), any goods or services provided consist solely of intangible religious benefits'? ☐Yes ☐No
15. Are all discrepancies investigated? ☐Yes ☐No

*Cash Disbursements:* The following procedures will assist in assuring that all payments are properly approved, recorded, and supported by appropriate documentation.

1. Are all disbursements made by check, except for small expenditures made from petty cash? ☐Yes ☐No
2. Are all checks pre-numbered and used in sequence? ☐Yes ☐No
3. Is there a clearly defined approval process for all disbursements? ☐Yes ☐No
4. Are all voided checks properly cancelled and retained? ☐Yes ☐No
5. Are all checks payable to specified payees and not to cash or to bearer? ☐Yes ☐No
6. Are all disbursements supported by original documentation? ☐Yes ☐No
7. Is the original vendor's invoice or other documentation cancelled at the time of signature to prevent duplicate payment? ☐Yes ☐No
8. Check signing:
   a. Is signing blank checks prohibited? ☐Yes ☐No
   b. Is using a signature stamp or pre-printed signatures prohibited? ☐Yes ☐No
   c. Does all supporting documentation accompany checks presented for signature? ☐Yes ☐No
   d. Are all account signers required for any check? ☐Yes ☐No
   e. Is more than one signature required for any check? ☐Yes ☐No
   f. If not, do checks for more than $500 required more than one signature? ☐Yes ☐No
   g. If signature imprint machines are not used, are the keys kept under lock and key except when in use? ☐Yes ☐No
9. Are all disbursements requiring special approval of funding sources or the Vestry properly documented in the Vestry or Finance Committee members? ☐Yes ☐No
10. Are there adequate controls and segregation of duties regarding Electronic Funds Transfers? ☐Yes ☐No

*Journal Entries:* Journal Entries offer a special opportunity to make adjustments to accounting records. The general journal is an equally important book of original entry as the cash receipts and cash disbursements journals.

1. Is there an appropriate explanation accompanying each journal entry? ☐Yes ☐No
2. Are all journal entries approved by a knowledgeable authority other

than the person initiating the entry? ☐Yes ☐No

3. Is adequate documentation maintained to support each journal entry? ☐Yes ☐No

*Bank Account Reconciliation:* The monthly reconciliation of all bank accounts is a primary tool for assuring the proper recording and accounting for all cash account activity.

1. Are all bank accounts reconciled within 10 days of receipt of bank statement? ☐Yes ☐No
2. Do two different people perform the tasks of opening and reconciling the bank statement? ☐Yes ☐No
3. Does someone complete the bank account reconciliations other than the person who participates in the receipt or disbursement of cash? ☐Yes ☐No
4. Do the reconciliation procedures provide for:
   a. Comparison between the bank statement and the cash receipts journal of dates and amounts of deposits? ☐Yes ☐No
   b. Investigation of bank transfers to determine that both sides of the transactions have been recorded? ☐Yes ☐No
   c. Investigation of all bank debit and credit memos? ☐Yes ☐No
   d. Review of all checks outstanding more than 90 days? ☐Yes ☐No
   e. Are checks more than 180 days outstanding voided during the year-end reconciliation? ☐Yes ☐No
   f. Is the bank immediately notified of all changes of authorized check-signers? ☐Yes ☐No
5. Are all journal entries for bank charges and bank account interest recorded routinely? ☐Yes ☐No
6. Are all bank accounts included on financial reports to the Vestry? ☐Yes ☐No

*Petty Cash:* The following controls are intended to provide a timely recording of cash expenditures in the accounting system.

1. Is the responsibility for the petty cash fund assigned to one person? ☐Yes ☐No
2. Are all petty cash funds maintained on an imprest basis, i.e., the total amount of vouchers paid or disbursed, plus cash, always equal the amount of the fund? ☐Yes ☐No
3. Is adequate review made of documentation before the fund is reimbursed? ☐Yes ☐No
4. Is the petty cash fund reimbursed at least monthly? ☐Yes ☐No
5. Are check cashing and making loans to employees prohibited? ☐Yes ☐No
6. Is the actual petty cash protected from theft or misplacement? ☐Yes ☐No

*Investments:* Procedures for proper recording and control of all investment instruments will help to assure that all assets and related income are accounted for and properly reported.

1. Are all investment instruments held in the name of the church only? ☐Yes ☐No
2. Is the authorization for the sale and/or purchase of investments provided for by the Vestry or authorized Investment Committee? ☐Yes ☐No

3. Are all investment instruments adequately protected from fire, theft, or misplacement, preferably in custody by a bank, broker or other financial intermediary? ☐Yes ☐No
4. Is the income/dividends/interest recorded? ☐Yes ☐No
5. Are all investment accounts included in financial reports to the Vestry? ☐Yes ☐No

*Property and Equipment:* Certain procedures involving the physical assets of the church will aid in detecting, identifying and preventing losses.

1. Is formal approval of the Vestry required for all property and equipment additions and dispositions? ☐Yes ☐No
2. Is a detailed inventory of all property, furniture, fixtures, and equipment maintained showing:
   a. Date acquired? ☐Yes ☐No
   b. Detailed description? ☐Yes ☐No
   c. Cost or fair market value at time of donation? ☐Yes ☐No
   d. Any funding source restrictions? ☐Yes ☐No
3. Is a periodic review conducted to compare the actual property, furniture, and fixtures, and equipment with the recorded inventory listing? ☐Yes ☐No
4. Is there a safe deposit box? ☐Yes ☐No
   a. Is there an inventory of its contents? ☐Yes ☐No
   b. Who is authorized to enter it? ______________________________
5. Are permanent records such as articles of incorporation, if applicable, by-laws and real estate deeds kept in a safe place? ☐Yes ☐No
6. Are they up to date? ☐Yes ☐No

*Insurance:* Insurance should be maintained that is adequate to protect against all reasonable risks of loss.

1. Is there a periodic review conducted to ensure the adequacy of the insurance coverage for:
   a. Property? ☐Yes ☐No
   b. Liability? ☐Yes ☐No
   c. Fidelity Bond? ☐Yes ☐No
   d. Sexual Misconduct? ☐Yes ☐No
   e. Directors and Officers Liability? ☐Yes ☐No
   f. Workers' Compensation? ☐Yes ☐No
2. Is there a policy related to sexual misconduct? ☐Yes ☐No
3. Is there a periodic review conducted to ensure that adequate controls are in place to prevent loss? ☐Yes ☐No

*Liabilities and Other Debt:* All liabilities and other debt must be clearly reported, and all provisions or restrictions complied with.

1. Is all borrowing or indebtedness authorized by the Vestry and the

appropriate diocesan board or committee? ☐Yes ☐No

2. Are all loan agreements and/or lease agreements in writing and properly safeguarded? ☐Yes ☐No
3. Are there periodic reviews conducted to determine compliance with any debt/lease provisions? ☐Yes ☐No
4. Are all liabilities noted on Financial Reports to Vestry? ☐Yes ☐No

*Restricted Gifts and Income:* Gifts restricted by donors are not handled in the same manner as other contributions. Procedures are necessary to assure that these gifts are recorded properly and all restrictions are observed.

1. Are records maintained of all bequests, memorials, endowments, or any other restricted gifts to include:
   a. Date, amount and donor gift? ☐Yes ☐No
   b. Any restrictions or limitations? ☐Yes ☐No
2. Does the Vestry vote to accept all restricted gifts and grants, promising to abide by the restrictions? ☐Yes ☐No
3. Are written acknowledgements issued for whom they are required? ☐Yes ☐No

*Payroll:* The application of policies and procedures involving the employment of individuals assures compliance with payroll tax reporting to the various governmental entities. It is strongly recommended that payroll be processed by a professional service. Questions 3, 4, 5 & 8 are necessary only if payroll is still processed in-house, whether manually or with an in-house computer software program.

1. Are personnel files maintained to include:
   a. Employment application and/or letter of employment? ☐Yes ☐No
   b. Authorizations of pay rates and effective dates? ☐Yes ☐No
   c. Internal Revenue Service Form W4? ☐Yes ☐No
   d. Department of Justice Form I-9? ☐Yes ☐No
   e. State Withholding Forms? ☐Yes ☐No
   f. New hire reporting? ☐Yes ☐No
2. Is there a written record of hours worked, approved by a Supervisor when applicable? ☐Yes ☐No
3. Are there adequate records to:
   a. Show computation of gross pay? ☐Yes ☐No
   b. Account for all deductions from gross pay? ☐Yes ☐No
   c. Support payroll tax returns and Forms W-2? ☐Yes ☐No
4. Are payroll tax returns filed on a timely basis? ☐Yes ☐No
5. Are Forms 1099 being provided for all individuals who are not employees and for all unincorporated entities paid $600 or more annually? ☐Yes ☐No
6. Are Form W-2 wages reconciled to the general ledger accounts, and all four quarterly payroll tax returns? ☐Yes ☐No
7. Are clergy housing allowances recorded in the minutes of the Vestry no later than the first meeting of the year? ☐Yes ☐No

*Computer Systems:* The use of computers creates the need for additional procedures to safeguard the system and data.

1. Are current or duplicate copies of the operating system and programs maintained off premises? ☐Yes ☐No
2. Is access to the computer and computer programs limited to authorized persons? ☐Yes ☐No
3. Is there adequate documentation, including user manuals, available on-site for all computer programs? ☐Yes ☐No
4. Is there a plan for recovery of data and continuation of operations in the event of a disaster? ☐Yes ☐No

# CHAPTER III: BOOKKEEPING

## CHAPTER CONTENTS

## Introduction

The accounting year for all Episcopal congregations and dioceses is January 1 through December 31, according to the Canons of the Episcopal Church, Title I, Canon 7, Sect ion 1( i), which are included in the Introduction of this manual.

## Section A. General Information

1. A double entry bookkeeping system should be used, a method whereby at least two offsetting entries must be made to record a transaction. As a point of reference, these offsetting entries are referred to as a debit and a credit.

2. The double entry bookkeeping system is based on the concept of assets, liabilities, and net assets. Assets are holdings of value, such as cash and investments. Liabilities are claims against holdings of value, such as unpaid bills, outstanding loans, and mortgages on property. Net assets are the difference between the assets and liabilities and represent the net worth. Net assets are increased by income and decreased by expenses.

   Assets are normally posted as debits, liabilities as credits, income as credits, and expenses as debits. A positive in the net assets would be a credit.

3. Under ideal circumstances, the books are posted and balanced monthly. A Statement of Financial Position and Statement of Activities should be prepared every month as well. However, in most circumstances a monthly statement of cash receipts and disbursements (with the budget as a comparison) is sufficient for parishes operating on a cash basis, with formal statements created only at year end.

4. These accounts may be kept manually (materials may be purchased at any office supply store), a one-write system, or by the use of a computer bookkeeping program (please refer to Chapter X, Principles of Computerization).

| | Debit | Credit |
|---|---|---|
| Assets | xxxx | |
| Liabilities | | xx |
| Net Assets | | xxx |
| | xxxx | xxxx |
| Income | | x |
| Expenses | x | |

## Section B. Basic Record Keeping

1. Bookkeeping for Cash Receipts Journal: The cash receipts journal is used to record cash and checks received, securities, and earned income. Deposits should be made promptly into a general operating checking account, with all checks properly endorsed.

a. Cash and checks are recorded to the cash receipts journal from a deposit slip, which should be attached to the counting form. The counting form or deposit slip should have the allocation of the deposit noted.

   Debit the cash account and credit the specific income account(s), such as pledges or loose offerings. It is recommended that quarterly statements be furnished to regular contributors.

b. Earned income, such as interest earned on a checking or savings account, may be recorded in the cash receipts journal. If this is done when statements are received the bank reconciliation may be done without adjustments, provided there are no other errors. This method helps to prevent omitting interest accidentally. A debit to the checking account cash and a corresponding credit to interest income will be all that is necessary to record checking account interest. If the interest is earned on a savings account, a certificate of deposit, or other account, a debit needs to be made in a miscellaneous column noting the particular asset account, and a credit to the corresponding income account. The income account to be posted would comply with the restrictions of the fund. Therefore, if interest were earned on an account restricted for capital expansion, the income would be recorded as income to that account.

c. Gifts may be offered where the donor has imposed constraints or conditions on the use or purpose of the money. Once the contribution is accepted, there is a legal obligation to honor the donor's restrictions. It is important that the congregation maintains a record of each restricted gift that includes:

   1) Date of gift
   2) Exact description and amount of the gift
   3) Nature of restrictions on the use(s) of the gift

   The Vestry should approve the acceptance of any restricted gift and, if it is other than cash, determine the disposition of the gift. Restrictions are legally binding. Donor or court approval is required in order to use the restricted funds for any purpose other than that imposed by the donor at the time of the gift.

   Spending limitations can be avoided at the time of the gift if the donor is made aware of potential problems and reasonable provisions included with the gift that provide for more liberal use. Gift receipt policies should be established in writing by the Vestry and made available to members of the congregation.

   Restricted funds should be segregated in the accounting records so that information is available to demonstrate that fund expenditures have been made in conformity with the restrictions imposed by the donor. It is recommended that all receipts of restricted gifts be deposited into the general operating bank account and then transferred to the appropriate segregated account. For gifts having time or purpose restrictions, the gift income plus subsequent earnings less transfers to make expenditures is recorded as temporarily restricted net assets (see more discussion of net assets in items 1 and 2 of section C).

An Endowment Fund is created when a donor‘s conditions allow only the earnings from his/her gift to be expended. Such a gift restricts the gift itself (often referred to as the principal) to be held either in perpetuity or for a specified term.

If the principal is restricted in perpetuity, then the gift income is recorded as permanently restricted net assets (see more discussion of net assets in items 1 and 2 of section C). If the principal is restricted for a specified term, then the gift income is recorded as temporarily restricted net assets. If the donor imposes no restrictions on the earnings from the gift, then the income generated by the gift less transfers to make expenditures is recorded as unrestricted net assets. If the donor imposes time or purpose restrictions on the endowment earnings, then the income generated by the gift less transfers to make expenditures is recorded as temporarily restricted net assets.

d. Donated securities are recorded at fair market value at the date of receipt. At date of receipt a letter or receipt must be given to the donor noting the date received, a description of the securities, and the number of shares. If the shares are regularly traded on a national exchange, you may wish to include the securities value. It is recommended that securities be sold immediately upon receipt unless the congregation has in place an investment advisory committee to make those decisions. If the latter is provided, a congregation must follow Title I, Canon 7, Section 1(b). Refer to this Canon which is reproduced in its entirety in the Introduction to this manual.

   At month end total all columns and cross check for accuracy. The journal may be used as a general ledger by adding month-end totals together cumulatively. This may be desirable for efficiency in small congregations. The General Ledger is described in paragraph 5 of this Section.

2. Bookkeeping for Cash Disbursements Journal: The cash disbursements journal is used to record all checks. Checks should be pre-numbered, and signed only after being properly completed. Checks should be listed in the journal numerically and note the date and payee of the check. Voided checks should be recorded in the order of the number pre-assigned to the check, noting the check as “VOIDED”. Voided checks should be retained for audit verification, and kept with the cancelled checks for the time period indicated in the records retention schedule (see Chapter IX [Records Management], Section D). The signature section may be cut out of the check so that it cannot be used or, alternatively, the check should be manually (or with a stamp) marked “VOID”.

   a. All disbursements should be made by check except for small expenditures made from petty cash.
   b. Pay only from original invoices or requisitions with appropriate documentation attached, which have been approved by proper authority and checked for accuracy. If the disbursement is for services, obtain a Federal Employer‘s Identification Number or social security number prior to disbursing the check. Chapter IV (Taxes) describes who should receive Form 1099.
   c. Recording the payment in the journal is handled by a credit to the checking account cash column, and distributing the amount by debit(s) to the proper account(s).

d. Notations of date paid and check number should be noted on the original documents or a copy of the check may be attached.

3. Bookkeeping for Payroll: Bookkeeping for payroll should be done in a separate payroll journal. It is important both that this journal records the proper expenses and liabilities, and that it ties into the quarterly Form 941 and end-of-year Form W-2. When set up properly, it will make the job of reporting much easier.

   a. Columns which should be set up for recording payroll are:

      1) Taxable portion of gross salary (debit to salary expense)
      2) Housing and utility allowance (debit to housing & utility allowance expense)
      3) Social Security and Medicare withholding for lay employees (credit liability)
      4) Federal income tax withholding (credit liability)
      5) State income tax withholding (credit liability), if applicable.
      6) Net check amount (credit to checking account)

      Note: There may be a need for other columns if the employee has tax deferred annuities, loans, or other deductions, or if travel allowance is paid without a reimbursable plan, or if there are other taxable benefits.

   b. A column may be set up to record the congregation‘s portion of Social Security and Medicare as expenses, or the expenses may be recorded when tax payments are made which include Social Security and Medicare.
   c. Individual payroll records should be maintained for each employee. These should be checked periodically by month and quarter and, finally, annually to make sure they agree with the payroll journal.

   Note: Payroll tax reporting instructions and examples are found in Chapter IV (Taxes).

4. Miscellaneous Journal Entries: A general journal is used to enter any other entry that is not accommodated by one of the above journals. These may include adjustments to accounts, depreciation if used, recording the closing entries at year-end, and interest, if it is not recorded through the receipts journal.

   a. A columnar form may be used, which has space for the date and description, account numbers, and normally a debit and credit column and entry number. Record the date of each entry in the first column. In the description space write the name of the account, which will be debited first. On the next line, indent slightly and record the name of the credit account. Then indent on the next line and write a clear, concise statement explaining why the journal entry is made. These entries are recorded individually.
   b. Post each individual entry to the general ledger in the month that is selected in the date column. It is helpful to place a small check mark against each entry when it is posted from the general journal to the general ledger.
   c. A general journal file should be maintained containing supporting documentation for each entry.

An example of a general journal entry is as follows:

| Entry | Date | Description | Account | Dr | Cr |
|---|---|---|---|---|---|
| J/E 1 | 12/01/xx | Operating Cash Account | 1001 | $ 12.01 | |
| | | Interest Income | 4001 | | $ 12.01 |
| To record earned checking account interest. | | | | | |

5. The General Ledger: The General Ledger is a summary account book of all the accounts set up individually. It is divided into five sections: Assets, Liabilities, Net Assets, Income and Expenses.
   a. At the end of each month the totals in each journal are posted to the various accounts in the general ledger.
   b. At year end the revenue and expenditures are "closed" to the Net Assets. Revenue is posted as a debit in each revenue account and as a credit in the appropriate Net Asset. Expenses are posted as a credit in each expense account and as a debit to the appropriate Net Asset. Year-end closing will leave all revenue and expense accounts with a zero balance. The Net Assets are adjusted to reflect the new financial position at year-end.

6. Bookkeeping for Petty Cash: Establish a fixed or imprest amount sufficient to meet necessary minor expenses such as freight delivered COD, postage, etc. for a period of not more than thirty days.
   a. Cash and receipts for expenditures should always equal total petty cash fund.
   b. Replenish the fund by check for expenditures.
   c. Allocate the check in the disbursement journal based on the use of the funds, e.g., postage, supplies, etc.
   d. Checks should not be cashed from the petty cash fund.
   e. Advances or borrowing should never be done through the petty cash fund.
   f. The petty cash fund should be replenished at least monthly. This will help establish how much cash should be held on hand.
   g. The money should be kept in a locked cabinet or safe, and a sole custodian for the fund should be appointed.

7. Transfer of Funds: It is necessary at times to transfer sums from the general operating checking account to special accounts. All money as it is received should be deposited in the general operating checking account. If it is appropriate to transfer the funds to a special account, a check should be written and the funds transferred from the general operating checking account to the proper checking or investment account. These may include savings accounts, special designated or restricted accounts, and trust or endowment accounts.
   a. Interfund transfers: Generally, interfund transfers are used to fund expenditures by transferring cash from one fund to another. For example money collected for the discretionary fund and deposited in the general operating checking account is transferred to the discretionary account. Transfers such as this appear on the income statement as interfund transfers.

b. Interfund loans: Funds may be transferred to another fund in the form of a loan. An example would be temporarily loaning operating income to a building fund during the period that building fund pledges are being collected, while the construction is progressing and invoices must be paid timely. Borrowing from restricted funds must be done with extreme caution so that all restrictions are observed. These transfers appear on the Statement of Financial Position as interfund receivables and interfund payables.

8. Subsidiary Ledgers: Subsidiary ledgers are individual records which maintain details that are necessary to segregate receivables and payables or to help the treasurer clarify the details of restricted funds. An example of a subsidiary ledger is one in which memorial gifts may be recorded. Record these transactions as follows:

   a. Record the receipt of the funds, noting the date received, by whom, in memory of whom, and the amount received.
   b. When the funds are used, note the date used, check number, and which restricted fund was spent.
   c. The total of subsidiary accounts should equal the total of the specific fund in the general ledger account.

9. Bookkeeping for Investments: Proper investment and accounting of funds is important in the management of all funds.

   a. Savings and certificates of deposit should be reported as a separate line item in the asset section of the Statement of Financial Position, usually as short-term assets.
   b. Account numbers of each savings account and the balances should be maintained on the books.
   c. Certificate of deposit account numbers, rates of interest, and renewal date information should be maintained for each certificate of deposit.
   d. Investments in securities should be recorded at cost when purchased or at market value on date of receipt, if donated. Adjustments to market value should be made at least annually, recording a gain or loss in the general journal.
   e. Securities should be deposited with a custodian bank or stockbroker or kept in a safe deposit box, and a notation of the date received, number of shares, cost value, and description of the security should be maintained in a subsidiary ledger.

10. Loans (Receivable and Payable): It is necessary at times for congregations to loan or borrow money. This should be done only with full knowledge of the effects on cash flow, interest costs (long and short- range), and a total plan for collection or paying back. All loans should be evidenced by a written note and approval by the Vestry and recorded in the Vestry minutes.

   a. Funds loaned are set up as a note receivable and should be reported as a separate line item under assets on the Statement of Financial Position. If a loan is made, it should be made only by check, never from loose offering or from the petty cash fund. (Research state laws before making any loans to an employee or an officer of the congregation, as it may be prohibited or limited.) Any advances are considered loans until repaid or supported by proper documentation. If an employee receives a “no-interest” loan, federal tax law requires that interest be imputed (calculated), the interest be included as income to the employee and reported to the Internal Revenue Service. Check state laws regarding the method of reporting this income to a specific state.

b. Funds borrowed are set up as a note or mortgage payable and should be reported as a separate line item under liabilities on the Statement of Financial Position. The note should be recorded at date of receipt of the funds. Interest paid on all loans is considered an expense and the principal portion reduces the liability. Before any property is encumbered, permission must be obtained from the Standing Committee and the Bishop of the Diocese. Please consult Diocesan Canons and State Law in this regard.

11. Discretionary Funds: Refer to Chapter V (Discretionary Funds)

12. Furniture, Fixtures and Equipment: Normally, small purchase items of furniture, fixtures, and equipment are expensed. Purchases of items for an amount, such as $500 or more, should be recorded as an asset if the item has a lifetime expectancy of three or more years. A separate subsidiary ledger should be maintained as a property inventory file, and a physical inventory should be taken yearly and differences reconciled. If an item is removed or loses its use or value, it should be removed from the inventory and the asset account should be reduced. The net asset value reduction would be recorded as a debit to an expense account. This should be done through the general journal.

13. Land and Buildings:
    a. Land is recorded at cost, plus all expenses included in the closing costs. Any major improvements, such as ditching, emplacement of sewer lines, etc., should be recorded as a land expense.
    b. Buildings are recorded at cost plus all expenses adhering to it, such as construction interest and closing costs.
    c. Major improvements to land or buildings may be added to the original cost, or a separate account may be set up called “major improvements to land or buildings”.
    d. If land or buildings are donated, the amount recorded is the fair market value at date of receipt of the property.

14. Depreciation: The American Institute of Certified Public Accountants requires depreciation. If depreciation is not used, the opinion of a Certified Public Accountant will be qualified.

    When depreciation is used by a congregation, two accounts should be established as follows:

| **Account Title** | **Type of Account** | **Explanation** |
|---|---|---|
| Accumulated Depreciation | Statement of Financial Position | Credited for each year’s depreciation. Accumulates depreciation recorded over the years on assets still owned. |
| Depreciation Expense | Statement of Activity | Debited for current year’s depreciation expense. |

The straight-line depreciation method is recommended. Under this method the annual depreciation expense for a particular asset is determined by dividing the cost of the asset by the estimated useful life of the asset. For example:

| | |
|---|---|
| Asset: | Computer |
| Cost: | $7,500 |
| Useful Life: | 5 years |
| Annual Depreciation Expense | $1,500 |

It is also recommended that the Vestry establish an asset capitalization and depreciation policy. It is important that the Vestry establish designated funds set aside for major future repairs and replacement needs for all capital items.

15. Conditional/Unconditional Pledges (Promises to give): SFAS 117 sets requirements on reporting pledges based on Conditional Pledges and Unconditional Pledges. Following SFAS 117 requires major changes in the present church reporting standards. The changes might, in all probability, cause confusion and would not add any significant benefit to the financial statements. This Manual recommends that churches report pledge receipts as received and adjust the year-end books to reflect a receivable for any pledges expected to be received in the forthcoming year. In the case of Capital Fund Receipts from a large fund-raising campaign, it may be preferable and important to follow the guidelines for Unconditional Pledges.

    Individual promises should be evaluated based on the ability and likelihood of the donor to honor the promise. High-volume pledges generated through a broad-based appeal may be evaluated as a whole based on historical or statistical data. Multiple year pledges should be recognized in the year the pledge is made and valued at the present value of the estimated future cash flows.

    The following are brief definitions of Conditional and Unconditional Pledges for information purposes.

    a. Conditional Pledges depend on the occurrence of some specified uncertain event, such as a matching requirement. Conditions refer to events that must occur before a pledge becomes binding on the one making the pledge. Conditional pledges are not recorded until the condition is substantially met, at which time they become unconditional.
    b. Unconditional Pledges are considered contributions, provided sufficient evidence exists that a promise was made and received. Unconditional pledges must be recorded in the period when verifiable evidence exists that the promise was made and received. It further suggests that these pledges be discounted to present value, less an allowance for uncollectible amounts.

16. Month-End Closing:

    a. Total all journals.
    b. Total individual payroll records and check that they all total to the payroll journal totals.

c. Reconcile the checking account(s). The best way to do this is to follow the instructions on the back of any bank statement. To check off current month checks and deposits, check against the receipts and disbursements journal. This will catch any posting errors that may have occurred between the check register and the journals. Any corrections may be done directly to the journals or through the general journal. Any outstanding check (a check written and disbursed but has not cleared the bank) of over three months should be followed-up. Any check outstanding for six months or more should be voided.
d. If a general ledger is used, at month-end verify that the balances in all accounts (checking, savings, investment), receivables, and payables correspond to the reconciled checking account and the detailed listings of outstanding receivables and payables.

17. End of Quarter: Total monthly payroll for the current quarterly reports. Complete quarterly payroll reports, comparing amounts with journals and individual ledgers to verify accuracy. File quarterly reports with appropriate taxing authorities.

18. Year-End:
    a. Total the quarterly payroll totals. Complete Forms W-2 and W-3. Verify that all amounts on the individual ledgers and payroll journals correspond to the Form W-3. File year- end reports with appropriate taxing authorities.
    b. Total all cumulative totals in journals if the journals are used as the general ledger.
    c. If a general ledger is used, close out all revenue and expense accounts to appropriate Net Asset account. This will leave zero balances in the income and expense accounts. Verify that all checking, savings, investment accounts, receivables, and payables correspond to the actual balances in the subsidiary accounts and outstanding invoices uncollected or unpaid at the year end.

19. Financial Statements: Financial statements consist of the Statement of Financial Position, Statement of Activities, and the Statement of Cash Flows. At a minimum, a Statement of Activities should be prepared monthly.
    a. The Statement of Financial Position should be a comparative statement. The comparison is with the same date of the prior year. The statement consists of assets (current and long-term), liabilities (current and long-term), and net assets (unrestricted, temporarily restricted, and permanently restricted). Net Assets are Assets less Liabilities.
    b. The Statement of Activities should show, at a minimum, a comparison of budget to actual activity to date. It is recommended that at year-end the statement should report on actual activity for the current year compared with the budget and with the actual activity for the prior year.
    c. Statement of Cash Flows should be prepared at a minimum at year-end.
    d. The financial statement should include notes. The notes should be used to clarify information contained in the financial statements. They should be short, clear, and concise.
    e. Statements should be provided, presented, and explained at all Vestry meetings.
    f. Full disclosure of all funds of the organization is a must. This includes other organizations operating under the congregation's authority, such as discretionary funds and the Episcopal Church Women.

20. Acceptable Accounting Methods for Congregations:
    a. Cash Accounting: Revenue is reported when it is received and expenses are reported when paid.
    b. Accrual Accounting: Revenue is reported when earned and expenses are reported in the period for which they are incurred (e.g., a telephone invoice is received in December for November expenses, thus the expense would be reported in November).
    c. Modified Accrual Accounting: Revenue and expenses are reported either using the cash method or the accrual method. However, expenses are reported frequently using the accrual method and income is reported using the cash method. It is recommended that, for churches using the cash method during the year, the financial statement be adjusted to accrual or modified accrual at year-end.

**Section C. Net Asset Reporting**

Net Assets are reported in three specific categories: permanently restricted, temporarily restricted and unrestricted. There may be subcategories under each of these items to clarify the statements.

1. Permanently Restricted Net Assets are funds restricted by the donor in perpetuity which cannot be altered by the congregation. These would commonly be endowment funds.

2. Temporarily Restricted Net Assets contain donor imposed restrictions that are satisfied by time or some action of the congregation.
    a. Permanently restricted endowments' earned income, which is to be spent as directed by the donor.
    b. Term endowments, which may be expended at such time as a specific event takes place, such as the construction of a chapel funded from a donated endowment with the restriction that the funds be expended for the construction of a chapel.

3. Unrestricted Net Assets are by definition any net assets which do not fall within the categories of Permanently Restricted Net Assets or Temporarily Restricted Net Assets. They may be categorized on the statements for clarification as follows:
    a. Undesignated Funds consist of funds that are fully expendable and have no donor-imposed constraints regarding their use or purpose. However, they may have administratively imposed constraints.
    b. Designated Funds consist of funds upon which a Vestry or other governing board has imposed constraints regarding their use or purpose. Since a Vestry or other governing board may, at their discretion, modify or remove the constraints, these funds are not legally restricted. A common example would be a reserve for major repairs.
    c. Furniture, Equipment, Land, Building are usually Unrestricted Net Assets. However, to avoid confusion and to clarify the statements they may be listed as a separate category under Unrestricted Net Assets.

4. Basic Bookkeeping for Restricted Net Assets:

   To record the receipt of restricted funds:

   - In Operating Fund: **Debit** Operating Cash Account
     **Credit** Due to Restricted Fund

   - In Restricted Fund: **Debit** Due from Operating Fund
     **Credit** Contributions Received

   To record the transfer from operating fund to restricted funds:

   - In Operating Fund: **Debit** Due to Restricted Fund
     **Credit** Operating Cash Account

   - In Restricted Fund: **Debit** Restricted Cash Account
     **Credit** Due from Operating Fund

   The principal amounts may be placed in a common or pooled investment account with other restricted funds. If the funds are pooled, the income should be allocated to each of the separate funds to assure compliance with all restrictions. If the funds are relatively large, separate bank accounts for each fund may provide easier accounting. All investment income should be recorded to the appropriate net asset.

   To record investment income:

   - In Restricted Fund: **Debit** Cash Account
     **Credit** Investment Income

   If the principal or income from restricted or designated funds is used for expenditures which would otherwise be considered operating expenses, the expense should be included in the operating budget and the funding should be shown as a transfer to the operating fund from the restricted or designated fund.

5. Reporting in Financial Statements: Restricted gifts may be combined for presentation purposes in the financial statements under a separate Restricted Fund caption.

   If the financial statements are presented in a combined format in a single statement, the restricted balances and accounts should be clearly segregated and identified as restricted. They should not be combined with other funds, accounts or balances.

## Section D. Financial Report Examples

### SAMPLE MONTHLY REPORT
### REVENUE AND EXPENSES
### FOR THE FIVE MONTHS ENDING MAY 31, [CURRENT YEAR]

| **Accounts** | **Annual Budget** | **Budget To Date** | **Actual To Date** | **Over/ Under** |
|---|---|---|---|---|
| *Revenue:* | | | | |
| *Operating Income:* | | | | |
| Plate offering | $17,640 | $8,820 | $6,879 | $(1,941) |
| Pledge receipts | 151,368 | 75,684 | 79,312 | 3,628 |
| Investment income | 460 | 230 | 275 | 45 |
| Other income | 6,420 | 3,210 | 4,018 | 808 |
| Diocesan assistance | -0- | -0- | -0- | -0- |
| Undesignated gifts and bequests | 1,200 | 600 | 55 | 545) |
| Total Operating Income | $177088 | $88,544 | $90,539 | $1,995 |
| *Non-Operating Revenue:* | | | | |
| Net realized gains on investments | $1,290 | $645 | $933 | $288 |
| Restricted gifts not for operations | 2,810 | 1,405 | 864 | (541) |
| Capital fund receipts | 50,000 | 25,000 | 24,300 | (700) |
| Total Non-Operating Revenue | $54,100 | $27,050 | $26,097 | $953) |
| Total Revenue | $231,188 | $115,594 | $116,636 | $1,042 |
| *Expenses:* | | | | |
| *Operating Expenses:* | | | | |
| Clergy salaries | $55,000 | $27,500 | $27,500 | -0- |
| Clergy housing allowance | 14,000 | 7,000 | 7,000 | -0- |
| Lay employee salaries | 43,000 | 21,500 | 19,842 | $1,658 |
| Payroll tax expense | 3,156 | 1,578 | 1,496 | 82 |
| Benefits (pension, health ins., etc.) | 11,244 | 5,622 | 6,018 | (396) |
| Diocesan apportionment | 18,536 | 9,268 | 9,268 | -0- |
| Utilities | 26,690 | 13,345 | 15,637 | (2,292) |
| Office supplies | 5,242 | 2,621 | 1,116 | 1,505 |
| Program costs: | | | | |
| – Outreach | 2,400 | 1,200 | 793 | 407 |
| – Christian Education | 3,800 | 1,900 | 2,205 | (125) |
| – Preschool | 2,300 | 1,150 | 933 | 217 |
| Total Operating Expenses | $185,369 | $92,684 | $91,628 | $1,056 |
| Net Operating Totals *(operating income in excess of operating expenses)* | $ (8,280) | $ -0- | $(1,089) | $ 939 |
| *Non-Operating Expenses:* | | | | |
| Capital purchases | $48,100 | -0- | $8,436 | (8,436) |
| Depreciation expense | 6,000 | -0- | -0- | -0- |
| Total Non-Operating Expenses | $54,100 | -0- | $8,436 | $(8,436) |
| Total Expenses | $239,468 | $92,684 | $100,064 | $(7,380) |
| Net Totals | $ 8,280) | $22,910 | $ 16,572 | $ 6,338) |

## SAMPLE YEAR END FORMAT
## STATEMENT OF FINANCIAL POSITION
## AS OF DECEMBER 31, [CURRENT YEAR AND PRIOR YEAR]

| | | Prior Year |
|---|---|---|
| Assets: | | |
| Cash and cash equivalents | $ 7,500 | $ 4,600 |
| Accounts and interest receivable | 2,130 | 1,670 |
| Prepaid expenses | 610 | 1,000 |
| Contributions receivable | 30,250 | 27,000 |
| Short-term investments | 14,000 | 10,000 |
| Assets held for restricted purposes | 52,100 | 45,600 |
| Land, buildings, and equipment | 617,000 | 635,900 |
| Long-term investments | 218,070 | 203,500 |
| Total Assets | $ 941,660 | $ 929,270 |
| | | |
| Liabilities and net assets: | | |
| Liabilities: | | |
| Accounts payable | $ 2,570 | $ 10,500 |
| Refundable advance | 0 | 650 |
| Grants payable | 875 | 1,300 |
| Notes payable | 1,685 | 2,840 |
| Long-term debt | 55,000 | 64,640 |
| Total Liabilities | $ 60,130 | $ 79,930 |
| | | |
| Net Assets: | | |
| Unrestricted | $715,138 | $686,870 |
| Temporarily restricted | 24,372 | 25,470 |
| Permanently restricted | 142,020 | 137,000 |
| Total Net Assets | $881,530 | $849,340 |
| Total Liabilities and Net Assets | $941,660 | $929,270 |

## Sample Year End Format
## A Statement of Activities
## for the Year Ended December 31, [current year]

| | |
|---|---|
| *Changes in unrestricted net assets:* | |
| *Revenues and gains:* | |
| Contributions | $ 116,070 |
| Rental income | 5,400 |
| Income on long term investments | 5,600 |
| Other investment income | 850 |
| Net realized and unrealized gains on long term investments | 8,228 |
| Other | 150 |
| Total unrestricted revenues and gains | $ 136,298 |
| *Net assets released from restrictions:* | |
| Satisfaction of program restrictions | $ 13,490 |
| Expiration of time restrictions | 1,250 |
| Total net assets released from restrictions | $ 14,740 |
| Total unrestricted revenues, gains and other support | $151,038 |
| *Expenses and losses:* | |
| Program A: Outreach | $ 13,100 |
| Program B: Christian Education | 8,540 |
| Program C: Preschool | 5,760 |
| Management and general | 92,420 |
| Fund raising | 2,150 |
| Total expenses | $121,970 |
| Fire loss | 800 |
| Total expenses and losses | $122,770 |
| Increase in unrestricted net assets | $ 28,268 |
| *Changes in temporarily restricted net assets:* | |
| Contributions | $ 8,110 |
| Income on long term investments | 2,580 |
| Net unrealized and realized gains on long term investments | 2,952 |
| Net assets released from restrictions | (14,740) |
| Decrease in temporarily restricted assets | $ (1,098) |
| *Changes in permanently restricted net assets:* | |
| Contributions | $ 280 |
| Income on long term investments | 120 |
| Net realized and unrealized gains on long term investments | 4,620 |
| Increase in permanently restricted net assets | $ 5,020 |
| Increase in net assets | $ 32,190 |
| Net assets at beginning of year | 849,340 |
| Net assets at end of year | $ 881,530 |

# SAMPLE YEAR END FORMAT B
# STATEMENT OF ACTIVITIES
# FOR THE YEAR ENDED DECEMBER 31, [CURRENT YEAR]

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| *Revenues, gains, and other support:* | | | | |
| Contributions | $116,070 | $8,110 | $280 | $124,460 |
| Rental income | 5,400 | | | 5,400 |
| Income on long-term investments | 5,600 | 2,580 | 120 | 8,300 |
| Other investment income | 850 | | | 850 |
| Net unrealized and realized gains on long-term investments | 8,228 | 2,952 | 4,620 | 15,800 |
| Other | 150 | | | 150 |
| *Net assets released from restrictions:* | | | | |
| *Satisfaction of program restrictions* | 13,490 | (13,490) | 0 | 0 |
| Expiration of time restrictions | 1,250 | (1,250) | 0 | 0 |
| Total revenues, gains, and other support | $151,038 | $(1,098) | $5,020 | $154,960 |
| *Expenses and losses:* | | | | |
| Program A – Outreach | $13,100 | | | $13,100 |
| Program B – Christian Education | 8,540 | | | 8,540 |
| Program C – Preschool | 5,760 | | | 5,760 |
| Management and general | 92,420 | | | 92,420 |
| Fund raising | 2,150 | 0 | 0 | 2,150 |
| Total expenses | $121,970 | | | $121,970 |
| Fire loss | 800 | 0 | 0 | 800 |
| Total expenses and losses | $122,770 | | | $122,770 |
| Change in net assets | 28,268 | (1,098) | 5,020 | 32,190 |
| Net assets at beginning of year | 686,870 | 25,470 | 137,000 | 849,340 |
| Net assets at end of year | $715,138 | $24,372 | $142,020 | $881,530 |

## SAMPLE YEAR END FORMAT
## STATEMENT OF CASH FLOWS
## FOR YEAR ENDED DECEMBER 31, [CURRENT YEAR]

| | |
|---|---|
| Cash flows from operating activities: | |
| Change in net assets | $32,190 |
| | |
| *Adjustments to reconcile change in net assets* | |
| *To net cash provided by operating activities:* | |
| Depreciation | $3,200 |
| Fire loss | 800 |
| Increase in accounts and interest receivable | (460) |
| Decrease is prepaid expenses | 390 |
| Increase in contributions receivable | (3,250) |
| Decrease in accounts payable | (7,930) |
| Decrease in refundable advance | (650) |
| Decrease in grants payable | (425) |
| Contributions restricted for long-term investment | (2,740) |
| Interest and dividends restricted for long-term investment | (300) |
| Net unrealized and realized gains on long-term investments | (15,800) |
| Net cash used by operating activities | $ 5,025 |
| | |
| Cash flows from investing activities: | |
| Insurance proceeds from fire loss on building | $7,550 |
| Purchase of equipment | (1,500) |
| Proceeds from sale of investments | 76,100 |
| Purchase of investments | (74,900) |
| Net cash provided by investing activities | $7,250 |
| | |
| Cash flows from financing activities: | |
| Proceeds from contributions restricted for: | |
| Investment in endowment | $ 200 |
| Investment in term endowment | 70 |
| Investment in plant | 1,210 |
| Net cash provided by restricted contributions | $ 1,480 |
| | |
| Other financing activities: | |
| Interest and dividends restricted for reinvestment | $ 300 |
| Payments on notes payable | (1,155) |
| Payments on long-term debt | (10,000) |
| Net cash used by other financial activities | (10,855) |
| Net cash used by financing activities | $( 9,375) |
| | |
| Net increase in cash and cash equivalents | $ 2,900 |
| Cash and cash equivalents at beginning of year | 4,600 |
| Cash and cash equivalent at end of year | $ 7,500 |

| | |
|---|---|
| Supplemental data: | |
| Noncash investing and financing and financing activities: | |
| Gifts of equipment | $140 |
| Gift of paid-up life insurance, cash surrender value | 80 |
| Interest paid | 382 |

## Section E. The Chart of Accounts

In developing a chart of accounts, provision must be made for each fund that has its own assets, liabilities, net assets, support and revenue and expense accounts. The chart of accounts must integrate these separate funds into an account structure that facilitates bookkeeping procedures and preparation of financial statements and the Parochial Report.

Congregations with an existing, working chart of accounts do not need to change their system if it serves the church's purposes.

Some dioceses may mandate a specific chart of accounts. Each congregation should take into account the information that will be needed to file the annual financial statements and the Parochial Report. The following chart of accounts will help in accumulating that data.

The Chart of Accounts is designed to:

- Maintain uniformity of classification of transactions from year to year and from congregation to congregation;
- Facilitate the preparation of the financial statements on a uniform basis; and
- Provide a tie-in between the accounting records and the Parochial Report.

The chart of accounts is also a useful tool in the budget process. An example for a numbering scheme follows.

Digits denoting major categories might be:

| | |
|---|---|
| 1 | Assets |
| 2 | Liabilities |
| 3 | Net Assets |
| 4 | Income or Revenue Accounts |
| 5 | Expense Accounts |

The next step would add subcategories. Usually asset and liability accounts are ordered according to turn-over-time. An example would be as follows:

Assets (1)

| | |
|---|---|
| Petty Cash | 101 |
| Checking Account | 102 |
| Savings Account | 103 |
| Accounts Receivable | 104 |
| Short Term Investments | 105 |
| Long Term Investments | 110 |
| Furniture | 120 |
| Equipment | 121 |
| Building | 125 |
| Accumulated Depreciation | 126 |
| Land | 130 |

Liabilities (2)

| | |
|---|---|
| Accounts Payable | 201 |
| Payroll Taxes Payable | 202 |
| Current Notes Payable | 205 |
| Long Term Notes Payable | 210 |

Net Assets would use the numbering as set up for presentation in the financial statement. Using the examples previously shown for this manual would follow:

Net Assets (3)

| | |
|---|---|
| Unrestricted | |
| Undesignated | 301 |
| Designated | 305 |
| Furniture, Land, Buildings | 310 |
| Temporarily Restricted | 320 |
| Permanently Restricted | 330 |

Income should be set up in as much detail as needed. Remember, by grouping breakdowns based on the financial reports and Parochial Reports, reporting will be made easier.

Revenue and Gains (4)

| | |
|---|---|
| Operating Income | |
| Loose Plate Offering | 401 |
| Pledge Payments on Written Pledges | 402 |
| Other Pledge Payments | 403 |
| Interest and Dividends | 404 |
| Other Operating Income | 405 |
| Diocesan Assistance | 410 |
| Undesignated Gifts | 415 |
| Non-operating Income | |
| Net Realized Gains on Investments | 425 |
| Restricted Gifts not for Operations | 430 |
| Capital Fund Raising | 435 |

Expenses (5)

| | |
|---|---|
| Operating Expenses | |
| Clergy Taxable Salaries | 501 |
| Clergy Housing Allowance | 502 |
| Lay Employee Salaries | 503 |
| Payroll Tax Expense | 504 |
| Benefits (Pension, Health, etc.) | 505 |
| Utilities | 510 |
| Office Supplies | 515 |
| Program Costs | 520 |

Non-operating Expenses:
Capital Purchases 530
Depreciation Expense 535

The income and expenses can be broken up into as much detail as needed. Simply add two or more numbers following the major category number.

By adding a number in front of the main categories, the chart of accounts can be set up for separate funds (using Cash as an example):

| | *Operations* | *Custodian Funds* | *Conference Center* | *Book Store* |
|---|---|---|---|---|
| Petty Cash | 1101 | 2101 | 3101 | 4101 |
| Checking | 1102 | 2102 | 3102 | 4102 |
| Savings | 1103 | 2103 | 3103 | 4103 |

It is important to remember that these are just examples. The chart of accounts should be a useful tool that is designed to enhance the bookkeeping function and make the work of coding and categorizing easier. It should be developed to work with computer programs. Beware of making so many categories that the general ledger printout carries more detail than is necessary.

**Special Notes**

*Manual Systems:* In manual systems, simplicity is usually best. The more complicated the chart of accounts, the greater the chance of error and more time will be required to post and prepare reports.

**Computer Systems:** Take the time to develop a good chart of accounts. Read the manual carefully to understand how the account structure works. Review the section of the manual on printing reports to understand how the chart of accounts design will enhance or limit your reporting capability.

Create a chart of accounts first listing each account by name and then assigning account numbers leaving plenty of room for future expansion. Instead of 420, 421, 422, …, use 420, 425, 440. This will make 5 to 10 account numbers available between each number currently in use.

*Pre-designed chart of accounts:* Many computer software packages come with a pre-designed chart of accounts. Often these will suffice for a congregation, especially if one operating account and few special items are used. If a congregation‘s financial situation is more complex, it will usually be better served over the long term by developing a chart of accounts specific to its needs.

*Changing the chart of accounts:* Many computer systems will allow comparisons between current year data with previous year(s) actual history. Most software packages lose this capability when chart of accounts numbers are changed. Carefully weigh the advantages of changing account numbers against the disadvantages of not having the prior history easily available when changing the chart of accounts.

*Creative reporting:* Some churches report to vestries based on the operational structure of the church. For example, if the church is operating on a Ministry System or Program System, you may want to design your chart of accounts differently from the example shown above to allow the Vestry or program groups to receive reports that fit their needs. Please allow for the eventual reporting required on the Parochial Report. This is important to both the diocese and the national office.

# CHAPTER IV: TAXES AND THE EPISCOPAL CHURCH

## CHAPTER CONTENTS



## Introduction

Timely and accurate compliance with all applicable Federal and State tax laws is an essential element of sound management of church finances. Federal and State governments have placed increased pressure on all governmental units to increase revenues through intensified application of existing tax laws to all types of organizations, including churches.

All churches should be particularly concerned with three areas of taxation:

- Payroll taxes and related reporting
- Unrelated Business Income Taxes
- Treatment of cash and non-cash contributions received in connection with certain types of fund raising events

Officers and directors of an organization, including wardens and Vestry, can be held personally liable for unpaid payroll taxes.

Penalties are levied against those who fail to file, fail to pay, are late in filing or paying, or understate any tax reported on a return. In addition, interest is charged on any unpaid balance from the date the tax return was due to the date of payment. Penalties for failure to file most state returns are substantially higher than the Federal penalties.

## Section A. Payroll Taxes

**Who is an employee?** A worker is an "employee" under the common law rules if the person for whom he/she works has the right to direct and control his work, both regarding the final results and the details of when, where and how the work is to be done. For example, a construction contractor is an employer since he supervises and controls his workers, supplies major tools and equipment, sometimes dictates the manner in which a job is to be accomplished, and has the power to hire and fire. The employer need not actually exercise the control; it is sufficient that he has the right to do so. Where the employer does not possess that right, the individual involved is an independent contractor, not an employee.

The Internal Revenue Service has developed a list of 20 criteria to determine whether an individual is an employee or a contractor. The list follows:

1. *Instructions:* A person who is required to comply with instructions about when, where and how to work is ordinarily an employee.
2. *Training:* Training of a person by an experienced employee or by other means is a factor of control and indicates that the worker is an employee.
3. *Integration:* Integration of a person's services into the business operations generally shows that the person is subject to direction and control and accordingly is an employee.
4. *Services rendered personally:* If the services must be rendered personally by the individual employed, it suggests an employer-employee relationship. Self-employed status is indicated when an individual has the right to hire a substitute without the employer's knowledge.
5. *Hiring, supervising, and paying assistants:* Hiring, supervising, and payment of assistants by the employer generally indicates that all workers on the job are employees. Self-employed persons generally hire, supervise, and pay their own assistants.
6. *Continuing relationship:* The existence of a continuing relationship between an individual and the organization for which the individual performs services is a factor tending to indicate the existence of an employer-employee relationship.
7. *Set hours of work:* The establishment of set hours of work by the employer is a factor indicating control and accordingly the existence of an employer-employee relationship. Self-employed persons are "masters of their own time."
8. *Full time required:* If the worker must devote full time to the business of the employer, he or she ordinarily will be an employee. A self-employed person on the other hand may choose for whom and when to work.
9. *Doing work on employer's premises:* Doing the work on the employer's premises may indicate that the worker is an employee, especially if the work could be done elsewhere.
10. *Order or sequence of work:* If a worker must perform services in an order or sequence set by the organization for whom he or she performs services, this indicates that the worker is an employee.
11. *Oral or written reports:* A requirement that workers submit regular oral or written reports to the employer is indicative of an employer-employee relationship.
12. *Payment by hour, week, month:* An employee usually is paid by the hour, week, or month, whereas a self-employed person usually is paid by the job on a lump sum basis, although the lump sum may be paid in intervals in some cases.
13. *Payment of business expenses:* Payment by the employer of the worker's business or travel expenses suggests that the worker is an employee. Self-employed persons usually are paid on a job basis and take care of their own business and travel expenses.

14. *Furnishing of tools and materials:* The furnishing of tools and materials by the employer indicates an employer-employee relationship. Self-employed persons ordinarily provide their own tools and materials.
15. *Significant investment:* The furnishing of all necessary facilities (equipment and premises) by the employer suggests that the worker is an employee.
16. *Realization of profit or loss:* Workers who are in a position to realize a profit or suffer a loss as a result of their services generally are self-employed, while employees ordinarily are not in such a position.
17. *Working for more than one firm at a time:* A person who works for a number of persons or organizations at the same time is usually self-employed.
18. *Making services available to the general public:* Workers who make their services available to the general public are usually self-employed. Individuals ordinarily hold their services out to the public by having their own offices and assistants, hanging out a "shingle" in front of their office, holding a business license, and by advertising in newspapers and telephone directories.
19. *Right to discharge:* The right to discharge is an important factor in indicating that the person possessing the right is an employer. Self-employed persons ordinarily cannot be fired as long as they produce results that measure up to their contract specifications.
20. *Right to terminate:* An employee ordinarily has the right to end the relationship with the employer at any time he or she wishes without incurring liability. A self-employed person usually agrees to complete a specific job and is responsible for its satisfactory completion or is legally obligated to make good for failure to complete the job. (Internal Revenue Service Ruling 87-41)

The following are normally employees:

1. All rectors, vicars, and their assistants;
2. Interim clergy and regularly employed supply clergy who consistently work at the same congregation; and
3. Secretaries, sextons, directors of Christian education, childcare providers who are not volunteers (including teenagers), yard maintenance workers (including the teenagers who cut the lawn regularly), the organist and choir director, and all others to whom a fee is paid for their services and who are not contractors.

All church employees (full time, part-time, retired part-time clergy, and lay persons) must receive a Form W-2, "Wage and Tax Statement," at year-end. Employers must file a Form 941, "Quarterly Federal Tax Return." At year-end a copy of each employee's Form W-2 is filed with the Internal Revenue Service with a corresponding Form W-3, "Transmittal of Income and Tax Statement."

Form I-9, "Employment Eligibility Verification," must be completed for both lay and clergy employees before a first paycheck is received.

Form W-4, "Employee Withholding Allowance," should be completed when a clergy or lay employee is hired or when a change in withholding is requested.

Clergy and lay employees are handled uniquely for Social Security, and may be dealt with differently for Federal income tax withholding purposes.

## EMPLOYEE COMPENSATION REPORTING

*Instructions for Clergy Compensation Reporting:* Recognition of clergy as employees is only for Federal (and, where applicable, State) income tax purposes. Clergy are considered self-employed for Social Security and Medicare tax purposes. Therefore, such taxes are not to be withheld, and compensation subject to these taxes is not to be reported on Form 941 or Form W-2.

The following items are considered compensation and must be reported as compensation for services in gross income on the Form W-2:

1. Salary, excluding housing and utility allowance;
2. Honoraria;
3. "Bonuses;"
4. "Love offerings," even if there is a special offering to provide the income;
5. Retirement gifts when 1) any of the funds were provided by the church or 2) the gift has been given as a tax-deductible contribution by the donor(s). If the recipient is still considered an employee it should be included on their Form W-2; otherwise a Form 1099 should be provided.
6. Amounts received for weddings and funerals.
7. An amount to cover the clergy self-employment taxes paid either directly to the clergy or reported and paid as income tax withheld;
8. Transfers of property by the church to an employee, such as automobiles, homes, furniture, etc., based on the fair market value, less any amount paid by the employee;
9. Travel and expense allowances for which an "accountable plan" is not provided to the employer; reference Section B of this chapter; and
10. Any nonqualified moving expenses reimbursed to the employee are to be included in Form W-2 as taxable wages (subject to withholding and Social Security and Medicare taxes if for a lay employee). Qualified moving expenses, as defined by the Internal Revenue Service, that the church pays to a third party on behalf of the employee is not reported on Internal Revenue Service Form W-2. Qualified moving expenses reimbursed directly to the employee under an accountable reimbursement plan are excludable from taxable income but should be reported in the appropriate box of Form W-2 and identified by the proper code. The definition of "qualified moving expenses" and the proper boxes and codes may be found in the Internal Revenue Service instructions and publications.

Clergy compensation attributable to housing and utility expenses as declared by the clergy may be excluded from taxable income, but are included in earnings for self-employment tax. Clergy should complete housing and utility allowance resolutions. Refer to Appendix A for sample housing allowance resolutions and forms for estimating housing allowance. The Vestry shall designate and record the housing and utility allowance in the minutes prior to the clergy receiving a paycheck each year.

Housing and utility allowances are not reported on the Form 941 or the Form W-2. A memo of the amounts excluded for housing and utilities may be noted in the memo notation box of Form W-2 or in other appropriate boxes.

Clergy may elect to have Federal income tax withheld. If the cleric is the only employee and does not choose to have tax withheld, a Form 941 and a Form W-2 must be completed and submitted noting taxable wages and other income.

If a clergy person is participating in a tax deferred annuity plan, taxable gross wages are reduced by the amount of the contribution to the tax-deferred annuity. An authorization signed by the employee is required since compensation is subject to self-employment taxes and would be reduced by the same amount.

*Lay Employees:* Lay employees are classified as employees for both income tax and Social Security tax purposes. Lay employees are not eligible to designate a portion of their compensation for housing and utility allowance. Withholding is required from lay employees' pay for federal and state income taxes and for Social Security and Medicare taxes.

If a lay employee is participating in a tax deferred annuity plan (TDA), the taxable gross wages for Federal Income Taxes are reduced by the amount of the monthly contribution to the tax deferred annuity. However, gross wages subject to Social Security and Medicare taxes are not reduced. The employee must sign an authorization for the deduction from wages.

Churches are not subject to the Federal Unemployment Tax Act.

*Reporting Non-Employee Income:* The income tax regulations require that "every person engaged in a trade or business" shall issue a Form 1099 "for each calendar year with respect to payments made during the calendar year in the course of the trade or business to another person." Churches are considered to be in trade or business by the Internal Revenue Service for purposes of issuing a Form 1099.

The following individuals must receive a Form 1099:

1. Any individual or unincorporated entity that was paid $600 or more in the form of self-employment earnings; Form 1099 MISC is used;
2. Any person who receives a scholarship which is not used for payment of tuition and related expenses; Form 1099 MISC is used;

3. Any person who was paid $600 or more in interest, including those persons who purchase bonds for a church's capital project; Form 1099 INT is used; and
4. Any person who receives at least $10 in gross royalty payments; Form 1099 MISC is used.

The following are exceptions to the above rules:

1. Payments of income required to be reported on Forms 941 and Form W-2, i.e., employee income;
2. Payments to a corporation (if in doubt whether or not a person or company is incorporated, issue a Form 1099 MISC.);
3. Payments of bills for merchandise, telephone, freight, etc.; and
4. Advances and reimbursements for accountable business expenses.

A Form 1099 must be submitted by January 31 to those persons for whom a form is completed. By February 28, copies of all Forms 1099 must be transmitted to the Internal Revenue Service along with a transmittal Form 1096. The maximum penalty for failure to issue a Form 1099 is $50 per form.

The congregation is responsible for obtaining the person's or company's Federal Employer's Identification Number. This may be in the form of a Federal Employer Identification Number or an individual Social Security number. If a person refuses to provide an identification number, back up withholding in the amount of 31% must be made and reported on the Form 941.

## Section B. Travel and Business Expense Reporting

*Not reportable as income:* Amounts received by an employee under an "accountable plan" are not required to be included as compensation on Form W-2. An accountable plan must meet three criteria:

1. There must be a business connection for the expenses;
2. The expenses must be substantiated in writing to the employer within a reasonable period of time not to exceed 60 days after expenses are incurred; and
3. The employee must return amounts in excess of the substantiated expenses within a reasonable period not to exceed 120 days after expenses are paid or incurred. An accountable plan should be in writing and adopted by the governing body.

Following are guidelines for claiming reimbursement for various types of travel and other business-related, out-of-pocket expenses under an accountable expense reimbursement plan:

1. Reimbursement at no more than the standard mileage rate established by the Internal Revenue Service for business mileage (excluding personal and commuting miles). Tolls and parking fees are additional to the mileage rate. In lieu of the standard mileage rate, actual automobile expenses allocated to actual business miles driven can be claimed.

2. Reimbursement of travel expenses away from home to conduct work or business. Examples are transportation fares, meals and lodging, cleaning and laundry expenses, and telephone. Deductions may be limited if the travel is extravagant, part of a vacation, or for travel outside the United States. Original supporting documentation is required for expenditures of $75 or more. United States government per diem rates may apply in some instances for meals and lodging.
3. Reimbursement for entertainment expenses that are directly related to the active conduct of the church, or associated with the active conduct of the church, and occurring directly before or after a substantial business discussion.
4. Other items directly reimbursed are business gifts (up to but not exceeding $25.00 per person), education expenses if required by the employer or by law or regulation to maintain a salary, status, or job, or to maintain or improve the skills necessary to one's present work.
5. Business expenses directly reimbursed for subscriptions and books related to the job, clothing that can not take the place of ordinary clothing, business calls made on personal phones, professional memberships, licenses, and dues.
6. Original documentation must be provided to the employer to support all expenses claimed by the employee other than those items costing less than $75.00.

*Reportable expenses on the Form W-2:* Unsubstantiated business expenses paid to an employee in a "non-accountable plan" must be included as wages paid to an employee. These wages are subject to Federal withholding and Social Security and Medicare tax withholding if paid to non-clergy employees, and if the clergy has chosen to have Federal income tax withheld it would also be subject to withholding.

Personal use of a church-provided car (leased or owned by the congregation) usually must be reported on the Form W-2 as income. There are several methods of including such income as compensation. You will need to refer to pertinent Internal Revenue Service publications, which can be downloaded from the Internet or ordered from Commerce Clearing House.

Per diem amounts in excess of Internal Revenue Service approved per diem rates must be included on the Form W-2.

## Section C. Tax Exempt Status

The following information may be helpful in explaining the tax-exempt status of your congregation to inquiring donors.

All dioceses, congregations, and related institutions may be covered under the group tax exemption of the Domestic & Foreign Missionary Society of the Protestant Episcopal Church in the United States of America. Alternatively, dioceses and/or congregations and related institutions may apply for and hold their own individual or group exemption. Note that an entity electing to be covered under another's group exemption may not retain its individual exemption.

Regardless of whether they are covered under a group or individual exemption, all dioceses, congregations, and institutions of the Episcopal Church must have their own Employer Identification Number. A copy of the "Application for Employer Identification Number," Form SS-4 with Instructions, is available from the Internal Revenue Service.

This exemption does not extend to exemption from state sales taxes. Contributions made in the name of the church and its affiliated and subordinate units are deductible in the manner and to the extent provided by Section 170 of the Code.

The notification of a granting of tax-exempt status was addressed to The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America on March 23, 1942. It was routinely confirmed on June 3, 1971.

The Episcopal Church is listed twice in the "Cumulative List of Organizations," Publication 78 (hereinafter called "the List"), in Section 170(c) of the Internal Revenue Code. Reference the List as revised to September, 1996, as follows:

> **DOMESTIC AND FOREIGN MISSIONARY SOCIETY OF THE PROTESTANT EPISCOPAL CHURCH IN THE UNITED STATES OF AMERICA, NEW YORK, NEW YORK, PAGE 610.**
>
> **EPISCOPAL CHURCHES AND DIOCESES IN THE UNITED STATES AND INSTITUTIONS THEREOF, NEW YORK, NEW YORK, CODE 1, PAGE 685.**

Reference to the listing of "The Society" in the foregoing manner should help to establish the deductibility of individual gifts to particular dioceses and parishes, although the Internal Revenue Service may take the position that inclusion on the List does not necessarily establish such deductibility.

*Charitable contributions:* Charitable contributions generally must satisfy the following six requirements to be deductible by the donor:

1. A gift of cash or property *(the value of services is never deductible)*;
2. Claimed as a deduction in the year in which the contribution is made; the date delivered or the postmark date on a contribution which is mailed are the controlling factors, not the date written on a check;
3. The contribution is unconditional and without personal benefit to the donor. As a general rule tax deductible contributions may not be donor-restricted to be used for specific individuals, regardless of the persons' great need. The donor may suggest the disposition, but control resides with the tax-exempt organization. They may not be restricted for organizations that are not recognized by the Internal Revenue Service as tax exempt. Unrestricted gifts may be used for the needy, and, in some cases, for organizations which have not yet received a tax-exempt status;
4. The contribution is made "to or for the use of" a qualified charity. This relates to the donor's ability to deduct the contribution;
5. The contribution is within the allowable legal limits. This relates to the donor's tax deduction on the donor's personal tax return; and

6. The contribution is properly substantiated.

Special note for substantiation of charitable contributions: The tax law disallows the deduction for any contribution of $250 or more unless the donor receives written substantiation from the church. The written substantiation must indicate the amount of the contribution and 1) the value of any goods or services provided to the donor for the gift or 2) a statement that no goods or services were provided. In addition, the law requires that a charitable organization, providing goods or services to a donor in exchange for a contribution in excess of $75, submit a written statement informing the donor of the deductible amount, with a good faith estimate of the value of goods and services furnished by the donor, where appropriate.

For gifts of property valued at $500 or more, a donor must submit a Form 8283, and, for property valued at more that $5,000, a donor must obtain a qualified appraisal of the property and attach an appraisal summary to the tax return on which the contribution is claimed. If the property is sold within a two-year period, the donee must submit an information return, Form 8282 to the Internal Revenue Service. A copy of this form with instructions is available from the Internal Revenue Service.

Non-cash contributions should not be valued by the institution.

## Section D. Unrelated Business Income Tax (UBIT)

Income earned by church from activities that are unrelated to its exempt purpose may be considered as taxable income. The following factors must be met to be considered as Unrelated Business Income:

1. The organization must be engaged in a trade or business.
2. The trade or business must be regularly carried on.
3. The conduct of the trade or business must not be substantially related to the organization's exempt purpose or function.

Income derived from unrelated business activities used by the church for their operations is recognized as unrelated business income subject to tax and reporting.

*Exceptions:*

1. An activity where substantially all work is performed without compensation, e.g., a church bookstore which sells other than religious books substantially run by volunteers;
2. A trade or business carried on for the convenience of the students or members of an Internal Revenue Code Section 501(c)(3) organization;
3. The sale of merchandise received as gifts or contributions;
4. A trade or business that consists of conducting qualified bingo games;
5. The exchange or rental of member lists between exempt organizations to which deductible contributions can be made; and

6. The distribution of low-cost (not over $7.10 for 1998) articles incidental to the solicitation of charitable contributions for exempt organizations to which deductible contributions can be made.

As a result of the difficulties charities experience in valuing nominal or token benefits, the Internal Revenue Service has established safe harbor rules under which benefits will be treated as having such insignificant value that the charities may inform donors that the full amount of their contributions is deductible.

*Exempt Unrelated Income:*

1. Dividends, interest and annuities;
2. Payments with respect to securities loan;
3. Royalties;
4. Rents from real property, unless more than 50 percent of the rent is attributable to personal property, i.e., furnishings and equipment leased with it, or is debt-financed income;
5. Rents from personal property leased with real property if they are an incidental amount, but not exceeding 10 percent of the total rents from all property leased; and
6. Gains or losses on sale or exchange of property.

If a church does have Unrelated Business Taxable Income, Form 990-T must be completed. Illustrations are not included with this manual. If a church believes it may have Unrelated Business Taxable Income it is encouraged to seek the assistance of a licensed or certified public accountant for accounting and reporting purposes.

# CHAPTER V: CLERGY DISCRETIONARY FUNDS

## CHAPTER CONTENTS



## Introduction

The Episcopal Church has developed these guidelines for the benefit of clergy, dioceses, congregations, institutions, and others with authority over funds of the Church. The purpose of these guidelines is to provide information and guidance in the structure and use of a class of temporarily restricted or designated funds generally known as clergy discretionary funds. Throughout this Chapter, all comments referring to congregations apply also to dioceses. The term "clergy" is meant to include bishops.

## Section A. Authority

The existence and use of clergy discretionary funds rest on the canonical authority of the Almoner's Fund described in Title III, Canon 14, Section 2(f), of the Canons of the Episcopal Church:

> "The Alms and Contributions, not otherwise specifically designated, at the Administration of the Holy Communion on one Sunday in each calendar month, and other offerings for the poor, shall be deposited with the Member of the Clergy in charge of the Parish or Mission or with such Church officer as shall be appointed by him, to be applied by him or under his superintendence, to such pious and charitable uses as shall by him be thought fit. During a vacancy, the Vestry shall appoint a responsible person to serve as Almoner.

The Almoner's Funds, generally known as clergy discretionary funds, have a long history of customary use in the Episcopal Church. The member of the clergy in charge of a congregation customarily has a special fund made available by the Vestry, the expenditure of which is under the authority of the cleric. The member of the clergy in charge of the congregation also may grant assistant clergy, depending on local custom, permission to expend monies from the discretionary fund, or the Vestry may establish separate funds for the use of the assistant clergy.

## Section B. Sources

The Canon referenced above is generally interpreted to mean that, at a minimum of one Sunday a month, the loose offering at the Holy Eucharist is designated for the clergy discretionary fund. A congregation may wish to set aside a budgeted amount for the discretionary fund in addition to the traditional source or as a substitute for it. Some congregations as a matter of policy designate all fees or gifts received for weddings, funerals, and baptisms into the discretionary fund. Individuals may also contribute to the fund with occasional gifts.

## Section C. Records

All checking accounts for clergy discretionary funds must be approved by the Vestry, and be opened using the congregation's Federal Employer's Identification Number. The bank accounts must be in the name of the congregation and not that of the individual member of the clergy. The discretionary funds are subject to audit and are included in financial reports following standard accounting procedures. Discretionary funds remain with the congregation when the clergy departs.

There are two practices for the administration of discretionary funds.

All income received is deposited in the general operating account of the congregation. Disbursements from the fund are by check drawn on the general operating account upon written request of the authorized member of the clergy or other appropriately authorized individual.

Vestries may approve the use of a separate checking account for the discretionary fund. Under these circumstances, all income from any source to the fund must be deposited to the congregation's general operating account, recorded on the books of the congregation, and subsequently transferred by the treasurer to the separate checking account. No monies from any source are to be deposited directly into the separate checking account. The co-mingling of personal funds of any kind with discretionary funds is always improper.

*Example of name of account:* Good Shepherd Episcopal Church<br>Rector's Discretionary Fund

## Section D. Accountability

1. Clergy who have been authorized to maintain and manage a separate checking account must record in writing, with appropriate receipts attached, the purpose of every check drawn on the account and any cash disbursement made.
2. Monthly bank statements are to be mailed directly to a person of trust other than the individual authorized to make disbursements. Normally, this is the treasurer, but the Vestry may ask that another person, such as the senior warden, receive the statements.
3. The person receiving the statements will verify that all deposits made into the account correspond to disbursements from the general operating account to the separate checking account; review all checks as to payee and who endorsed them; reconcile the checking account, and review all back-up invoices and/or letters. This individual will state in writing on the monthly statement that all verifications were made and, finally, file the bank statements with the other financial records of the congregation.

4. It is preferable that checks be written to vendors, such as a utility company or landlord, rather than to individuals requesting assistance. In most areas clergy have made prior arrangements with drug stores, gas stations, grocery stores, etc. to have persons make purchases with approval of the clergy, and a check is written directly to the vendor upon receipt of a bill. Cash disbursements are discouraged, and should only be made when there is a real emergency and a check cannot meet the needs. If cash is disbursed, full documentation must be maintained stating to whom the funds were given or a description of the person, such as a parishioner or street person, the date given, amount, and a full explanation for the expended funds.
5. All clergy discretionary funds are classified as temporarily restricted funds of the congregation. As such, these funds are subject to audit even if they are kept in a separate checking account. However, the individual responsible may be permitted to maintain confidentiality over the expenditures of the fund disbursed for the direct assistance of named individuals. The manner in which this is done must be determined and jointly agreed to by the responsible individual and the Vestry.
6. The individual responsible for discretionary funds must follow the record keeping methods detailed in this Manual. These methods are designed to provide trustworthy accounting and stewardship of church funds, as well as to protect responsible persons from suspicion and mistrust. Clear records of deposits into the fund and expenditures from it are essential to this process.

## Section E. Uses

1. The appropriate and traditional use of clergy discretionary funds is to address needs among congregation and community members. Payments for food, rent, utilities, medical bills and the like for persons in need are typical uses of these funds.
2. An inappropriate use is to meet expenses which normally should be covered by the operating budget. Vestries should budget for the expenses that are necessary to carry out the clergy person's ministry. However, if funds are not provided by a budgeted line item, a written policy established by the Vestry and included in its minutes may authorize such expenditures. Examples of these expenses are attendance at conferences, purchases of books and journals, entertainment of individuals with a purpose directly related to the congregations' ministry, and professional membership in organizations related to the ministry, such as the Clergy Association. Discretionary funds should not be used to sustain the ongoing operations of the congregation, and must follow the guidelines of the Internal Revenue Service for appropriate business expenses. Any books, vestments, equipment, or other tangible business items purchased with discretionary funds, are the property of the congregation and, therefore, must stay with the congregation when the cleric leaves, unless the cleric pays the Fair Market Value for the item to own it.
3. Prohibited uses of discretionary funds are payments for anything that personally benefits the authorized clergy. Therefore, neither personal clothing, food, books, rent, utilities, insurance premiums, medical expenses of the cleric, are appropriate expenditures by or through discretionary fund accounts. If any portion of a discretionary fund is used for personal use, that portion will be added to taxable

income of the individual receiving the benefit. The individual misusing the funds may be exposed to civil and/or criminal liability.

## Section F. Tax Consequences

Gifts for a properly established discretionary fund, which is fully accountable to the Vestry, are deductible by donors as charitable contributions.

Contributions made to the discretionary fund for the direct benefit (pass through) of a named individual are not deductible contributions for income tax purposes, and should not be accepted.

When discretionary funds are used to provide a gift to an employee, the value of the gift may need to be reported on the individual's W-2 form.

# CHAPTER VI: AUDIT GUIDELINES FOR CONGREGATIONS

## CHAPTER CONTENTS

## Introduction

1. *Purpose:* These audit guidelines were developed to assist auditors in performing the annual audit of the books of account of the congregations of the Episcopal Church.

2. *Reasons for an Audit:* Annual audits are required by the Canons of the Episcopal Church for all parishes, missions, and other institutions. The primary purpose of an audit is to assure that financial statements are fairly stated. Any person handling the monies or investments of the church needs an audit to protect the church assets and him/her against suspicion of mishandling those assets. Similarly, rectors , vestries , vicars , bishop's committees, treasurers, and other persons in positions of responsibility may be liable for any losses which would have been discovered by an ordinary audit but were not discovered because they failed to have an audit conducted.

   In addition, an announcement to the congregation that a completed audit reveals that all monies and investments are properly accounted for will have a positive impact on stewardship.

3. *Pre-Audit Advice:* When meeting with the auditors, be prepared to discuss your plans and objectives. Auditors are in the position to advise you and serve your interest when they understand the goals you have set and when you can clearly explain what you expect and hope to get from their services.

   Keep good records and help your auditor save you money by not using professional time for routine work, such as gathering information.

   Keep your auditor informed of changes and new directions in the congregation.

   The treasurer and others, such as Vestry members, rectors, and staff, should be available to the auditor to provide any needed information.

   A copy of the *Manual of Business Methods in Church Affairs* should be made available to the auditors.

4. *Approved Auditors:* The canons permit the auditing of congregational accounts by "an independent Certified Public Accountant", by "an independent licensed public accountant", or by "such committee as shall be authorized by the Finance Committee, Department of Finance, or other appropriate diocesan authority."

   a. *Certified Public Accountant:* Very often the complexity and/or size of congregations necessitate an independent examination and reporting on their financial statements.

      1) Certified Public Accountants offer several levels of service. These include the audit, the compilation, and the review. Refer to the Glossary of this manual for definition of these terms. Neither a review nor a compilation is acceptable in place of an audit of a parish, mission, or other institution of the church.

      2) Certified Public Accountants engaged in public accounting are available to all who wish to engage them for independent accounting skills. These skills consist primarily of the design and installation of financial systems, audits,

investigations and reports based on audits, advice on management and financial policies, and tax return preparation.

3) Certified Public Accountants have met the statutory requirements of a state or other political subdivision of the United States as to age, education, residence, moral character, and expertise, and have passed a uniform examination administered by the appropriate regulatory authority.

4) Certified Public Accountants are permitted to advertise their services. This should help you in your search. Generally, when people do not know an accountant in the community, they will ask friends to recommend someone. Businesspersons, especially those in the not-for-profit field, can be helpful in finding an accountant with expertise in the not-for-profit sector. Lawyers and bankers can be of assistance as well.

5) Fees are based on time charges. Moreover, fees vary with the level of experience of those required to perform the work. The prevailing cost of conducting a practice in the community will affect professional audit fees. Fees also vary based upon the time of year the audit work is performed.

*b. Independent Licensed Public Accountants:* While the CPAs and PAs are both licensed to perform the same public accounting services, they prepare differently to become licensed. A Public Accountant has a license based solely upon public accounting experience.

5. *The Committee Audit:* These Audit Guidelines were specially prepared for audit by committees. The Audit made by an audit committee will be termed a Committee Audit. The Auditor's Opinion Letter of an Audit Committee will be termed an Audit Committee Certificate. The Auditor's Comments on Internal Control will be termed Audit Committee Findings on Policies and Procedures.

   Audit committee members should be independent of the decision making and financial record keeping functions of the congregation. The members of the audit committee should have sufficient financial skills and experience to conduct a competent audit. It might be appropriate to offer reimbursement to the audit committee for out-of-pocket expenses.

   An audit committee may consist of one or more individuals. A typical audit committee has three members. The actual number of members should be determined by the size and scope of the audit.

6. *Scope of the Committee Audit:* The scope of the audit shall include:

   a. Sufficient tests of transactions to assure compliance with these guidelines and adequate control of the assets of each congregation.

   b. Verification (or preparation) of financial statements in the form approved for the Episcopal Church as set forth in this manual. Refer to Chapter III (Bookkeeping).

   c. A review of management control practices using the Internal Control Questionnaire found in Chapter II (Internal Controls).

7. *Accounts to be Audited:* All accounts must be audited. The audit requirement covers not only the operating accounts of the organization, but also all its restricted, endowment, and property funds, and the accounts, if any, of its organizations. No church money is exempt from the requirement of an audit. If a separate auditor has audited an account of a separate treasurer, the report should be included in the consolidated financial statements.

8. *Objectives of the Audit:* The major objectives of an audit of a congregation are to ascertain the following:

   a. That the various transactions during the year are proper and are documented appropriately (i.e. authorized, complete and accurate);

   b. That the various transactions during the year are recorded in the proper amounts and in the proper accounts;

   c. That the assets, liabilities, income and expenses, which should be in the financial records, are so shown in the proper amounts and in the proper accounts;

   d. That, to the extent feasible, adequate internal control procedures were and continue to be in effect; and

   e. That the financial statements for the year were prepared from the financial records and present fairly the financial position and changes in net assets and cash flows of the congregation.

9. *Timing of the Audit:* The Canons call for a church fiscal (i.e., financial) year ending on December 31 of any given year. The engagement of the auditor should be done prior to the end of the period being examined. This timing allows the auditor to include certain audit procedures that can only be performed at year-end.

10. *Contents of the Audit Report:* The auditor is responsible for submitting an audit report to the Vestry of the church. The Audit Report shall consist of:

    a. The Audit Committee Certificate;

    b. The Statement of Financial Position;

    c. The Statement of Activities;

    d. The Statement of Cash Flows;

    e. Completed Audit Program Checklist;

    f. The Audit Committee Findings on Policies and Procedures; and

    g. A corrected parochial report as a result of audit adjustments, if applicable.

11. *Filing of the Audit:*

    a. Prior to actual delivery of the audit report, the Vestry should issue a letter to the auditor stating that all records have been available for audit and there are no funds omitted.

    b. Upon completion, the Audit Committee shall present the audit report to the Treasurer, Rector, and Wardens.

c. Any findings and recommendations should be presented in the Audit Committee Findings on Policies and Procedures, not in the Audit Committee Certificate. These items will be discussed with the Treasurer or other responsible persons and within 30 days their written response, attached to the audit report, is presented to the Vestry.

d. The Vestry receives the audit report upon completion.

e. A copy of the audit report should be filed with the Bishop or Ecclesiastical Authority not later than 30 days following its completion and never later than September 1 of each year, covering the financial reports of the previous calendar year. The minutes of the Vestry will officially record the receipt, acceptance, and subsequent filing of the audit report with the Ecclesiastical Authority.

f. If, at any time during the audit, the records suggest that something is seriously wrong, the matter should be brought immediately to the attention of someone of superior authority, as well as the appropriate diocesan authority.

## Section A. Audit Program Checklist

Please copy this section for use of the Audit Committee. Instructions for the Audit Program may be found in Section D.

1. *General Information:*

| | |
|---|---|
| Congregation | |
| Street Address | |
| Mailing Address | |
| City, State, Zip | |
| Rector/Vicar/ Priest in Charge | |
| Senior Warden | |
| Junior Warden | |
| Treasurer | |
| Other | |
| Financial Records Maintained by | |
| Location of Financial Records | |
| Location of Audit | |
| Commencing | |
| Audit Committee | |

2. *Pre-Audit Meeting:* Date ______________________

Attended by:

| Name | Title |
|---|---|
| | |
| | |
| | |
| | |
| | |
| | |
| | |

a. Objectives and scope of audit discussed? Yes☐ No☐

b. Time Schedule arranged? Yes☐ No☐

c. Reimbursement for out of pocket expenses discussed? Yes☐ No☐

d. Availability of workspace established? Yes☐ No☐

e. Availability of required records established? Yes☐ No☐

f. Availability of *Manual of Business Methods in Church Affairs* determined? Yes☐ No☐

g. Assistance of staff requirements established? Yes☐ No☐

h. Engagement letter setting forth agreements between Vestry and Audit Committee discussed? Yes☐ No☐

3. *Pre-Audit Documents Required for Review:*

a. Original signed Vestry minutes Yes☐ No☐

b. Minutes of any group authorized to disburse monies Yes☐ No☐

c. Annual financial report to parish Yes☐ No☐

d. Treasurer's interim reports Yes☐ No☐

e. Annual Parochial Report Yes☐ No☐

f. Names of those authorized for check signing, fund withdrawal or transfer, and disbursing approval. Yes☐ No☐

g. List of securities held Yes☐ No☐

h. Arrangements made for receipt of unopened bank statement(s) or mailing of request for confirmation of bank balance(s), loan balance(s) and investments Yes☐ No☐

i. Copy of previous year's audit and internal control letter Yes☐ No☐

j. Organizational Chart Yes☐ No☐

k. Chart of Accounts Yes☐ No☐

l. Budget Yes☐ No☐

m. General ledger Yes☐ No☐

n. Cash receipts journal Yes☐ No☐

o. Cash disbursements journal Yes☐ No☐

p. Bank statements for audited year, plus last statement for previous year and first for current year Yes☐ No☐

q. Paid checks and deposit slips Yes☐ No☐

r. Payroll records with Forms I-9, W-2, W-3, W-4, and State and Federal withholding records Yes☐ No☐

s. Savings account passbooks Yes☐ No☐

t. Other investment records Yes☐ No☐

4. *Cash:*

a. Is the petty cash fund imprest? Yes☐ No☐

b. Is the checking account(s) reconciled to the accounting records and checkbook, using unopened year-end bank statement or an independently received bank confirmation? Yes☐ No☐

c. Have paid checks been examined for authorized signatures? Yes☐ No☐

d. Have paid checks been examined for endorsements? Yes☐ No☐

e. Have the checks been compared to the disbursements journal for payees and amounts? Yes☐ No☐

f. Have all voided checks been accounted for? Yes☐ No☐

g. Has the subsequent January statement been reviewed? Yes☐ No☐

h. Are disbursements supported by vouchers approved by authorized party other than check signer? Yes☐ No☐

i. Are two signatures required on checks for $500 or more? Yes☐ No☐

j. Is the bank notified immediately of all changes of authorized check signers? Yes☐ No☐

k. Are cash journal totals tested for accuracy? Yes☐ No☐

l. Are receipt records compared with bank deposits for full year? Yes☐ No☐

m. Are all transfers between accounts traced? Yes☐ No☐

n. Does an authorized party other than a check-signer approve journal entries, and are they adequately documented? Yes☐ No☐

o. Is documentation provided to support checks written to "Cash"? Yes☐ No☐

p. Are all checking accounts (including Discretionary funds and Episcopal Church Women) in the name of the congregation using its Federal Employer's Identification Number? Yes☐ No☐

5. *Pledges and Other Gifts:*

a. Do the records of total receipts per individual pledge agree with the amounts recorded and reported in the cash receipts journal? Yes☐ No☐

b. Have the postings and arithmetic on individual pledges records been tested? Yes☐ No☐

c. Number of individual pledge records sampled: _______

d. Is there budgeting of contributions that can be reasonably estimated? Yes☐ No☐

e. Are contribution budgets periodically compared to actual, and are significant differences investigated? Yes☐ No☐

f. Are records kept and periodically reviewed of gifts, such as bequests, which are contingent on future events? Yes☐ No☐

g. Are future bequest and gift files, such as proceeds from life insurance policies or sale of property willed to a congregation, maintained on a current basis? Yes☐ No☐

h. Are files kept on life income, endowment, and annuity gifts, including information on the nature of the principal, investment of the principal, or use of the principal income, as well as correspondence with donors or beneficiaries, and copies of pertinent documents? Yes☐ No☐

i. Are individuals designated to be responsible for assuring compliance with the terms and conditions of all grants, restricted contributions, endowments, etc. received? Yes☐ No☐

6. *Securities:*

a. Is the securities list verified against subsidiary ledger accounts, validating serial numbers against purchase records of gifts? Yes☐ No☐

b. Is the name verified in which securities are registered? Yes☐ No☐

c. In the case of coupon bonds, are unmatured coupons intact? Yes☐ No☐

d. Is the market value of securities established at the date of the examination? Yes☐ No☐

e. Are securities examined or confirmed if held by depository or transfer agent? Yes☐ No☐

f. Are brokers reports examined for securities bought or sold through broker? Yes☐ No☐

g. Were security purchases or sales authorized by appropriate Vestry action and recorded in the minutes? Yes☐ No☐

h. Have cash receipts records of dividends and interest been compared with record of securities held? Yes☐ No☐

7. *Trust and Endowment Funds:*

a. Has a list of trust and endowment funds been obtained, including their terms and locations of the investments? Yes☐ No☐

b. Has there been an examination of the deed of trust or agency agreement for each trust and endowment fund? Yes☐ No☐

c. Have the agency accounting records been checked to determine whether or not the terms of the trust or endowment funds are being properly followed? Yes☐ No☐

8. *Property and Equipment:*

a. Is there a list of fixed assets, showing date of purchase and cost? Yes☐ No☐

b. Is an inventory identification procedure in effect? Yes☐ No☐

c. Using preceding information, has a physical examination of assets been made, to extent possible? Yes☐ No☐

d. Have any deeds and titles required been examined as evidence of ownership? Yes☐ No☐

e. Are land and buildings carried on financial statements? Yes☐ No☐

f. Are any liens outstanding against any property and equipment? Yes☐ No☐

9. *Liabilities: Payroll taxes:*

a. Have total wages been reconciled with quarterly Federal Form 941, Form W-2, and Form W-3 and other required forms? Yes☐ No☐

b. Have total withholding taxes been reconciled with Form 941 and other required forms? Yes☐ No☐

c. Has it been determined that all Federal and State and local withholding taxes were remitted on a timely basis to avoid hidden penalties? Yes☐ No☐

d. Is a current, signed Form W-4, I-9 or other required forms on hand for each employee? Yes☐ No☐

e. Has a housing resolution been included in the Vestry minutes for each cleric employed by the congregation? Yes☐ No☐

10. *Other indebtedness:*

a. Have appropriate church officials properly authorized all indebtedness? Yes☐ No☐

b. Have unpaid balances per church records been reconciled with balances as reported by creditor? Yes☐ No☐

c. Is a detailed schedule of all loans prepared, including name of creditor, date of origin, original amount of debt, interest rate payment schedule, monthly payment, unpaid balance, loan purpose, and authorizing body? Yes☐ No☐

11. *Payables:*

a. Have payments made subsequent to the end of the year been investigated for items which should have been included as an expense and account payable in the audit year? Yes☐ No☐

b. Have inquiries been made as to any unpaid items from the audit year that should have been included as a payable? Yes☐ No☐

c. Have inquiries been made as to any paid items from the audit year that should not have been expensed but recorded as a prepaid item? Yes☐ No☐

12. *Other:*

a. Has insurance coverage been reviewed, and has a copy of policies been obtained and a schedule prepared detailing name of carrier, description of coverage, period covered, premium amount, and date of premium payment? Yes☐ No☐

b. Has there been inquiry as to whether there are any contingencies or commitments facing the church, e.g., legal action with prospects of potential loss? Yes☐ No☐

c. Is there a policy covering the procedure for write-offs of receivables or loans, approval required, provision for reserves? Yes☐ No☐

d. Is there a process in place for ongoing review of the budget? Yes☐ No☐

## Section B. Sample Audit Committee Certificate

Date ___________________

To the Rector, Wardens and Vestry of (*Church Name; Church Address; City and Zip*)

Subject: *(Audit Year)*Audit of (*Church Name*)

We have inspected the statement of financial position of (*Name of Church*) as of December 31, (*Audit Year*), and the related statement of activities and cash flows for the year then ended. Our inspection was made in accordance with the audit guidelines of the *Manual of Business Methods in Church Affairs*, and the financial statements are prepared on a (*cash, modified accrual, or accrual*) basis in accordance with principles adopted by the Episcopal Church and approved by its General Convention except as noted. (*Note exceptions here, if any: Was depreciation recognized? Were donated services recorded?*)

We have taken steps to see that the accompanying financial statements present fairly, in all material respects, except as noted above, the financial position of the Congregation at December 31, (*Audit Year*); and that the changes in the net assets and its cash flows for the year then ended are in accordance with the principles authorized by General Convention of the Episcopal Church on a basis consistent with that of the preceding year.

Our inspection and certificate are not meant to be construed as an audit and opinion rendered by a Certified Public Accountant.

Sincerely, Members of the Audit Committee (*List names and phone numbers of Audit Committee Members and have each member sign the Audit Committee Certificate*)

## Section C. Sample Audit Committee Findings on Policies and Procedures

Date ________________
To the Rector, Wardens and Vestry of (*Church Name*)
Subject: *(Audit Year)*Audit of (*Church Name*)

During the course of the above inspection, the following items pertaining to internal control and other operation matters were noted. The first group includes areas of management control where prior year auditor recommendations have been implemented; the second group includes comments and recommendations of current year auditors.

Areas where prior year auditors recommendations have been implemented:

Comments and recommendations of current year auditors:

Members of the Audit Committee (*List names and addresses of Audit Committee Members and have each member sign the Audit Committee Certificate*)

## Section D. Instructions for the Audit Program

1. *General:* The following suggested procedures are merely acts that can be used to determine the appropriateness of the financial statements presented. An audit is a series of procedures to test, on a predetermined selective basis, the various transactions occurring in the year under examination. It is unrealistic to examine every transaction for the year. Therefore, certain tests are necessary to verify the reasonableness of all transactions.

2. *Pre-Audit Needs:*

   a. Obtain a preliminary understanding of the accounting systems (both manual and computer) that generate significant financial statement items and of related principal internal accounting controls.

   b. Obtain copies of the minutes of the Vestry meetings for the period under examination. This should include the minutes of any committee authorized to receive and disburse monies. Read the minutes regarding the election of officers, compensation of personnel, bonding of the treasurer, budget approvals, contracts entered into, items purchased, monies borrowed, purchase and sale of securities, resolution confirming clergy housing allowance for tax purposes, etc. This should be done before the actual examination of any accounting records. You may need to see the minutes of the previous year if they contain authorizations for expenditures in the year being audited.

   c. Obtain a copy of the previous audit complete with the Committee Audit Findings on Policies and Procedures. This provides a firm set of starting balances which may differ from the Treasurer's reports. It will also offer the chance to check on the progress of corrections of management control deficiencies, an important part of the teaching process.

   d. Obtain a copy of the annual financial statements as prepared and presented by the treasurer.

   e. Review the procedures being used to account for church monies. Identify by name and position the individuals with responsibility for financial operations and decisions and verify with them that all the funds of the congregation are included in the statements.

   f. Identify all bank accounts and authorized check and withdrawal signers, including those under separate treasurers.

   g. Request that all accounting records of all funds be presented together including:

      1) Chart of Accounts and Organization Chart

      2) General Ledger

      3) Cash Receipts Journals

      4) Cash Disbursements Journals

      5) Bank Statements including canceled checks

      6) Paid Invoices

7) Individual payroll records including Forms W-4 and I-9

8) Federal and State payroll withholding reports

9) Passbooks and evidence of other investments

10) Pledge Records by individual and total

h. Meet with members of the Finance Committee to discuss the annual financial statements. Inquire about the occurrence during the year of any significant matters of which the auditor should be informed. Also, inquire into significant variances noted on the financial statements.

i. Request a location in which to perform the audit. The audit can be more thoroughly and efficiently performed if it is conducted where the records are located.

3. *Receipts:*

a. Plate offerings: Cash receipts journal entries should be traced to weekly cash receipts records on a test basis.

b. Pledge receipts:

Pledge receipts should be verified by tracing cash receipt entries to individual pledge records on a test basis. A minimum of 10% of postings should be traced. Results will indicate if a broader sampling is necessary.

Adding machine tapes should be made of the individual pledge records with the total agreeing with the total pledge payments reported.

Random selection of individual pledge records should be tested for accurate total and balance. A minimum of ten percent should include the same individuals as above.

If the auditor is engaged before year end and if the church sends statements to the pledgors, the auditor can save time and effort by supervising the mailing of the year end statements. The auditor can then use this mailing to obtain direct confirmation.

The auditors should always review the pledge receipts of the congregation personnel involved in money transactions.

The decision regarding the size of the representative sample of postings and pledge records for examination depends on the dollars involved and the sophistication of the parish records.

c. Contributions from congregation organizations: Receipts must be listed separately for each organization and amounts entered in the cash receipts journal, traced to the weekly cash receipts records. These listed amounts shall be confirmed with their sources.

d. Contributions from the Diocese: Receipts must be listed and amounts entered in the cash receipts journal, traced to weekly cash receipts records.

e. Investment and endowment income: Income from securities should be verified by an examination of the brokerage house statement. Income from investment accounts should be verified by an examination of the statements provided or confirmed by the trustee or agency. Income from savings bank deposits should be confirmed by the bank.

f. Restricted income: Income received for special purposes should be noted by the auditor who should trace the cash receipts journal entries to the weekly cash receipts records. The auditor should also be satisfied that the income was used for the purpose for which the gift was made.

g. Non-income receipts: Verify all cash receipts journal entries by tracing them and ascertaining that the proper authorization has been given for any transfer or inter-fund borrowing, or for the sale or redemption of any investments or property.

h. All cash receipts records should be traced to duplicate deposit slips or bank statements to ascertain that these receipts are deposited intact.

i. Petty cash: The auditor should be satisfied that a proper imprest system is being maintained. Petty cash is not to be used to cash personal checks. Cash flow and size of fund over audit period should be checked for possible misuse.

j. All receipts should be compared to budgeted amounts and material variances should be explained.

k. Contributions of tangible assets or services. Refer to Chapter III (Bookkeeping) for discussion and proper treatment of these contributions.

l. Verify the totals in the cash receipts records for two to three months. Check postings of monthly totals to the general ledger or to the monthly financial statements.

4. *Disbursements:*

a. Tests are to be made to satisfy that disbursements have been accurately classified, and that invoices supporting the disbursements have been properly approved and canceled or marked “PAID”.

b. The committee must be familiar with the financial statement expenditure categories listed on the congregation’s chart of accounts.

c. All disbursements should be compared to budgeted amounts and material variances should be explained.

d. Testing of Disbursements: Select a sample of disbursements. A minimum of 10 percent of postings should be traced. Results will indicate if a broader sampling is necessary. Test the disbursements to invoices as follows:

1) Compare invoices with the recordings in the cash disbursements journal for a sufficient number of items to assure the committee that they are fairly recorded and classified. Comparison should include vendor’s name, date and amount billed.

2) Examine invoices for verification signature that the items were received or services performed for a sufficient number of items so the committee may be satisfied that goods and services were acknowledged by a person authorized to do so.

3) Check the arithmetic on invoices and vendors' monthly statements for a sufficient number of items to assure the committee that invoiced amounts were properly recorded on the statements.

4) Travel and business expense reimbursements should be checked to see that they are in accordance with the qualified reimbursement policy of the congregation. Reference Chapter IV (Taxes) for discussion of a qualified reimbursement policy.

e. Verify the totals of the cash disbursements records for two to three months. Check postings of monthly totals to the general ledger or to the monthly financial statements.

5. *Bank Accounts:*

a. The committee should ascertain the number of bank accounts maintained and the purpose for which each is maintained.

b. The committee should examine the canceled checks for:

1) Authorized signature(s)

2) Proper endorsement

3) Comparison with the cash disbursements journal for proper recording of payee and amount. If fewer than ten checks are written each month then all items should be examined. If more than ten per month, a random sampling of two to three months would suffice if a good system of accounting were evident.

c. The auditor should account for all voided checks.

d. Outstanding checks from the previous period should be examined to determine proper bank clearing and amount. Any check outstanding for a period longer than three months from the balance sheet date should be questioned for satisfactory explanation.

e. The auditor should verify bank balances at the end of the period being audited and should check that the closing cash amount is correctly stated.

Examine the January bank statement following the close of the audit year for items impacting the audit year.

f. Determine whether transfer of funds occurred between bank accounts near the date of the Statement of Financial Position. Determine that the transfers were recorded in the books in the same accounting period and that any transfers not recorded by the bank in the same accounting period appear in the appropriate bank reconciliation.

6. *Investments:*

a. Obtain or prepare a list of securities owned showing:

1) The description of each security
2) The serial number of bonds or securities
3) The denomination of each security or its par value
4) The interest rate of each bond
5) The cost of each security and the amount recorded on the books
6) The interest and dividends received during the year
7) The market value of each bond or security as of December 31 of the year being audited

b. Review the investment summary for reasonableness, consistency of amounts between years and obvious omissions.

c. Compare the securities listed with ledger accounts and/or with the statement. Whenever practicable, serial numbers should be compared with records of security purchases or gifts in order to obtain positive identification and to avoid the possibility of substitution.

d. Examine securities listed or obtain confirmation from the holders if any are held by depositories. It is preferable for this examination to occur as close to the examination date as possible. Insure that the securities are registered in the name of the congregation or are endorsed appropriately to be transferable to the congregation. Examine the coupons on bonds to ascertain that unmatured coupons are intact.

e. Examine all transactions for verification of acquisitions and disposition.

f. Trace acquisitions to disbursement records and sales (dispositions) to receipts records.

g. Examine broker statements and compare with investment ledger where applicable.

h. The auditor should be satisfied that the securities are being adequately safeguarded.

i. Examine securities for ownership, certificate number, dates, endorsements, assignments, etc.

j. Verify any income that has not yet been distributed.

k. Determine, by reference to dates of purchase and disposal of investment, interest rates and published dividend records, whether income earned and accrued income receivable have been appropriately recorded.

7. *Restricted Funds:*

a. Obtain or prepare a list of restricted funds showing:

1) The source and date;
2) Terms governing the use of principal and income;
3) To whom and how often reports of condition are to be made, and

4) How the funds are to be invested.

b. Examine the donor letter, or trust or agency agreement, for each new gift and contribution received during the fiscal year.

8. *Loans:*

a. Obtain or prepare a schedule of all loans to include:

1) The name of the lending institution
2) The date or origin
3) The original amount of loan
4) The interest rate and payment schedule
5) The monthly payment
6) The unpaid balance
7) The purpose of loan
8) The authorizing body
9) The collateral for the loan
10) The restrictions placed by the lender

b. Review balances for reasonableness, consistency of amounts between years and obvious omissions.

c. Determine that any loans from the year being examined had the proper authorization and were recorded in the minutes of the Vestry or mission committee.

d. Verify, by direct communication with any lender, the outstanding indebtedness at the year-end as well as the terms of the indebtedness.

e. Reconcile the unpaid balance of all loans as reported by the congregation records to the figure reported by the lending institutions.

9. *Property and Equipment:*

a. Obtain a list of fixed assets of significant amounts showing the cost and date of purchase, if known.

b. Review balances for reasonableness, consistency of amounts between years, and obvious omissions.

c. Examine all the deeds and titles of ownership related to the properties owned by the congregation. Review them for the proper recording of the name of the owner and to determine if any encumbrances or liens exist.

d. Determine if any inventory identification procedure is in effect.

e. The congregation must have a physical inventory of capital assets. A sampling test of this inventory is to be made by the committee.

f. Ensure that all property and equipment is adequately insured.

g. If depreciation of property is recognized, review entries for accuracy.

10. *Payroll Records:*

a. Examine the individual earnings records for name, address, social security number, number of exemptions, rate of pay, and effective date.

b. Ensure that the salary paid is authorized and proper by comparing with the amount budgeted.

c. Trace the individual earnings record postings to the check register.

d. Reconcile total wages paid and total withholding taxes with the quarterly Form 941 and end-of-year Form W-3, checking that they were remitted on time.

e. Determine if a current signed Federal Form W-4 and a Form I-9 (Immigration and Naturalization Service) is on file for each employee hired after November 6, 1986.

f. Determine if a Form W-2 has been given to each employee (including the clergy) and that the Forms W-2 are correct and properly filed.

g. Determine if Forms 1099 are being provided for all individuals who are not employees and unincorporated entities paid $600 or more annually and all recipients of educational scholarship funds of $600 or annually.

1998 Instructions for Forms 1099, 1098, 5498, and W-2G, Department of the Treasury, Internal Revenue Service, (p. 23, Scholarships) reads,

"Do not use Form 1099-MISC to report scholarship or fellowship grants. Scholarship or fellowship grants that are taxable to the recipient because they are paid for teaching, research, or other services as a condition for receiving the grant are considered wages and must be reported on Form W-2. Other taxable scholarship or fellowship payments (to a degree or nondegree candidate) are not required to be reported by you to the IRS on any form."

h. Test the payroll to be sure that a real employee exists for every payroll check written.

11. *Receivables and Payables:*

a. Prepare a schedule of accounts receivable as of the date of the Statement of Financial Position. These may include pledge payments which were made after the end of the year in which the money was pledged or authenticate obligations owed to the congregation at year end.

b. Prepare a schedule of accounts payable as of the date of the Statement of Financial Position. These may include monies owed by the congregation to vendors at year-end for goods and services received during the year being audited. Discuss with the treasurer any old or disputed payables.

12. *Insurance:* A schedule should be prepared listing the name of carrier, description of coverage, period of insurance, premium amount and date of premium payment for the following policies which the committee is to review:

a. Fire insurance on buildings and equipment
b. General Liability (Public Liability and Property Damage)
c. Burglary
d. Fine Arts
e. Malpractice
f. Worker's Compensation
g. Fidelity Bond
h. Automobile coverage on cars owned by the congregation
i. Non-ownership liability insurance for cars owned by others when used for congregation business
j. Directors' and Officers' Liability
k. Umbrella Liability
l. Other special policies held by the church

13. *Discretionary Fund:* Check that the discretionary fund is in the congregation's name, that the congregation's Federal Employer's Identification Number is the number used to identify the account at the bank, and that the fund has not been used for operating fund expenses or for the personal expenses of the clergy. If a separate checking account has been authorized, all monies for the discretionary fund must pass through the congregation's general bank account and subsequently a check should be written to transfer the monies to the separate discretionary fund checking account. Reference Chapter V (Clergy Discretionary Funds) before proceeding.
14. *Work Papers:* The committee should retain a file of the work papers that were prepared during the audit. When the next year's audit is performed, these papers could be an invaluable guide. The next auditor should be provided with a copy of the work papers. These work papers should include such things as: the complete audit and internal control check lists; lists of bank accounts, restricted funds, investments, insurance accounts and loans; the schedules prepared; the procedures followed in performing the audit and memoranda describing significant issues raised during the audit.
15. *Audit Committee Certificate:* The Audit Committee Certificate states that steps have been taken to ensure that the financial statements are presented fairly in all material respects. The Audit Committee Certificate should identify exceptions when the audit committee questions any aspect of the financial statement. When this occurs, the audit committee should carefully describe the condition raising the question. Such a statement does not nullify the accuracy or the importance of the audit, but it does alert the reader that the financial statements may be affected in some way because of the noted variance.
16. *Audit Committee Findings on Policies and Procedures:* The Audit Committee should comment in a separate letter to the Vestry regarding the internal control procedures in effect at the congregation. This letter should be made a part of the minutes.

Exceptions to adequate procedures should also be noted in these comments. Repeat items from previous years should be noted. Good business practices and policies, as well as safeguards, should be recommended. A copy of this letter should accompany the audit report.

The Audit Committee should look for opportunities to educate the Treasurer and Vestry by teaching the accrual method of accounting.

# CHAPTER VII: RISK MANAGEMENT & INSURANCE

## Introduction

Responsible stewardship includes protection of the Church's people and assets from a variety of risks. Title I, Canon 7 (6) provides that, "All buildings and their contents shall be kept adequately insured," and Title I, Canon 7 (3) states that, "Treasurers and custodians, other than banking institutions, shall be adequately bonded, except treasurers of funds that do not exceed $500 at any one time during the fiscal year."

Commercial insurance is a device for handling risk. For a fixed financial consideration (the premium, plus any applicable deductible), the policyholder transfers risk of unforeseen financial loss to the insurance company. In addition to insurance, several other complementary techniques exist to manage risk, as described in the following section.

## Risk Management

Risk management is a disciplined process that promotes asset conservation. It involves several steps:

- *Identifying* risk: examining the Entity's operations and determining its vulnerabilities to loss of life, property, or other assets;

- *Assessing* risk: evaluating the potential financial and operational impacts of each risk and prioritizing risks according to severity;

- *Avoiding or reducing* risk: discontinuing certain practices or operations because of the inherent hazards; developing property maintenance, premises safety, and accident prevention programs to avert incidents or reduce their potential severity;

- *Transferring* risk: developing standardized procedures, such as hold-harmless agreements and requirement of proper insurance, to screen out and deflect risk when contracting for services or entering into agreements with others;

- *Retaining* risk: assuming financial responsibility for a limited amount of predictable, affordable risk through use of insurance deductibles or self-insured retentions;

- *Reevaluating* the chosen techniques and adjusting them, as necessary, for maximum impact.

These techniques should be explored in tandem with the purchase of commercial insurance, since they may improve the quality of institutional risk and promote premium savings. The Church Insurance Companies, an operating unit of the Church Pension Group, an agency of the Episcopal Church, can provide guidance in the assessment of church risk, together with broad, cost-effective insurance in many instances. In addition, many local and regional insurance brokers and other intermediaries and direct-writing insurers can provide valuable assistance.

**Protecting Physical Assets and Revenues**

Property insurance covers costs to repair or replace property damaged by various causes of loss or perils. This protection is available on a "Named Perils" basis (insuring against a limited number of specified perils) or on an "All-Risks" or "Special Perils" basis (insuring against all risks of physical loss or damage except those listed in the policy). Whenever available at acceptable cost, All-Risk property insurance is preferable because it provides broader protection.

The most important consideration when buying property insurance is insuring to value. The amount of insurance, or policy limit, should always reflect the total value of the assets being protected: buildings, including their systems and special architectural features; general contents; computer equipment; fine arts; grounds keeping and other mobile equipment; property of others for which the organization has assumed responsibility; and revenue stream. New property acquisitions, construction, and upgrades also affect the amount of property insurance needed.

Underinsurance can expose the organization to self-insurance costs at the time of loss. For example: Suppose a church has a replacement cost value of $1 million and the church arranges an insurance policy with a 100% coinsurance clause (i.e., requirement to insure the property for 100% of the replacement cost). If the church buys only $700,000 of property insurance, or 7/10 of the amount required, and sustains $200,000 of covered smoke damage originating from a smoldering Advent wreath, the insurance company will pay only $140,000 (i.e., 7/10 of the amount of the loss) less any applicable deductible.

Commercial insurance commonly recognizes several methods of property valuation:

- *Replacement Cost*: the cost of repair or replacement with comparable kind and quality;

- *Actual Cash Value*: the replacement cost value, less depreciation for wear and tear, age, deterioration, utility, and functional obsolescence;

- *Reproduction Cost*: the cost of repair or replacement with identical (not simply comparable) material – sometimes required for historic buildings, despite higher premiums associated with expensive reproduction values;

- *Functional Replacement Cost*: the cost of repair or replacement to achieve the same function as the original – occasionally used when replacement would be impractical;

- *Market Value*: the price at which the property would change hands between a willing buyer and willing seller on the open market – sometimes used for fine arts, vacant buildings, and property obviously for sale.

Accurate determination of insurable property values and periodic revaluation – whichever valuation method is used – is the cornerstone of an effective property insurance program. A skilled insurance advisor can facilitate physical appraisals of buildings and other property by the insurance company or independent experts.

Most property insurance policies limit the amount of protection applicable to certain kinds of property or causes of loss. Coverage for such property as fine art, valuable papers, trees and plants, and personal effects are often capped at amounts considerably below their values. Property damage by such perils as sewer and drain backup, flood, and earth movement may also be sharply limited or excluded altogether; though such exposures can sometimes be accommodated by paying an additional premium.

Property insurance can also be arranged to protect an organization's revenue base in the aftermath of damage to the physical plant. This specialized protection, often called *"Time Element" or "Business Interruption"* coverage, includes:

- *Extra Expense* insurance, which covers post-loss operating cost increases incurred to maintain operations during property restoration or replacement; and

- *Loss of Earnings* insurance, which temporarily covers a post-loss revenue reduction, plus any operating expenses that do not abate during the period of repair or reconstruction. This coverage may be structured to address specific revenue sources, such as rents or tuitions and fees.

Accurate assessment of the worst-case financial exposure is a prerequisite of adequate protection. Business interruption worksheets are available (see Appendix A for a sample worksheet) to calculate the monthly exposure using traditional accounting methods.

Although a property insurance company bears most of the financial cost of loss, the policyholder shares a small portion in the form of a deductible. The deductible is typically a fixed dollar amount or, in the case of properties exposed to catastrophic perils (e.g., flood, earthquake, or hurricane), is expressed as a percentage of the value insured. In most instances, the deductible amount reflects the risk size, complexity, location, and other characteristics, as well as the insured organization's willingness to assume more financial risk in return for a lower premium.

## Safeguarding Against Civil Liability

Churches are vulnerable to civil liability in many of the same ways as for-profit businesses and other nonprofit organizations. Each church has a duty to maintain its premises free of defect and safe to the visitor and to conduct its operations in a manner that protects others from harm. When the organization breaches its legal duty of care to others, it may be adjudged negligent and legally liable – with financial consequences.

*Commercial General Liability* insurance protects the organization and those acting for it against civil liability for property damage, bodily injury, or personal injury to others. Bodily injury involves physical injury; personal injury involves harm of an emotional nature caused by specific offenses such as defamation, false arrest, and invasion of one's right of privacy.

Liability claims are usually presented after the event that triggered them – sometimes weeks, months or years later. For this reason, a Commercial General Liability ("CGL") policy is normally issued on an "occurrence" basis, meaning that the policy that was in effect on the date of an event should cover any subsequent claims, regardless of when they are presented.

CGL policyholders should always notify the insurer **as soon as possible** of an insured "occurrence".

Most CGL policies provide a policy limit of at least $500,000 for each occurrence, with $1,000,000 being the norm for many businesses, including churches. In addition to a per-occurrence limit (the amount payable under the policy for all claims arising from a single event), the policy may also provide for an aggregate limit, or cap, on the total policy payout for a given policy year. The policy limit covers settlements and judgments, while defense costs and related expenses are normally payable on an unlimited basis in addition to the policy limit. Most liability policies are issued on a first-dollar basis (i.e., no deductible applies).

The Commercial General Liability policy may also provide lesser limits for *Medical Payments*, which covers minor medical costs without regard to liability; *Fire Legal Liability*, which insures against fire-related damage or injury arising from the policyholder's occupancy of someone else's property (e.g., as a tenant); and *Employee Benefit Liability*, which insures against mistakes in the day-to-day administration of the organization's various group health and welfare plans.

Churches face two unique risks associated with close personal contact or relationships:

- *Sexual Misconduct Liability* arising from sexual abuse (as between an adult and a minor, or as perpetrated upon mentally or physically impaired persons) or sexual exploitation (as committed by a person who uses a position of power, authority, or trust to influence another); and

- *Pastoral Professional Liability* arising from a cleric's professional mistakes – for example, negligence in counseling parishioners. This exposure does not include risks associated with fee-for-service counseling, which must be addressed under separate *Counselors' Professional Liability* insurance.

CGL policies designed for religious institutions usually provide both specialty coverages, or can be tailored to accommodate such risks. The policy limits may be the same full per-occurrence amounts that apply to other types of claims, or they may be segregated for these exposures and, in some cases, reduced.

If a church operates a cemetery or columbarium, it should consider *Cemetery Liability* coverage, which protects against civil liability arising from negligence in the burial, cremation, disinterment, or handling of human remains.

### Insuring Against Management Liability

Church leaders continually take actions and make decisions on behalf of their organizations. Although usually made with the best of intentions, such decisions sometimes produce unintended results with adverse consequences. *Directors' & Officers' ("D&O") Liability* insurance protects the organization and its leaders against civil liability arising from acts, errors, omissions, misstatements, misleading statements, neglect, or breach of duty – in short, against management mistakes.

Examples might include:

- A finance committee's decision to invest the organization's assets in a new fund that fails to perform as expected, causing the organization to lose money;

- A rector's decision to terminate a member of her staff, provoking claims of discrimination and unlawful termination;

- A property committee's decision to sell land bequeathed by a late parishioner, in direct contravention of the decedent's wishes.

D&O insurance for nonprofit organizations normally protects the organization and its elected or appointed directors and officers. Many D&O products available also cover managers, other employees and volunteers for their actions in the service of an organization. Policies designed for religious entities sometimes include more specific references to clergy, wardens, vestry members and other church leadership positions.

Unlike a Commercial General Liability policy, which applies on an "occurrence" basis, a D&O policy is normally issued on a "claims-made" basis. This means that the D&O policy in force when the claim is presented should respond, so long as the claim is first made during the policy term. A D&O policy commonly specifies a retroactive ("retro") date, which walls off earlier events from the scope of coverage. Thus, the prerequisites for coverage under a D&O policy are:

- A wrongful act that occurs after the retro date;
- Presentation of the initial claim during the policy term;
- Wrongful conduct that meets the policy definition of a covered act and is not otherwise excluded.

Since the mid-1990s, employment-related offenses such as sexual harassment, wrongful termination, discrimination, and defamation have been the fastest growing type of litigation against churches and their leaders. Most D&O policies include *Employment Practices Liability* ("EPL") protection, but each must be verified.

Church D&O policies are usually issued with a $1 million aggregate policy limit, with higher limits available to address the significant risk exposures of organizations with large budgets and financial portfolios. Unlike a Commercial General Liability policy, which covers claim defense costs in addition to the policy limit, a D&O policy includes defense costs within the limit. This means that payment of defense costs reduce the amount to protection available for settlements and judgments. Moreover, the typical D&O policy requires a self-insured retention (i.e., deductible) that must be absorbed by the policyholder before the insurance company begins to pay its share. (Sometimes separate retentions apply to the Entity and to individual insureds as a group. Defense costs borne by the policyholder normally count toward satisfaction of its self-insured retention.)

D&O policyholders should always remember to notify the insurer **as soon as possible** of an insured "claim".

**Insuring Against Workplace Injuries**

Most states require entities with one or more employees to insure against on-the-job injuries. A *Workers' Compensation & Employer's Liability* policy satisfies this legal requirement by providing two types of coverage:

- *Workers' Compensation* – which delivers state-prescribed wage loss, medical, and other benefits to injured workers and their families; and
- *Employer's Liability* – which insures against an employer's common law liability for bodily injury by accident or disease.

The amount of available Workers' Compensation coverage is limited only by state law establishing benefit levels, while Employer's Liability insurance is typically issued with a limit ranging from $100,000 to $1 million.

Workers' Compensation insurance premiums are based upon payroll (including clergy housing allowances and Social Security offsets) plus an experience modification factor, a numerical factor calculated by the state Workers' Compensation rating bureau to reflect the relative quality of a risk compared to its peer group. A church with few or no claims during the three preceding years will earn a low ("credit") experience modification factor, while one with worse-than-average claims experience will earn a higher ("debit") modification factor. Preserving a safe, accident-free workplace is very important in minimizing the Workers' Compensation premium.

Although Workers' Compensation insurance applies strictly to an organization's employees, it can be extended to cover volunteers. A *Voluntary Compensation* endorsement to the policy, available at modest additional cost, enables payment of a volunteer's medical and other qualifying expenses following injury in the course and scope of service to the organization.

## Safeguarding Assets from Criminal Acts

As noted at the beginning of this chapter, Church canons require that treasurers and other financial custodians be bonded to safeguard their organizations' assets against dishonesty. A *Commercial Crime* insurance policy (sometimes called a "bond") delivers protection against employee dishonesty, as well as against other criminal acts such as burglary, robbery, theft, computer fraud, and wire transfer fraud.

Surprisingly, employee dishonesty is a major cause of financial loss to many religious organizations – and one for which few are adequately insured. Employee dishonesty involves the taking of money, securities, or other property for personal gain by individuals within the organization – employees, leaders, and volunteers. Most losses from employee dishonesty occur through multiple events perpetrated over a period of time, yet Commercial Crime policies apply to the aggregate loss. Therefore, when selecting an amount of coverage, the organization should consider a worst-case scenario, taking into account check countersigning protocols, money and securities handling procedures, and other internal controls that may reduce the financial exposure.

Other sections of a Commercial Crime policy protect the organization against financial loss perpetrated by outside sources and activities, including computer fraud. The coverage limits are severable, enabling the buyer to select the forms and amounts of protection that are most applicable.

Like property insurance, Commercial Crime insurance is normally subject to a per-claim deductible borne by the policyholder.

## Other Insurances

The types of insurance described above are "core" protection. Some churches have operational risks that warrant consideration of the following coverages.

| *Insurance* | *Risk* |
|---|---|
| Automobile Liability policy | Civil liability arising from employee or volunteer use of owned, leased, personal, or borrowed vehicles |
| Umbrella Liability policy | Civil liability in excess of General Liability, Employer's Liability, and Automobile Liability policy limits |
| Special Risk (Accident) policy | Medical expenses incurred by participants in organized trips, outings, or athletic events |
| International Package policy | Foreign travel, including overseas occurrences of (1) on-the-job injury; (2) civil liability for property damage or bodily injury to others arising from the Entity's premises or operations; (3) civil liability for property damage or bodily injury caused by vehicular use; (4) emergency medical expenses and travel assistance, including medical evacuation; (5) kidnap, ransom and extortion |

## Caring for Employee Welfare

Employees are among the most important assets of an organization. Managers should be as attentive to safeguarding employee wellbeing as they are to safeguarding the organization's physical property and financial assets. Group health and welfare insurance programs assist in providing financial security for clergy and lay employees.

- *Medical and Dental insurance* cover medical and dental treatment costs for employees and their eligible dependents;
- *Disability and Life insurance* can replace future earnings lost through disability or death; and
- *Retirement benefits*, including pension and voluntary contribution plans, can provide a source of income after retirement.

The Episcopal Church Medical Trust and the Church Life Insurance Company, operating units of the Church Pension Group, specialize in Medical, Dental, Disability, and Life insurance products marketed to dioceses and individuals. While group health and welfare insurances are important financial security tools, they are not mandated by the Canons.

The Church Pension Fund, established by the Church canons, is the exclusive clergy pension administrator for the Episcopal Church. Pursuant to authority conveyed in Title I, Canon 8, the Church Pension Fund collects clergy pension assessments from all parishes, missions, and other ecclesiastical organizations. The current assessment rate is 18% of total annual compensation, including stipend, housing, utilities and self-employment tax allowance.

Each organization is responsible to notify the Church Pension Fund when a cleric begins employment, when there is a change in the cleric's salary, and when a cleric ends employment. The Church Pension Fund (www.cpg.org) publishes a pamphlet, "What Every Treasurer Should Know," as a guide to the reporting and payment of clergy pension premium.

The Lay Pension Plan, created by resolution of the General Convention of 1991, creates pension entitlement for all lay employees who work a minimum of 1,000 hours annually for organizations participating in the Church Pension Fund. The pension benefits may be arranged through the Episcopal Church Lay Employees' Retirement Plan (ECLERP) or an equivalent plan.

There are two basic types of pension plans:

- In a *defined contribution* plan money is contributed in a fixed amount or percentage of salary on behalf of each participant, whether by the employer alone or the employer and employee. That contributed amount plus subsequent investment performance determine the retirement benefits that are eventually received. The plan does not promise a specified payout upon retirement. Under certain options, a residual amount of money may be left in the employee's estate. The employer's responsibility is limited only to providing the defined contribution.

  An employer's contribution to a defined contribution plan must be at least 5% of the employee's salary, with an agreement to match employee contributions up to another 4%.

- In a *defined benefit plan* a guaranteed minimum benefit is payable upon retirement, usually based on salary and years of service. The employee knows what minimum amount will be paid at retirement – whether a dollar amount or an amount calculated according to a formula based on salary and length of employment. The employer is responsible for providing the promised payment in retirement.

  The employer is responsible to contribute at least 9% of the employee's salary to a defined benefit pension plan.

The employer may limit participation in either plan to employees at least 21 years of age who are continuously employed for up to year.

Last updated August 2007

*The author of this chapter, Scott R. Konrad, is a senior vice president with Willis Group, a leading global insurance brokerage and risk advisory firm. He specializes in providing risk management counsel and advocacy for secular and religious nonprofit organizations. He has also served his home parish in Essex, Connecticut as a stewardship chair, choir section leader, diocesan delegate, vestry member at-large, and warden.*

# CHAPTER VIII: PAROCHIAL REPORTS

## CHAPTER CONTENTS

### LINE-BY-LINE WORKBOOK & INSTRUCTIONS



**PAROCHIAL REPORT FORM**

## Section A: General Instructions for Filing the Parochial Report

- What is included in this packet?
- Why Episcopal congregations file an annual report
- What about the new report? Filing on-line?
- How to file the Parochial Report

**What is included.** In order to complete the form and return it to your bishop on a timely basis, the following are included in the report packet:

1. Cover letter from the Executive Officer and Secretary of the General Convention.

2. The Report Form: Page 1, General Information and Certification; Page 2, Membership, Attendance and Services of the Reporting Congregation; and Page 3, Stewardship and Financial Information of the Reporting Congregation.

3. Two Workbooks with line-by-line instructions: the Workbook for Page 2: Membership, Attendance and Services; and the Workbook for Page 3: Stewardship and Financial Information.

**Why congregations file.** Since the first General Convention of the Episcopal Church, congregations have provided a report of membership, baptisms, communicants, services and finances. In 1804 the Committee on the State of the Church was established to review this information and prepare a summary report to General Convention. The authority for the Parochial Report is described in the *Constitution and Canons of the Episcopal Church*, Canons I.6, I.7, and I.17. The text of these canons is included as an appendix to these instructions.

The annual Parochial Report is a report of each congregation to the diocesan bishop and the General Convention which is the governing body of the Episcopal Church. Your faithful attention to filing this report provides vital information about the life of our Church. Each congregation and diocese as well as the committees, commissions and agencies of General Convention benefit from the data accumulated from these reports.

The vestry is required by Canon I.6.1 to review and approve the Parochial Report data annually and to indicate the date of vestry approval on page 1 of the Parochial Report form. It is also recommended that each year new data be added to at least five years of history, utilizing a spreadsheet format. These data can also be converted in a graphic format for visual presentations and to assist in making short and long range plans for programs and facilities. All congregations are also encouraged to download the 11-year chart of membership, attendance and giving that is available as a .pdf on the congregational ministries web pages. Go to the "studying your congregation and community" at http://www.episcopalchurch.org/congdev.htm to access the chart for your parish or mission (and diocese). Diocesan offices can use the data for congregational growth and development needs.

**A simpler report has been developed.** In 1999 the Parochial Report was revised and simplified to capture key indicators in the life and worship of Episcopal congregations. The report is designed to track data which is historically a matter of record and easily accessed in the *Register of Church Membership and Rites* (formerly known as the Parish Register), the *Service Register*, and the financial records kept in accordance with *The Manual for Business Methods in Church Affairs.*

**On-line filing.** The General Convention Office, working with the dioceses, has developed an on-line filing system which filing parishes and missions are expected to use, unless they are instructed by their dioceses to file paper forms through diocesan offices. Go to http://pr.dfms.org to file on-line. You will need your UEID (8-digit identification code) and PIN (4-digit numeric password code) in order to file. These numbers are printed on the letter each congregation receives with their Parochial Report packet.

## FILING YOUR PAROCHIAL REPORT FORM

**The Format:** Congregations now receive one copy of the form in a format suitable for photocopying. Included with the three-page black and white form are an introduction and two workbooks with line-by-line instructions. The rector and/or clerk of the vestry complete and sign Page 1 and provide the membership, attendance and service information on Page 2. The treasurer/finance officer completes the stewardship and financial information on Page 3 and signs the designated certification box on Page 1. In addition, the vestry is required to review the completed form, approve it, and note the date of vestry approval on Page 1. The parish should retain a photocopy (or print the completed report on-line) for parish records and send the original form to the diocese (unless instructed otherwise by the diocese).

To ensure that legible photocopies of the report can be made, the vital and financial statistics should be typed or written with black ink. (Do not use pencil or blue ink.) If the Parochial Report form is completed on-line by the parish or mission it is only necessary to print out the completed report.

**Page one of the Parochial Report Form:** Page one certifies the report information and provides specific information identifying the reporting congregation and the diocese for which the report is being completed: the up-to-date street and mailing, address(es), city, county, state, ZIP+4 codes and the congregation's web site or email address(es).

In addition to the cover information, please print or type the congregation's name, city, and diocese in the spaces at the top of each page, as a safeguard against misplaced pages.

***Signatures:*** The person(s) designated should sign the form and print or type their name(s) directly below the signature. If there is no rector, vicar, or minister in charge, the senior warden should sign and print his or her name. Please be certain to include the parish phone number in the certification section.

***Tax Identification Numbers:*** If your congregation does not have a Federal Tax Identification number, the necessary forms can be obtained from your regional Internal Revenue Service center. Contact your diocesan office if you have questions about local statutes related to state identification numbers.

***Reference numbers and letters:*** Many lines begin with reference numbers that appear on the left side of the report forms. They are included to help transfer information from the instructions and definitions to the correct box on the Parochial Report form.

***Adding up numbers:*** There are sections with subtotals representing different categories required by Canons I.6 and I.7. Note that the financial statistics do not have an opening or a closing balance.

***Questions and comments concerning the Parochial Report:*** Please direct specific questions to your diocesan administrator or Gretchen Marin (listed below).


| | |
|---|---|
| Ms. Gretchen Marin | (212) 716-6187 |
| Research Assistant | (800) 334-7626, ext. 6187 |
| Domestic and Foreign Missionary Society | gmarin@episcopalchurch.org |
| 815 Second Avenue | |
| New York, NY 10017 | |

Direct any general comments or inquiries to (all are located at 815 Second Avenue, New York, NY 10017):

The Rev. Dr. Gregory S. Straub
Executive Officer and the Secretary of the General Convention
(212) 922-5184
(800) 334-7626, ext. 5184
gstraub@episcopalchurch.org

Mr. N. Kurt Barnes
Treasurer and Chief Financial Officer of the Episcopal Church USA
(212) 922-5296
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**PAGE 2: MEMBERSHIP, ATTENDANCE AND SERVICES INFORMATION**

The information categories on page 2 are established by the Canons of the Church, which provide the definitions of the various terms or have been identified as key indicators in congregational life and worship. The Parochial Report Subcommittee of the Committee on the State of the Church with diocesan administrators and the General Convention has removed ambiguous categories and guesswork, and linked all information requested on this page to specific parish records and clearly defined categories. In addition, General Convention has worked with Morehouse Publishing to revise the parish membership and service registers to conform to the recent revisions of the canons and to eliminate redundant entries.

***Reporting membership:*** The membership figures entered for your congregation at the end of last year (box M05 of your 2005 report) serve as the base line for calculating membership at the end of the current reporting year. Increases are entered in box 1 and decreases are entered in box 2. To compute Total Active Baptized Members in the current reporting year, add total increases to the Members Reported Last Year figure and subtract total decreases. Record your end-of-year active membership total in box M06.

If you have lost or misplaced your prior year's report, you can download it on-line from http://pr.dfms.org by clicking the “View/Print Parochial Report” menu option and selecting the prior year. Alternatively you can contact your diocesan office. Using your prior year’s report ensures the accuracy and continuity of your membership information.

For your current end-of-year information use your *Register of Church Membership and Rites.* The new Register consolidates all the baptized membership categories into one membership list. This makes counting and reporting “active baptized members” and “communicants in good standing” much easier. Space is also provided for updating the active/inactive status of your members to get an accurate count. By taking the time to examine your entries, you will assure the accuracy of your reports to your vestry and your diocesan convention. The new Membership and Service registers are available through

# CHAPTER IX: RECORDS MANAGEMENT

## CHAPTER CONTENTS



***Note on Chapter IX:*** *This chapter represents the standard for records management approved by the Board of the Archives of the General Convention during the 1992-1994 triennium. If you wish to receive a copy of the final draft of this chapter as approved by the Board, please contact the Archives of the Episcopal Church, PO Box 2247, Austin, TX 76768, (800) 525-9329.*

### Introduction

This chapter offers guidelines on practical issues that treasurers and administrators of congregations will encounter with business records. The chapter includes a general retention schedule that can be modified and adopted for a congregation's use.

### Section A. Custodial Responsibility

The Vestry has a custodial responsibility for the records of the congregation. Treasurers, bookkeepers, and administrators should be knowledgeable about the congregation's records that sustain its institutional history and integrity. They should be placed within its facilities or in a safe, accessible location. A congregation's records and archives may be relevant in future litigation. Should there be threatened litigation or an investigation, files and documents relating to that matter should not be destroyed. Under no circumstances should records of an active or closed congregation be alienated from the custody of the continuing congregation, the successor entity or the diocesan authority.

Records are kept in a variety of ways: original documents, hard copy paper records, computer records, including CD-ROM, and microfilm. Keep in mind that computer data may be software or hardware-dependent.

### Section B. Records Retention Policy

A records retention and disposition schedule is valuable if it is adopted and applied consistently by the congregation and used as part of a larger effort to manage information. Government regulations do not require an organization to have a records schedule, nor do they usually state explicitly which records should be created and held.

1. *Federal and State Law:* In some instances government has been explicit in stating that records must be created and maintained for specific lengths of time. These requirements are either issued by government agencies or, less frequently, enacted by statute. Some of the more important statues that affect retention are the Civil Rights Act, Equal Pay Act, Fair Labor Standards Act, the Federal Unemployment Tax Act and the Uniform Rules of Evidence Act. Regulations are promulgated as administrative law through the *Federal Register* and published in the *Code of Federal Regulations*. They are broader and more numerous and include those of rule-making agencies such as the Internal Revenue Service, the Equal Employment Opportunity Commission and the Wage and Hour Division of the Department of Labor.

   Agency regulations are rarely helpful in naming or defining in practical terms the record types. The following formulation from the Department of Labor serves to illustrate:

   > Form of Records. No particular order or form of records is prescribed by the regulations in this part. However, every employer subject to any provisions of the Fair Labor Standards Act of 1938 … is required to maintain records containing the information and data required by the specific sections of this part. (29 CFR Title 9 Part 516.1(a)).

   While Federal requirements can be uniformly applied as standards, state laws and regulations vary. They diverge markedly from one another in areas traditionally left to state oversight, such as health, work place safety, insurance, contracts and industry. In those areas that have the most effect on congregations, however, state regulations tend to remain close to Federal guidelines. Tax and employment records fall into this category. By following the retention periods, including provisions for the current year, maximum state retention requirements should be satisfied.

2. *Special Classes of Records – Taxes and Employment:* The rules of exemption from state and Federal taxes are carefully drawn and are closely monitored by regulatory agencies. Having received tax exempt status, an organization is not released from record-keeping responsibilities. Certificates, filings and evidential backup documentation are required for the variety of compliance and audits that could be performed on part or all of a congregation's financial operation.

   Often, a congregation engages in one or more activities that generate questions regarding tax reporting or liability for the congregation or its membership. These include: payroll, withholding, and related compensation for consulting, travel, scholarships, etc; rent, purchase and sale of real estate; the operation of bookstores, thrift shops and other concessions; and fund raising and solicitation of charitable gifts. Documentation should be created to substantiate critical distinctions between income that is related and unrelated to church business. Congregations that make an effort to document these activities clearly and in a format that shows an historical pattern are better protected when and if an inquiry arises.

   Tax laws are unusual in that they have the reputation of assuming guilt until the taxpayer can prove otherwise. Retention is strongly implied by tax law, which places the onus on the taxpayer to establish evidence of income, deduction and exemption. The Internal Revenue Service requires taxpayers to retain 'permanent books of account or records, including inventories as are sufficient to establish … any return of such tax or information,' (26 CFR 1.6001-10). By 'permanent' the agency is referring to the treatment and format of the record while it is legally useful. Human-readable forms must be retained in good copy, computer records must also be kept as supporting documentation along with system documentation and an audit trail on the computerized accounting application (IRS Rev. Proc. 86-19).

The Internal Revenue Service, the Department of Labor and the Equal Employment Opportunity Commission require that employers keep payroll and benefits records that:

a. Verify level of employment, job status, total compensation, and deductions;

b. Enumerate hours worked on a daily basis and rates of pay;

c. Document recruitment, hiring, promotion and compensation practice across the congregation;

d. Substantiate retirement plans including plan documentation and contributions; and

e. Detail injury and illness associated with occupational activity or the work place.

## Section C. Disposition of Records

The final disposition of records is key to the rationale for using a retention schedule. Two basic designations exist for records when their retention periods have been reached: *Obsolete Records* and *Permanent Records*.

1. *Obsolete Records:* Records that have been maintained for the purpose of fulfilling a temporary administrative, fiscal or legal requirement should be destroyed at the end of the retention period. For the sake of simplicity, retention periods are usually measured in annual accumulations, although some records can be discarded after use, when they are superseded (or after review) for selective retention. When setting retention periods, the usual practice is to exclude the current year from the count. For purposes of destruction this method has the effect of dating all material created within one calendar year as if it were created on December 31. Sometimes this formulation is expressed as "CY+" (current year plus a number of succeeding years).

   Records identified for disposal should be carefully handled. Keep the following points in mind:

   a. Maintain a log or other record of the classes and dates of records to be destroyed. This can be an annotated version of an existing inventory on file.

   b. Oversee and sign off on the destruction. Notify another employee or member of the congregation when destroying records. Do not leave this task to any person who is unfamiliar with the process or is not authorized to act on behalf of the congregation.

c. Verify labels and contents by checking inside boxes. Do not assume that the label is correct or inclusive. Do not reuse marked boxes without obliterating previous labels.

d. Destroy the record in a manner appropriate to the level of confidentiality of the information. Most records can be recycled or placed in landfill but documentation, such as payroll and donor information, should first be shredded. Always protect the privacy of employees and members of the congregation.

e. Never destroy records in anticipation of pending litigation.

f. Modify the record retention schedule by following a formal process. Bring proposed retention policies before appropriate committees and the Vestry to receive approval for changes.

g. Never destroy any record on a subjective assumption of value. Obtain another opinion if there is any question regarding a record's long-term administrative or historical value.

2. *Permanent Records:* Permanent records are those that have an enduring informational value to the congregation, the Episcopal Church and the community. These enduring values are based on several overlapping criteria, any one of which may satisfy the definition of a permanent record:

   a. Administrative value (e.g., building plans, annual reports)

   b. Fiscal value (e.g., trust fund files, property inventories, restricted gift documents)

   c. Legal value (e.g., meeting minutes, deeds, correspondence)

   d. Evidential value (e.g., subject files, publications, photographs)

   e. Intrinsic value for exhibit (e.g., memorial registers, cancelled mortgage deed)

   Transferring records to the archives implies that a safe and proper place within the church facilities has been set aside for their protection. Under no condition should a congregation's records be alienated, removed or deposited elsewhere without the informed consent of the Vestry.

## Section D. Business Records Retention Schedule for Congregations

The retention schedule that follows is to be used as a guide for business records. Congregations interested in a more comprehensive retention schedule should contact the Archives of the Episcopal Church. This chapter and the following retention schedule were based on material provided by the Archivist of the Episcopal Church.

# BUSINESS RECORDS RETENTION SCHEDULE FOR CONGREGATIONS

| Record title | Retention (max yrs) | Disposition recommendation |
|---|---|---|
| Accounts Payable Files | 7 | Destroy after 7 yrs. or CY+4 yrs. after Audit |
| Act of Incorporation | P | Permanent. |
| Agreements, Contractual | | See: Contracts. |
| Annual Financial Reports | | See: Financial Statements, Annual. |
| Applications for Employment, Unsuccessful | 1 | Destroy after CY+1 year. |
| Appraisals, Property | AU | Retain until superseded. |
| Assessment and Quota Apportionment Data | 5 | Destroy after 5 years. |
| Audit Working Papers and Back-up | 4 | Destroy after CY+4 yrs. with Audit. |
| Audit Reports | P | Permanent |
| Balance Sheets, Annual | P | Permanent |
| Balance Sheets, Monthly/Quarterly | 2 | Destroy after 2 years. |
| Bank Deposit Books | 7 | Destroy after 7 yrs. or CY+4 yrs. after Audit. |
| Bank Deposit Slips | 3 | Destroy after 3 years. |
| Bank Statements | 7 | Destroy after 7 yrs. or CY+4 yrs. after Audit. |
| Bank Reconciliations | 2 | Destroy after 2 years. |
| Bequest and Estate Papers | P | Permanent. |
| Bonds, Cancelled | 3 | Destroy after CY+3 years from date of cancellation. |
| Budgets, Approved and Revised | P | Permanent. |
| Budgets, Proposed and Worksheets | AU | Destroy after administrative use ceases. |
| Bylaws | P | Permanent. Transfer previous versions to Archives after amendment. |
| Cancelled Checks | 7 | Destroy after 7 yrs. or CY+4 yrs. after Audit. |
| Cash Journals, General Receipts and Disbursements | 7 | Destroy after 7 years; Retain permanently if used as primary book of entry. |
| Cash Journal, Receipts on Offerings and Pledges | 7 | Destroy after 7 years. See also: Pledge Registers/Ledgers. |
| Cashbooks, Discretionary Accounts | 7 | Destroy after 7 yrs. or CY+4 yrs. after Audit. |
| Cashbooks, Special Fundraising Subscriptions | P | Permanent. |
| Certificates of Deposit, cancelled | 3 | Destroy 3 years after redemption. |
| Certificates of Title to Property | P | Permanent. |
| Certificates of Incorporation | P | Permanent. |
| Chart of Accounts | AU | Retain until superseded. |
| Check Register | 7 | Destroy after 7 years |
| Check Stubs | 7 | Destroy after 7 yrs. or CY+4 yrs. after Audit. |
| Checks, Cancelled | | *See* Cancelled Checks |

| Record title | Retention (max yrs) | Disposition recommendation |
|---|---|---|
| Computer Accounting Records | 7 | Destroy after 7 yrs. or CY+4 yrs. after Audit; Refer to retention periods for specific types of accounting records. Check hard copy for permanent records; make archival copy of permanent files where necessary; make back-up copies of all active disk files and store in separate location; retain programming documentation for life of system. |
| Constitution and Bylaws with Revisions | P | Permanent. |
| Contracts, Active | P | Retain indefinitely. |
| Contracts, Inactive | SR | Selective Retention:Construction, New: PBetterments/Improvements: PRepairs/Maintenance: CY+6Employment: CY+6Service: CY+6Lease Agreements: CY+6Loans/Notes: CY+6 |
| Conveyances | P | Permanent. See also: Deeds |
| Copyright Registration | P | Permanent; Retain for life of copyright protection. |
| Correspondence Files, Subject and Name | SR | Selective Retention: retain substantive correspondence permanently; destroy routine courtesy correspondence after 5 years. |
| Correspondence Files, Chronological | 2 | Destroy after 2 years if alphabetical subject file exits. |
| Correspondence, Transactional: including payments, receipts, transmittals, credits, etc. | 5 | Destroy after 5 years. |
| Correspondence, Legal: including tax, real estate and probate issues | P | Permanent. See also: Litigation Papers |
| Deeds: including conveyances, covenants, and easements | P | Permanent. |
| Employment Taxes, Contributions and Payments: including taxes withheld and Social Security | 7 | Destroy after 7 years; a confidential record. |
| Earnings and Benefits Records | 6 | Retain for period of employment; destroy CY+6 yrs after termination of employment. |
| Employee Contracts | 6 | Retain for period of contract; destroy CY+6 yrs. after termination of contract. |
| Employee Files/Records | | See: Personnel Files/Records |
| Employee Salary Schedules | 6 | Destroy 6 years after termination of employment; confidential record. |
| Employee Withholding Statement, Form W-2 and State Withholding | 7 | Destroy after 7 years; confidential record. See also: Tax Forms, Individual Employees |
| Employee Withholding Certificate: Form W-4 | AU | Retain for period of employment; destroy 6 years thereafter. |
| Estates and Bequests | | See: Bequest and Estate Papers |
| Every Member Canvass Records | P | Permanent: retain canvass lists and fair copy of program literature; discard working papers and memoranda |
| Financial Statements, Annual | P | Permanent. |

| Record title | Retention (max yrs) | Disposition recommendation |
|---|---|---|
| Financial Statements, Monthly | 2 | Destroy after 2 years. |
| Form I-9: Immigration and Naturalization Service Certification | AU | Retain for period of employment; destroy 6 years after termination of employment. |
| Grant-in-Aid Proposals: Successful Applications | SR | Selective Retention. Retain proposal, final report and substantive correspondence. |
| Grant-in-Aid Proposals: Applications Denied | 1 | Destroy after CY+1 year. |
| Immigration and Naturalization Certifications: Form I-9 | AU | Retain for period of employment; destroy 6 years after termination of employment. |
| Incorporation Papers | P | Permanent. |
| Injury Reports | 6 | Destroy CY+ 6 yrs. settlement of all claims. |
| Insurance Policies | 6 | Retain for life of policy; destroy 6 yrs. after cancellation or termination. |
| Insurance Plans | AU | Retain for life of policy. |
| Insurance Records, Employees: including notification of claim payments | 1 | Destroy after CY+1 year; a confidential record. |
| Inventories of Property and Equipment | AU | Retain until superseded by new version. Refer old copies and photographs to Archives for review. |
| Invoices and Paid Bills, Major Building Construction and Structural Alteration | P | Permanent. Transfer to Archives for selective retention. |
| Invoices and Paid Bills, General Accounts | 7 | Destroy after 7 yrs. or CY+4 yrs. after Audit. |
| Journals, General and Special Funds | P | Permanent. |
| Journal Entry Sheets | 7 | Destroy after 7 yrs. or CY+4 yrs. after Audit. |
| Journals, Payroll | 7 | Destroy after 7 years. |
| Leases | 6 | Retain for life of contract; destroy 6 years after expiration. |
| Ledgers, General and Special Parish Funds | P | Permanent. |
| Ledgers, Subsidiary | SR | Selective Retention. |
| Legacies | P | Permanent. |
| Lists and Schedules of Subscribers/Donors | P | Permanent. |
| Litigation Papers: including claims, decrees, court briefs, substantive correspondence, judgements rendered, memoranda of counsel's opinion | P | Permanent. Remove and discard non-substantive documentation 3 years after settlement: notes, abstracts, routine duplicate copies and drafts. See: Correspondence, Legal |
| Loan schedules | AU | Retain until discharged or until administrative use ceases. |
| Manuals, Operating and Procedural | AU | Retain until superseded; Transfer old version to Archives for appraisal. |
| Memorial Gifts Register | P | Permanent. |
| Minutes | P | Permanent |
| Monthly Reports, Financial | 1 | Destroy after 1 year. |
| Mortgage Deeds | P | Permanent. Transfer to Archives after discharge. |

| Record title | Retention (max yrs) | Disposition recommendation |
|---|---|---|
| Office Files, Subject, Administrative, Name or Project | SR | Selective Retention. Review annually. Retain for archives those records that document parish administration and lay or clerical ministry and activities. Destroy resource materials, duplicate files, redundant chronological reference files, vendor reference files. See also: specific record titles herein for retention periods of non-permanent records. |
| Paid Bills | 7 | Destroy after 7 yrs. or CY+4 after Audit. |
| Parochial Reports, National/Diocesan Returns | 5 | Destroy after 5 years. |
| Payroll Journals | 7 | Destroy after 7 years. |
| Payroll Registers, Summary Schedule of Earnings and Deductions and Accrued Leave Time | 7 | Retain for 7 years. |
| Pension Records, Retired Employees, Contributions Schedules and Vesting Records | AU | Retain for minimum of 6 years after termination of benefit payment; destroy thereafter when administrative use ceases. |
| Pension Plans and Literature | AU | Retain in accessible file for life of plan or until superseded. |
| Personnel Files/Records, Non-current Employees: including applications, job descriptions, earnings records, Forms I-9, tax status forms, medical reports, attendance and leave time schedules, evaluations, and employment status history. | 7 | Destroy 7 years after termination of employment; confidential records. See also: Pension Records. |
| Petty Cash Receipts and Accounts | 7 | Destroy after 7 years or CY+4 after Audit. |
| Pledge Envelopes | 1 | Destroy after CY+1 year. |
| Pledge Cards and Journals | 7 | Destroy 7 years after date of last entry or Retain permanently if summary records have not been kept. |
| Pledge Registers/Ledgers | P | Permanent. |
| Policy Statements | P | Permanent. Retire old statements to Archives after revision. |
| Profiles, Parish | P | Permanent. |
| Property Files: including copies of deed, title papers, repair history, permits, lease arrangement and correspondence. | SR | Retain unique files permanently; destroy duplicate files after administrative use ceases. |
| Property Inventories and Schedules | AU | Retain until superseded; refer old versions to Archives for review. |
| Property Surveys/Plans | | See: Real Estate Surveys/Plot Plans below |
| Purchase Orders | 7 | Destroy after 7 yrs. or CY+4 yrs. after Audit. |
| Real Estate Surveys/Plots Plans | P | Permanent. |
| Receipts, General Accounts | 7 | Destroy after 7 yrs. or CY+4 yrs. after Audit. |
| Records Schedules and Destruction Logs | P | Permanent. |
| Resource Files: including catalogs/sales brochures, non-parish publications, professional literature, clippings/articles, vendor files, etc. | AU | Retain until superseded or until administrative use ceases; review annually. |

| Record title | Retention (max yrs) | Disposition recommendation |
|---|---|---|
| Sales Slips | 7 | Destroy after 7 yrs. or CY+4 yrs. after Audit. |
| Shipping and Freight Records | 3 | Destroy after 3 years. |
| Specifications for Building and Design | P | Permanent. |
| Specifications for Service and Sales Contracts, Property Upkeep and Minor Repairs | 7 | Destroy 7 years after completion of transaction. |
| Statistical Summaries | SR | Retain until administrative use ceases; review for archival value. |
| Subject Files | SR | Selective Retention: review annually and retain permanent record series. |
| Subsidiary Ledgers | SR | Selective Retention: retain permanent record series. |
| Tax Forms, Individual Employees: W-2, 1099 | 7 | Destroy after 7 years; confidential record. |
| Tax Returns/Filings | 7 | Destroy 7 years after filing provided no action is pending. |
| Tax-exempt Certificates and Form 990 | P | Permanent. |
| Time Sheets | 3 | Destroy after 3 years. |
| Title Search Papers and Certificates | P | Permanent. |
| Trial Balances, Closing | 7 | Destroy after 7 yrs. or CY+4 yrs. after Audit. |
| Trust Fund Files | SR | Selective Retention: Retain copies of conditions, restrictions, legal opinions, and summary distribution history permanently; retain distribution notices and courtesy correspondence for 7 years. |
| Trust Fund Registers | P | Permanent. |
| Vouchers | 7 | Destroy after 7 yrs. or CY+4 yrs. after Audit. |
| Warranties | AU | Retain until expiration of warranty. |
| Wills, Testaments and Codicils | P | Permanent. |
| Workman’s Compensation Claims and Filings | 7 | Destroy 7 years after filing or settlement of claims whichever occurs later. |

# Chapter X: Principles of Computerization

## Chapter contents



## Introduction

Computers can greatly increase the productivity of an office by automating repetitive tasks, providing electronic mail and access to the internet, allowing for quick and easy changes in documents or data, and consolidating data into an easy to retrieve and analyze format. A congregation may first consider the purchase of a computer because of some particular need – for more accurate accounting information, for better membership records, or for newsletter production.

Extensive planning is extremely important when considering the purchase or expansion of an office computer system. Computer technology changes very rapidly, so one must be aware of approaching developments that could render part of the system obsolete. A computer system involves many different components that must work together effectively to provide sufficient benefit. Some of these components, such as those involved with electronic mail, web pages and the Internet, exist outside of the control of the congregation, but can profoundly impact the effectiveness of the computer system.

This section defines some of the terms associated with computer systems and focuses on areas to consider and questions to ask when making computer system decisions.

The first rule in the computer system design process is that hardware selection (the physical computer equipment) must wait until *last*. Each decision that is made will affect other decisions down the road and aggregate decisions determine what hardware will be required. The types of decisions that must be made are:

1. What is required or desired from the computer system?
2. Should computers be connected via a network?
3. Will the congregation's staff and volunteers be using the Internet, e-mail, web page or Internet browsing?

4. What types of software are needed to do these tasks?
5. What hardware will most efficiently perform these tasks and at the most reasonable cost?

Making all these decisions requires a lot of information. The task can be daunting. There are innumerable places to look for information. Members of the congregation most likely have experience with processes like this where they work. Get them involved. Many people also know sources from whom they can get advice along the way. Ask other congregations what systems and software they have found to be effective. Trade journals and periodicals often contain articles reviewing different computer products and concepts. (Look to accounting journals for articles on computer accounting products.) There are books and guides that provide assistance. A search on the Internet may turn up valuable information or identify someone or an organization that can be of help. Most cities have computer shows and seminars throughout the year that are put on by various organizations and vendors.

A consultant may be needed to assist with the decision-making process and who may also be able to help with the installation, implementation and training associated with a new system. The selection of the right consultant is important. Be sure to interview several before making a choice. The consultant should be knowledgeable in the types of situations or applications being considered. Some consultants are only knowledgeable about a group of products they work with. A Value Added Reseller (VAR) can provide assistance with specific components or alternatives of a system once they have been chosen. A VAR is a consultant that is in partnership with a particular software vendor and can assist with the implementation and training of that particular product.

### Section A. What is required or desired from the computer system?

This seems like a simple question, but it is not. There may be one or more tasks that have initiated consideration of a first computer purchase. Computer systems are a big investment. If, later on, a decision is made to expand a computer system's capabilities, and the new needs are not compatible with the existing system, a change can be costly. So, as computer needs are considered, be sure to look to the future. Consider the addition of products that may not be financially feasible today, but could be possible tomorrow. Make selections now always considering the upgrades that will be needed later.

The list of possible computer uses in a congregation include word processing; preparing Sunday bulletins, newsletters, and personalized mass mailings; maintaining, analyzing and reporting financial, membership, stewardship or evangelism data; maintaining contact lists and time and talent data; maintaining Christian education and youth program data; maintaining property inventories; etc.

### Section B. Should computers be connected via a network?

Small networks of computers are fairly easy to set up. Networks allow a group of computers to share peripheral devices like printers, scanners and, maybe, modems. A network is essential if sharing files (such as contact or accounting databases) between workstations is important.

Before a discussion of networking begins, it should be noted that there are two basic computer operating systems. The *operating system* is the software required to perform basic computer tasks. This software tells the computer hardware how to work. IBM and *IBM compatible computers* generally use a Microsoft Windows operating system – Windows 3.1, Windows 95, Windows 98 or Windows NT. The other commonly used operating system is that found in the *Apple Macintosh*, which uses the Mac Operating System or Mac OS – the latest version at this printing is 8.0. Network considerations will vary depending on whether the network will be all Windows or all Macintosh or will run cross-platform; meaning both systems will use the same network.

There are two basic types of networks: server-based and peer-to-peer. Server-based networks have one or more computers that are dedicated as a server. A *network server* is a central depository of shared applications and files and acts as a controller for the activities between the different devices on the network. The server generally has more memory and disk storage capacity and requires faster disk access capabilities than the rest of the computers on the network, making a server more expensive than the other computers. Server-based networks require each computer to have an appropriate network card, cabling to connect the network cards and a network hub or hubs to bring all of the computer cables together. It also requires network software, such as Windows NT or Novell to perform the network management tasks.

A *peer-to-peer network* has no network server. All computers cooperate with each other for the various networked resources. Peer-to-peer networks are the easiest and least costly to set up and are more commonly used with Macintosh than Windows networks. Peer-to-peer networks also require network cards, cabling, networking software and, maybe, network hubs. Much of what is needed for a peer-to-peer network, except for the cables, comes as standard equipment with most current computer configurations.

Peer-to-peer networks are limited in the number of computers and peripherals that can be connected together, although this limit continues to expand with new advances in technology. Some computer applications, like multi-user accounting and database systems and e-mail routers, require a network server and, therefore, a server-based network in order to operate.

A major consideration before setting up a network is the necessity that a specifically trained staff member has sufficient time in the work schedule to oversee network administration and troubleshooting. Depending on the size and complexity of the network, its administration could require a full-time position.

### Section C. Will the congregation's staff and volunteers be using the Internet, e-mail, web page or Internet browsing?

For a computer to connect to the Internet a modem, appropriate software and an *Internet service provider* (ISP)) are required. Most current computer configurations come equipped with a modem and Internet software. The computer user needs only to subscribe to an ISP for Internet services. The ISP is a computer's portal to the Internet and charges a monthly fee. An ISP is a huge network server that links to its various computer subscribers via modem or the Internet. The ISP provides memory storage space on its server to its subscribers for e-mail and web pages. It will also provide each subscriber with an address which others can use to leave messages on the subscriber's e-mail. Through the ISP a subscriber has access to all the home pages and services of the World Wide Web.

A congregation may want to exceed the usual Internet activities of an individual computer user. A congregation can negotiate an organizational contract with an ISP to receive group Internet-based services at a lesser cost. This generally involves obtaining a domain name. A *domain name* is an Internet name that becomes the Internet address for the congregation, such as `stjohns.org`, and may also be the congregation's web page address. The ISP will generally assist in obtaining a domain name, one that isn't already being used by another organization. The domain name should be short and easily associated with the congregation. Once it has been obtained, account names can be assigned to individuals on staff for routing e-mail, e.g. `johnjones@stjohns.org`.

If a congregation has a computer network, it may also want to consider connecting its network to the Internet. By using a network router modem and modem server, Internet access can be provided to all of the computers on the network without having to provide each computer with its own modem and phone line. In such a system the choice must be made whether to store e-mail messages on the ISP's server or the congregation's own network server. Storing e-mail on an office server is more efficient and secure for delivering e-mail within the office network. Storing e-mail on the ISP's server allows easier access by staff working outside of the office or by those wishing to access their e-mail when traveling out of town.

A congregation may want to set up a web page. A *web page* is a location on the Internet where people can access information and pictures that are posted there. A web page is an excellent tool for advertising a congregation and for disseminating information. A web site requires a host server, the location where the data that comprises the web page is stored. The host server can be an ISP or an office computer can be set aside to be the host server. Some other organization may provide host services on their server. The demands on computer and personnel resources generally prohibit locally housing a web page. Software for web site management will be required for those doing the web site design and support. The initial design and ongoing support of a web page requires a great deal of time. It is not uncommon to find members of a congregation who have some expertise in setting up web pages, particularly among the youth. Willing volunteers may be found to do some or all of this work. Web site design should not be taken lightly. The web site's appearance says a lot about a congregation to those who view it. People will form impressions about a congregation from its web site in much the same way they form impressions from the appearance of a church building. Members from all aspects of the congregation's life should be involved in the planning and design of the web page. Be sure to plan for ongoing web site maintenance. Constant attention should be given to a web site to ensure that information is current. This means dedicating a portion of a staff member's time to web page management and may involve hands-on web page work or the coordination of web page volunteers.

## Section D. What types of software are needed to do these tasks?

Choosing software, of course, depends on what tasks are required of the computer system and how those requirements relate to networking and Internet decisions. A lot of good software for word processing, spreadsheets, database management, e-mail, Internet browsing, networking, etc. will be received with a computer when it is purchased. If there are more complex needs in any area, more complex software packages will demand consideration.

Many knowledgeable individuals and companies are available to discuss various software products. Staff familiarity and prior experience with certain products often drive software decisions. This manual focuses briefly on accounting software because congregations have some unique needs in this area, the area that most directly relates to the overall purpose of this manual.

Computers save time by quickly and efficiently manipulating financial data. The advantage of the computer is that, once the information is entered, it can be analyzed and reported from a variety of perspectives. When selecting accounting software, the basic choice most congregations face is whether to use a simple off-the-shelf accounting product or to use accounting software designed specifically for nonprofit organizations or churches. More specialized software will offer features that address the special needs of a congregation and will be more costly.

Accounting software, whether designed for church or general accounting, should have one common feature: an audit trail. After information has been posted to accounts, if any change in data does *not* require an additional posting, the system is not a true computerized accounting system and "hard-copy" records must be kept. Accounting software should conform to all of the standards presented elsewhere in this manual. Other procedural considerations are found in Chapter II (Internal Controls).

Specialized church accounting software generally combines accounting, membership and contribution tracking, either in one software package or in separate packages (or modules) that work together. These packages can vary greatly in price. It is important to maintain current versions of your accounting software that not only add new features in subsequent upgrades but also repair old bugs. A congregation should include in its budget amounts for software updates and ongoing support.

Before considering what accounting software to purchase for a computer system, a congregation should be sure to have a complete and accurate understanding of its transaction processes. Areas that would benefit most from computer automation should be identified. Then a list of the unique and important features that are required from an accounting package should be developed. This list can be incorporated into a request for proposal (RFP) submitted to various software vendors. The responses received from these vendors can help in screening software choices. After narrowing the search, obtain demonstration software from the vendors or, better yet, ask them to come to the congregation to demonstrate its capabilities. References should be obtained from the vendors. They should be called for an opinion regarding the operation of the software.

Other considerations in software selection include the ability to convert existing data from another accounting system, the ability to interface with other components of the computer system, the availability of and access to product support, the cost of periodic software updates, and the quality and cost of training.

## Section E. What hardware will perform these tasks the best and at the most reasonable cost?

Once all of the above has been taken into consideration, hardware can be selected that will best provide what is needed. Some of the terminology associated with computer hardware is presented below.

- *Central Processing Unit (CPU):* Each personal computer has a single integrated circuit, or chip, that is the true computer, that performs all of the operations and calculations. The CPU is commonly referred to as the "processor." Improvements are made in processor technology daily. This is why people often say; "a computer is obsolete the day you buy it." The processor currently being sold in the IBM and compatible computers is the Pentium III. The speed of a processor is expressed in megahertz (abbreviated MHz) - the larger the number the faster the processing speed. If there is doubt about the processor speed needed, it is a good idea to work backwards from the software applications that will be used and the processing speed they will require. As a general rule, church work does not require the most powerful computers but it is advisable to get the best CPU that will efficiently run the intended software.

  In the Apple Macintosh (the "Mac"), the processor currently being sold is the G3 PowerPC. Again, consider the intended software to guide the system configuration.

- *Random Access Memory (RAM):* The working space of a computer is the Random Access Memory (RAM). This memory is temporary and is lost whenever power is turned off. RAM is where information must reside to be used by the CPU. Memory is expressed in megabytes (MB) and kilobytes (K). A byte is one character or number. A megabyte is one million bytes and a kilobyte is one thousand bytes. Most computers being sold currently contain 32 MB of RAM. Older computers with less memory can be upgraded by installing additional memory chips. Again, check intended software for system requirements and recommendations.

- *Mass Storage:* The files on a computer are stored on magnetic media. The most common information storage device is the *hard disk drive*. Most computers currently being sold contain a 4-gigabyte hard drive (1 gigabyte equals 1,000 MB). New versions of software, which are packed with more features, require more and more disk space. Most computers currently sold also include a *CD-ROM drive* with a 24x speed. Most software is now sold on CD-ROM disks; thus a CD-ROM drive is generally required for software installation. *Floppy disks (diskettes)* can be used for moving files from one computer to another or for backing up computer files. There are the standard 3.5-inch floppies, which hold 1.4 MB of information, and higher capacity floppies, like Zip disks, which hold 100 MB of information.

- *Monitors:* Color monitors now dominate personal computers. Larger monitors are generally preferred to display an adequate portion of a person's work. A 15 inch (measured diagonally) monitor is normal, but may people now opt for a 17-inch monitor. When choosing a monitor, it is best to consult with the person who will be using the computer most frequently, as sharpness is primarily a subjective measurement.

- *Printers:* Two types of printers are currently in common use: inkjet and laser. Inkjet printers use a matrix of tiny inkjets to form the characters. The laser printer produces an image by the same method as a plain paper copier. Both inkjet and laser printers can produce text and graphics. A laser printer produces near-typeset quality work. The inkjet printer image can smudge depending on the quality of the paper used. There are color versions of both inkjet and laser printers. Color printers are more costly and, unless you have a color copier, images can not be duplicated. Color documents can be very effective for some presentations of information. Dot matrix printers may still be in use at some congregations. They use a series of pins and an ink ribbon to form characters and are useful when impact printing is needed for carbon-copy forms. Most dot matrix printers have modes that perform multiple passes to provide near letter quality.

  A congregation should think about primary uses to determine its printer needs. Image quality should always be judged by the person responsible for the output. Generally, laser printers are the best choice, but they are more expensive, do not print envelopes well, and do not accept pin-feed "computer" forms or provide impact to make a carbon copy.

- *Magnetic Tape Backup:* Regular and systematic backup of data is essential to an effective computerized accounting system. Data can be backed up on floppy or zip disks, but requires more time and effort. A tape backup system, unattended and in a short time, can backup an entire hard disk.

# Appendix A: Forms

This appendix lists many forms commonly used by treasurers of congregations, and provides instructions for obtaining copies of them. Samples of some generic forms appear on the pages immediately following this Appendix.

**Internal Revenue Service**

| | |
|---|---|
| W-2 | Wage and Tax Statement |
| W-3 | Transmittal of Wage and Tax Statements |
| W-4 | Employee‘s Withholding Allowance Certificate |
| W-9 | Request for Taxpayer ID Number and Certification |
| 941 | Employer‘s Quarterly Federal Tax Return |
| 1096 | Annual Summary and Transmittal of U.S. Information Returns |
| 1099-MISC | Miscellaneous Income |
| 4782 | Employee Moving Expense Information |
| SS-4 | Application for Employer Identification Number |
| 8282 | Donee Information Return |
| 8283 | Noncash Charitable Contribution |

The forms listed above can be obtained from the following sources:

| | |
|---|---|
| Internet | The Internal Revenue Service‘s web site is at http://www.irs.gov. |
| Phone | Obtain forms, publications, instructions and tax information 24 hours a day, 7 days a week at (800) 829-3676. |
| Walk-in | Certain forms, instructions, and publications are available at most post offices, libraries, and IRS offices. Some libraries and IRS offices have extensive collections of products which can be printed off a CD-ROM or photocopied from reducible proofs. |
| CD-ROM | You can purchase a CD-ROM at the IRS web site through the website http://www.irs.gov/formspubs or over the phone by calling (877) CDFORMS. |

## U. S. Department of Justice Immigration and Naturalization Service

I-9 Employment Eligibility Verification

Copies of Form I-9 can be obtained from your local INS office or through the website http://www.forms.gov. You may order the forms in bulk from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402.

## Church Pension Group

Forms for clergy and lay employee pension, group health insurance, annuities, etc. can be obtained from the diocesan office or the Church Pension Group, 445 Fifth Avenue, New York, NY 10016, or by calling 1-800-223-6602.

## Sample Forms

Sample copies of the following forms appear on the pages following this Appendix:

Contribution Statement
Mileage and Transportation Expense Report
Petty Cash Reconciliation
Accounts Payable Check Request Voucher
Entertainment and Travel Expense Report
Factors indicating employer-employee relationship (IRS brochure on determining Independent Contractor or Employee Status)
Sample Resolution and Letter for Housing Allowance (for parishes who **do not** provide a residence for clergy)
Sample Resolution and Letter for Housing Allowance (for parishes who **do** provide a residence for clergy)
Housing Allowance Estimation Worksheet
Business Interruption Worksheet

# CONTRIBUTION STATEMENT

Congregation Name
Congregation Address
Telephone

| To: | |
|---|---|
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|---|---|---|---|
| Member number | | Page | |
| Envelope number | | Date | |

| Date of Contribution | Description | Amount |
|---|---|---|
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*Unless otherwise noted, the only goods or services provided are intangible religious benefits.*

# MILEAGE AND TRANSPORTATION EXPENSE REPORT

| Name | | | | |
|---|---|---|---|---|
| Date | Location To/From | Purpose of Travel | Toll/Parking | Miles |
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| | | **Total** | | |

**Summary**

| | |
|---|---|
| Total Tolls/Parking Fees | $ |
| Total Miles _________ x ________ per mile | $ |
| Total Due | $ |

# PETTY CASH RECONCILIATION

*NOTE: The sum of the Petty Cash Vouchers plus the Balance always equals the Imprest Amount of the Petty Cash Fund.*

| Date | Payee | Charge Account No. | Charge Amount | Replenish Amount | Balance |
|---|---|---|---|---|---|
| | | | | **Balance forward** | **$** |
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# ACCOUNTS PAYABLE
# CHECK REQUEST VOUCHER

**Payable to:** Name
Address

| |
|---|
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| Account Name | Account Number | Amount |
|---|---|---|
| | | |
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| | | |
| | **Check total** | $ |

| **Purpose(s):** |
|---|
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| **Date of Request:** | **Date Needed:** |
|---|---|

Requested by ______________________________

Approved by ______________________________
Designated representative

Approved by ______________________________
Treasurer

**PLEASE ATTACH DOCUMENTATION OF ALL EXPENDITURES.**

# ENTERTAINMENT AND TRAVEL EXPENSE REPORT

| | |
|---|---|
| Name | |
| Address | |
| | |
| | |

| | |
|---|---|
| Travel location(s) | |
| Purpose | |

| Date | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Weekday** | **Sun** | **Mon** | **Tues** | **Wed** | **Thurs** | **Fri** | **Sat** | **Total** |
| **TRANSPORTATION** | | | | | | | | |
| Auto: Number of miles | | | | | | | | |
| ___ miles x $0.___ per mile | | | | | | | | |
| Parking fees and tolls | | | | | | | | |
| Airfare | | | | | | | | |
| Car rental | | | | | | | | |
| Taxi, bus, limo | | | | | | | | |
| **LODGING** | | | | | | | | |
| Hotel, motel, etc. | | | | | | | | |
| **MEALS** | | | | | | | | |
| Breakfast | | | | | | | | |
| Lunch | | | | | | | | |
| Dinner | | | | | | | | |
| **INCIDENTALS** | | | | | | | | |
| Telephone/fax | | | | | | | | |
| Tips | | | | | | | | |
| Miscellaneous (list below) | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| **TOTAL PER DAY** | | | | | | | | |

## Detailed Entertainment Record

| Date | Person(s) entertained | Purpose | Location | Amount |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |

| Summary | |
|---|---|
| Total expenses | |
| Less travel advances | |
| | |
| Amount due employee | |
| Amount due congregation | |

## IRS Tax Publications

If you are not sure whether you are an employee or an independent contractor, get Form SS-8, *Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding*. Publication 15-A, *Employer's Supplemental Tax Guide*, provides additional information on independent contractor status.

## IRS Electronic Services

You may download and print IRS publications, forms, and other tax information materials on the Internet at www.irs.gov and you may call the IRS at 1-800-829-3676 (1-800-TAX-FORM) to order free tax publications and forms.

From a fax machine, dial (703) 368-9694 and you will immediately get a list of IRS tax forms faxed back to you. Follow the voice prompts to get specific forms faxed to you.

Publication 1796, *Federal Tax Products on CD-ROM*, of current and prior year tax publications and forms, can be purchased from the National Technical Information Service (NTIS). You may order Publication 1796 toll-free through the IRS at 1-877-233-6767 or via the Internet at www.irs.gov/cdorders.

Call 1-800-829-4933, the Business and Specialty Tax Line, if you have questions related to employment tax issues.


IRS

Department of the Treasury
**Internal Revenue Service**

www.irs.gov

Publication **1779** (Rev. 1-2005)
Catalog Number 16134L


# Independent Contractor

# or Employee . . .

# Independent Contractor or Employee

## *Which are you?*

*For federal tax purposes, this is an important distinction. Worker classification affects how you pay your federal income tax, social security and Medicare taxes, and how you file your tax return. Classification affects your eligibility for employer and social security and Medicare benefits and your tax responsibilities. If you aren't sure of your work status, you should find out **now**. This brochure can help you.*

The courts have considered many facts in deciding whether a worker is an **independent contractor** or an **employee**. These relevant facts fall into three main categories: *behavioral control; financial control;* and *relationship of the parties*. In each case, it is very important to consider all the facts – no single fact provides the answer. Carefully review the following definitions.

## Behavioral Control

These facts show whether there is a right to direct or control how the worker does the work. A worker is an employee when the business has the right to direct and control the worker. The business does not have to actually direct or control the way the work is done – as long as the employer has the right to direct and control the work. For example:

- **Instructions** – if you receive extensive instructions on how work is to be done, this suggests that you are an employee. Instructions can cover a wide range of topics, for example:
  - how, when, or where to do the work
  - what tools or equipment to use
  - what assistants to hire to help with the work
  - where to purchase supplies and services

  If you receive less extensive instructions about what should be done, but not how it should be done, you may be an **independent contractor**. For instance, instructions about time and place may be less important than directions on how the work is performed
- **Training** – if the business provides you with training about required procedures and methods, this indicates that the business wants the work done in a certain way, and this suggests that you may be an **employee**.

## Financial Control

These facts show whether there is a right to direct or control the business part of the work. For example:

- **Significant Investment** – if you have a significant investment in your work, you may be an **independent contractor**. While there is no precise dollar test, the investment must have substance. However, a significant investment is not necessary to be an **independent contractor**.
- **Expenses** – if you are not reimbursed for some or all business expenses, then you may be an **independent contractor**, especially if your unreimbursed business expenses are high.
- **Opportunity for Profit or Loss** – if you can realize a profit or incur a loss, this suggests that you are in business for yourself and that you may be an **independent contractor**.

## Relationship of the Parties

These are facts that illustrate how the business and the worker perceive their relationship. For example:

- Employee Benefits – if you receive benefits, such as insurance, pension, or paid leave, this is an indication that you may be an **employee**. If you do not receive benefits, however, you could be either an **employee** or an **independent contractor**.
- **Written Contracts** – a written contract may show what both you and the business intend. This may be very significant if it is difficult, if not impossible, to determine status based on other facts.

## When You Are an *Employee*

- Your employer must withhold income tax and your portion of social security and Medicare taxes. Also, your employer is responsible for paying social security, Medicare, and unemployment (FUTA) taxes on your wages. Your employer must give you a Form W-2, *Wage and Tax Statement*, showing the amount of taxes withheld from your pay.
- You may deduct unreimbursed employee business expenses on Schedule A of your income tax return, but only if you itemize deductions and they total more than two percent of your adjusted gross income.

## When You Are an *Independent Contractor*

- The business may be required to give you Form 1099-MISC, *Miscellaneous Income*, to report what it has paid to you.
- You are responsible for paying your own income tax and self-employment tax (Self-Employment Contributions Act – SECA). The business does not withhold taxes from your pay. You may need to make estimated tax payments during the year to cover your tax liabilities.
- You may deduct business expenses on Schedule C of your income tax return.

# SAMPLE RESOLUTION AND LETTER FOR HOUSING ALLOWANCE

**(Parish does not provide a residence for clergy)**

## Sample resolution

The vestry on the 20th day of December, 2006, after discussing the amount to be paid to the Rev. John Smith as a parsonage allowance, on motion duly made and seconded, adopted the following resolution:

Whereas the Rev. John Smith is employed as a minister of the Gospel of St. Swithin's Church, Atlanta, Georgia, which does not provide a residence for him, the vestry resolves that of the total compensation of $36,000 to be paid to the Rev. John Smith during 2000, that $15,000 be designated as parsonage allowance within the meaning of that term as used in Section 107 of the IRS Code of 1986.

## Sample letter to cleric

This is to advise that at a meeting of the vestry held on the 20th day of December, 1999, your parsonage allowance for the year 2000 was officially designated and fixed as follows:

The vestry resolves that of the total compensation of $36,000 to be paid to you during 2000, that $15,000 be designated as parsonage allowance within the meaning of that term as used in Section 107 of the IRS Code of 1986.

Under Section 107 of the Internal Revenue Codes, an ordained minister of the gospel is allowed to exclude from gross income the parsonage allowance paid to him (her) as part of his (her) compensation to the extent used by him (her) to provide a home.

The amount of money excluded from federal income tax is the lowest of the following amounts:

1. Fair rental value of the house, furnished, plus utilities.
2. Actual cash spent.
3. Amount specified in the vestry minutes before the money is paid.

You should keep an accurate record of your expenditures to rent or provide a home to be able to substantiate any amounts excluded from gross income in filing your federal income tax return.

## Sample letter from realtor

I have visited the house at 123 Main Street, Atlanta, Georgia, on December 1, 1999, and believe that the fair rental value of the house furnished as it has been furnished by the Rev. John Smith is about $18,000 per year.

(Signed) Jane Doe, Realtor

# SAMPLE RESOLUTION AND LETTER FOR HOUSING ALLOWANCE

**(Parish provides a residence for clergy)**

## Sample resolution

The vestry on the 20th day of December, 1999, after discussing the amount to be paid to the Rev. Jane Smith as a parsonage allowance, on motion duly made and seconded, adopted the following resolution:

**Whereas** the Rev. Jane Smith is employed as a minister of the Gospel of St. Swithin's Church, Atlanta, Georgia, which although providing a residence for her does not provide the full cost of maintaining and furnishing such a residence, the vestry resolves that of the total compensation of $36,000 to be paid to the Rev. Jane Smith during 2000, that $5,000 be designated as parsonage allowance within the meaning of that term as used in Section 107 of the IRS Code of 1986.

## Sample letter to cleric

This is to advise that at a meeting of the vestry held on the 20th day of December, 1999, your parsonage allowance for the year 2000 was officially designated and fixed as follows:

Although it provides the rent-free use of a home to you, the parish does not provide the full cost of maintaining and furnishing such a residence; therefore the vestry resolves that of the total compensation of $36,000 to be paid to you during 2000, that $5,000 be designated as parsonage allowance within the meaning of that term as used in Section 107 of the IRS Code of 1986.

Under Section 107 of the Internal Revenue Codes, an ordained minister of the gospel is allowed to exclude from gross income the parsonage allowance paid to him (her) as part of his (her) compensation to the extent used by him (her) to provide a home.

The amount of money excluded from federal income tax is the lowest of the following amounts:

1. The fair rental value of the house, furnished, plus utilities, less the fair rental value of the house, unfurnished, without utilities provided.
2. Actual cash spent.
3. Amount specified in the vestry minutes before the money is paid.

You should keep an accurate record of your expenditures to rent or provide a home to be able to substantiate any amounts excluded from gross income in filing your federal income tax return.

## Sample letter from realtor

I have visited the house owned by St. Swithin's Church at 123 Main Street, Atlanta, Georgia, on December 1, 1999, and believe that the fair rental value and utilities provided by the church is $14,000 per year, and that the furnishings increase the fair rental value by $3,000.

(Signed) Jane Doe, Realtor

# HOUSING ALLOWANCE ESTIMATION WORKSHEET

The following amounts are estimates of costs I expect to pay during (year) to provide a home for myself (and family):

Signed                                        Date

| Clergy who own their home | |
|---|---|
| **Category of expense** | **Est. amount (year)** |
| Down payment on a home | |
| Mortgage payments on a loan to purchase or improve a home (include both principal and interest) | |
| Real estate taxes | |
| Property insurance | |
| Utilities (electricity, gas, water, trash pickup, local phone charges) | |
| Furnishings and appliances (purchase and repair) | |
| Structural repairs and remodeling | |
| Yard maintenance and improvements | |
| Maintenance items (household cleansers, light bulbs, pest control, etc.) | |
| Homeowner's association dues | |
| Miscellaneous | |
| **Total estimated expenses for (year)** | |

| Clergy who rent their home | |
|---|---|
| **Category of expense** | **Est. amount (year)** |
| Rental payments | |
| Property insurance | |
| Utilities (electricity, gas, water, trash pickup, local phone charges) | |
| Furnishings and appliances (purchase and repair) | |
| Structural repairs and remodeling | |
| Yard maintenance and improvements | |
| Maintenance items (household cleansers, light bulbs, pest control, etc.) | |
| Miscellaneous | |
| **Total estimated expenses for (year)** | |

| Clergy who live in a church-owned parsonage | |
|---|---|
| **Category of expense** | **Est. amount (year)** |
| Property insurance | |
| Utilities (electricity, gas, water, trash pickup, local phone charges) | |
| Furnishings and appliances (purchase and repair) | |
| Structural repairs and remodeling | |
| Yard maintenance and improvements | |
| Maintenance items (household cleansers, light bulbs, pest control, etc.) | |
| Miscellaneous | |
| **Total estimated expenses for (year)** | |

# BUSINESS INTERRUPTION WORKSHEET FOR EPISCOPAL ENTITIES

| | | |
|---|---|---|
| 1 | *Revenue* | |
| 2 | Total Operating Income | |
| 3 | Total Non-Operating Income | |
| **4** | **Total Revenue (Line 2 + Line 3)** | |

| | | |
|---|---|---|
| 5 | *Expense* | |
| 6 | Total Operating Expenses | |
| 7 | Total Non-Operating Expenses | |
| 8 | **Total Expenses (Line 6 + Line 7)** | |
| **9** | **Net Income or Loss (Line 4 – Line 8)** | |

| | | |
|---|---|---|
| 10 | *Continuing Expenses (i.e., all expenses that would not abate in event of damage to your property)* | |
| 11 | Payroll expenses | |
| 12 | Taxes | |
| 13 | Interest | |
| 14 | Rents | |
| 15 | Program expenses | |
| 16 | All other operating expenses incurred by the entity | |
| **17** | **Total Continuing Expenses (Sum of Lines 11-16)** | |

| | | |
|---|---|---|
| **18** | **Net Income/Loss Plus continuing Expenses (Line 9 + Line 17)** | |
| **19** | **Worst-case Duration of Operational Interruption (in Months)** | |
| **20** | **Insurable Earnings Exposure (Line 18 ÷ Line 19)** | |

Courtesy of Willis Group, 2007

# APPENDIX B: GLOSSARY

| | |
|---|---|
| *Accrual basis of accounting* | The method of accounting which recognizes and records income when it is earned and recognizes and records expenses when they are incurred. |
| *Accrued expenses* | Expenses for the current period that have been incurred but are unpaid. |
| *Auditor's report* | Medium used by auditors to express or disclaim their opinion regarding the fairness, consistency, and conformity with accepted accounting principles of financial statements prepared by a diocese, congregation, or institution of the Church. |
| *Agency funds* | See *Custodian funds.* |
| *American Institute of Certified Public Accountants (AICPA)* | The professional association of certified public accountants which establishes standards for conduct and is the authoritative body for standards of performance of compilations, reviews and audits. The organization provides guidance on the application of generally accepted accounting principals. |
| *Annuity* | A contract that provides an income for a specified period of time, such as a number of years or for life. |
| *Assets* | The accounts on an organization's Statement of Financial Position that represent the economic resources owned. |
| *Audit* | An examination of the financial statements of an organization by an independent auditor, the purpose of which is to express an opinion on whether the statements as a whole have been properly prepared within a framework of recognized accounting policies and that they present fairly the financial position and results of operations for the period then ended. See *Compilation* and *Review.* |
| *Blanket insurance coverage* | Used to designate insurance that extends to more than one location, or one class of property or to one employee. |
| *Bond* | Insurance where a third party guarantees the performance of an agreement. |
| *Capitalization of assets* | Recognition of the cost or appraised value of certain assets, e.g., real estate, buildings, historical treasures, and art collections, as assets on the balance sheet. |
| *Cash basis of accounting* | The method of accounting which recognizes and records income when it is received and recognizes and records expenses when they are paid. |
| *Chart of accounts* | A listing of all of the accounts with a number attached to each one, which is clearly defined as to the type of account; asset, liability, revenue, expense or fund balance. The accounts are used to record transactions in the ledger. |

| | |
|---|---|
| *Coinsurance* | A provision in an insurance policy requiring a specified amount of coverage or a certain minimum percentage of the value of the property to be the insured value. |
| *Compilation* | A technical term used by Certified Public Accountants to express an opinion of no assurance on the financial statements of an organization. It is limited to presenting in the form of financial statements information that is the representation of the organization and no audit or review procedures have been accomplished. See *Audit* and *Review* |
| *Comprehensive general liability* | A business liability insurance policy that covers a variety of exposures in a single contract or policy. |
| *Custodian funds* | Funds received and held by an organization as fiscal agent for others. |
| *Deductible* | A provision in an insurance policy whereby the insured may be required to pay a portion of the loss, with the insurance covering the amount in excess of that portion. |
| *Deferred income* | A liability resulting when cash or pledges are received prior to the period when they will be earned. |
| *Defined benefit plan* | A retirement plan in which the benefit is defined and the cost of the plan is determined as an amount necessary to provide the stated benefits. |
| *Defined contribution plan* | A retirement plan in which the contribution or cost is stated and the benefits to be paid are determined by how much the contributions and earnings have accumulated. |
| *Designated funds* | Unrestricted funds set aside for specific purposes by action of the governing board. Such action may be reversed or modified at any time. See *Unrestricted assets*. |
| *Double entry accounting* | A method of recording a transaction by using two offsetting entries. These offsetting entries are called a debit and a credit. At all times the total amount of debits must equal the total amount of credits. Thus, the books are said to be in balance. |
| *Endorsement* | A written agreement effecting the terms and/or coverage of the insurance policy. |
| *Endowment fund* | A fund in which it is stipulated that the principal of the fund is to be maintained inviolate, in perpetuity, and only the income from the investment of the fund may be expended. The income may or may not be restricted as to its use. |
| *Expendable funds* | Funds that are available to finance an organization's program and supporting services, including both unrestricted and restricted amounts. |

| | |
|---|---|
| *Extended coverage insurance* | Coverage against loss or damage from windstorm, hail, smoke, explosion, civil commotion, vehicle, or aircraft that is provided in conjunction with a fire insurance policy. |
| *Fidelity bond* | Insurance protecting against a loss from the dishonesty or negligence of employees. |
| *Fiduciary* | A person or corporation having the duty to act for another's benefit handling the business, money, or property for another and not his own benefit. |
| *Financial Accounting Standards Board (FASB)* | The authoritative body charged with the promulgation of accounting principals and standards. |
| *Fund* | An accounting entity established in order to account for the resources used for specific activities or objectives in accordance with special regulations, restrictions, or limitations. |
| *General ledger* | Ledger providing for the classification and summarization of data according to account groups: assets, liabilities, fund balance, revenues, and expenses. |
| *General liability insurance* | Coverage for a liability to the public other than from automobiles or injuries to employees. |
| *Generally accepted accounting principles (GAAP)* | A collection of numerous rules, conventions, and doctrines having substantial authoritative support from the American Institute of Certified Public Accountants. |
| *Generally accepted auditing standards (GAAS)* | A group of comprehensive authoritative statements on auditing procedures and standards adopted by the membership of the American Institute of Certified Public Accountants. |
| *Imprest fund* | A fund that maintains a stated balance and is periodically reimbursed for any expenditure made from that fund, e.g., a petty cash fund. |
| *Independent auditor* | A Certified Public Accountant from outside the organization who examines the financial statements with the intention of expressing an opinion on them. A properly constituted and independent audit committee as authorized by the Canons of the Church may fulfill this function. |
| *Internal controls* | The accounting and administrative policies and procedures designed to safeguard assets, promote operational efficiency, encourage adherence to organizational policies and ensure accurate and reliable accounting records. |
| *Liabilities* | The accounts on an organization's Statement of Financial Position which represent obligations to outsiders. |
| *Limits* | The value or amount of an insurance policy. The greatest amount that can be collected under the policy. |

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| *Net Assets* | Assets minus liabilities. The Net Assets are increased by revenues and decreased by expenses. Transfers into a fund will increase the fund balance; transfers out of a fund will decrease it. The Net Assets are equivalent to the retained earnings accounts for a commercial company. |
| *No fault insurance* | Usually in reference to automobile insurance where the injured party must collect from his/her own insurance company. |
| *Operating budget* | The organization's plan for the receipt of funds and how those funds are to be expended, usually for a period of one fiscal year. |
| *Operating funds* | Those funds designated by the organization to carry out the budgeted operations. |
| *Petty cash* | A small cash fund for the payment of incidental expenses, maintained on an imprest, or fixed balance, and is replenished when depleted. |
| *Qualified opinion* | A modification of the auditor's standard report which becomes necessary because of limitations in scope (if the auditor has been unable to perform all necessary auditing procedures required for a qualified opinion), or departures from generally accepted accounting procedures (GAAP) leading to material inconsistencies. In either situation, an explanatory paragraph describing the scope limitation or departure from GAAP must precede the opinion paragraph. See *Unqualified opinion.* |
| *Restricted Assets* | Funds whose use of the principal or investment income is restricted by outside agencies or persons as contrasted with funds over which the organization has complete control and discretion. |
| *Revenues* | Inflow of assets from three basic types of activities including (1) public support, i.e., contributions, (2) revenue from sale of goods and services, including membership, and (3) investments. |
| *Review* | A review is a technical term used by Certified Public Accountants to express an opinion on the financial statements with a lower level of assurance than an audit. It consists principally of inquiries of personnel and analytical procedures applied to the financial data. See *Audit* and *Compilation.* |
| *Rider* | See *Endorsement.* |
| *Special purpose fund* | See *Designated funds.* |
| *Statement of Activities* | Financial statement that presents the results of operations of the organization by summarizing the revenues and expenses. Previously referred to as the "Income Statement". |
| *Statement of Cash Flow* | Financial statement that reports cash flows from operating, investing, and financing activities. Articulates the change in Cash and Cash Equivalents to the Statement of Financial Position. |

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| *Statement of Financial Position* | Financial statement that summarizes the organization's assets, liabilities, and net assets. Previously referred to as the "Balance Sheet". |
| *Tax exempt status* | The provisions of the Internal Revenue Code provide for certain types of organizations whose income received is exempt from taxation. An organization may be "tax exempt" and have income subject to taxes if the income is not related to the exempt purpose of the organization. |
| *Tax sheltered annuity* | A retirement plan provided for in the Internal Revenue Code, Section 403(b), whereby the cost of an annuity is funded through a salary reduction agreement and not subject to income taxation until the funds are distributed. |
| *Temporary Assets* | Assets that have all the characteristics of a restricted asset, except that at some future date or on the occurrence of an event it will no longer be required to be maintained as a restricted net asset. |
| *Transfer* | Moving of assets from one fund to another, usually as a result of an intended change in the use of assets. |
| *Trial balance* | Listing of all accounts in the general ledger and their respective account balances. |
| *Umbrella liability insurance* | An insurance policy that will protect corporations and individuals against claims in excess of the limits of their primary insurance policies or for claims not covered under their insurance program. |
| *Unqualified opinion* | The opinion expressed by the independent certified public accountant subsequent to the audit examination, indicating that the financial position, as stated, is fairly stated in conformity with generally accepted accounting principles applied on a basis consistent with the preceding year. See *Qualified opinion.* |
| *Unrestricted assets* | Funds that have no external restriction on their use or purpose. These funds can be used for any purpose designated by the governing board as distinguished from funds restricted externally for specific purposes. |
| *Unrelated business income* | The gross income derived by a tax-exempt organization from any trade or business the conduct of which is not substantially related to the exercise or performance by such an organization of its charitable purpose or function constituting the basis for its tax exemption. |
| *Workers compensation* | Insurance coverage for the cost of medical care and other payments to injured employees. Workers compensation insurance is mandatory in most states. |

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