

THE  
*Episcopal*  
CHURCH



Manual of Business Methods  
in Church Affairs

*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”*

(Updated periodically as indicated at the end of each Chapter)

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

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(212) 716-6075

## 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,

A handwritten signature in black ink, appearing to read "N. Kurt Barnes".

N. Kurt Barnes, Treasurer

## ACKNOWLEDGEMENTS

Contributors to the revision of this are listed below. This work could not possibly have been completed without their professional gifts and commitment to the ministries of the Church. We acknowledge them and thank them for their work.

### VOLUNTEER CONTRIBUTORS

David Booth Beers  
*Chancellor to the Presiding Bishop*

Mr. Scott Konrad  
*Diocese of Connecticut*

### EPISCOPAL CHURCH CONTRIBUTORS

Mr. N. Kurt Barnes  
*Treasurer*

Mr. Alpha Conteh  
*Controller*

Mark J. Duffy  
*Canonical Archivist*

Dr. C. Kirk Hadaway  
*Director of Research*

### DFMS FINANCE OFFICE CONTACTS

Mr. Alpha Conteh  
*Controller*

Mrs. June Victor  
*Assistant to the Treasurer*

Ms. Sheila Golden  
*Administrative Assistant to the Treasurer*

# MANUAL OF BUSINESS METHODS IN CHURCH AFFAIRS

## TABLE OF CONTENTS

**Introduction: General Information** 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.

**Chapter I: Financial Management** 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.

**Chapter II: Internal Controls** 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.

**Chapter III: Bookkeeping** 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, Section 1(i), which are included in the Introduction of this manual.

**Chapter IV: Taxes and the Episcopal Church** 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.

**Chapter V: Clergy Discretionary Funds** 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.

**Chapter VI: Audit Guidelines for Congregations** 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. 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.

**Chapter VII: Insurance** Responsible stewardship demands protection of the Church's people and property from certain risks. Title I, Canon 7 (6), states – "All buildings and their contents shall be kept adequately insured", and Title I, Canon 7 (3), states – "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."

**Chapter VIII: Parochial Reports** 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.

**Chapter IX: Records Management** 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.

## **Appendix**

**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.

**Appendix B: Glossary**

# INTRODUCTION: GENERAL INFORMATION

## CHAPTER CONTENTS

Introduction.....	i-1
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”.....	i-2
Section B. Uniform Business Methods and Accounting Principles.....	i-4
Section C. Introduction to Fund Accounting .....	i-6
Section D. Calendar of Important Due Dates.....	i-7

### 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 of the best 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 assist 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 (as of July 2009) 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.

Compliance with these FASB statements 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

Updated as of February 2012

# CHAPTER I: FINANCIAL MANAGEMENT

## CHAPTER CONTENTS

<i>Introduction.....</i>	<i>I-1</i>
<i>Section A. Budget Methods.....</i>	<i>I-1</i>
<i>Section B. Budget Process.....</i>	<i>I-2</i>
<i>Section C. Budget Implementation and Review.....</i>	<i>I-3</i>
<i>Section D. Capital Budgeting.....</i>	<i>I-4</i>
<i>Section E. Cash Management.....</i>	<i>I-4</i>
<i>Section F. Long-Term Financing.....</i>	<i>I-5</i>
<i>Section G. Investment Management.....</i>	<i>I-5</i>

### **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.

#### Incremental Budgeting

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.

#### Program Budgeting

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 previously. 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 budget. An advantage of a contingency budget is that it may encourage managers not to exaggerate their budgets and may discourage the ‘use it or lose 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 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 and provided with necessary resources.

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 require 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, a summary page or chart, a 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**

If possible, 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 incorporated 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 plan should include a 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 or a restricted endowment or savings account 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, 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**

### Short-term Needs

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.

### Longer-term Needs

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 the 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?

These considerations are discussed further in the Investment Policy Statement developed for the management of the endowment assets of the Domestic and Foreign Missionary Society. The IPS is available at [http://archive.episcopalchurch.org/documents/Investment\\_Policy\\_Statement\\_052511.pdf](http://archive.episcopalchurch.org/documents/Investment_Policy_Statement_052511.pdf).

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, at no cost, in the Society's Endowment Portfolio. The procedures for co-investing are available at <http://archive.episcopalchurch.org/documents/CustodialTrustSOPs.pdf>.

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

<i>Section A. Introduction</i> .....	<i>II-3</i>
<i>Section B. Electronic Banking</i> .....	<i>II-3</i>
<i>Policy and Procedures</i> .....	<i>II-3</i>
<i>Segregation of Duties</i> .....	<i>II-3</i>
<i>Electronic or Wire Transfers</i> .....	<i>II-3</i>
<i>Safeguards</i> .....	<i>II-3</i>
<i>Monitoring</i> .....	<i>II-4</i>
<i>Electronic Payments</i> .....	<i>II-4</i>
<i>Electronic Check Images</i> .....	<i>II-4</i>
<i>Provider Responsibilities</i> .....	<i>II-4</i>
<i>Section C. Internal Control Concepts &amp; Considerations</i> .....	<i>II-4</i>
<i>Segregation of Duties</i> .....	<i>II-4</i>
<i>Authority Levels</i> .....	<i>II-5</i>
<i>Documentation &amp; Record Keeping Standards</i> .....	<i>II-6</i>
<i>Independent Reviews</i> .....	<i>II-6</i>
<i>Cash</i> .....	<i>II-7</i>
<i>Reconciliation &amp; Verification</i> .....	<i>II-7</i>
<i>Payroll</i> .....	<i>II-7</i>
<i>Personnel</i> .....	<i>II-8</i>
<i>Procurement</i> .....	<i>II-8</i>
<i>Advances</i> .....	<i>II-3</i>
<i>Telephones</i> .....	<i>II-10</i>
<i>Section D. Internal Control Questionnaire</i> .....	<i>II-10</i>
<i>General</i> .....	<i>II-10</i>
<i>Budget</i> .....	<i>II-11</i>
<i>Reporting</i> .....	<i>II-11</i>
<i>Cash Receipts</i> .....	<i>II-11</i>
<i>Cash Disbursements</i> .....	<i>II-12</i>
<i>Journal Entries</i> .....	<i>II-13</i>

<i>Bank Account Reconciliation</i> .....	II-13
<i>Petty Cash</i> .....	II-15
<i>Investments</i> .....	II-14
<i>Property and Equipment</i> .....	II-14
<i>Insurance</i> .....	II-14
<i>Liabilities and Other Debt</i> .....	II-15
<i>Restricted Gifts and Other Income</i> .....	II-15
<i>Payroll</i> .....	II-15
<i>Computer Systems</i> .....	II-16

## **Section A. 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.

It is important to emphasize that 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 that meet the following objectives:

1. Adequately safeguard the cash, property and other assets of the office.
2. Ensure that all financial transactions are appropriately documented and approved by authorized staff.
3. Funds are expended in accordance with donor requirements and limits.
4. Ensure that financial reporting is accurate, timely and conforms to policies.

The overriding objective of all controls is to cost-effectively reduce the risk of loss or misuse of funds or property to a tolerable level. Obviously, not all of the controls will be applicable to or cost-effective for all types of operations. We encourage the appropriate consultation whenever there is a feeling that certain controls may not be cost-effective for their particular operations.

## Section B. Electronic Banking

Electronic banking provides a faster, easier, and more efficient substitute for paper processing and recording of receipts and disbursements. Electronic banking uses computer and electronic technology to streamline the processing and recording of receipts and disbursements, while reducing the cost of processing these transactions. Banking can be done without leaving the office, generally at any time of the day, and often you can see up-to-the-minute balances and recorded transactions. Receipts, disbursements and transfers in most circumstances can be processed via electronic funds transfer (EFT) services, whether transferring funds from a savings to a checking account at the same bank, or making a payment to a vendor's bank across the country. **Traditional internal controls, such as written policies and procedures, authorizations, segregation of duties and monitoring, however, are still important when using electronic banking.**

### Policy and Procedures

Before you begin processing transactions electronically, you should have detailed policy and procedures in place that specify online banking activities and electronic funds transactions in which your organization is authorized to engage. The policy should include the following:

- What online banking and EFT activities will be used
- Who is authorized to initiate electronic transactions
- Who will approve electronic transactions
- Who will transmit electronic transactions
- Who will record electronic transactions
- Who will review and reconcile electronic transactions.

This policy must be consistent with the statutory and other legal responsibilities of the officers and employees involved.

### Segregation of Duties

Classic internal controls, if well designed, all work well with EFT technologies. Proper segregation of duties is important in almost any business function, but is critical for electronic transactions. Without proper segregation of duties, the risk increases that one person could be in a position both to commit a wrongdoing and to conceal it. At least two individuals should be involved in each electronic transaction. The authorization and transmitting functions should be segregated and, if possible, the recording function should also be delegated to someone who does not have either approval or transmitting duties. Generally, the same controls should be used for electronic disbursements through online banking as apply to the manual preparation of checks. Payments made using electronic funds transfer services cannot circumvent laws, regulations, and/or your internal control policies.

### Electronic or Wire Transfers

Electronic or wire transfers are transfers of funds, which are usually effective within minutes of being executed. Wire transfers are usually more costly than other electronic methods of making disbursements, and are therefore most commonly used for large-dollar settlements. Other types of electronic transfers should be used for small-dollar or repetitive transactions, such as vendor or grant payments, because they are less costly but still efficient.

### Safeguards

Some banks offer electronic or wire transfer capability in their online banking programs, allowing you to input the required information and initiate, authorize and transmit wire transfers in-house without outside assistance from

your depository. Access to in-house electronic or wire transfer software should be controlled and its use should be authorized and monitored frequently due to the ease with which transfers can be made. Safeguards for initiating an electronic or wire transfer include phoning the bank and using a password to authorize the transfer verbally, hand delivering a letter of authorization to the bank with the transfer instructions, or sending a fax with the authorized signature and password.

Before your organization opts to disburse funds by electronic or wire transfer, the governing board is required to enter into a written agreement with the bank or trust company in which your funds have been deposited, including implementation of a security procedure. You should have a callback provision in your electronic or wire instructions that requires the bank to call someone other than the person initiating the transaction to confirm the appropriateness of the transfer. You can also establish additional controls (e.g., a policy that does not allow the bank to initiate wire transfers out of the country).

### **Monitoring**

Your internal control system must include procedures or safeguards for the documentation and reporting of all transfers and disbursements of funds by electronic or wire transfer. In addition, the bank or trust company must provide the officer requesting the transfer with written confirmation of the transaction no later than the business day after the day on which the funds were transmitted.

### **Electronic Payments**

Local governments are authorized to accept a variety of payments through their municipal website as well as by credit card. Another toolbox in this series, entitled *Reviewing Your Revenue Collection Process*, covers this topic in detail, including use of the State's Electronic Value Transfer Program.

### **Electronic Check Images**

Most banks no longer provide cancelled paper checks to their customers, but instead offer electronic check images online or on CD. You may accept these electronic images in lieu of cancelled checks, upon authorization by your governing board.

### **Provider Responsibilities**

Although customer protection and privacy regulations vary between jurisdictions, banks generally have a clear responsibility to provide their customers with a level of comfort regarding information disclosures, protection of customer data and business availability that approaches the level they can expect when using traditional banking distribution channels. To minimize legal and reputational risk associated with e-banking activities, banks should make adequate disclosure of information on their web sites and take appropriate measures to ensure adherence to customer privacy requirements applicable in the jurisdictions to which the bank is providing e-banking services.

E-banking services must be delivered on a consistent and timely basis in accordance with customer expectations for constant and rapid availability and potentially high transaction demand. A bank must have the ability to deliver e-banking services to all users and be able to maintain such availability in all circumstances. Effective incident response mechanisms are critical to minimize operational, legal and reputational risks that may arise from unexpected events, including internal and external attacks that may affect the provision of e-banking systems and services. The bank should also have effective capacity, business continuity and contingency plans, including communication strategies that reassure its customers.

## **Section C. Internal Control Concepts & Considerations**

### **Segregation of Duties**

Essential to the control system is the concept of segregation of duties. Every financial transaction involves five steps.

1. Request                    i.e., request to purchase
2. Approval                    i.e., authorized personnel approve request

- 3. Authorization      i.e., approval to purchase, issuance of purchase order
- 4. Execution          i.e., purchasing, receiving and payment
- 5. Recording          i.e., accounting

No one person should handle all aspects of a single transaction. For each transaction the responsibility for authorization, accounting for and custody of the related assets must be separated.

- 1) The custody of assets must be separated from the responsibility for accounting for these assets. For example:
  - a) The person who maintains the inventory records should not also be receiving or issuing goods.
  - b) Someone who does not have access to or responsibility for payroll accounting should perform the distribution of payroll checks or cash.
  - c) A Cashier should not have responsibility for recording or entering the accounting entries in the ledger.
- 2) The authorization of transactions must be separated from the custody of related assets. For example;
  - a) The warehouse staff distributing goods should not also be able to approve the distribution of goods.
  - b) Cashiers cannot be authorized to approve cash disbursements.
  - c) Program staff approving purchase of supplies may not also keep the program supplies inventory.
- 3) The authorization of transactions must be separated from the accounting for the transactions. For example:
  - a) Check signers should not also be authorized to approve accounting transactions.
  - b) Staff authorized to hire employees or temporary labor should not be able to approve the payroll accounting entries
- 4) For procurement activities particular attention must be paid to separating the authority for the selection of vendors, bidding process and approval of the final supplier. For example:
  - a) The person responsible for maintaining the vendor list should not authorize the final selection of a supplier.
  - b) The person soliciting bids cannot be responsible for maintaining the vendor list.

### **Authority Levels**

Control systems can only function effectively when all employees know who within the organization has the responsibility and authority to initiate or approve expenditures or the use of other assets. These responsibilities and authority levels must be specifically defined and structured to reflect the knowledge and responsibility levels of the various positions within the organization structure.

Employees assigned the authority to approve and/or authorize commitments or expenditures must:

- 1. Be given written notification of their authority levels and limits. (This may be included in their job description)
- 2. Be fully conversant with the required procedures and documentation that is required before approval can be given to commitments or expenditures

### Authorization List(s)

- 1. An Authorization List(s) should be prepared and maintained.
- 2. Reasonable dollar limits must be established based on employee level, for authorizing requisitions.
- 3. This list describes the position category (manager, coordinator, etc.), dollar amounts of authority by



type of transaction (Purchase Request, Financial Commitments, Payment/Disbursement, and Accounting Transaction).

4. This list should be reviewed and officially authorized. An appropriate employee, typically in the Finance department, should maintain this list.
5. Changes to the list should be formally documented in a form which describes the authority change, the reason(s) why, and the name and signature of the employee's supervisor.
6. A sufficiently high-level employee, who indicates his or her approval by signing the next version of the list, should approve all changes.
7. The approved authorization list(s) should be displayed, at least in the finance department, to ensure all staff are aware of the required approvals and authorized signatories.

### Payments & Cash Disbursements

In addition to authority levels for commitments, each organization needs to assign authority levels for payments/cash disbursements. It must be emphasized that approving the payment of a commitment involves ensuring that either the required goods, or service, have been received and that all supporting documentation had been presented.

### Accounting Transactions

It is important to recognize that the finance staff should not be able to authorize the transactions they are responsible for recording. This is a basic requirement under segregation of duties.

### **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. An appropriate filing system &/or storage system for historical records needs to be in place to ensure the required documents can be located when required.

To maintain uniform standards of documentation and record keeping, systematic procedures need to be in place that incorporate standard forms, approval processes and accounting procedures. An up-to-date policy and procedures manual, which clearly specifies these procedures, is essential in maintaining adequate documentation and record keeping.

### **Independent Reviews**

The previous control features are all used in day-to-day processing of activities and accounting. However, regardless of how good a system is, errors will be made and circumstances will change that should require changes in the control system.

To ensure timely identification of errors and the need for changes to the system, procedures need to be in place that ensure periodic independent reviews are performed. 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.
- Annual performance evaluations should be required for all staff, utilizing a standard format and review process.

On an annual basis, a formal review of the controls in place, authority levels and procedure manuals should be implemented.

### **Cash**

Cash is the most liquid of assets, and is therefore most likely to be misappropriated. For this reason, establishing basic internal controls over cash receipt, maintenance of cash and cash disbursement is critical.

Risks with cash are:

1. Theft or loss of cash.
2. Disbursement of cash without proper document or authorization.
3. Incorrect charging of receipts/disbursements, (incorrect source codes or accounts).

### **Reconciliations & Verification**

Standard reconciliation's and independent verification are essential to maintaining the integrity of control over cash.

Physical Cash (petty cash and cash-in-office)

- Cash is counted, at least weekly, by the cashier and balanced to the ledger or cashbook balance.
- Cash is counted by the cashier's supervisor at least bi-monthly and balanced to the ledger or cashbook balance.
- Other management staff conduct surprise cash counts on a regular basis.
- All cash counts must be documented and put on file for verification.

Procedures are in place to ensure an independent person verifies that all Official Receipts, blank checks, and Disbursement Vouchers are accounted.

### **Payroll**

The major risks associated with payroll are:

1. Overpayment to legitimate employees
2. Payment of fictitious persons
3. Failure to recover advances
4. Misappropriation of payroll funds
5. Under or over withholding taxes

### Required Forms

In order to avoid confusion or misunderstanding among staff members about salaries and benefits, it is essential that all payroll related activities be clearly and consistently documented. This type of documentation is also key to good internal control over the payroll process.

The following types of 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. The hiring or retention of dishonest or incompetent staff is a major cause of the loss or misuse of assets.

- Hiring procedures need to be focused on ensuring that staff are hired on an unbiased basis, so that candidates are selected based on qualifications and experience and conflicts of interest are avoided or minimized.
- A standard performance evaluation process will recognize good performance but it must also identify under performing staff and ensure that the required corrective action is taken to improve performance or remove the employee.
- Employees can only fulfill the requirements of their position if these requirements are clearly communicated. Every employee must have an up-to-date job description, which clearly states his or her duties and responsibilities.

### **Procurement**

Management of procurement should be a top priority of management.

The major risks associated with procurement are that:

1. The wrong items are purchased;
2. The correct items are purchased but at a price that is higher than necessary (either through error or through improper dealings with vendors);
3. Items of inferior quality are purchased;
4. Purchases are made without sufficient budgeted funds;
5. Purchases are not in compliance with donor regulations or terms of the grant agreements.

### Required Forms

All organizations should have the following types of forms for use in procurement

- Purchase Requisition
- Standard Bid Request
- Bid Summary Worksheet
- Purchase Order
- Receiving Report

### Vendor List

Ensuring the use of vendors who are reliable, competent to deliver and independent of any relation to the organization or its staff is essential to a good procurement system. Use of a standard vendor list aids in ensuring transparency in the procurement process and minimizes conflict of interest situations.

- (1) An acceptable vendor list should be developed and maintained.
  - a) This list should include the name of the vendor and what types of goods or services it can provide.
  - b) Those developing the list should include vendors, based on information on reliability obtained from other organizations that have used the vendor, from published material and from other employees who are familiar with the vendor.
  - c) At least three vendors for each type of good or service purchased should be included in the list. When fewer than three reliable vendors are identified, the staff should confirm that, in fact, fewer

than three reliable vendors exist for a given type of procurement and document this confirmation in a memo.

- d) The vendor list should be periodically (at least annually) revised, based on formal feedback that the procurement department obtains from other employees on the quality of procurement from a given vendor. The feedback should be reviewed to determine whether the feedback has, in fact, been incorporated into revising the list.
- (2) Access to making changes to the vendor list should be restricted to those employees assigned the responsibility of developing and maintaining the list.
- (3) Those employees who solicit bids should not be involved in developing or maintaining the vendor list or otherwise have access to making changes in it.
- (4) The employee assigned to establish and maintain the approved vendor list should not be the same employee who solicits bids or who selects the winning bidder.

### Purchasing Process

1. A purchase requisitions form, signed by the requisitioner and approved by his or her supervisor or next higher level employee with sufficient authority to approve, must be prepared for all procurement.
2. The employee approving the requisition must ascertain that sufficient funds remain in the budget to make the procurement that the procurement is necessary to achieve objectives.
3. The employee initiating the purchase request should not also approve the request.
4. Before executing a procurement transaction, procurement personnel must determine whether those signing the requisition form have sufficient authority according to the established Authorization List.
5. Procurement personnel must solicit at least three written independent bids for procurement above a certain amount. Bid solicitations should include a detailed description of the items, particular specifications, maximum cost, and quantity and required delivery date.
6. The person soliciting the bids should not also approve the vendor selection.
7. Sealed bids should be required for procurement above a certain reasonable limit, such as \$25,000. Vendors should be selected only on the basis of value to the organization.
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. Requisitioners should be discouraged from making purchases themselves. The procurement unit should purchase as many items as possible and all items over \$500.
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

**Procurement personnel and any other personnel involved in the vendor selection process are prohibited from receiving anything of value from vendors or potential vendors.**

Procurement personnel should be required to sign "conflict of interest" statements which state that neither they nor their immediate family members have any equity in any of the vendors awarded purchase contracts or would stand to personally benefit from awarding contracts to a given vendor.

### Commitment Tracking

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

## **Advances**

The risks associated with advances are that they are not liquidated in a timely manner and that their liquidation is not based on proper documentation.

Advances are amounts of funds provided to employees so that they can adequately pay for business expenses. The two types of advances are project advances and employee advances. Project advances are provided to a given employee for project expenses, typically 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. Employee advances are typically for travel purposes. In this case, the advance is liquidated by submission of a Travel Expense Report, with supporting documentation. In other cases, the advance is liquidated by periodic repayments of part or the entire advance amount by the employee.

Procedures to ensure adequate control would include:

1. A policy should be established that precludes an employee from obtaining an advance if he/she has an unaccounted for advance outstanding, or that places a limit on the total amount of advances that can be outstanding to a given employee.
2. Periodic review of advances outstanding, monthly, in order to identify any advances outstanding for more than 30 days is recommended. Advances outstanding for more than a year should be withheld from the employee's salaries.

## **Telephones**

Long distance telephone use can be a significant expense. The risk associated with this is that calls are made that are not for legitimate business purposes and are not reimbursed.

1. Employees must be required to reimburse for personal calls.
2. Only employees who in the normal course of business make long distance calls should be able to access long distance lines.
3. All phones that can access long distance lines should be assigned to a particular employee who should be held responsible for the calls made on that phone. Access can be further restricted on some phone systems through the use of access codes. Each employee who is authorized to incur long distance charges is provided with a unique access code without which no call can be made.
4. Itemized phone bills, ideally segregated by phone line or access code, should be circulated to employees for them to identify personal calls. The employees should then reimburse for these calls either directly via a check payment or via withholding on the employees' salary.
5. Employees should use long distance phone communication only when less expensive means such as faxes, couriers, "the pouch", E-mail, etc. would not be effective.

## **Section C. 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? Is it up to date? Yes  No
5. Is a current edition of this manual available? Yes  No
6. Is the accounting system using a double-entry bookkeeping method? Yes  No
7. 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 recorded in the minutes of the meetings? Yes  No
- 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 (e.g., 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 <input type="checkbox"/> | No <input type="checkbox"/> |
| 1  | Do the counters have a standardized form for recording the deposit information?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 2  | Are the counters' sheets retained and reconciled with actual deposits, and are all discrepancies investigated?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 3  | Is there a control prohibiting the cashing of checks from the currency received?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 4  | Are all of the pledge envelopes or other memoranda retained and reconciled to the recorded amounts?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 5  | Are all other cash receipts recorded and deposited on a timely basis?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 6  | Are all checks received restrictively endorsed —for deposit only “immediately upon receipt?”   | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 7  | Are all cash receipts deposited into the general operating checking account?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 8  | 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 <input type="checkbox"/> | No <input type="checkbox"/> |
| 9  | Are periodic statements provided to donors of record (i.e. at least quarterly)?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 10 | 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 <input type="checkbox"/> | No <input type="checkbox"/> |
| 11 | Are all discrepancies investigated?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |

*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 <input type="checkbox"/> | No <input type="checkbox"/> |
| 2. | Are all checks pre-numbered and used in sequence?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 3. | Is there a clearly defined approval process for all disbursements?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 4. | Are all voided checks properly cancelled and retained?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 5. | Are all checks made payable to specified payees and not to cash or to bearer?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 6. | Are all disbursements supported by original documentation?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 7. | Is the original vendor's invoice or other documentation cancelled at the time of signature to prevent duplicate payment? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 8. | Check signing:   |                              |                             |
| a. | Is signing blank checks prohibited?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| b. | Is using a signature stamp or pre-printed signatures prohibited?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| c. | Does all supporting documentation accompany checks presented for signature?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |

- d. Are all account signers authorized by the Vestry? Yes  No
- e. Is more than one signature required for any check? Yes  No
- f. If not, do checks for more than \$500 require more than one signature? Yes  No
- g. If signature imprint machines are 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 minutes? 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 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? 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
- 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
2. Is a periodic review conducted to compare the actual property, furniture and fixtures, and equipment with the recorded inventory listing? Yes  No
3. Is there a safe deposit box? Yes  No
- a. Who is authorized to enter it? \_\_\_\_\_
  - b. Is there an inventory of its contents? Yes  No
4. Are permanent records such as articles of incorporation, if applicable, by-laws and real estate deeds kept in a safe place? Yes  No
5. 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 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 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 of gift? Yes  No
  - b. Any restrictions or limitations? Yes  No
2. Does the Vestry or other authoritative body approve all restricted gifts and grants? Yes  No
3. Are the income and other transactions periodically reported to the Vestry? Yes  No
4. Are written acknowledgments 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.

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 W-4? 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 payroll tax deposits made on a timely basis? Yes  No
- 6. Are all employees, clergy and lay, receiving a Form W-2? Yes  No
- 7. Are Forms 1099 being provided for all individuals who are not employees, and for all unincorporated entities paid \$600 or more annually? Yes  No
- 8. Are Form W-2 wages reconciled to the general ledger accounts, and all four quarterly payroll tax returns? Yes  No
- 9. 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. Are the files backed up daily and the backups maintained off premises? Yes  No
- 3. Is access to the computer and computer programs limited to authorized persons? Yes  No
- 4. Is there adequate documentation, including user manuals, available on-site for all computer programs? Yes  No
- 5. Is a printed copy retained of all journals, general ledger, financial statements and any other computerized records? Yes  No
- 6. 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.....	III-2
<b>Section A. General Information.....</b>	<b>III-2</b>
<b>Section B. Basic Record Keeping.....</b>	<b>III-2</b>
Bookkeeping for Cash Receipts Journal.....	III-2
Bookkeeping for Cash Disbursements Journal .....	III-4
Bookkeeping for Payroll.....	III-5
Miscellaneous Journal Entries.....	III-5
The General Ledger.....	III-6
Bookkeeping for Petty Cash.....	III-6
Transfer of Funds .....	III-6
Subsidiary Ledgers .....	III-7
Bookkeeping for Investments.....	III-7
Loans (Receivable and Payable).....	III-7
Discretionary Funds.....	III-8
Furniture, Fixtures and Equipment .....	III-8
Land and Buildings.....	III-8
Depreciation .....	III-8
Conditional/Unconditional Pledge.....	III-9
Month-End Closing.....	III-10
End of Quarter.....	III-10
Year End .....	III-10
Financial Statements.....	III-10
Acceptable Accounting Methods for Congregations.....	III-11
<b>Section C. Net Asset Reporting.....</b>	<b>III-11</b>
Permanently Restricted Net Assets.....	III-11
Temporarily Restricted Net Assets.....	III-11
Unrestricted Net Assets .....	III-11
Basic Bookkeeping for Restricted Net Assets .....	III-12
Reporting in Financial Statements.....	III-12
<b>Section D. Financial Report Examples.....</b>	<b>III-13</b>
Sample Monthly Report: Revenue and Expenses.....	III-13
Sample Year-End Format: Statement of Financial Position.....	III-14
Sample Year-End Format A: Statement of Activities.....	III-15
Sample Year-End Format B: Statement of Activities.....	III-16
Sample Year-End Format: Statement of Cash Flows.....	III-17
Section E. The Chart of Accounts.....	III-18

**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, Section 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 computerized bookkeeping program. Many small and medium-sized parishes use Church Windows or QuickBooks management software.

	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 restrictions 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. The current Gift Acceptance Policy adopted by the Society is attached as Appendix 1 to this chapter.

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, noting 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 or wire 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 indicated 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 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 with space for the date and description, account numbers, and 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:

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 the total amount of the 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. The petty cash fund should not be used for cashing checks...
  - 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. For example: 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 repayment. All loans should be evidenced by a written note and approved 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 offerings or from the petty cash fund. (Research state laws before making any loan 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 them, 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): The Statement of Financial Accounting Standards (SFAS) Numbers 116 and 117 relate how non-governmental nonprofits account for contributions and how they present their financial statements. 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 yearend.

### 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.



## Section D. Financial Report Examples

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

<u>Accounts</u>	<u>Annual Budget</u>	<u>Budget To Date</u>	<u>Actual To Date</u>	<u>Over/ Under</u>
<i>Revenue:</i>				
<i>Operating Income:</i>				
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	<u>1,200</u>	<u>600</u>	<u>55</u>	<u>545</u>
Total Operating Income	<u>\$177,088</u>	<u>\$88,544</u>	<u>\$90,539</u>	<u>\$1,995</u>
<i>Non-Operating Revenue:</i>				
Net realized gains on investments	\$1,290	\$645	\$933	\$288
Restricted gifts not for operations	2,810	1,405	864	(541)
Capital fund receipts	<u>50,000</u>	<u>25,000</u>	<u>24,300</u>	<u>(700)</u>
Total Non-Operating Revenue	<u>\$54,100</u>	<u>\$27,050</u>	<u>\$26,097</u>	<u>\$953</u>
Total Revenue	<u>\$231,188</u>	<u>\$115,594</u>	<u>\$116,636</u>	<u>\$1,042</u>
<i>Expenses:</i>				
<i>Operating Expenses:</i>				
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	<u>2,300</u>	<u>1,150</u>	<u>933</u>	<u>217</u>
Total Operating Expenses	<u>\$185,369</u>	<u>\$92,684</u>	<u>\$91,628</u>	<u>\$1,056</u>
Net Operating Totals	<u>\$ (8,280)</u>	<u>\$ -0-</u>	<u>\$(1,089)</u>	<u>\$ 939</u>
<i>(operating income in excess of operating expenses)</i>				
<i>Non-Operating Expenses:</i>				
Capital purchases	\$48,100	-0-	\$8,436	(8,436)
Depreciation expense	<u>6,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Non-Operating Expenses	<u>\$54,100</u>	<u>-0-</u>	<u>\$8,436</u>	<u>\$(8,436)</u>
Total Expenses	<u>\$239,468</u>	<u>\$92,684</u>	<u>\$100,064</u>	<u>\$(7,380)</u>
Net Totals	<u>\$ 8,280</u>	<u>\$22,910</u>	<u>\$ 16,572</u>	<u>\$ 6,338</u>



**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]**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<i>Revenues, gains, and other support:</i>				
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
<i>Net assets released from restrictions:</i>				
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	<u>\$151,038</u>	<u>\$(1,098)</u>	<u>\$5,020</u>	<u>\$154,960</u>
<i>Expenses and losses:</i>				
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	<u>0</u>	<u>0</u>	2,150
Total expenses	\$121,970			\$121,970
Fire loss	<u>800</u>	<u>0</u>	<u>0</u>	<u>800</u>
Total expenses and losses	<u>\$122,770</u>			<u>\$122,770</u>
Change in net assets	28,268	(1,098)	5,020	32,190
Net assets at beginning of year	<u>686,870</u>	<u>25,470</u>	<u>137,000</u>	<u>849,340</u>
Net assets at end of year	<u>\$715,138</u>	<u>\$24,372</u>	<u>\$142,020</u>	<u>\$881,530</u>

**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
<i>Adjustments to reconcile change in net assets</i>	
<i>To net cash provided by operating activities:</i>	
Depreciation	\$3,200
Fire loss	800
Increase in accounts and interest receivable	(460)
Decrease in 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	<u>(15,800)</u>
Net cash used by operating activities	<u>\$ 5,025</u>
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	<u>(74,900)</u>
Net cash provided by investing activities	<u>\$7,250</u>
Cash flows from financing activities:	
Proceeds from contributions restricted for:	
Investment in endowment	\$ 200
Investment in term endowment	70
Investment in plant	<u>1,210</u>
Net cash provided by restricted contributions	<u>\$ 1,480</u>
Other financing activities:	
Interest and dividends restricted for reinvestment	\$ 300
Payments on notes payable	(1,155)
Payments on long-term debt	<u>(10,000)</u>
Net cash used by other financial activities	<u>(10,855)</u>
Net cash used by financing activities	<u>\$( 9,375)</u>
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	<u>\$ 7,500</u>
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 those 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 turnover 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	<u>201</u>
Payroll Taxes Payable	<u>202</u>
Current Notes Payable	<u>205</u>
Long Term Notes Payable	<u>210</u>

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	<u>301</u>
Designated	<u>305</u>
Furniture, Land, Buildings	<u>310</u>
Temporarily Restricted	<u>320</u>
Permanently Restricted	<u>330</u>

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

Expenses (5)	
Operating Expenses	
Clergy Taxable Salaries	<u>501</u>
Clergy Housing Allowance	<u>502</u>
Lay Employee Salaries	<u>503</u>
Payroll Tax Expense	<u>504</u>
Benefits (Pension, Health, etc.)	<u>505</u>
Utilities	<u>510</u>
Office Supplies	<u>515</u>
Program Costs	<u>520</u>

Non-operating Expenses:	
Capital Purchases	<u>530</u>
Depreciation Expense	<u>535</u>

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):

	<i>Operations</i>	<i>Custodian Funds</i>	<i>Conference Center</i>	<i>Book Store</i>
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 churchwide Research Office.



## Appendix 1

### **Domestic & Foreign Missionary Society Gift Acceptance Policies**

The Domestic & Foreign Missionary Society, a not for profit organization organized under the laws of the State of New York, encourages the solicitation and acceptance of gifts for purposes that will help to further and fulfill its mission. The following policies and guidelines govern acceptance of gifts made to The Society for the benefit of any of its programs.

#### I. Purpose of Policies and Guidelines

The Executive Council of the Society and its staff solicit current and deferred gifts from individuals, corporations, and foundations to secure the future growth and mission of the Society. These policies and guidelines govern the acceptance of such gifts and provide guidance to prospective donors and their advisors when making gifts to The Society. The provisions of these policies shall apply to all gifts received for any of the programs or services. The Chief Operating Officer in consultation with the Treasurer will update these policies and present them to the Executive Council for final approval.

#### II. Use of Legal Counsel

The Society shall seek the advice of legal counsel in matters relating to acceptance of gifts when appropriate. Review by counsel is recommended for:

- a) Closely held stock transfers that are subject to restrictions or buy-sell agreements
- b) Documents naming the Society as Trustee
- c) Gifts involving contracts, such as bargain sales or other documents requiring The Society to assume an obligation
- d) Transactions with potential conflict of interest that may invoke IRS sanctions
- e) Other instances in which use of counsel is deemed appropriate

The Society will urge all prospective donors to seek the assistance of personal, legal and financial advisors in matters relating to their gifts and the resulting tax and estate planning consequences. The Society cannot and will not render any legal advice concerning tax liability and/or estate planning matters. Legal fees incurred by the donor in the completion of a gift are the responsibility of the donor.

#### III. Restrictions on Gifts

The Society may accept unrestricted gifts, and gifts for specific programs and purposes, provided that such gifts are not inconsistent with its stated mission, purposes, and priorities. The Society will not accept gifts that are overly restrictive in purpose. Gifts that are overly restrictive are those that violate the terms of the Society's charter, gifts that are too difficult to administer, or gifts that are for purposes outside the mission of the Society. The Chief Operating Officer, in conjunction with legal counsel, is responsible for implementing these policies. The Society will review its Gift Acceptance Policy annually.

#### IV. Types of Gifts

A. The following gifts are acceptable:

1. Cash
2. Securities
3. Tangible Personal Property
4. Real Estate
5. Planned Gifts
  - a. Bequests
  - b. Charitable Gift Annuities
  - c. Pooled Income Funds
  - d. Charitable Remainder Trusts
  - e. Charitable Lead Trusts
  - f. Life Insurance

The Society will consult with real estate appraisers, environmental analysts, property brokers and specialized legal counsel to ensure that it has the expertise available to analyze a proposed gift appropriately.

B. The following criteria govern the acceptance of each gift form:

1. **Cash:** Cash is acceptable in any form. Checks shall be made payable to the Domestic & Foreign Missionary Society and shall be delivered to P.O. Box 12074, Newark, NJ 07101.
2. **Securities:** The Society can accept both publicly traded securities and closely held securities.

**Publicly Traded Securities:** Appreciated marketable publicly-traded securities will be accepted and sold upon receipt unless otherwise directed by the Chief Operating Officer in consultation with the Treasurer. Donors should not sell the stock; they should contact The Society for instructions on how to transfer their stocks to the Society's broker.

**Closely Held Securities:** Closely held securities, which include not only debt and equity positions in non-publicly traded companies but also interests in LLPs and LLCs or other ownership forms, can be accepted subject to the approval of the Chief Operating Officer in consultation with the Treasurer. However, gifts must be reviewed prior to acceptance to determine that:

- there are no restrictions on the security that would prevent The Society from ultimately converting those assets to cash,
- the security is marketable, and
- the security will not generate any undesirable tax consequences for The Society.

If potential problems arise on initial review of the security, further review and recommendation by an outside professional may be sought before making a final decision on acceptance of the gift. The final determination on the acceptance of closely held securities shall be made by the Chief Operating Officer in consultation with the Treasurer and legal counsel when necessary. Every effort will be made to sell non-marketable securities as quickly as possible.

3. **Tangible Personal Property:** These gifts include artwork, jewelry, cars, boats, and any other personal property item owned by a donor. These gifts will rarely be accepted, and if they are ever considered for acceptance by The Society, they shall be examined in light of the following criteria:
- Does the property fulfill the mission of the Society?
  - Is the property marketable?
  - Are there any undue restrictions on the use, display, or sale of the property?
  - Are there any carrying costs for the property?

The final determination on the acceptance of other tangible property gifts shall be made by the Chief Operating Officer in consultation with the Treasurer and legal counsel.

4. **Real Estate:** Gifts of real estate will rarely be accepted. These types of gifts may include developed property, undeveloped property, or gifts subject to a prior life interest. In the event that one of these gifts is being considered for acceptance, The Society shall require an initial environmental review of the property to ensure that the property has no environmental damage. If the initial inspection reveals a potential problem, The Society shall retain a qualified inspection firm to conduct an environmental audit. The cost of the environmental audit shall be an expense of the donor.

When appropriate, a title binder shall be obtained by The Society prior to the acceptance of the real property gift. The cost of this title binder shall be an expense of the donor.

Prior to acceptance of the real property, the gift shall be approved by the Chief Operating Officer in consultation with the Treasurer and legal counsel. Criteria for acceptance of the property shall include:

- Is the property useful for the purposes of The Society?
- Is the property marketable?
- Are there any restrictions, reservations, easements, or other limitations associated with the property?
- Are there carrying costs, which may include insurance, property taxes, mortgages, or notes, etc., associated with the property?
- Does the environmental audit reflect that the property is not damaged?

If the estimated value of tangible personal property or real estate \$500, the donor will be directed to the U. S. Internal Revenue Service requirements regarding the substantiation of charitable contributions. Should the donor wish to reflect the contribution in its income tax return, the donor should obtain a qualified appraisal of the equipment from an independent appraiser, complete IRS Form 8283 and provide a copy to the Society.

5. **Planned Gifts.** The Society may accept the following planned gifts:

**Bequests:** Donors and supporters of The Society will be encouraged to make bequests to The Society under their wills and trusts. Such bequests will not be recorded as gifts to The Society until such time as the gift is irrevocable.

**Charitable Gift Annuities:** The Society may accept charitable gift annuities. The minimum gift for funding is \$5,000. The minimum age for life income beneficiaries of a gift annuity shall be 55. For a deferred gift annuity the minimum age for life income beneficiaries shall be 45. No more than two life income beneficiaries will be permitted for any gift annuity. Annuity payments may be made on a quarterly, semi-annual, or annual schedule.

**Pooled Income Funds:** The *pooled income fund* is a gift plan, similar to a mutual fund which is actually a trust fund for donors who wish to receive an income that has the possibility of growth through the years. A particularly appealing feature of the plan is that it does not require gifts in the substantially larger amounts that are generally necessary for separate trusts.

Individual gifts of cash and other property are combined or "pooled" and collectively invested by a trustee to produce income that is shared by the contributors. Additional donations may be added to the fund at any time.

**Charitable Remainder Trusts:** The Society may accept designation as remainder beneficiary of a charitable remainder trust with the approval of the Chief Operating Officer in consultation with the Treasurer and legal counsel. The Society will not accept appointment as Trustee of a charitable remainder trust. Minimum gift for a Charitable Remainder Trust will be \$100,000.

**Charitable Lead Trusts:** The Society may accept a designation as income beneficiary of a charitable lead trust. The Executive Council of The Society will not accept an appointment as Trustee of a Charitable Lead Trust.

**Retirement Plan Beneficiary Designations:** Donors and supporters of The Society will be encouraged to name The Society as beneficiary of their retirement plans. Such designations will not be recorded as gifts to The Society until such time as the gift is irrevocable. When the gift is irrevocable, but is not due until a future date, the present value of that gift may be recorded at the time the gift becomes irrevocable.

**Life Insurance:** The Society must be named as both beneficiary and irrevocable owner of an insurance policy before a life insurance policy can be recorded as a gift. The gift is valued at its cash surrender value upon receipt. If the donor contributes future premium payments, The Society will include the entire amount of the additional premium payment as a gift in the year that it is made.

If the donor does not elect to continue to make gifts to cover premium payments on the life insurance policy, The Society may:

- continue to pay the premiums,
- convert the policy to paid up insurance, or surrender the policy for its current cash value.

**Life Insurance Beneficiary Designations:** Donors and supporters of The Society will be encouraged to name The Society as beneficiary or contingent Beneficiary of their life insurance policies. Such designations shall not be recorded as gifts to The Society until such time as the gift is irrevocable. Where the gift is irrevocable, but is not due until a future date, the present value of that gift may be recorded at the time the gift becomes irrevocable.

V. Changes to Gift Acceptance Policies

The Society will review its Gift Acceptance Policy annually. The Executive Council of The Society must approve any future changes to or deviations from these policies.

## CHAPTER IV: TAXES AND THE EPISCOPAL CHURCH

### CHAPTER CONTENTS

<i>Introduction</i> .....	<i>IV-1</i>
<i>Section A. Payroll Taxes</i> .....	<i>IV-1</i>
<i>Section B. Travel and Business Expense Reporting</i> .....	<i>IV-6</i>
<i>Section C. Tax Exempt Status</i> .....	<i>IV-7</i>
<i>Section D. Unrelated Business Income Tax (UBIT)</i> .....	<i>IV-9</i>
<i>Section E. Jeopardizing Tax-Exempt Status and Intermediate Sanctions</i> .....	<i>IV-10</i>

#### **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 attentive to 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**

The determination of whether a person is an employee or an independent contractor is typically based on three factors of the business relationship:

1. Behavioral control: does the employer direct where and when the provider can work; what tools he may use?
2. Financial control: is the worker free to seek out similar business opportunities; can she realize a profit or loss?

3. **Type of relationship:** is there a written contract; are employee-type benefits provided; is the relationship expected to continue indefinitely; is the provider's service a key aspect of the employer's regular business?

As part of the three factors above, the Internal Revenue Service uses the 20 Common Law factors, as established in Revenue Ruling 87-41, as a guideline when determining if sufficient control is present to establish an employer-employee relationship. While not all factors need to be "met" the more factors in favor of classifying a worker as an independent contractor that can be established, the stronger the position for treating them as such. The factors are:

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 which 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 or 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 .

The following persons are normally considered to be employees:

- Rectors, vicars, and their assistants;
- Interim clergy and regularly employed supply clergy who consistently work at the same congregation; and
- 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 controlled by the Church.

Churches should be careful to issue or obtain the following documents:

- IRS Form W-2 must be issued after each year end to all church employees (full time, part-time, retired part-time clergy, and lay persons)
- IRS Form W-2 and the corresponding Form W-3 “Transmittal of Wage and Tax Statement” must be filed with the IRS
- IRS Form 941 “Employer’s Quarterly Federal Tax Return” must be filed by employers. “
- IRS Form I-9 “Employment Eligibility Verification” must be completed for all lay and clergy employees, regardless of citizenship, prior to the first paycheck
- IRS Form W-4 “Employee Withholding Allowance Certificate” should be completed when a clergy or lay employee is hired or when a change in withholding is requested

Clergy and lay employees are generally treated in different manners for Social Security and for Federal income tax withholding purposes.



### **Special Instructions for Reporting Clergy Compensation**

Clergy are recognized as employees only for Federal (and, where applicable, State) income tax purposes. With respect to FICA (Social Security and Medicare) tax, Clergy are considered self-employed, and therefore the income is not included as wages subject to Social Security or Medicare tax. Additionally, these taxes are not to be withheld, and compensation is not to be reported on Form 941 or Form W-2 for purposes of these taxes.

The following items are considered compensation and must be reported as compensation for services in gross income (box 1) on the IRS Form W-2 (please note that this is not meant to be an all-inclusive list of items considered to be compensation):

- Salary, excluding housing and utility allowance
- Honoraria
- Bonuses
- “Love offerings”, even if there is a special offering to provide the income
- 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 the Form W-2; otherwise a Form 1099 should be provided.)
- Amounts received for weddings and funerals
- An amount to cover the clergy self-employment taxes paid either directly to the clergy or reported and paid as income tax withheld
- 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
- Travel and expense allowances for which an “accountable plan” is not provided to the employer; reference Section B of this chapter
- 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 are 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 (i.e., Box 12, code P).

Clergy compensation attributable to housing and utility expenses (parsonage allowance) as declared by the clergy (in conjunction with the Church) may be excluded from taxable income, but are included in earnings for self-employment tax. Clergy should complete housing and utility allowance resolutions prior to the start of the calendar year. 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 its Minutes before the clergy receives a paycheck in any 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 (box 14) 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 still 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.

### **Special Instructions for Reporting Lay Employee Compensation**

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, the taxable gross wages for Federal income taxes are reduced by the amount of the 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.

### **Special Instructions for Reporting Non-Employee Income**

IRS 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 IRS for purposes of issuing a Form 1099.

The following individuals must receive a Form 1099:

- Any individual or unincorporated entity that was paid \$600 or more in the form of self-employment earnings (Form 1099 MISC, Box 7)
- Any person who receives a scholarship which is not used for payment of tuition and related expenses (Form 1099 MISC, Box 1)
- Any person who is paid \$600 or more for real estate or machine/equipment rentals (Form 1099-MISC, Box 1)
- Any person who receives \$600 or more in a settlement for taxable damages that are not classified as wage-related payments (Form 1099-MISC, Box 3)
- Attorneys who receive gross proceeds from any settlement or legal action, regardless of whether services are provided to the Church by the attorney (1099-MISC, Box 14)
- 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)
- Any person who receives at least \$10 in gross royalty payments (Form 1099 MISC, Box 2)
- Any person who receives qualified retirement or annuity income from a qualified retirement plan (Form 1099-R)

The following exceptions may be applicable for compensation reporting:

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

IRS Form 1099 must be provided to recipients by January 31<sup>st</sup>. Copies of all Forms 1099 must be transmitted to the Internal Revenue Service along with a transmittal Form 1096 by February 28<sup>th</sup>. The maximum penalty for failure to issue a Form 1099 is \$100 per form.

A congregation is responsible for obtaining the person's or company's Federal Employer 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 28% must be taken and reported on the Form 941.

Resident and non-resident aliens are taxed in different ways. Resident aliens are generally taxed in the same way as U.S. citizens. Non-resident aliens are taxed based on the source of their income (whether it is effectively connected with a U.S. trade or business). Aliens and employers should refer to IRS Publication 519 *U.S. Tax Guide for Aliens*. In addition, payments to nonresident aliens are reported differently than payments to US residents. A nonresident alien will be issued a Form 1042-S for any payment other than employee payments that are subject to withholding.

A nonresident alien may be entitled to claim a tax treaty exemption from withholding on some or all compensation paid for personal services. In order to determine if the treaty exemption is applicable, refer to the section entitled "Pay for Personal Services Performed" in Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities as well as Publication 901, U.S. Tax Treaties to verify the particular treaty position is applicable. Persons who wish to claim this exemption should provide the employer with Form 8233, Exemption from Withholding on Compensation for Independent (and Certain Dependent) Personal Services of a Nonresident Alien Individual.

## **Section B. Travel and Business Expense Reporting**

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.

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

- 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;
- Reimbursement of travel reasonable and customary 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;
- 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;
- 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);
- Business expenses directly reimbursed for subscriptions and books related to the job; clothing that cannot take the place of ordinary clothing; business calls made on personal phones; professional memberships; licenses; and dues;
- Cell phones – recent legislation and IRS guidance has eliminated the need to quantify the amount of personal usage of cell phones provided by the Church or payment for cell phone service. Personal usage is now deemed de minimis as long as the Church has a policy stating that the provision of cell phones and/or payment of cell phone service fees are primarily for business purposes and it is expected that personal usage is minimal.
- 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;

Unsubstantiated business expenses paid to an employee in a “non-accountable plan” must be included on Form W-2 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 or to clergy who chose to have Federal income tax withheld.

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 (see Internal Revenue Service publications).

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**

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. (Contact your diocesan office or the Treasurer's Office of the Domestic and Foreign Missionary Society.) Alternatively, dioceses and/or congregations and related institutions may apply for and hold their own individual or group exemption. Note, however, that an entity electing to be covered under another's group exemption may not retain its individual exemption. In addition, electing entities are also subject to filing of Form 990 (unless exemption from such is established) and their own Form 990-T.

**Exemption from Federal taxes does not extend to exemption from state sales taxes.**

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. (Use IRS Form SS-4 "Application for Employer Identification Number.")

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 ("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 not*);
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 restricted by the donor to be used for specific individuals, regardless of the person's great need. The donor may suggest a preference, but control resides with the tax-exempt organization;
4. The contribution is made to or for the use of a qualified charity;
5. The contribution is within the allowable legal limit; 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 that provides goods or services to a donor in exchange for a contribution in excess of \$75 must 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.

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

For gifts of property valued at \$500 or more, a donor must submit a Form 8283, and, for property valued at more than \$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 three-year period, the donee must submit an information return, Form 8282 to the IRS.

#### **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 determine Unrelated Business Income:

- The organization must be engaged in a trade or business
- The trade or business must be regularly conducted
- 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 a church for its operations is recognized as unrelated business income subject to tax and reporting, unless the income is derived from:

- 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);
- A trade or business carried on for the convenience of the students or members of another 501(c)(3) organization;
- The sale of merchandise received as gifts or contributions;
- A trade or business that consists of conducting qualified bingo games;
- The exchange or rental of member lists between exempt organizations to which deductible contributions can be made; and
- The distribution of low-cost articles incidental to the solicitation of charitable contributions for exempt organizations to which deductible contributions can be made.

Because charitable organizations often have difficulty in valuing nominal or token benefits received by donors, the IRS has established safe harbor rules under which the benefits will be treated as having such insignificant value that the charities may inform donors that the full amount of their contributions is deductible.

Certain types of unrelated income are exempt from Unrelated Business Income Tax:

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 where services are also provided (i.e., event coordination, catering, technical services);
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;
6. Gains or losses on sale or exchange of property.

Note: if debt is used to purchase the underlying assets the above exemptions may not apply. In addition, if an investment is with a limited partnership, the Form K-1 received from such LP must be reviewed to determine if any UBI exists.

A church that has Unrelated Business Taxable Income must complete IRS Form 990-T. The state where the revenue is generated may also require a filing. Any church that believes it may have Unrelated Business Taxable Income is encouraged to seek the assistance of a licensed or certified public accountant for accounting and reporting purposes.

### **Section E: Jeopardizing Tax-Exempt Status and Intermediate Sanctions**

Churches and religious organizations, like all exempt organizations under IRC section 501(c)(3), are prohibited from engaging in activities that result in directing the organization's income or assets to insiders (e.g., the minister, church board members, officers). Examples of such prohibited inurement include the payment of dividends, the payment of unreasonable compensation to insiders, and transferring property to insiders for less than fair market value. The prohibition against inurement to insiders is absolute; therefore, any amount of inurement is, potentially, grounds for loss of tax-exempt status. Note that prohibited inurement does not include reasonable payments for services rendered, payments that further tax-exempt purposes, or payments made for the fair market value of real or personal property.

An IRC section 501(c)(3) organization's activities must be directed exclusively toward charitable, educational, religious, or other exempt purposes. The exempt organization's activities may not serve the private interests of any individual or organization. Rather, beneficiaries of an organization's activities must be recognized objects of charity (such as the poor or the distressed) or the community at large (for **example**, through the conduct of religious services or the promotion of religion). Private benefit is **different** from inurement to insiders. Private benefit may occur even if the persons benefited are not insiders. Also, private benefit must be substantial in order to jeopardize tax-exempt status.

In 1996, the Taxpayer Bill of Rights 2 added section 4958 to the Internal Revenue Code. Prior to section 4958, if a transaction with an exempt organization resulted in private inurement or private benefit, the only option available to the Service was to revoke the organization's exemption. Section 4958 adds "intermediate sanctions" as an alternative, allowing the IRS to

impose penalties (i.e., excise taxes) on persons who improperly benefit from transactions with an exempt organization. Intermediate sanctions penalize the person(s) who benefit from an improper transaction, rather than the organization.

Intermediate Sanctions may be imposed on any "disqualified person" who receives an excess benefit from a covered organization and on each "organization manager" who approves the excess benefit transaction. A disqualified person is generally any person (individual, organization, partnership or unincorporated entity) which was in a position to exercise substantial influence over the affairs of an exempt organization.

Automatic Excess Benefit transactions – even if total compensation is considered “reasonable” if an amount is paid or benefit is provided that is not treated and reported correctly for tax purposes it will be considered an automatic violation within the realm of the Intermediate Sanctions rules and subject to the correction and taxes imposed on such. An example of this is if the Church pays for the companion of a disqualified person to travel when there is no clear business purpose established and it is not treated as taxable wages for the employee.

Penalties for excess benefit payments include:

- a. Correction: In all cases, the excess benefit must be undone to the extent possible in cash.
- b. Excise Penalties on the disqualified person: an amount equal to 25% of the excess benefit.
- c. Tax on the Organization Manager equal to 10% (up to \$20,000 per transaction) of the excess benefit may also be imposed on each organization manager who participates in the transaction, knowing that it is an excess benefit transaction, unless the participation is not willful and is due to reasonable cause.

Even if a transaction is not an excess benefit transaction under the intermediate sanctions laws, it may still be found to be illegal. The ability of the IRS to revoke the exempt status of an organization that engages in private inurement or private benefit has not been modified. Intermediate sanctions simply provide another weapon in the arsenal of the IRS. The IRS may use either or both weapons.

Other things to consider adding:

- Prohibition for political campaign activities
- Limits on lobbying
- Reporting required for foreign investments



## CHAPTER V: CLERGY DISCRETIONARY FUNDS

### CHAPTER CONTENTS

<i>Introduction</i> .....	V-1
<i>Section A. Sources of Funds</i> .....	V-1
<i>Section B. Uses of the Funds</i> .....	V-2
<i>Section C. Accounting Recordkeeping</i> .....	V-3
<i>Section D. Tax Consequences</i> .....	V-4

#### **Introduction**

These guidelines are intended for the benefit of clergy, dioceses, congregations, institutions and others with authority over funds of the Church, as well as for the benefit of those wishing to give monies to clergy for charitable uses. The purpose of these guidelines is to provide information and guidance in the structure and use of a class of restricted or designated funds generally known as “clergy discretionary funds.” The thrust of this Chapter is to deal with funds given to and used by rectors of parishes, but the guidelines generally would also apply to other clergy, including bishops, serving in other church capacities. These guidelines would also apply when discretionary funds are established for laity serving the Church.

The existence and use of clergy discretionary funds largely rest on a canon of the Church, III.9 5(b)(6), regarding “almoner’s funds,” as well as a long tradition implementing this canon in our congregations. The canon provides as follows:

“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 Rector or Priest-in-Charge or with such Church officer as the Rector or Priest-in-Charge shall appoint to be applied to such pious and charitable uses as the Rector or Priest-in-Charge shall determine. When a Parish is without a Rector or Priest-in-Charge, the Vestry shall designate a member of the Parish to fulfill this function.”

#### **Section A. Sources of Funds**

1. The canon quoted above is generally interpreted to mean that on one Sunday a month when the Eucharist is celebrated at the parish’s principal service or services, the “loose offering” that is, gifts exclusive of payments toward a member’s annual pledge, is designated for the rector’s discretionary fund. However, because the loose offering is often considered insufficient for the

purposes of the discretionary fund, many vestries set aside a monthly or annual budgeted amount for the rector's discretionary fund in addition to the traditional source or as a substitute for it. Parishioners, visitors, friends of the rector, and others have traditionally made contributions to the rector's discretionary fund as well, sometimes in significantly larger amounts than those contributed by the vestry. In some congregations the vestry also follows a policy of designating fees or gifts received in connection with weddings, funerals, and baptisms for the discretionary fund of the member of the clergy performing those services.

2. The rector may grant assistant clergy permission to expend monies from the rector's discretionary fund, or the vestry may establish and others may contribute to separate funds for the use of assistant clergy.

### **Section B. Uses of the Funds**

1. The "alms" canon quoted above provides that gifts and "other offerings for the poor" collected in the parish are to be "applied to such pious and charitable uses as the Rector shall determine." Pursuant to this canon, it has generally been recognized that the discretionary funds of a rector are to be used for aid to the poor and other purposes that the rector considers "pious and charitable," and that these uses are regarded as consistent with the Church's mission. It seems clear that the scope of permissible uses under the canon generally lies within the sound discretion of the rector.
2. The canon does indicate some limitations on the rector's discretion. Since the alms are donated to the Church (the manner of holding the funds is discussed below), and the intended uses are to be "pious and charitable," the funds may not be used as if they were gifts to the rector individually and personally. Thus, it would be improper for the rector to apply the funds for his or her personal use and benefit, that is, uses that are not intended to carry out the mission of the Church. Uses of the funds for personal or family clothing, entertainment, or basic living expenses may not be selected, whereas those same uses when intended to benefit other needy persons within or without the parish are commonly considered to be wholly appropriate.
3. Gray areas would include payments by the rector to institutions or causes that are charitable in nature but also inure to the benefit of the rector in some way. For example, a donation to the rector's school or college may be considered inappropriate if there would otherwise be little or no reason for the parish to favor such an institution; donations to the rector's seminary, on the other hand, may be regarded as appropriate if they are understood to be parish gifts in which the rector has joined.
4. To avoid potential confusion and criticism, the rector should inform the vestry when gifts from the discretionary fund are made about which there could be any

question, particularly gifts to institutions as opposed to gifts to private individuals where pastoral sensitivity may well warrant confidentiality.

5. A further limitation on the rector's discretion can be seen in the canon's directive that gifts to the parish intended as alms be used at the rector's discretion. The inference to be drawn from this direction is that the canonical discretionary funds are not intended to be used for types of expenditures that are routinely made from a vestry's budget. Thus, it would seem to be inappropriate for the rector to use the funds on parish maintenance or projects, or even expenditures for the rector's liturgical ministry, such as vestments, that are generally funded through the parish budget. Expenditure for a purpose that the vestry has declined to fund, for example, would not seem to be an appropriate use of discretionary funds.

### **Section C. Accounting/Recordkeeping**

1. All deposit accounts for clergy discretionary funds should be approved by the vestry and be opened using the congregation's Federal Employer's Identification Number. The bank accounts should be in the name of the congregation and not that of the rector or other individual member of the clergy. Discretionary funds are subject to audit and are included in financial reports following standard accounting procedures. Discretionary funds should remain with the congregation when the clergy departs.
2. There are two common practices for the administration of discretionary funds. All gifts received may be deposited in the general operating account of the congregation, with disbursements made by checks drawn on the general operating account upon written request of the rector or other authorized member of the clergy or laity. Or, the vestry may approve the use of a separate checking account for the rector's discretionary fund.
3. Clergy who have been authorized to maintain a separate checking account should record in writing, with appropriate receipts attached, if any, the purpose of every check drawn on the account and all subsequent cash disbursements made where checks have not been made to "cash" to enable such disbursements.
4. Monthly bank statements for a separate checking account should be mailed directly to a person of trust other than the rector or other member of the clergy authorized to make disbursements. Normally, this is the Treasurer of the parish, but the vestry may direct that another person, such as the senior warden, receive the statements.
5. The person receiving the statements for a separate checking account should verify that all payments from the general account of the parish have been deposited into the account; review all checks to payees and who endorsed them, as well as the purposes noted in the check register or on the cancelled checks; reconcile the checking account; and review all back-up invoices and/or letters. This individual

should 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. Discretionary funds are “temporarily restricted” funds of the congregation and are subject to audit even if they are kept in a separate checking account.

6. It is preferable that checks be written to a vendor, such as a utility company or landlord, rather than to individuals requesting assistance. Clergy commonly make prior arrangements with drug stores, gas stations, grocery stores, etc. to enable persons to make purchases with approval of the clergy, and checks from the discretionary fund are written directly to the vendor upon receipt of bills. Cash disbursements are discouraged and should only be made for small amounts or when there is an emergency and a check cannot meet the needs.
7. The rector or other person authorized to make payments from the funds may be permitted to maintain confidentiality over expenditures made for the direct assistance of named individuals in a manner determined and jointly agreed to by the rector or other authorized person and the vestry.
8. These procedures are designed to provide trustworthy accounting and stewardship of church funds to protect responsible persons from suspicion and mistrust. Thus, clear records of deposits into the fund and expenditures from it are essential to this process.

#### **Section D. Tax Consequences**

1. Gifts for a properly established discretionary fund are generally deductible from federal and state taxation by donors as charitable contributions.
2. Contributions made to the discretionary fund for the direct benefit of a named individual (“pass through” gifts) are not deductible charitable contributions and should not be accepted.
3. 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.
4. Any payments from the discretionary fund to the rector for personal, rather than charitable, purposes as discussed above will be treated as taxable income to the rector.

**CHAPTER VI: AUDIT GUIDELINES FOR CONGREGATIONS**

**CHAPTER CONTENTS**

*Introduction*..... VI-2

*Purpose*..... VI-2

*Pre-Audit Advice*..... VI-2

*Reasons for an Audit*..... VI-2

*Approved Auditors*..... VI-2

*The Committee Examination*..... VI-3

*Scope of the Committee Examination*..... VI-3

*Accounts to be Audited*..... VI-3

*Objectives of the Audit*..... VI-4

*Timing of the Audit*..... VI-4

*Contents of the Audit Report*..... VI-4

*Filing of the Audit*..... VI-4

*Section A. Audit Program Checklist*..... VI-6

*Section B. Sample Audit Committee Certificate*..... VI-12

*Section C. Sample Audit Committee Findings on Policies and Procedures*..... VI-12

*Section D. Instructions for the Audit Program*..... VI-13

*General*..... VI-13

*Pre-Audit Needs*..... VI-13

*Receipts*..... VI-14

*Disbursements*..... VI-15

*Bank Accounts*..... VI-16

*Investments*..... VI-16

*Restricted Funds*..... VI-17

*Loans*..... VI-18

*Property and Equipment*..... VI-18

*Payroll Records*..... VI-19

*Receivables and Payables*..... VI-19

*Insurance*..... VI-20

*Discretionary Fund*..... VI-20

*Work Papers*..... VI-20

*Audit Committee Certificate*..... VI-20

*Audit Committee Findings on Policies and Procedures*..... VI-20

## Introduction

1. *Purpose:* These audit guidelines were developed to assist auditors in performing the annual audit of the financial statements 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 or by such committee as shall be authorized by the Finance Committee, Department of Finance, or other appropriate diocesan authority." This is an alternative to a full financial statement audit; regulations may vary among dioceses, however.

**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.
5. *The Committee Examination:* While the Canons permit an audit by committee where approved by a diocesan authority, we prefer audits completed by CPAs or LPAs. To accommodate parishes with limited income, some dioceses have authorized Alternative Audit Procedures. These Audit Guidelines were specially prepared for audit by committees. The Audit made by an audit committee will be termed a Committee Examination. 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 include at least one financial expert

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 Examination:* 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. *Statements to be Audited:* All accounts must be audited. The audit requirement covers not only the operating accounts of the organization, but also all of its restricted, endowment, and property funds, and the accounts, if any, of its affiliated 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 the financial statements of a congregation are to ascertain the following:
  - a. 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.
  - b. That the various transactions during the year are proper and are documented appropriately (i.e., authorized, appropriate church purposes, complete and accurate);
  - c. That the various transactions during the year are recorded in the proper amounts and in the proper accounts and that there were no “off the books” accounts or activity;
  - d. 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;
  - e. That, to the extent feasible, adequate internal control procedures were and continue to be in effect; and
  - f. 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 Report of the Independent Auditor (or Audit Committee Certificate in the case of a Committee Examination);
  - b. The Statement of Financial Position;
  - c. The Statement of Activities;
  - d. The Statement of Cash Flows;
  - e. Footnotes to the Financial Statements;
  - f. Completed Audit Program Checklist (more likely in a Committee Examination);
  - g. The Audit Committee Findings on Policies and Procedures; and
  - h. 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 made 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, including the Vestry and 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  N/A
- b. Time Schedule arranged?      Yes  No  N/A
- c. Reimbursement for out of pocket expenses discussed?      Yes  No  N/A
- d. Availability of workspace established?      Yes  No  N/A
- e. Availability of required records established?      Yes  No  N/A

- f. Availability of *Manual of Business Methods in Church Affairs determined?* Yes  No  N/A
- g. Assistance of staff requirements established? Yes  No  N/A
- h. Engagement letter setting forth agreements between Vestry and Audit Committee discussed? Yes  No  N/A

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

- a. Original signed Vestry minutes Yes  No  N/A
- b. Minutes of any group authorized to disburse monies Yes  No  N/A
- c. Annual financial report to parish Yes  No  N/A
- d. Treasurer's interim reports Yes  No  N/A
- e. Annual Parochial Report Yes  No  N/A
- f. Names of those authorized for check signing, fund withdrawal or transfer, and disbursing approval Yes  No  N/A
- g. List of securities held Yes  No  N/A
- 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  N/A
- i. Copy of previous year's audit and internal control letter Yes  No  N/A
- j. Organizational Chart Yes  No  N/A
- k. Chart of Accounts Yes  No  N/A
- l. Budget Yes  No  N/A
- m. General ledger Yes  No  N/A
- n. Cash receipts journal Yes  No  N/A
- o. Cash disbursements journal Yes  No  N/A
- p. Bank statements for audited year, plus last statement for previous year and first for current year Yes  No  N/A
- q. Paid checks and deposit slips Yes  No  N/A
- r. Payroll records with Forms I-9, W-2, W-3, W-4, and State and Federal withholding records Yes  No  N/A
- s. Savings account passbooks Yes  No  N/A
- t. Other investment records Yes  No  N/A

4. *Cash*

- a. Is the petty cash fund imprest? Yes  No  N/A
- b. Is the checking account(s) reconciled to the accounting records and checkbook, using unopened year-end bank statement(s) or an independently received bank confirmation? Yes  No  N/A

- |    |  |                              |                             |                              |
|----|--|------------------------------|-----------------------------|------------------------------|
| c. | Have paid checks been examined for authorized signatures?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| d. | Have paid checks been examined for endorsements?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| e. | Have the checks been compared to the disbursements journal for payees and amounts?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| f. | Have all voided checks been accounted for?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| g. | Has the subsequent January statement been reviewed?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| h. | Are disbursements supported by vouchers approved by authorized party other than check signer?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| i. | Are two signatures required on checks for \$500 or more?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| j. | Is the bank notified immediately of all changes to authorized check signers?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| k. | Are cash journal totals tested for accuracy?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| l. | Are receipt records compared with bank deposits for full year?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| m. | Are all transfers between accounts traced?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| n. | Does an authorized party other than a check-signer approve journal entries, and are they adequately documented?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| o. | Are all checking accounts (including Discretionary funds and Episcopal Church Women) in the name of the congregation using its Federal Employer Identification Number? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |

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 <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| b. | Have the postings and arithmetic on individual pledge records been tested?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| c. | Number of individual pledge records sampled:  | _____                        |                             |                              |
| d. | Is there budgeting of contributions that can be reasonably estimated?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| e. | Are contribution budgets periodically compared to actual, and are significant differences investigated?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| f. | Are records kept and periodically reviewed of gifts, such as bequests, which are contingent on future events?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 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 <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |

- 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  N/A
- 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  N/A

6. *Securities:*

- a. Is the securities list verified against subsidiary ledger accounts, validating serial numbers against purchase records of gifts? Yes  No  N/A
- b. Is the name verified in which securities are registered? Yes  No  N/A
- c. In the case of coupon bonds, are unmatured coupons intact? Yes  No  N/A
- d. Is the market value of securities established at the date of the examination? Yes  No  N/A
- e. Are securities examined or confirmed if held by depository or transfer agent? Yes  No  N/A
- f. Are brokers reports examined for securities bought or sold through broker? Yes  No  N/A
- g. Were security purchases or sales authorized by appropriate Vestry action and recorded in the minutes? Yes  No  N/A
- h. Have cash receipts records of dividends and interest been compared with record of securities held? Yes  No  N/A

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

8. *Property and Equipment:*

- a. Is there a list of fixed assets, showing date of purchase and cost? Yes  No  N/A
- b. Is an inventory identification procedure in effect? Yes  No  N/A
- c. Using preceding information, has a physical examination of assets been made, to extent possible? Yes  No  N/A
- d. Have any deeds and titles required been examined as evidence of ownership? Yes  No  N/A
- e. Are land and buildings carried on financial statements? Yes  No  N/A
- f. Are any liens outstanding against property and equipment? Yes  No  N/A

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  N/A
- b. Have total withholding taxes been reconciled with Form 941 and other required forms? Yes  No  N/A
- c. Has it been determined that all Federal, State and local withholding taxes were remitted on a timely basis to avoid hidden penalties? Yes  No  N/A
- d. Is a current, signed Form W-4, I-9 or other required forms on hand for each employee? Yes  No  N/A
- e. Has a housing resolution been included in the Vestry minutes for each cleric employed by the congregation? Yes  No  N/A

10. *Other Indebtedness:*

- a. Have appropriate church officials properly authorized all indebtedness? Yes  No  N/A
- b. Have unpaid balances per church records been reconciled with balances as reported by creditor? Yes  No  N/A
- 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  N/A

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  N/A

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

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  N/A
- 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  N/A
- c. Is there a policy covering the procedure for write-offs or receivables or loans, approval required, provision for reserves? Yes  No  N/A
- d. Is there a process in place for ongoing review of the budget? Yes  No  N/A

## 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 – *accrual being the preferred method*) basis in accordance with principles adopted by the Episcopal Church and approved by its General Convention except as noted. (*Note exceptions here, if any: e.g., Was depreciation recognized?*)

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 its 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 Examination 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) Passbooks and evidence of other investments
    - 9) 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.

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
- a. Review balances for reasonableness, consistency of amounts between years and obvious omissions.
- b. 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.
- c. Verify, by direct communication with any lender, the outstanding indebtedness at the year-end as well as the terms of the indebtedness.
- d. 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 non-degree 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, Vestry and bookkeeper by teaching the accrual method of accounting.

## CHAPTER VII: RISK MANAGEMENT & INSURANCE

<i>Introduction</i> .....	VII-1
<i>Risk Management</i> .....	VII-1
<i>Protecting Physical Assets and Revenues</i> .....	VII-2
<i>Safeguarding Against Civil Liability</i> .....	VII-4
<i>Insuring Against Management Liability</i> .....	VII-5
<i>Insuring Against Workplace Injuries</i> .....	VII-7
<i>Safeguarding Assets from Criminal Acts</i> .....	VII-7
<i>Other Insurances</i> .....	VII-8
<i>Caring for Employee Welfare</i> .....	VII-10

### 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” to comply with policy requirements and enable the insurer to gather important evidence quickly.

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, 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 vestry's decision to use restricted funds for purposes other than the donor's original intent;
- An outreach committee's decision to fund a controversial cause (or to withdraw support from a popular one)

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" in order to satisfy policy requirements. D&O policies generally require that the policyholder secure the insurer's consent before engaging defense

counsel. Failure to obtain consent in advance creates the risk that expenses incurred without authorization may not be covered.

### **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.

<i>Insurance</i>	<i>Risk</i>
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 (1) on-the-job injuries occurring overseas; (2) civil liability for overseas property damage or bodily injury to others arising from premises or operations; (3) civil liability for property damage or bodily injury caused by overseas vehicular use; (4) emergency medical expenses and travel assistance, including medical evacuation; (5) kidnap, ransom and extortion

### Additional Risks in the Electronic Age

The worldwide reliance on information technology and the explosion of the Internet and social media have created new risks that should be carefully considered.

**Network Security & Privacy Liability**, sometimes referred to as Cyber Risk or Information Risk, involves (1) the threat of damage to an organization’s information network and data and (2) its responsibility for damage to others’ networks and data and/or unauthorized release of private information.

Consider, for example, that a diocese, church, or other institution maintains electronic or hard-copy employee, parishioner/donor, and client records containing “personally identifiable information” (names, physical and email addresses, telephone numbers, social security numbers, etc.) now protected under the laws of most states. If this information is breached – whether by criminal act or human error – the organization may be required to notify the potentially-affected parties, to provide credit monitoring services, and to satisfy other regulatory requirements -- all at considerable expense. Recent studies suggest that the cost of a breach averages \$205 per compromised record (Ponemon Institute, 2012).

Technology safeguards are the first line of defense. Such safeguards include firewalls, encryption, access controls, intrusion detection, antivirus software, and backup/recovery procedures, among others. Commercial insurance is also available to finance the first-party (Network Security) and third-party (Privacy Liability) exposures, including response and regulatory costs. The entry of many new providers and insurance products has created a variety of options and reduced costs for clients.

The Internet has also created another source of risk – **Media Liability** risk – as organizations embrace their power to build their identities, expand their membership, raise money, and convey news and information. Although traditional Commercial General Liability insurance policies have covered Personal Injury offenses such as libel, slander, and defamation, they rarely address such intellectual property-based risks as plagiarism, copyright infringement, or trademark infringement except in the context of advertising. As church organizations expand their web content, and as the insurance underwriting community refines how its products address electronic age risks, the result may be new policy exclusions that sharply limit or bar protection. Electronic chat rooms and blogs are among the first activities to be excluded from many traditional insurance policies.

While they may promote organizational branding, awareness, development, and even fellowship, social media such as Twitter, Facebook, YouTube and LinkedIn create further risks, including the disclosure of proprietary information, derogatory postings about other people or organizations, violations of privacy, infringement of others’ intellectual properties, and reputational damage.

Organizations with any element of social media activity should consider establishing employee usage guidelines, ideally embedded within a code of conduct or employee handbook. The policy should establish the organization’s right to monitor postings made on-the-job and caution against divulging confidential information, breaching copyrights or other intellectual property rights, and posting offensive content. Specialized Multimedia Liability insurance may be an appropriate risk transfer option.

## 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](http://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 February 2012

*The author of this chapter, **Scott R. Konrad**, is a 35-year insurance industry veteran and an executive director with Frank Crystal & Co., Inc., a leading privately-held insurance brokerage and risk advisory firm. He leads the firm's nationwide nonprofit specialty practice. He has also served his home parish in Essex, Connecticut in a variety of leadership roles ranging from stewardship chair to senior warden and was appointed to the Insurance Board of the Episcopal Diocese of Connecticut, which helps over 170 congregations to secure and maintain broad asset protection and employee benefit programs.*

# CHAPTER VIII: PAROCHIAL REPORTS

## CHAPTER CONTENTS LINE-BY-LINE WORKBOOK & INSTRUCTIONS

<i>Section A: General Instructions for Filing the 2006 Parochial Report</i> .....	VIII-2
<i>Filing Your Parochial Report Form</i> .....	VIII-3
<i>Page 2: Membership, Attendance and Services Information</i> .....	VIII-4
<i>Page 3: Stewardship and Financial Information</i> .....	VIII-5
<i>Section B. Membership, Attendance, and Services (Page 2 of the Parochial Report)</i> .....	VIII-5
<i>Membership (Defined by Canon I.17)</i> .....	VIII-5
<i>Active Baptized Members of the Reporting Congregation</i> .....	VIII-5
<i>Membership, Attendance and Services of the Reporting Congregation</i> .....	VIII-6
<i>Attendance and Services</i> .....	VIII-10
<i>Questions and Answers about Average Sunday Attendance</i> .....	VIII-12
<i>Section C: Financial Statistics (Page 3 of the Parochial Report)</i> .....	VIII-13
<i>Giving Information for 2006</i> .....	VIII-13
<i>Guidelines for Reporting Revenues and Expenses (Lines 3-17)</i> .....	VIII-13
<i>Report of Revenues and Expenses for the Report Year</i> .....	VIII-14
<i>Operating Revenues</i> .....	VIII-15
<i>Non-Operating Revenues (Restricted/Designated)</i> .....	VIII-17
<i>Operating Expenses</i> .....	VIII-19
<i>Non-Operating Expenses</i> .....	VIII-21
<i>At Year-End</i> .....	VIII-22
<i>Appendix: Canonical Reference (Text of Canons I.6, I.7, and I.17 of the Constitution and Canons)</i> .....	VIII-23

### PAROCHIAL REPORT FORM

*2006 Parochial Report Form*..... *Following Chapter VIII (3 pp.)*

## 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. Christine Kandic	(212) 716-6187
Research Assistant	(800) 334-7626, ext. 6187
Domestic and Foreign Missionary Society	ckandic@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  
(800) 334-7626, ext. 5296  
kbarnes@episcopalchurch.org

Dr. C. Kirk Hadaway  
Director of Research  
Domestic and Foreign Missionary Society  
(212) 922-5331  
(800) 334-7626, ext. 5331  
khadaway@episcopalchurch.org

## **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



Morehouse Publishing, (800) 877-0012, and online at [www.morehousepublishing.org](http://www.morehousepublishing.org). Search for the available register titles by using the keyword “register.”

### **PAGE 3: STEWARDSHIP AND FINANCIAL INFORMATION**

The Financial Statistics section of the report (page 3) poses two primary questions: 1) what is your income, and where does it come from; and 2) how do you spend your income, both within the parish and outside it?

This report is not a balance sheet. The financial statistics requested on this page do not require any opening or closing balances. Revenues and expenses may be reported on a cash basis or on the accrual basis. Just be consistent.

Most of the entries can be made from the year-end treasurer's statement without further calculations. Please note that irrelevant lines may be left blank. So, for instance, if all of the congregation's income is from plate offerings and pledge payments, lines 4, 5, 6 or 7 may be left blank. In congregations with no capital funds or other restricted income with limited purposes (such as construction funds, organ funds, endowments or grants), lines 8 through 10 may be left blank. In congregations with no major improvements or purchases of land or buildings, line 15 may be left blank.

Lines 18 and 19 under the “At Year-End” heading show the total year-end assets of the congregation.

For more detailed line-by-line guidelines, use the sections that follow.

### **Section B. Membership, Attendance, and Services (Page 2 of the Parochial Report)**

#### **MEMBERSHIP (DEFINED BY CANON I.17)**

“All persons who have received the Sacrament of Holy Baptism with water in the Name of the Father, and of the Son, and of the Holy Spirit, whether in this Church or in another Christian Church, and whose Baptisms have been duly recorded in this Church,” are members thereof. (Canon I.17.1)

*Note:* A person’s baptism, when duly recorded in the *Register of Church Membership and Rites* (also known as the *Parish Register* or *Church Register*) of the recording congregation, is his/her record of membership in the Episcopal Church.

#### **ACTIVE BAPTIZED MEMBERS OF THE REPORTING CONGREGATION**

For statistical purposes the Episcopal Church counts only *active baptized members*. Counting active members avoids double-counting of persons who are registered in another congregation and did not obtain a letter of transfer. Counting only active members also avoids counting persons who are not currently contributing to the corporate worship and communal life of the reporting congregation. Inactive members should be noted as inactive in the *Register of Church Membership and Rites* and should not be counted in the Parochial Report. By canon law they should remain on the membership rolls, however, until removed by reason of transfer or death.

A member, whether active or inactive, should not be removed from the *Register of Church Membership and Rites* except for the following reasons:

- Removal by reason of transfer (see Canon I.17.4)
- Death

**Active Baptized Members defined:** Any person whose baptism is recorded in the Register of Church Membership and Rites (Parish Register) and contributes to or participates in the worship and communal life of the reporting congregation, regardless of how much or how little, should be considered active and counted in this report.

**Reasons why a member should be removed to inactive status:**

- **Domicile unknown** – a member no longer attends and cannot be contacted by mail or phone.
- **Member has not attended the congregation** for more than a year and has not contributed either financially or in service to the parish.
- **The person attends another congregation**, but your congregation has never received a request for transfer.
- **The person is attending a church affiliated with another denomination**, and no longer gives to your congregation or participates in your congregation’s worship.

**MEMBERSHIP, ATTENDANCE AND SERVICES OF THE REPORTING CONGREGATION**

*Line-by-line instructions for page 2, Box M05 and Items 1 through 21*

**Active Baptized Members of the Reporting Congregation Reported Last Year** (this number will appear on the electronic data entry form and may also appear pre-printed in Box M05 of the hard copy Parochial Report form mailed with this workbook):

<b>Using Last Year's Report:</b> Baptized Members of the Reporting Congregation	<b>Using the 2005 Parochial Report, record the Number of Baptized Members Reported as of December 31, 2005.</b> (Use the number recorded in 2005 Parochial Report, Box M05.)	
<b>Members Reported Last Year = M05.</b>		<input style="width: 100px; height: 20px;" type="text"/>

At top of page 2 enter the record of active baptized members you reported at the end of last year as of December 31 from Box M05 of last year’s Parochial Report. *Even if you disagree with this figure*, enter the amount you reported at the end of last year. You will have an opportunity to correct last year’s membership in the increase and decrease sections of this report.

**Then, using the congregation's Register of Church Membership and Rites, enter the number of increases and decreases in active membership that occurred during the report year in boxes 1 and 2 of the 2006 Parochial Report.**

**Box 1** All increases to active membership during the report year:

<b>Using the Register of Church Membership and Rites:</b>	
<b>During the Report Year</b>	<b>1. Increases during year:</b> All members added to the baptized members section of the congregation's Membership Register during 2006 by: baptism, confirmation/reception, or transfer; and those persons restored from inactive status or not counted in last year's membership count.
<b>Increases in Membership</b>	<b>Total Increases = 1.</b>
<input style="width: 100px; height: 20px;" type="text"/>	

All persons added to the Register of Church Membership and Rites during the report year should be included in Box 1.

A person is added to the Register of Church Membership and Rites (Parish Register) for the following four reasons:

- **Baptism** \_\_\_\_\_
- **Letter of Transfer** \_\_\_\_\_

When a person moves into your congregation with a letter of transfer, s/he should be recorded in the baptismal section of your Register of Church Membership and Rites. Please note that if s/he in fact has been confirmed or received, this should be noted opposite the person's name on the same line under the column heading "Confirmed/Received."

- **On request, provided no letter of transfer is received** \_\_\_\_\_

A name may be added to a Register of Church Membership and Rites without a letter of transfer, provided that an energetic but unsuccessful effort has been made to obtain one.

- **Confirmation or reception by a bishop if, and only if, their baptisms have not been previously recorded** \_\_\_\_\_

If, and only if, at the time of confirmation or reception the person is added to the baptismal section of the register, he/she should be counted as an increase. The Bishop may receive a person in three different ways, according to the sections of the cited canon. Count those persons received by the Bishop during the report year through: (a) baptism and confirmation; (b) reception after confirmation by any bishop in apostolic succession; (c) reception of any baptized person into the Episcopal Church who has made a mature public commitment in another Church. Remember to indicate that the new member is confirmed in the appropriate column opposite the new member's name in the baptized members' section of the register.

**Other Increases in reported active membership:**

In addition to those persons added to the baptized member's section of the Register of Church Membership and Rites, the following increases in active membership should be included:

- **Restored to active status** \_\_\_\_\_

Count those persons restored from inactive status to active status in the Register of Church Membership and Rites during the report year. "Active" and "inactive" are defined on page 1 of this workbook.

- **Corrections to last year's membership count** \_\_\_\_\_

If your congregation under-reported membership last year, add the members that were not included in last year's active member total to the amount reported in Box 1.

**Box 1**

**Total increases during the year: 1.**

Add all increases you have noted above for the total increase during the year and record in Box 1 on page 2 of the Parochial Report form.

**Box 2**

**All decreases in active membership during the report year:**

<b>During the Report Year</b>	<b>2. Decreases during year:</b> <i>All baptized members lost by death, transferred to another congregation, removed to inactive status, removed for other reasons, or not removed from last year's membership count.</i>
<b>Decreases in Membership</b>	<b>Total Decreases = 2.</b> <input style="width: 100px; height: 20px;" type="text"/>

*All persons removed from the Register of Church Membership and Rites (Parish Register) should be included on line 2.*

A person is removed from the *Register of Church Membership and Rites* during the report year for the following reasons:

- **Death (record number of member deaths)** \_\_\_\_\_

Include those persons whose baptisms were removed from your Membership Register during the year because they died.

- **Transferred out** \_\_\_\_\_

Count those persons who left the parish by official letter of transfer during the report year and were removed from the *Register of Church Membership and Rites*. \_\_\_\_\_

**Other decreases in Active Membership that should be included are as follows:**

- **Baptized Members who were changed to inactive status**

Count those persons who have been moved to inactive status in your register. “Active” and “inactive” are defined on page 1 of this workbook.

- **Members whose active status changed for other reasons** \_\_\_\_\_

Count those persons who have been “removed from active status” for disciplinary reasons.

Remember that becoming inactive is not a reason for removing a name from the baptized members’ section of the *Register of Church Membership and Rites*. Rather, indicate inactive status in the appropriate column of the register.

- **Corrections to last year’s membership count** \_\_\_\_\_

If your congregation over-counted membership last year, include the corrections to the amount to be reported in box 2.

**Box 2**

**Total Decreases during the year:** 2.

Add all decreases you have noted above for the total decreases in active membership during the year. Record the total in Box 2 on page 2 of the Parochial Report form.

**Box M06** Total active baptized members at year-end

$$\begin{array}{ccccccc} \text{Last year} & + & \text{Increases} & - & \text{Decreases} & = & \text{This year} \\ \text{Box M05} & + & \text{Box 1} & - & \text{Box 2} & = & \text{Box M06} \end{array}$$

<b>Active Baptized Members of Reporting Congregation At year-end</b>	<b>M06.</b> Add the Increases entered in box 1 to the amount in Box M05. Then subtract decreases entered in box 2 for the total active membership as of December 31, 2006.
<b>Total Active Baptized Members (end of report year) = M06.</b>	<input style="width: 100px; height: 20px;" type="text"/>

To the membership number carried forward from last year’s report (Box M05) add the increases in box 1, and subtract the decreases in box 2. Record the total in Box M06.

*This is your active baptized membership count as of December 31, 2006 and your beginning of the year count for the Parochial Report for next year (2007).*

**Box 3** All communicants in good standing regardless of age

<b>Communicants in Good Standing of the Reporting Congregation</b>	<b>3. All communicants in good standing:</b> all baptized members (of the reporting congregation), who have received Holy Communion in this church at least three times during the preceding year, and have been faithful “in corporate worship, unless for good cause prevented,” and “in working, giving and praying for the spread of the Kingdom of God.”
<b>All communicants (Adults and Youth) in good standing = 3.</b>	<input style="width: 100px; height: 20px;" type="text"/>

To be a *Communicant* one must be a baptized member of the reporting congregation. To be a Communicant one also must have received Holy Communion in this church at least three times during 2006. (See Canon I.17.2a)

*Communicants in Good Standing* are those communicants, “who for the previous year have been faithful in corporate worship, unless for good cause prevented, and have been faithful in working, praying and giving for the spread of the Kingdom of God.” (See Canon I.17.3) **On Line 3, count all active members who are communicants in good standing regardless of age.**

Since the persons entered in line 3 have been previously counted as active baptized members, the line 3 total normally will be less than M06 (active baptized members). Under some circumstances line 3 might be the same as M06, but a congregation should never have more communicants in good standing than active baptized members.

**Line 4,** Communicants in good standing who are members under 16 years of age:

<b>Youth in Good Standing</b>	<b>4.</b> Those communicants in good standing (counted on line 3) who are under 16.
<b>Communicants in Good Standing who are 15 years old or younger = 4.</b>	_____

Count those communicants in good standing, who were counted on line 3, who are 15 years old or younger.

**Line 5, Others who are active:**

<b>Others Active</b>	<b>5. Others who are active</b> <i>whose baptisms are not recorded in the Parish Register, or in another Episcopal Congregation.</i>	<b>Others = 5.</b> _____
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**On Line 5**, count those persons, who share in the life of the congregation but do not fit the preceding membership categories. Include all adults and children who have not changed their denominational affiliation but attend your congregation and have not been added to the baptized members' section of the *Register of Church Membership and Rites*. This includes persons who are awaiting baptism and are active in the congregation. Do not count persons who are members of another Episcopal Congregation awaiting transfer.

*This concludes the membership section of Page 2*

**Attendance and Services:**

*Use your congregation's Service Register for the following attendance and services information.*

**Box 6 Average Sunday Attendance**

<b>Using the Register of Church Services:</b>		
<b>Average Sunday Attendance for 2006</b>	<b>6. Sunday (and Saturday Evening) Attendance:</b> <i>Divide total Sunday attendance by number of Sundays.</i>	
	<b>Avg. Sunday Attendance = 6.</b>	<input style="width: 100px; height: 20px;" type="text"/>

To obtain the average Sunday attendance for the year, compute (add up) the total number of persons (children and adults) who attended all public Sunday services (include Saturday evening Eucharists if they are considered Sunday services). Using your *Service Register* will be easier if you bring forward a weekly subtotal of Sunday attendance for the year. Do not include those persons who attended Church School but did not attend any part of the Sunday service or a scheduled Sunday service for Church School students. Divide the total number of those attending all Sunday services by the number of Sundays in the report year in which services were offered and enter the average Sunday attendance in Box 6. Seasonal chapels will divide by the number of Sundays that services were held.

**Line 7, Easter Attendance**

<b>Easter Attendance in 2006</b>	<b>7. Easter attendance</b>	<b>(7)</b> _____
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**On line 7**, count, as recorded in the service book, the total number of persons, children and adults, who attended Sunday services for Easter, include Saturday evening Easter Vigil.

**Sacraments and Services:**

**Lines 8 through 10, Holy Eucharist Services**

<b>Number of Holy Eucharists Celebrated during 2006</b>	<b>8.</b> Sunday & Saturday Evening Eucharists	<b>(8)</b> _____
	<b>9.</b> Weekday Eucharists	<b>(9)</b> _____
	<b>10.</b> Private Eucharists	<b>(10)</b> _____

**On line 8** include the number of Saturday evening Eucharists as well as all Sunday Eucharists. Note that this figure (and others in this section) refers to services, not to people attending services.

**On line 9** count the number of the scheduled public weekday Eucharists recorded in the *Register of Church Services*. Include Eucharists following Morning Prayer which constitute complete and separate services.

**On line 10** count Eucharists that are part of a marriage or burial service, including complete and separate Eucharists, which precede or follow a marriage or burial service. "Private services" refer to Eucharists that are either: (a) not regularly scheduled; (b) celebrated in homes and institutions; or (c) have Holy Communion administered by Lay Eucharist Ministers. Include Holy Communion administered by clergy from the Reserved Sacrament.

**Lines 11 through 14, Other Services**

	11. Daily Offices on Sunday	(11) _____
<b>Daily Offices and Other Services held during 2006</b>	12. Daily Offices on Weekdays	(12) _____
	13. Marriages	(13) _____
	14. Burials	(14) _____

**On line 11** count all Sunday, and on line 12 count all weekday, services of Morning and Evening Prayer, and other daily services (Compline, Noonday Office, etc.), even when followed by or used with the Eucharist.

**On Lines 13 and 14**, count marriages and burials recorded in your *Register of Church Services*, even if they are counted on line 10 because a Eucharistic Service was included. Line 14 is not necessarily the same as the number removed by reason of death from your *Membership Register*. Line 14 should be obtained from your *Register of Church Services*. Some who are buried may not have been members, and some members who died may not have been buried at the reporting site.

**Baptisms, Confirmations and Receptions during the year:**

<i>Using the Register of Church Membership and Rites:</i>		
<b>Baptisms during 2006</b>	15. Baptisms 16 years and older	(15) _____
	16. Baptisms under 16 years of age	(16) _____

Count all baptisms recorded for the report year, adults (16 and older) on line 15 and youth (15 and younger) on line 16.

<b>Confirmations during 2006</b>	17. Confirmations 16 years and older	(17) _____
	18. Confirmations under 16 years of age	(18) _____
<b>Received during 2006</b>	19. Received by a Bishop	(19) _____

**On lines 17 and 18** count the number of persons whose recorded confirmations took place during the report year. On line 17, count persons aged 16 and older. On line 18, record persons aged 15 and younger. For the purposes of this report, use the age (estimate if not known) on the last day of the reporting year for the age category.

**On line 19** record the number of persons received by a bishop, because they are recognized as a member of the One, Holy, Catholic and Apostolic Church, and received into the fellowship of this

Communion. Count those persons who have received the laying on of hands by a bishop in apostolic succession and received by a bishop of this Church, Canon I.17.1 (d).

**Lines 20 and 21, Education:**

<b>Education:</b>		
Children and Youth	20. Total Church School Students enrolled	(20) _____

**On Line 20**, count the number of children and youth in all grades who are enrolled. Do not include weekday parish Day School Students unless they were enrolled in Church School.

Adult Education	21. Did you have (a) scheduled Sunday or weekday adult education program(s)?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
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For line 21 indicate by “yes” or “no” whether your congregation provided any regularly scheduled adult Christian Education program(s) during the report year.

**THIS CONCLUDES THE LINE-BY-LINE INSTRUCTION WORKBOOK FOR PAGE 2**

- ***FILL OUT PAGE 2 OF THE PAROCHIAL REPORT FORM USING ANY NOTES YOU HAVE MADE IN THIS WORKBOOK.***
- ***FILE YOUR REPORT ONLINE AT THIS WEB SITE: [HTTP://PR.DFMS.ORG](http://pr.dfms.org)***
- ***OR, MAIL THE COMPLETED FORM TO YOUR DIOCESE, TYPED OR HANDWRITTEN, TOGETHER WITH PAGE 1, CERTIFICATION, AND PAGE 3, THE FINANCIAL REPORT. DO NOT SEND THIS REPORT TO THE GENERAL CONVENTION OFFICE OR THE DFMS RESEARCH OFFICE.***
- ***KEEP THIS WORKBOOK OR A PHOTOCOPY OF THE COMPLETED FORM FOR YOUR RECORDS.***
- ***YOU MAY REVIEW YOUR DATA FOR PRIOR YEARS AT THIS WEBSITE: [HTTP://PR.DFMS.ORG](http://pr.dfms.org) USING YOUR UEID AND PASSWORD. SELECT THE VIEW/PRINT OPTION.***

***Questions and Answers about Average Sunday Attendance***

**Who should be included in this count?** *All persons of whatever age, lay or clerical, who participated in all or part of your services, in the nave, choir, or sanctuary on Sunday mornings (or Saturday evening if that is, in effect, an anticipatory Sunday Service).*

**Do I count Easter?** *Yes, as it always falls on Sunday.*

**Do I count Christmas?** *No (unless Christmas Day falls on a Sunday; in that case, count your Christmas Eve services as well as any services on Christmas Day).*

**We have a service every Wednesday at 10:00 am and observe other holy days during the week. What about them?** *Do not include attendance on those days.*



**Grades 1-5 start out in church and then leave before the sermon for Church School. What about them? Count them.** *They are in church for part of a Sunday service.*

**We celebrate the Sunday Eucharist on Saturday night and have an early service at 7:30 a.m. on Sunday. Should I count those who attend?** *Yes.*

**Our parish has a scheduled Sunday Liturgy and Eucharist for our Church School Students? They did not attend any part of the regular church service. Should I count them?** *Yes.*

**We have a special service for the EYF on Sunday evenings twice a month. Should we count them?** *No.*

**We had a winter storm, which caused us to cancel our regular Sunday services last winter. Do we count that day as zero attendance in the total and divide by 52?** *No, you should not count that Sunday, since services were cancelled. Instead take your total attendance and divide by 51 Sundays instead of the 52 Sundays you would normally average.*

**What about marriages and funerals?** *Do not count them.*

**What is the simple way to accomplish this task?** *Go through the Register of Church Services and highlight the number in attendance at each Sunday morning service during the year. Add up the numbers and divide the total by the number of Sundays in the year (usually 52).*

*Please use your good judgment when tackling questions that may not fit your congregation. When in doubt, contact your diocesan office or Gretchen Marin at (800) 334-7626 at the Episcopal Church Center.*

## Section C: Financial Statistics (Page 3 of the Parochial Report)

### Giving Information For 2006

#### Number of Pledges

**1. Number of signed pledge cards for 2006-report year** (1) \_\_\_\_\_ units

Count all persons, adults and children, who signed a pledge card (number of signed pledge cards) or some other pledge of record (signed note or letter of pledge) for the Report Year.

**Example A:** On January 1, 2006 St. Paul's had received 84 pledge cards. Five additional pledge cards for 2006 were received later that month, and four new families made pledges during the course of 2006. Enter **93** (84+5+4) on line 1, even though some who signed pledge cards may have died or moved away during the Report Year.

#### Total \$ Pledged

**2. Total dollar amount pledged for 2006-report year** (2) \$ \_\_\_\_\_

Give the total dollar amount pledged from the pledge cards (or records) recorded on Line 1.

**Example A (continued):** On line 2 enter the total pledged from the 93 pledge cards shown on line 1, even though not all of the pledges may have been fulfilled.

### Guidelines for Reporting Revenues and Expenses, lines 3 to 18:

**Basis of Reporting:** *Revenues and expenses may be reported on a cash basis or on the accrual basis. Just be consistent.*

**General Description of Operating Revenues and Expenses:** All funds, from whatever source, that are used for the general operation of the congregation are *operating revenues*. The general operation of the congregation includes—but is not limited to—compensation of clergy & lay staff, all expenses related to operating and insuring the building(s), expenses of the music program, church school, adult education programs, flowers and supplies for the altar, diocesan quota or assessment, and office expenses.

**Important notes:** Because operating revenues are defined as the funds that are used to pay operating expenses, operating income will typically equal or nearly equal operating expenses. If this report is completed correctly, there will usually be no significant difference between total operating revenues and total operating expenses. Also, all figures reported in this section must be positive numbers (e.g., a stock market loss is not reported as negative income value, for example, but rather is reflected in the total value of investments for 2006).

**A General note about Restricted, Unrestricted, Designated, and Undesignated Funds:** Funds are considered *restricted* (permanently or temporarily) only if the *donor* has *specified* that the gift, or income from the gift, is to be used for a specific purpose. Unrestricted funds may be *designated* by the vestry for a specific purpose.

However, the parochial report is based on the distinction between *operating* and *non-operating* funds. A donor may *restrict* a gift for an operating purpose (e.g., the fuel bill or the rector's salary), and the income is considered *operating* income because the gift is used for an operating purpose.

On the other hand, the vestry may *designate* a bequest or gift for a non-operating purpose, and report such gifts as non-operating income.

*Read the following pages for line-by-line instructions and examples that cover many different circumstances. If you have questions, please ask your diocesan office for clarification.*

For purposes of this report:

- All funds that are available or used for operating expenses are operating revenues.
- All funds given or designated for non-operating purposes are non-operating revenues.

**A General note about how outreach expenditures are reported:**

There are three ways congregations can raise and expend money for outreach. They are different, so they are reported differently.

1. You can make a special appeal for a particular project outside the parish, or you can designate the proceeds of a fundraising event in advance for a purpose outside the parish.  
For example: You receive \$417 in the Good Friday envelope and transmit the entire amount. Or, you announce that whatever you net on the Fall Rummage Sale will go to Episcopal Community Services. The sale nets \$1,544 and the entire amount is sent to that charity. These transactions are recorded on lines 11 and 18. If the collections and transmittals occur in the same year the amounts will be equal.
2. You can make a special appeal for the summer day camp your congregation runs for the community or you can designate in advance that the proceeds of the Spring Fair will go to the summer day camp program. In these cases, the income received from the appeal or the fair will be included on line 10. The expenses of the summer day camp will be included on line 16.
3. A vestry will often include mission and outreach line in the operating budget. They decide how much to contribute from the operating budget to various community programs or charitable causes. Because the source of the money is operating revenues reported on lines 3-6, these expenditures are shown on line 13.

## Report of Revenues and Expenses For 2006

### Operating Revenues

*All funds available for operations.*

#### 3. Plate offerings, pledge payments, & regular support (3) \_\_\_\_\_

Include on this line all giving from individuals for the general support of the congregation. *In most congregations this will be the largest income figure* and will not be significantly below a congregation's operating expenses. *Do not leave this item blank* or report an absurdly low figure!

Examples of income to report:

- Loose plate offerings
- All payments toward pledges
- All amounts in regular offering envelopes, including the envelopes of members of the Church School
- All unpledged or undesignated offerings. Include Easter, Christmas, etc., if used for operating purposes
- Payments from persons who made no pledge or declined to use envelopes
- All donations "restricted" for operating purposes, e.g., donations for flowers, fuel oil, the diocesan assessment, support of the clergy, etc.
- Donations from visitors or persons not members of the congregation

**Example B:** At Grace Church the Easter and Christmas offerings are used for the operating budget, but the Thanksgiving offering is given to a local interfaith soup kitchen. The Easter offering was \$3,500; the Christmas offering was \$2,500. The Thanksgiving offering was \$750. The \$6,000 from the Easter and Christmas offerings is included on line 3. The Thanksgiving offering is reported coming in on line 11 and going out on line 18. See further examples and explanations below.

**Example C:** At Christ Church the ECW, which maintains checking and savings accounts, receives donations for flowers at Easter, Christmas, and throughout the year. The ECW purchases the flowers, as well as the bread and wine and linens for the Altar. To complete this report correctly, the Parish Treasurer must add the income recorded in the ECW accounts for flower donations to operating revenue and the Altar expenses to operating expenses. It is, therefore, suggested that the income and expenses for Altar flowers and supplies be deposited into and paid from the general checking account of the parish. If there is a separate account, it is an operating account of the parish, not an organization account.

#### 4. Money from investments, used for operations (4) \_\_\_\_\_

"Money from investments, used for operations" does *not* mean investment funds that could be used for operations (i.e., the entire investment portfolio). It means all amounts from investments that were transferred into operating accounts or used for operating expenses during the current year.

Include interest from all operating accounts, dividends and interest from investments available for parish operating expenses and/or the Diocesan and General Church Program. If restricted investment income is used for operating expenses, include the income here. If withdrawals of principal or capital gains were made to cover operating expenses, include the amount of those withdrawals here.

If the congregation applies a total return policy to its investments whereby it reinvests all income and gains and draws out a percentage of an average value, the amount reported here will not equal the interest, dividends, gains or losses of the investment portfolio. Regardless of the activity in the investments, the amount to enter here is whatever amount has been transferred from the portfolio (whether principal, interest, dividends or accumulations) to support the operation of the congregation.

To avoid double assessments of revenues by your diocese be sure to report additions to investments under line 9 (a non-operating revenue category). If a congregation reported income from plate and pledge offerings in one year (line 3) but later transferred these funds into an investment portfolio, the principal of these funds need not be counted as operating revenue (under line 4) in another year if they are transferred back into an operating account.

Note: Losses to an investment portfolio cannot be reported as “negative income” to be used to lower a congregation’s operating revenue. Changes to an investment portfolio are reflected in the size of the investment corpus (line 19). Only income transferred from investments to be used for congregational operations are included in line 4.

**Example D:** St. Mary’s Church is the beneficiary of a trust. In setting up the trust, the donor stipulated that the income from the bequest could be used only toward the support of the Rector. The trust income St. Mary’s received this year was \$13,567. St. Mary’s fulfilled the restriction on the income by paying the Rector a total of \$45,000. The trust income is operating income reported on line 4, because it was available and used for an operating purpose.

**Example E:** St. Matthew’s reinvests all interest, dividends and gains in a balanced portfolio. The Vestry draws out 5% of a three-year moving average of the total assets for the operating budget. The full 5% draw down is reported on line 4.

**5. Other Operating Income, including unrestricted gifts and restricted gifts used for operations, and contributions from congregation’s organizations**

- |  |            |          |
|--|------------|----------|
| a. Rental of Property Income             | a. _____   |          |
| b. Less Direct Expenses                  | b. (_____) |          |
| c. <b>Net Rental Income (a-b=c)</b>      |            | c. _____ |
| d. Fundraising Events Income             | d. _____   |          |
| e. Less Direct Expenses                  | e. (_____) |          |
| f. <b>Net Fundraising Income (d-e=f)</b> |            | f. _____ |

The figures for Net Rental and Fundraising Income (lines c and d) are not to be used if negative; expenses in excess of income are included as an operating expense rather than as negative operating income.

**Example F:** Zion Church had a disastrous experience with a major outdoor fundraising event. Bad weather caused cancellation of the event, and the congregation was unable to recoup what it had paid out for rental of tents and other items. The event lost \$1,500. Zion reports \$0 for the event on line 5 and adds \$1,500 to Other Operating Expenses on line 14.

- g. Other income g. \_\_\_\_\_

Include surplus operating revenues from cemeteries, schools, real estate, special grants from non-church sources, principal of all undesignated gifts, and memorials that were used for operating expenses or for the Diocesan and General Church Program. Include also support of the operating budget by congregation’s organizations and foundations.

**Example G:** The ECW at St. John’s sponsors events and raises funds. The group makes contributions to the Diocesan Altar Guild and many mission projects. The ECW also gives \$2,500 per year toward St. John’s operating budget. The Treasurer reports the \$2,500 on line 5.

**Example H:** St. Michael and All Angels has set up a separately incorporated foundation to manage its endowment. The foundation makes grants to support both the parish operating budget and capital improvement projects. The full amount of all grants for operations is included on line 5; the grants for capital projects are included on line 8.

**Example I:** The Friends of St. Luke’s was established to allow members of the community who are not parishioners to be involved in the care of St. Luke’s landmark buildings. “The Friends” have their own checking account. Sometimes, funds are given by The Friends of St. Luke’s to the parish; sometimes the Friends pays bills on behalf of the parish. Last year the Friends wrote a check to St. Luke’s for \$10,000 for the roof replacement project. Last year also, the Friends paid much of St. Luke’s fuel oil bill by writing \$7,500 in checks directly to the fuel oil company. The Treasurer records \$10,000 on line 8 as Capital Funds Revenues and the expense of \$10,000 on line 15. The Treasurer must include \$7,500 on line 5 as Other Operating Revenue and add \$7,500 to line 14 Operating Expenses.

**Total: Add (c + f + g) and enter subtotal on line 5** (5) \_\_\_\_\_

**6. Unrestricted bequests used for operations** (6) \_\_\_\_\_

Principal of all unrestricted legacies and bequests that were used for operating purposes.

**Example J:** St. Alban’s received a \$25,000 unrestricted bequest. \$10,000 was used to pay operating bills; \$15,000 was invested. St. Alban’s includes the \$10,000 on line 6 and the \$15,000 on line 9.

**Subtotal Normal Operating Income (3 + 4 + 5 + 6) = [A]** [A] \_\_\_\_\_

**7. Assistance from diocese for operating budget** (7) \_\_\_\_\_

Include diocesan grants for the parish budget, clergy salaries, and other operating expenses. Do not include any amounts the diocese paid directly on your behalf, but only grants deposited in the congregation’s accounts. Grants from the diocese for capital improvements are included on line 8; grants for outreach programs are included on line 10. See the examples.

**Example K:** St. George’s received \$12,000 from the diocesan budget toward the compensation of its priest, \$2,000 for a ramp to make the church accessible to the disabled and \$3,000 toward the after school program. The Treasurer reports \$12,000 on line 7, \$2,000 on line 8, and \$3,000 on line 10. The \$12,000 expense is included in line 14, the \$2,000 on line 15, and the \$3,000 on line 16.

**Example L:** The congregations in one diocese send a certain amount to the diocesan offices from which the diocesan administration pays the medical premiums for all the clergy. The treasurers include these payments on line 14, Other Operating Expenses. The payments by the Diocese to the insurance company on behalf of the congregations are not shown on line 7.

**Example M:** In another diocese, aided congregations pay a percentage of their income to the diocesan office, and the diocesan budget pays all clergy compensation and fringe benefits directly. As in the previous example, the congregations report these payments to the diocesan budget on line 14. Only the amounts of checks from the diocese deposited into the congregation’s bank account for support of the operating budget are included on line 7.

**Total Operating Revenues (A+7) = [B]** [B] \_\_\_\_\_

Add revenues from lines 1 through 7 = [B]

**NON-OPERATING REVENUES (RESTRICTED/DESIGNATED)**

*General description of non-operating revenues and expenses:* Non-operating revenue is used for purposes outside the general operation of the congregation. Some examples of non-operating income include:

- Gifts to capital campaign or building fund
- Gifts or additions to the congregation's endowment funds
- Funds contributed to Episcopal seminaries
- Support of outreach ministries run by the congregation (soup kitchens, after-school programs, shelters, summer day camps, senior citizen programs, etc.)
- Funds restricted by the donor(s) or designated by the Vestry for transmittal to another recipient (UTO, Presiding Bishop's Fund, the Bishop's Discretionary Fund, etc.)

**Capital Income and Expenses (lines 8 and 15)**

- Report only new grants and contributions for capital purposes. Do not show interest, dividends gains or losses on capital funds invested or loans. Loans are not income. If you get a loan to fix the roof, do not include the loan proceeds on line 8. You will show the money raised to pay it back on line 8 and the actual repayment of the loan on line 15.
- For capital improvements, report only your actual expenses for the year. A loan for the improvements is not an expense. The repayment of the loan is an expense (line 15).

**8. Capital funds, Gifts and additions**

**(8)** \_\_\_\_\_

All designated or restricted contributions, pledged or otherwise, for the purpose of land, buildings, construction, or for major capital projects (new capital programs or capital projects that extend the life of existing fixed assets). Enter here only contributions and grants received or recognized during the report year. Do not enter interest, dividends, appreciation or depreciation on capital contributions already received.

**Example N:** Holy Nativity is raising funds to repair its historic steeple. Contributions are being received and invested until the work can begin. \$50,000 was received in individual contributions last year, and a landmarks conservancy granted \$25,000. The portfolio earned \$2,300 in interest and dividends and \$6,900 in appreciation. The Treasurer enters \$75,000 on line 8, reporting only the amount of gifts and grants.

**Example O:** Recently St. Stephen's suffered a fire that gutted the rectory. The insurance company settled last year for \$175,000, and an additional \$20,000 was raised to build a somewhat larger house. The insurance settlement is not income, and when it is used to rebuild, paying out the settlement is not an expense. (The cash settlement is for the replacement of a capital asset.) However, the \$20,000 that was raised is reported on line 8, and when it is expended, it is recorded on line 15.

See also examples H, I, and K.

**9. Additions to endowment, & other investment funds**

**(9)** \_\_\_\_\_

Report here additions to the principal of endowment funds. Include unrestricted memorial gifts, legacies, and bequests if not used for operating purposes. As on line 8, report only new contributions, bequests and gifts to the investment funds. Do not report interest, dividends, gains, or losses. Losses to an investment portfolio during 2006 reduce the size of the amount recorded in line 19. Losses do not constitute "negative income."

**Example P:** St. James the Less finds itself with a large checking account balance at the end of 2006, all of which was received from plate and pledge offerings. Rather than reporting all of this revenue as an operating expense (line 3), it transfers \$5,000 to an investment account. The \$5,000 is reported in line 9 and a reduction of \$5,000 is made to line 3. If St. James transferred the \$5,000 to investments in 2006 after reporting these funds as operating revenue in 2006, it should not count these funds as “available for operations from investments” (line 4) if they are used for operations in 2006 or later. However, it is much preferred for excess funds to be transferred to investment accounts during the year they are received.

See example J.

**10. Contributions & grants for congregation-based outreach & mission programs (10) \_\_\_\_\_**

Many congregations run outreach programs, such as soup kitchens, after-school programs, shelters, summer day camps, senior citizen programs, etc. These programs may be funded by a variety of sources. For example, an after-school program may receive fees from the participants, funding from local government sources, or grants from the Diocese, another congregation, or a foundation, as well as individual gifts for the program. Report all income for all such programs here. Expenses for these programs are reported on line 16.

See example K.

**11. Funds for transmittal to other organizations (11) \_\_\_\_\_**

Include all donor-restricted offerings or gifts for special purposes outside the basic operation of the congregation, i.e. Good Friday Offerings, Episcopal Relief and Development, Theological Education, the United Thank Offering, the Bishop’s Discretionary Fund, etc. Also include occasional unbudgeted income that the Vestry has designated for mission program outside the congregation.

**Example Q:** The UTO offering was received twice last year by Trinity Church, \$425 in the spring and \$375 in the fall. ECW representatives brought the offerings to the diocesan ingathering. \$800 is reported on line 11 and \$800 on line 18.

**Example R:** The Vestry of St. Andrew’s gives the entire proceeds from the Autumn Fair each year to the local Habitat for Humanity chapter. The fair is not included in the operating budget because nothing from the Fair goes to the operating budget. On the other hand, the Vestry does not augment the contribution, but donates the net proceeds. Last year the fair netted \$7,438 after direct expenses, up from \$6,692 the year before. The Treasurer sent Habitat the \$7,438 in November and reports that amount in line 11 and in line 18.

See also examples B, S, and T.

**Subtotal Non-Operating Revenues (8+9+10+11)=[C] [C]\_\_\_\_\_**

**Total All Revenues (B+C)=[D] [D]\_\_\_\_\_**

**Notes on Revenues:**

**OPERATING EXPENSES**

**12. To diocese for assessment, apportionment or fair share (12) \_\_\_\_\_**

If on a cash basis, show payments made toward the apportionment. If on an accrual basis, show accrued obligation. Show only payments or obligations toward the diocesan operating budget. Do not include pass through items such as payments for insurance for the benefit of the local clergy or parish property, group purchases of supplies, or other purposes properly belonging on line 14 as Other Operating Expenses.

See examples L and M.

**13. Outreach from operating budget (13) \_\_\_\_\_**

Many congregations have a line in their budget for “Outreach” or “Mission Giving.” Report on line 13 amounts given from the operating budget.

**Example S:** St. Augustine’s tithes to outreach its operating income of \$125,000. The \$12,500 given to the Council of Churches, the seminary located in the Province, etc., comes from general operating income, not from special restricted gifts from individuals or the occasional events described in the examples in line 11. The Treasurer shows the \$12,500 here on line 13. It is one of the operating expenses of the congregation because it is included in the operating budget and does not depend on occasional, unbudgeted, unpredictable donations or receipts.

**Example T:** In response to a natural disaster, St. Peter’s appealed to its members for contributions to be forwarded to Episcopal Relief and Development. The contributions totaled \$1,100. St. Peter’s Vestry decided to send a total of \$2,500 by adding \$1,400 from the outreach line of the operating budget.

The contributions received from the congregation are non-operating income:

Line 11 Funds for Transmittal to Other Organizations	\$1,100
--	---------

The expense of \$2,500 is broken down onto two lines.

Line 13 Outreach from Operating Budget	\$1,400
Line 18 Funds Transmitted to Other Organizations	\$1,100

Because the \$1,400 came from the operating budget, the income used to pay this expense is already included in general operating income.

**14. All other operating expenses (14) \_\_\_\_\_**

Congregations differ widely in size and complexity of operation. With few exceptions “All other expenses” will be the total of all other expenses shown on the operating budget report received by the Vestry and presented to the Annual Meeting.

Other Operating expenses include—but are not limited to:

- **Salaries & Benefits:** all compensation and fringe benefits of all employees who work for the parish—clergy, office, maintenance, music, education staff—including FICA supplement to clergy, 403(b) contributions from the employer, bonuses to staff, honoraria paid to visiting and supply clergy, etc.
- **Running the buildings:** all expenses of the day to day operation of the building(s)—Fuel oil, utilities, water, repairs and minor improvements, insurance, property or sewer taxes, interest on mortgages or loans, landscaping services, etc.
- **Basic parish operations and programs—Altar, Choir, Church School, Office** (all expenses for running the office), forms such as baptismal certificates, offering envelopes, confirmation certificates, new Hymnals and Prayer Books (if a partial replacement of not more than 10% of the



total on hand; a larger replacement could be considered a capital expense), paper, envelopes, postage, Church School supplies, telephone, Choir supplies and maintenance of instruments, costs of consultants, retreats, newsletter printing, Altar Supplies, Cluster Ministry expenses, etc. Include here as expenses any operating losses from cemeteries, schools, real estate operations, etc.

**Example U:** St. John's has an old cemetery in which no more plots can be sold. Income is derived from a small endowment, from contributions toward annual care, and from the occasional opening in one of the family plots. This income last year totaled \$8,700. The wages paid to the maintenance worker who mows the grass and maintains the fences, etc. came to \$12,600. The net loss of \$3,900 is included on line 14.

**Example V:** St. James' and St. Andrew's are "yoked" congregations. They share the services of one priest. The priest spends two-thirds of her time at St. James' and one-third at St. Andrew's. The priest is on the payroll of St. James', and St. Andrew's reimburses St. James' one-third of the total cost of compensation and benefits. St. Andrew's records its payments to St. James' on line 14, "Other Operating Expenses." St. James' does not record St. Andrew's payments as income, but reduces the amount it reports on line 14 by the amount St. Andrew's contributes.

**Example W:** The four congregations in Johnson County are a team ministry served by two full-time and one part-time priest. The diocesan office pays the compensation and benefits of the priests on the team. Each congregation pays a good portion of its operating budget to the diocesan office toward their expenses. Each congregation reports the amount of their payments on line 14, not on line 12.

See also examples F, K, L, M, S, T, and I

**Subtotal Operating Expenses (12 + 13 + 14) = [E] [E] \_\_\_\_\_**

Remember: Operating income (Line B) in general will equal or be close to the number reported on line E.

### NON-OPERATING EXPENSES

**15. Major improvements and capital expenditures (15) \_\_\_\_\_**

Additions to property, major repairs tending to extend the life of the property, new equipment other than normal replacement, and any other improvements or major purchases that would be capitalized in conventional accounting. Include the full cost of the construction or purchase of the building(s) as well as the cost of the land.

See examples I, K, and O.

**16. Expenses for congregation's outreach and mission programs (16) \_\_\_\_\_**

Report here all expenses against the income shown on line 10 for parish-based outreach programs such as summer day camps, after-school programs, shelters, food pantries or soup kitchens, shelters, senior citizen programs, etc. Include here the salaries and benefits of program staff and all expenses of operating the program.

**17. Funds contributed to Episcopal seminaries (17) \$ \_\_\_\_\_**

Include all amounts transmitted from gifts to Theological Education Sunday. Include all other funds contributed to Episcopal seminaries. The income for such gifts and contributions should be reported in line 11 along with all other income that is to be transmitted to other organizations.

**18. Funds transmitted to other organizations (18) \$ \_\_\_\_\_**

Include all amounts transmitted from gifts for special purposes other than theological education, such as Advent, Lenten, and Good Friday Offerings, Episcopal Relief and Development, the

United Thank Offering, Clergy Discretionary Fund, etc. Include also occasional unbudgeted income that the Vestry has designated for mission program outside the congregation.

The amount shown here, together with line 17, should correspond to the amount on line 11 if all transmittals have been made by year-end. Line 11 reports these offerings coming in. Lines 17 and 18 show these offerings and contributions being transmitted to their intended beneficiaries.

See the examples given with the instructions for line 11.

See examples B, P, R, and T.
------------------------------

<b>Subtotal Non-Operating Expenses (15 + 16 + 17+18) = [F]</b>	[F] _____
<b>Total All Expenses (E + F) = [G]</b>	[G] _____

**Notes on Expenses:**

**AT YEAR-END**

**(As of December 31, 2006)**

**18. Total cash in all checking and passbook savings accounts** **(19)** \_\_\_\_\_

Report on this line the total balances in all *cash* accounts maintained in the name of the congregation. Include organizations' checking and savings accounts and funds at the discretion of the clergy held under the congregation's Federal ID number.

**19. Total investments at market value** **(20)** \_\_\_\_\_

Report on this line the total market value of all investments: CDs, mutual funds, stocks, bonds, etc., as well as any balance in cash accounts shown on the investment statements at year-end.

The figures entered on lines 19 and 20 will almost always be exactly equal to the figures on your audited financial statements for "Cash and cash equivalents" and "Investments."

Decreases in market value of investments during 2006 will be reflected in the total recorded in line 20. Such losses are not expenses, nor are they "negative investment income." Negative values are not allowed on the Parochial Report.

**THIS CONCLUDES PAGE 3: THE STEWARDSHIP AND FINANCIAL INSTRUCTIONS WORKBOOK**

- Fill out Page 3 of the Parochial Report using any notes you have made in this workbook.
- File your Parochial Report online at <http://pr.dfms.org> using your UEID and PIN
- Or, mail the completed Form to your diocese, together with Page 1, Certification, and Page 2, Membership, Attendance and Services. Do not send this report to the General Convention Office or the DFMS Research Office in New York.
- Keep a copy of the completed Parochial Report form (or download one) and a copy of this workbook for your records.
- You may review and download Parochial Reports for prior years at <http://pr.dfms.org>

## Appendix: Canonical Reference (Text of Canons I.6, I.7, and I.17 of the 2003 Constitution and Canons.)

### Canon I.6, — “Of the Mode of Securing an Accurate View of the State of This Church”

Section 1. A report of every Parish and other Congregation of this Church shall be prepared annually for the year ending December 31 preceding, upon the blank form prepared by the Executive Council and approved by the Committee on the State of the Church, and shall be sent not later than March 1 to the Bishop of the Diocese, or, where there is no Bishop with the ecclesiastical authority of the Diocese. The Bishop or ecclesiastical authority, as the case may be, shall keep a copy and submit the report to the Executive Council not later than May 1. In every Parish the preparation and filing of this report shall be the joint duty of the Rector or Member of the Clergy in charge thereof and the lay leadership; and before the filing thereof the report shall be approved by the Vestry or bishop’s committee or mission counsel. This report shall include the following information:

- (1) the number of baptisms, confirmations, marriages and burials during the year; the total number of baptized members; the total number of communicants in good standing; and the total number of communicants in good standing under 16 years of age.
- (2) a summary of all the receipts and expenditures, from whatever source derived and for whatever purpose used.
- (3) such other relevant information as is needed to secure an accurate view of the state of this Church, as required by the approved form.

Section 2. Every Bishop, Presbyter, or Deacon whose report is not included in a parochial report shall also report on the exercise of such office, and if there has been none, the causes or reasons which have presented the same.

Section 3. These reports, or such parts of them as the Bishop may deem proper, shall be entered in the Journal of the convention.

Section 4. Likewise a report of every Diocese shall be prepared annually for the year ending December 31 preceding, in the form prepared by the Executive Council and approved by the Committee on the State of the Church, and shall be filed, not later than September 1, with the Executive Council. It shall include information concerning implementation by the Diocese of resolutions of the previous General Convention which have been specifically identified by the Secretary of General Convention under Joint Rule 13 as calling for Diocesan action.

Section 5(a) It shall be the duty of the Secretary of the Convention of every jurisdiction to forward to the Secretary of the House of Deputies, immediately upon publication, two copies of the Journals of the Convention of the jurisdiction, together with Episcopal charges, statements, and other such papers as may show the state of the Church in that jurisdiction, and one copy to the Archives of the Church.

(b) A Committee of the House of Deputies shall be appointed following the close of each General Convention, to serve *ad interim*, and to prepare and present to the next meeting of the House of Deputies a report on the State of the Church; which report, when agreed to by the said House, shall be sent to the House of Bishops.

### *Vital: Canon I.17 — “Of Regulations Respecting the Laity”*

Section 1(a). All persons who have received the Sacrament of Holy Baptism with water in the Name of the Father, and of the Son, and of the Holy Spirit, whether in this Church or in another Christian Church, and whose Baptisms have been duly recorded in this Church, are members thereof.

(b). Members 16 years of age and over are to be considered adult members.

(c). It is expected that all adult members of this Church, after appropriate instruction, will have made a mature public affirmation of their faith and commitment to the responsibilities of their Baptism and will have been confirmed or received by a Bishop of this Church or by a Bishop of a Church in communion with this Church. Those who have previously made a mature public commitment in another Church may be received by the laying on of hands by a Bishop of this Church, rather than confirmed.

(d). Any person who is baptized in this Church as an adult and receives the laying on of hands by the Bishop at baptism is to be considered, for the purpose of this and all other Canons, as both baptized and confirmed; also,

Any person who is baptized in this Church as an adult and at some time after the Baptism receives the laying on of hands by the Bishop in Reaffirmation of Baptismal Vows is to be considered, for the purpose of this and all other Canons, as both baptized and confirmed; also,

Any baptized person who received the laying on of hands at Confirmation (by any Bishop in apostolic succession) and is received into the Episcopal Church by a Bishop of this Church is to be considered, for the purpose of this and all other Canons,

as both baptized and confirmed; also,

Any baptized person who received the laying on of hands at Confirmation (by any Bishop in apostolic succession) and is received into the Episcopal Church by a Bishop of this Church is to be considered, for the purpose of this and all other Canons, as both baptized and confirmed; and also,

Any baptized person who received the laying on of hands by a Bishop of this Church at Confirmation or Reception is to be considered, for the purpose of this and all other Canons, as both baptized and confirmed.

Section 2(a). All members of this Church who have received Holy Communion in this Church at least three times during the preceding year are to be considered communicants of this Church.

(b). For the purposes of statistical consistency throughout the Church, communicants sixteen years of age and over are to be considered adult communicants.

Section 3. All communicants of this Church who for the previous year have been faithful in corporate worship, unless for good cause prevented, and have been faithful in working, praying, and giving for the spread of the Kingdom of God, are to be considered communicants in good standing.

Section 4(a). A member of this Church removing from the congregation in which that person's membership is recorded shall procure a certificate of membership indicating that that person is recorded as a member (or adult member) of this Church and whether or not such a member:

- (1) is a communicant;
- (2) is recorded as being in good standing;
- (3) has been confirmed or received by a Bishop of this Church, or a Bishop in communion with this Church.

Upon acknowledgement that a member who has received such a certificate has been enrolled in another congregation of this or another Church, the Member of the Clergy in charge or Warden issuing the certificate shall remove the name of the person from the parish register.

(b). The Member of the Clergy in charge or Warden of the congregation to which such certificate is surrendered shall record in the parish register the information contained on the presented certificate of membership, and then notify the Member of the Clergy in charge or Warden of the congregation which issued the certificate that the person has been duly recorded as a member of the new congregation. Whereupon the person's removal shall be noted in the parish register of the congregation which issued the certificate.

(c). If a member of this Church, not having such a certificate, desires to become a member of a congregation in a place to which he or she has removed, that person shall be directed by the Member of the Clergy in charge of the said congregation to procure a certificate from the former congregation, although on failure to produce such a certificate through no fault of the person applying, appropriate entry may be made in the parish register upon the evidence of membership status sufficient in the judgement of the Member of the Clergy in charge of or Warden.

(d). Any communicant of any Church in communion with this Church shall be entitled to the benefit of this section so far as the same can be made applicable.

Section 5. No one shall be denied rights, status or access to an equal place in the life, worship, and governance of this Church because of race, color, or ethnic origin, national origin, marital status, sex, sexual orientation, disabilities or age, except as otherwise specified by Canons.

Section 6. A person to whom the Sacraments of the Church shall have been refused, or who has been repelled from the Holy Communion under the rubrics, or who has been informed of an intention to refuse or repel him or her from the Holy Communion under the rubrics, may appeal to the Bishop or Ecclesiastical Authority. A Priest who refuses or repels a person from the Holy Communion, or who communicates to a person the intent to repel that person from the Holy Communion shall inform that person, in writing, within fourteen days thereof (i) the reasons therefore and (ii) his or her right to appeal to the Bishop or Ecclesiastical Authority. No Member of the Clergy of this Church shall be required to admit to the Sacraments a person so refused or repelled without the written direction of the Bishop or Ecclesiastical Authority. The Bishop or Ecclesiastical Authority may in certain circumstances see fit to require the person to be admitted or restored because of the insufficiency of the cause assigned by the member of the Clergy. If it shall appear to the Bishop or Ecclesiastical Authority that there is sufficient cause to justify refusal of the Holy Communion, however, appropriate steps shall be taken to institute such inquiry as may be directed by the Canons of the Diocese; and should no such Canon exist, the Bishop or Ecclesiastical Authority shall proceed according to such principles of law and equity as will insure an impartial investigation and judgement, which judgment shall be made in writing within sixty days of the appeal and which shall also specify the steps required for readmission to Holy Communion. .

Section 7. No unbaptized person shall be eligible to receive Holy Communion in this Church.

Section 8. Any person accepting any office in this Church shall well and faithfully perform the duties of that office in accordance with the Constitution and Canons of this Church and of the Diocese in which the office is being exercised.

***Financial: Canon I.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:

- (i) Source and date.
- (ii) Terms governing the use of principal and income.
- (iii) To whom and how often reports of condition are to be made.
- (iv) 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.

**THE 2006 REPORT OF EPISCOPAL CONGREGATIONS AND MISSIONS  
ACCORDING TO CANONS I.6, I.7, AND I.17**

*(OTHERWISE KNOWN AS THE PAROCHIAL REPORT)*



Name of Congregation		Diocese
Street		City
State	Zip + 4	County
Mailing Address		City
State	Zip + 4	Congregation's Phone Number
Federal Tax ID #	Congregation's Email Address	Congregation's URL (Web Address)

**Report Preparation**

Part 1. Prepared by: <i>(Print or type name.)</i>	Daytime Phone
Part 2. Prepared by: <i>(Print or type name.)</i>	Daytime Phone

**Certified by the Clerk of the Vestry**

Certified by <i>(Print or type name.)</i>	
Signature	Date

**Certified by Treasurer/Financial Officer**

Certified by <i>(Print or type name.)</i>	
Signature	Date

**Certified by Rector/Vicar/Person in Charge**

Certified by <i>(Print or type name.)</i>	Daytime Phone
Signature	Date

**Vestry Approval**

Indicate date the Parochial Report was approved by the Vestry or Bishop's Committee (Canon I.6.1)	Date
---	------

## Membership, Attendance and Services of the Reporting Congregation

<b>Using Last Year's Report:</b>	
Active Baptized Members of the Reporting Congregation Reported Last Year	Using the 2005 Parochial Report, record the <b>Number of Baptized Members Reported as of December 31, 2005.</b> (See your 2005 Parochial Report, Box M05.)  <b>Members Reported Last Year = M05.</b> <input style="width: 100px; height: 20px;" type="text"/>
<b>Using the Register of Church Membership and Rites:</b>	
During the Report Year	<p><b>1. Increases during year:</b> All members added to the baptized members section of the congregation's Membership Register during 2006 by: baptism, confirmation/reception, or transfer; and those persons restored from inactive status, or not counted in last year's membership count. <b>Total Increases = 1.</b> <input style="width: 100px; height: 20px;" type="text"/></p> <p><b>2. Decreases during year:</b> All baptized members lost by death, transferred to another congregation, removed to inactive status in the Register of Church Membership and Rites, removed for other reasons, or not removed from last year's membership count. <b>Total Decreases = 2.</b> <input style="width: 100px; height: 20px;" type="text"/></p>
Increases in Membership	
Decreases in Membership	
<b>Active Baptized Members of the Reporting Congregation At Year-End</b>	
M06. Add the increases entered in box 1 to <b>Box M05</b> . Then subtract the decreases entered in box 2 for the total active membership as of December 31, 2006. <b>Total Active Baptized Members (end of report year) = M06</b> <input style="width: 100px; height: 20px;" type="text"/>	
Communicants in Good Standing of the Reporting Congregation	<p><b>3. All communicants in good standing:</b> All baptized members of the reporting congregation, who "have received Holy Communion at least three times during the preceding year" and are faithful "in corporate worship, unless for good cause prevented," and "in working, praying, and giving for the spread of the Kingdom of God." <b>All communicants (adults and youth) in good standing = 3.</b> <input style="width: 100px; height: 20px;" type="text"/></p> <p><b>4. Those communicants in good standing (counted on line 3) who are under 16.</b> <b>Communicants in good standing who are under 16 = 4.</b> _____</p>
Youth in Good Standing	
Others Active	<p><b>5. Others who are active</b> whose baptisms are <i>not</i> recorded in the Membership Register, or in another Episcopal congregation. <b>Others = 5.</b> _____</p>
<b>Using the Service Register:</b>	
Average Sunday Attendance for 2006	<p><b>6. Sunday &amp; Saturday Evening Attendance:</b> Divide total Sunday attendance by number of Sundays. <b>Avg. Sunday Attendance = 6.</b> <input style="width: 100px; height: 20px;" type="text"/></p>
Easter Attendance in 2006	<p><b>7. Easter Attendance</b> (7) _____</p>
<b>Sacraments &amp; Services:</b>	
Number of Holy Eucharists Celebrated During 2006	<p><b>8. Sunday &amp; Saturday Evening Eucharists</b> (8) _____</p> <p><b>9. Weekday Eucharists</b> (9) _____</p> <p><b>10. Private Eucharists</b> (10) _____</p>
Daily Offices and Other Services Held During 2006	<p><b>11. Daily Offices on Sunday</b> (11) _____</p> <p><b>12. Daily Offices on Weekdays</b> (12) _____</p> <p><b>13. Marriages</b> (13) _____</p> <p><b>14. Burials</b> (14) _____</p>
<b>Using the Register of Church Membership and Rites:</b>	
Baptisms in 2006	<p><b>15. Baptisms 16 years and older</b> (15) _____</p> <p><b>16. Baptisms under 16 years of age</b> (16) _____</p>
Confirmations in 2006	<p><b>17. Confirmations 16 years and older</b> (17) _____</p> <p><b>18. Confirmations under 16 years of age</b> (18) _____</p>
Received in 2006	<p><b>19. Received by a Bishop</b> (19) _____</p>
<b>Education:</b>	
Children and Youth Adult Education	<p><b>20. Total Church School Students enrolled</b> (20) _____</p> <p><b>21. Do you have regular Sunday or weekday adult education program(s)?</b> Yes <input type="checkbox"/> No <input type="checkbox"/></p>

## Stewardship and Financial Information of the Reporting Congregation

### **Giving Information for 2006:**

<b>Number of Pledges</b>	1. Number of signed pledge cards for 2006-report year	(1) _____
<b>Total \$ Pledged</b>	2. Total dollar amount pledged for 2006-report year	(2) \$ _____

### **Report of Revenues and Expenses for 2006:**

<b>Operating Revenues</b>	3. Plate offerings, pledge payments & regular support	(3) _____
	4. Available for operations from investments	(4) _____
	5. Other operating income, including unrestricted gifts & restricted gifts used for operations & contributions from congregation's organizations	(5) _____
	6. Unrestricted bequests used for operations	(6) _____

**Subtotal Normal Operating Income (3+4+5+6) = A**

7. Assistance from diocese for operating budget	(7) _____
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**Total Operating Revenues (A+7) = B**

<b>Non-Operating Revenues</b>	8. Capital funds, gifts & additions	(8) _____
	9. Additions to endowment & other investment funds	(9) _____
	10. Contributions & grants for congregation-based outreach & mission programs	(10) _____
	11. Funds for transmittal to other organizations	(11) _____

**Subtotal Non-Operating Revenues (8+9+10+11) = C**

**Total All Revenues (B+C) = D**

<b>Operating Expenses</b>	12. To diocese for assessment, apportionment, or fair share	(12) _____
	13. Outreach from operating budget	(13) _____
	14. All other operating expenses	(14) _____

**Subtotal Operating Expenses (12+13+14) = E**

<b>Non-Operating Expenses</b>	15. Major improvements & capital expenditures	(15) _____
	16. Expenses for congregation's outreach & mission	(16) _____
	17. Funds contributed to Episcopal seminaries	(17) _____
	18. Funds sent to other organizations	(18) _____

**Subtotal Non-Operating Expenses (15+16+17+18) = F**

**Total All Expenses (E+F)=G**

### **At Year-End:**

<b>As of December 31, 2006</b>	19. Total cash in all checking & passbook savings accounts	(19) _____
	20. Total investment at market value	(20) _____



Last updated July 2007

## CHAPTER IX: RECORDS MANAGEMENT

### Chapter Contents

Introduction .....	1
Custodial Responsibility for Records .....	1
Records and Litigation.....	2
Special Classes of Records.....	2
Records of Financial Accountability and Audit.....	2
Employment and Personnel Records .....	3
Other Operational and Administrative Records.....	4
Electronic Records Management.....	5
Records Retention and Disposition .....	6
Records Retention Policy .....	6
Retirement and Disposition of Inactive Records .....	7
Destruction of Temporary Records .....	8
Secure Storage in a Parish Archives and Records Center.....	8
General Records Retention Schedule for Congregations.....	9-18
Appendix-1: Sample Records Destruction Register .....	19

#### **Introduction**

This manual of records management guidelines is designed for parish officers and administrators, including the custodian of records and archives or the parish archivist. It includes a general records retention schedule that may be modified and adopted by congregations for their particular situations. In all cases, the vestry or equivalent body of the parish should approve policy guidelines on records management, including schedules for retention and destruction. Legal counsel should also be consulted, especially in the context of potential or ongoing litigation.

This chapter is an abridged version of a manual created by The Archives of the Episcopal Church and approved by the Board of the Archives of the General Convention. To obtain a copy of the full manual, or for other advice on records related matters, contact The Archives of the Episcopal Church, PO Box 2247, Austin, TX 76768, 800-525-9329, email the Archives at [research@episcopalarchives.org](mailto:research@episcopalarchives.org), or visit the Archives website at: [http://www.episcopalarchives.org/Records\\_Manual\\_for\\_Congregations.pdf](http://www.episcopalarchives.org/Records_Manual_for_Congregations.pdf).

#### **Custodial Responsibility for Records**

The vestry, officers, and employees of a congregation have a fiduciary and custodial responsibility to create and maintain an adequate record of the parish or mission's activities. Some basic competencies in managing recorded information include:

- Being aware of what constitutes a record in the context of the parish;

- Familiarity with practices that ensure information is recorded accurately, using a standard file format, intuitive naming conventions, and reliable storage media;
- Identifying and supporting key person(s) who are responsible for managing the inactive records (e.g., parish administrator, parish archivist);
- Retaining and storing records and archives safely and securely.

Records are defined as documents, papers, and data created in the normal course of parish business concerning events, projects, personnel, physical plant, and routine transactions that may have ongoing importance to the legal and financial activities of the parish. They are the property of the parish and should not be considered or treated as an individual's "personal files." Records created by all employees, officers, agents, and volunteers fall within the scope of their fiduciary responsibility. Records should be prepared and kept at the principal place of business. Normally, they should be kept in a secure area within the confines of the parish property.

**Accessibility and Ownership.** Records should be properly labeled and secured. Confidentiality should always be respected, but it is also important to keep key financial and administrative data retrievable for operational purposes. Appropriate members of the vestry, finance committee, and the rector should be apprised of the location of financial and business records, as well as the written procedures for accessing computer files, safety deposit boxes, and records kept off site as data back-up. While access to current parish records and archives should be controlled on a need to know basis, an ethic of openness and accessibility should prevail for reasons of administrative accountability, internal audit, and historical inquiry.

**Authenticity.** Records should be recorded on fixed and durable media and internally documented (with dates, versions and authorship). When properly created and maintained, records serve as reliable evidence of the activities and transactions of an organization and its paid and volunteer agents. Records have many features, but the most important aspects of original records is that they must have physical integrity, be complete and accurate, and be trustworthy representations of the information they claim to document.

Choose quality recording materials to save important corporate records. Be careful not to alter, or create at a later time, information that is not part of the original record. Be alert to the fact that some records (e.g., a copy of a vote, or a monthly financial statement) are extracts of more complete records (minutes, general ledger) and should be treated as separate documents for retention purposes. Version control (using the file name) is a high priority in managing electronic records. Be sure to clearly identify the final copy of a record and delete or remove earlier versions to a separate "temporary" directory if they are being kept for short term reference purposes.

Custody and title to parish records should never be alienated from The Episcopal Church. Off-site deposit of records, if deemed necessary for their protection, should be arranged so that the parish retains title, ownership and priority access. Closed church records should be transferred to the succeeding congregation or (as is required by many diocesan canons) relinquished to the diocese.

### **Records and Litigation**

A congregation's records and archives may be relevant to future litigation and are subject to legal discovery. Should litigation or an investigation appear to be approaching, all relevant

records should be carefully preserved and must not be destroyed or altered in any way. Electronic records and email are recognized as legally admissible evidence. In a legal action, the validity of the church's documents and records will be evaluated by their authenticity (i.e., how original, complete, and reliable they are in accurately reflecting the processes and events that they claim to document). Poorly kept or altered records can harm the parish in the event that they are called into evidence or relied upon to reconstruct some past event. Records that cannot be found or easily retrieved can expose the parish to liability, unnecessary expenses for data recovery, and public embarrassment. Retention and destruction practices that do not follow a standard policy may be perceived as an obstruction to justice.

## **Special Classes of Records**

### **Records of Financial Accountability and Audit**

As tax exempt organizations, religious bodies are obligated to maintain records that demonstrate compliance with their tax status and acceptable business practices and standards. Most congregations engage in activities that generate questions regarding tax reporting or liability. These include:

- Employee payroll, withholding, and related compensation records for consulting, travel, scholarships, etc.;
- Income on rent, purchase and sale of real estate;
- Income from operation of gift and bookstores, thrift shops, and other concessions;
- Fund raising and solicitation of charitable gifts;
- Unrelated business income from rents, retail sales, parking, and use fees.

Financial records and supporting administrative documentation should be kept in detail to demonstrate the critical accounting distinction between income that is related to Church activities and income generated from activities that are unrelated to church business. These activities should be flagged and documented such that one could easily re-create historical data during a tax inquiry or audit.

The Internal Revenue Service (IRS) 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 IRS refers to the treatment and format of the record for its period of legal usefulness. Minimum retention of financial transaction and reporting documents is strongly implied by tax law.

### **Employment and Personnel Records**

Administrators should give special attention to personnel and employment-related records, including records outsourced to a vendor or specialist. Several legislative acts and statutes apply in this area, including the Civil Rights Act, Equal Pay Act, Family Medical Leave Act, Fair Credit Reporting Act, Fair Labor Standards Act, the Immigration Reform and Control Act, Federal Unemployment Tax Act, Privacy Act, Americans with Disabilities Act, Occupational Safety and Health Act, and, for some parishes, the Health Insurance Portability and Accountability Act (HIPAA) may apply. New laws, such as the Lily Ledbetter Fair Pay Act,

should be monitored for record keeping impact. State laws often place further regulatory controls in these areas.

Personnel files should be kept on all individuals, who act in an agent capacity for the parish, which includes paid (full and part-time) staff members, and unpaid volunteers who have official duties and responsibilities. The files for each of these groups may look different as volunteers generally do not generate earnings, benefits, or medical information. All personnel files should be kept together. Separating employee folders from volunteer folders within the personnel files or using color coding techniques is recommended.

Personnel files should be organized into folders or file directories that hold data verifying:

- (1) Employment history (hiring information, job description, earnings history, promotions, required training, etc.);
- (2) Benefits enrollment information (pension, health and life insurance, disability and worker's compensation, medical leave, etc.); and
- (3) Performance evaluation (annual reviews, employee replies, and disciplinary inquiries).

Be aware that employees have rights to access and review their personnel files. Supervisors should be extremely careful not to introduce irrelevant or unsubstantiated material to the personnel file. Personnel files should be kept locked and secure at all times, even after the file is retired from the office to either a Records Center for storing temporary records or to an Archives vault (see section below: "Secure Storage in a Parish Archives and Records Center"). Confidentiality should be observed, especially in using computer files to track employee activity.

Should a question or complaint arise about an individual's performance, the memoranda and records surrounding the inquiry should be secured and maintained as a separate, personnel-like file. This measure will help to prevent unauthorized access while confirmation or investigation takes place. Once an inquiry reaches the level of a performance action, however, separate files should not be kept or hidden. All extraneous records not related to the inquiry or action taken as a result of an inquiry should be destroyed before the action file is made part of the individual's personnel file. Such records should also be sealed within the personnel file from browsing eyes and inadvertent disclosure.

**Volunteers.** Personnel records should be kept on all volunteers serving in key ministry areas such as governance, property oversight, education and youth work, outreach social ministry, stewardship, and financial management. These records can be less elaborate than employee personnel files. In lieu of individual folders, an annual, up-to-date "leadership file" could be created to include volunteers' biographical and contact information, history of service with job descriptions, and signed acknowledgment of policy statements and special training required by the diocese or parish to ensure safe work and community space. Records on volunteers should be designated for long-term retention in the Records Center or Archives.

**Retention of Employment Records.** Retention of employment records should be systematic to avoid legal exposure. Recent legislation and case law in such areas as child abuse and sexual misconduct have greatly extended the time periods by which individuals may seek recourse for past harms. Personnel and payroll records should be retained long enough for reasonable future retrieval or discovery of vital employment data. Following standard retention policy and practices are the best tools to achieve both due diligence and good data management.

The IRS, the Department of Labor, and the Equal Employment Opportunity Commission require that employers keep certain payroll and benefits records. In order to maintain a complete employment record, parishes should keep and retain temporarily records that:

- Verify employment, (I-9 and W-4 forms; position descriptions, salary schedules);
- Enumerate hours (time sheets, payroll journals);
- Document recruitment and hiring, (applications/resumes, search records);
- Substantiate retirement plans, (pension plan documents, enrollments, payments);
- Detail injury and illness (worker's compensation claims, disability leave).

#### **Personnel Records: What is a Prudent and Enforceable Retention Practice?**

Keeping every personnel or payroll-related record permanently is a storage, management, and security challenge. Ordinarily, all personnel files should be retained for a minimum of 6 full years after termination of employment, *provided* that two other permanent records are kept: the **Employee History and Earnings Record Summary** – typically a comprehensive summary form kept on each employee; and the year-end **Payroll Registers**, which document hours, exact duration of service, and key identifying data (SSN, DOB, bank deposit numbers, etc.). Saving summary records and registers allows for the scheduled destruction of source files such as notifications, change forms, and time sheets.

How can one be sure that good management controls will prevail in the future? Saving summary history sheets, computerized payroll registers, or third party vendor reports, is fraught with uncertainty. Building in some redundancy is surely reasonable. Individual **Personnel Files** are the fall-back permanent documents. Maintaining a lean but complete personnel file is advisable. Parishes that have secured their Personnel Files in a Records Center or Archives should consider retaining basic employment history and service records for a minimum of 30 years after termination of employment, or for the life of the employee if that can be determined.

Administrators should be alert to keeping records that demonstrate due diligence in verifying past employment of hired staff, and ongoing training of employees and volunteers. A permanent file should be kept that can demonstrate a consistent history of required training of individuals who are in contact with minors. A separate personnel file or cumulative **Service Files** on volunteers should be retained for a minimum of 30 years. (See also the recommendations of the Church Pension Fund in *Human Resources Practices for Lay Employees, 2005*.)

### **Operational and Administrative Records**

Several other categories of canonical and operational records are vital and contain information on the Church in its capacity as a membership body, a corporation, a physical plant, and participant in the wider community. Parish administrators and other officers should exercise a big picture view of their responsibility for the ongoing life and story of the congregation. The following groups of records should be retained and stored carefully. (More detailed information on these records is available on the Archives' website at [http://www.episcopalarchives.org/Records\\_Manual\\_for\\_Congregations.pdf](http://www.episcopalarchives.org/Records_Manual_for_Congregations.pdf).)

- **Sacramental Records/Parish Registers:** Including communicant and membership records.
- **Corporate Administration Records:** Minutes, reports, charters, bylaws, deeds, and governance documents
- **Property and Building Management Records:** Plans, specifications, contracts, paid bills on major construction
- **Business and Legal Records:** Contracts, agreements, insurance papers, and trust fund records
- **Historical Records:** Older records and supporting documents on events, internal projects and programs, and mission activities in the community

### **Electronic Records Management**

Computer data – or electronic record keeping systems – present special concerns for long-term storage and access to records. Governmental legislation such as the Electronic Signature (E-Sign) Act, the Uniform Electronic Transactions Act, IRS Revenue Procedure 98-25, and the Sarbanes-Oxley Act offer industry standards and guidelines, which, if not directly applicable, are pertinent models, even for the operations of a small congregation. The management of computer records should be directed by administrative policy and practice, not by the technical skill of the computer user or outside technical consultant.

The "record copy" of operational data in electronic form should be periodically "fixed" as a snapshot of the data and stored on a read-only medium to guarantee an archive file for a system that is constantly being updated and revised. An "archive copy" is different from a data or system "backup," the former involving a *selective retention of key data* and the latter being a more *routine comprehensive capture* of an information system. There are numerous ways to create an archive copy after identifying the important data to retain. The key operating principle is to secure multiple or redundant copies on different storage devices, which can be accomplished using a variety of possible solutions.

Cloud storage is certainly one way to either back up or "archive" data (see below for caveats). However, retaining data locally on physically identifiable storage media is a risk-preventative approach that the Archives highly recommends at this time. High quality media (e.g., gold archival DVDs or BluRay discs), solid state external drives, and RAID server storage supplement any remote cloud storage service in use. Regular periodic (monthly or quarterly)

snapshots of electronic content should be stored on a device other than the user's hard drive or the file server. The fixed, archived copy should be kept in a separate, secure physical location. Descriptive background information (“metadata”) on legacy and snapshot files should be created in an “About” or “Read me” file and kept with the data store. Ideally, this descriptive file will also be kept in an operations manual that identifies the named files, and briefly describes the content and management of computer databases and other records.

Parish data may be created and stored in the Cloud with the help of third-party vendors who supply software for vital operations such as payroll or accounts payable. The trade off in using hosted Cloud applications is that in-house computer expenses are reduced, but responsibility for data protection is transferred to an outside vendor. One will want to take precautions not to relinquish too much responsibility. Common concerns include:

- Security of data in a shared environment outside of firewalls
- Ownership and control of the data
- Difficulty moving data in and out of cloud environments into other systems
- Guarantee of availability and service performance when 24/7 access is required
- Data privacy and protection especially for sensitive information
- Compliance with canonical and governmental regulations for data retention

If employees access records through an Internet-based service company (e.g., bank data, payroll services), they will expect that the vendor and the parish are keeping a record copy in an electronic archive. There is risk in the proposition that a vendor will always be in business and have the parish’s data in a ready format when it is needed. Administrators should be diligent to create a periodic archive copy of vital business data and store that copy in a physically accessible disc or external hard drive close at hand. The vendor should be asked to provide an assurance of data migration, and the parish should test their ability to transfer usable data to their local network to ensure business continuity. For further guidance on selecting software for data protection, especially remotely accessed applications, see “Selection of Software for The Episcopal Church” on the Archives website at: [http://www.episcopalarchives.org/DFMS\\_Software\\_Selection\\_06-15-2011.pdf](http://www.episcopalarchives.org/DFMS_Software_Selection_06-15-2011.pdf) .

Using physical records (paper) to back up or supplement *vital* electronic records remains a good rule of thumb and prudent management approach. Some redundancy is a good idea for vestry minutes, the trust fund register, contracts, reports, manuals, and similar key documents. The viability of computerized media is one concern, but more practically, managing the data over time is very difficult. Parishes generally do not have this layer of management and for that reason a dual paper and digital strategy is advisable. Consult the full version of this chapter for more information on electronic records, including file naming conventions and data organizing techniques at: [http://www.episcopalarchives.org/Records\\_Manual\\_for\\_Congregations.pdf](http://www.episcopalarchives.org/Records_Manual_for_Congregations.pdf) .



**Websites as Electronic Publications.** Websites are typically used to distribute information and statements to the public. As with other publications, they should follow in-house standards for appropriate content and review. Web managers and parish administrators should be alert to maintaining continuity when website content is retired or links are intentionally broken. If the webserver is the sole location of the data, a retention routine will need to be worked out for holding onto inactive published documents. Identify a technically competent person to monitor website content for key content and to work with the records creators to preserve historical records. Parishes and dioceses that use their websites as a publishing medium for such permanent records as minutes and annual reports should make retention provisions for data in a durable, digitally persistent form (see, for example, see Canons I.6.4, I.6.5(a), and I.7.1(c)). Standard, open source software should be considered whenever possible in the creation of electronic publications (see General Convention Resolution 2006-A049 on open source software).

**Electronic Record Keeping and Archiving — A Simple Back-up Approach**

- Regularly save a snapshot copy of folders/directories that contain permanent electronic records to CD-R/DVD or Cloud storage.
- Do not rely on re-writable discs to save money as these are inherently weaker; for longevity use true gold-layered discs.
- Avoid combining different record series on a single disc.
- On the CD/DVD case, list the disk contents with title, dates covered, and creating office/staff person.
- Record the date the disc was created and a unique identification number (i.e. CD2007-01).
- Label the non-reflective surface of the CD/DVD itself with the ID number using a permanent ink felt-tip pen. Do not use sticky labels.
- Store discs in protective cases in a secure, dust-free, and moderate (< 76° F) environment.
- Back-up discs should be stored in a building or site physically removed from the site of the file server in the event of a localized disaster.
- Retain system documentation such as the name of the software application, version number, file format, operating system, etc.
- Keep a table of contents or log of the CDs/DVDs, indicating the record title (e.g., Ledger, Journal Entries, etc.), the date span of the records, the burn date, the electronic file name (e.g., “GenLdg\_12312007.xls”), and the file format (see IRS Bulletin 1997-13 Sec. 4 on Electronic Storage System Requirements).

**Email Communications.** Emails are records and should be included in the parish’s records management plan. Email records are subject to legal discovery and must be produced at the request of a court. Because of their quantity, the frequency of trivial content, and a tendency for email to pile up in the “Inbox” and “Sent” mail box, regular housekeeping is advisable. The records creator has to take charge of saving important email. This is largely done by

creating folders or directories for filing away important messages. These folders should have names that ideally reflect the active folders in terms of conveying the purpose or function of the communication. Routine, transient correspondence should not be saved or, if saved, should be scheduled for destruction. The planned and scheduled destruction of temporary email messages, carried out as part of the regular conduct of business in accordance with the records management scheme, nullifies an accusation that email has been deleted for purposes of disposing of evidence.

Retaining emails for the long-term present challenges for most organizations. There is no recognized standard methodology for preserving messages. Different email formats and services, some of them proprietary, require different approaches. The Archives of the Episcopal Church provides guidelines and instructions for Microsoft Outlook 2003-2007 and 2010. Guidelines for IMAP and Gmail are being developed, and the Church Archives is testing for email retention software. Consult the Outlook Guidelines [<http://www.episcopalarchives.org/PSTfiles.pdf>] and the Archives' website for periodic updates to these standards and resources.

## **Records Retention and Disposition**

### **Records Retention Policy**

A records retention schedule is a policy document. It directs the length of time and final retention decisions that will meet the organization's operational, legal, and historical requirements for record keeping. A general records schedule such as the one attached to this chapter can be adopted for this purpose, but large parishes should consider adopting a customized retention schedule to satisfy their specific operations.

A records retention policy may include the guidelines recommended in this chapter. It should also include the fresh input of employees and leadership about how to make the policy practical and enforceable. The parish should adopt its own version of a standard records retention policy after consulting with counsel whenever possible. The retention policy should be accessible both in the office and in the parish archives. Applied consistently and regularly, it will be recognized as part of normal business practice by the courts.

For the sake of simplicity, retention periods are usually measured in annual accumulations. Some records can be discarded when they are superseded and all administrative use ceases (AU). These files, and others designated for "selective retention" (SR), should be discarded after review by the administrator and/or archivist for any documents that may have long term administrative or historical value. Selective retention (SR) is the careful separation of permanent records from complex collections of obsolete material. It is a review step that applies particularly to filing systems (paper or electronic) where material is arranged by subject or as an undifferentiated mass. Again, the parish should have a competent person assigned to conduct this aspect of records and archives management. Retention periods for most records are usually expressed as "CY+\_\_ ", i.e.: retain for the current year, plus a

number of succeeding years. Thus, a three-year retention (CY+3) period for a record dated January 1, 2013 indicates a destruction date no earlier than January 1, 2017.

### **Regulatory Requirements for Records Retention**

Record keeping requirements are assigned by statutory legislation, administrative law, professional standards, and best practices. Some of the more important legislative requirements are defined within the Civil Rights Act, Equal Pay Act, Fair Credit Reporting Act, Fair Labor Standards Act, Federal Unemployment Tax Act and the Uniform Rules of Evidence Act, the Immigration Reform and Control Act and the Health Insurance Portability and Accountability Act. Administrative regulations are also defined by the IRS, the Equal Employment Opportunity Commission and the Wage and the Department of Labor and published in the Code of Federal Regulations.

The sample retention schedule in this manual takes into account the record keeping requirements defined by the abovementioned legislation and agencies. The individual States impose record keeping requirements in certain areas, especially labor law, privacy, worker's compensation, health, and safety. These should be researched by parish counsel before implementing a records retention schedule.

### **Retirement and Disposition of Inactive Records**

Active records are the documents still in use in the office, stored in either an electronic directory structure or a filing system. Records that have become inactive are often stored in a separate storage area (Records Center) or moved to an "archived" section of the organization's file/data server. When physical records are moved to inactive storage, a list of the contents of every box (which can be a range of dates or alphabetical groupings) should be prepared to facilitate occasional retrieval of records. One copy of the list should be placed in a standard size box with the records. A complete set of numbered box lists should be kept in an active file in the Parish Archives and/or in the active administrative office files.

Retiring, archiving, and destroying electronic records is challenging outside of an electronic record management system. In lieu of a system, archival records may be moved to a designated "archive" section, typically a separate drive on the organization's file server. Archive directories should always be configured as "read only" to preserve the authenticity of the records. Simple "read me" text (.txt) files should be created by the custodian of the record and included in each directory with brief explanation of what was moved and when. Well-ordered directories, organized by date, will facilitate data transfer routines and may help future users to locate legacy data. See also the Archives' resource pages or FAQs for more information on archiving electronic records: [http://www.episcopalarchives.org/e-records\\_faq.html](http://www.episcopalarchives.org/e-records_faq.html).

There are two basic ways to designate records when they are being retired from active use: temporary or permanent. Temporary records make up the bulk of the accumulation. After retention periods have been met, these temporary records can be properly destroyed. Mark temporary records with an end date for final review (e.g., "Review for destruction 01/2010"). This label can be used for e-records as well, or placed in a "Read Me" alongside the temporary files stored in the electronic Records Center Directory.

Permanent Records are kept indefinitely as archival records because they contain information of long-term administrative, legal, or historical value to the parish. These records should be clearly marked while held in a Records Center to ensure they will be moved to the archives (e.g. "Permanent—Send to Archives Jan. 2010"). Once transferred to archives, the appointed archivist can review them to eliminate duplicates and non-record material mixed in.

### **Destruction of Temporary Records**

An appropriate person should be designated to destroy obsolete records after a careful review process. Keep the following points in mind:

1. **Log the Destruction.** (See sample destruction log sheet attached).
2. **Destroy Systematically.** The person authorized follows policy and seeks advice when necessary.
3. **Verify Content and Value.** Verify that the labels and contents match by checking inside boxes.
4. **Reevaluate if Necessary.** The value of information can change over time. This includes records that were originally thought to be "permanent." When in doubt, obtain a second opinion.
5. **Isolate Obsolete Records.** Physically separate and clearly label the boxes marked for destruction.
6. **Protect Confidential Data.** Destroy confidential records by shredding.
7. **Destroy Electronic Data Thoroughly.** Re-format the hard drive or delete data using special software that prevents recovery of deleted electronic data.
8. **Be Mindful of Pending Litigation.** Never destroy records in anticipation of pending litigation. Never remove records from the parish's place of business.
9. **Revise and Update.** Modify the retention schedule as needed, but follow a process and avoid making unilateral decisions for new records.
10. **Finish the Job.** After destroying obsolete records, follow-up by preparing for newly retired records and moving permanent records to the Parish Archives.

### **Secure Storage in a Parish Archives and Records Center**

Every congregation should attempt to set apart its archives. The Parish Archives is a room that is a secure, supervised, structurally reinforced, and stable environment. (A stable environment is one in which the average temperature does not fluctuate seasonally more than 5 degrees from a norm of about 68 F and relative humidity changes of no more than 5-7%

from a norm of about 55%.) Physical access to the archives room should be limited to persons designated by the vestry. For many parishes, it may be practical to combine the Archives and the Records Center storage in one place. A Records Center is used for storing inactive records – records that are still too current to transfer to the Parish Archives. If combined in one room, the temporary records should be strictly shelved apart from permanent records and labeled. Vital and important corporate records should be placed in the more secure Parish Archives for safekeeping as soon as they can be retired.

When parish resources and oversight are seen to be inadequate and risky for maintaining historical records, arrangements can be made to place the records in an off-site facility or deposit the archives in a secular repository. In either case, a congregation should never alienate, remove, or transfer title to its records without the informed consent of the vestry and a written agreement on title and ownership with the outside agency. Consult the diocesan or Episcopal Church archivist for alternative, cost effective means of protecting parish archives. A sample agreement to deposit archives and records with an external agency can be found on the Church Archives website at:

[http://www.episcopalarchives.org/parish\\_sample\\_deposit\\_agreement.pdf](http://www.episcopalarchives.org/parish_sample_deposit_agreement.pdf) .

### **General Records Retention Schedule for Congregations**

The following retention schedule is provided as a general guide to the adoption of local standards. It is neither comprehensive nor tailored to fit the specific requirements of particular congregations; but it may be useful as a congregation reviews and develops its own schedule. In conducting the review, seek the advice of those who are generating records in the parish. For updates to entries, see:

[http://www.episcopalarchives.org/Records\\_Manual\\_for\\_Congregations.pdf](http://www.episcopalarchives.org/Records_Manual_for_Congregations.pdf).

These definitions apply in the Records Schedule that follows:

- P** = permanent retention for purposes of indefinite legal, administrative or historical use
- AU** = retain the record for its current administrative use and destroy only after all use ceases
- SR** = selective retention of individual files after review: transfer permanent records to archives and destroy obsolete records.

Record Title or Series	Minimum Retention	Retention Recommendation
<b>A</b>		
Accounts Payable Files, Operational Accounts	7	Destroy after 7 years. <i>See also</i> Invoices and Paid Bills on Capital Expenses.
Act of Incorporation	P	Transfer to Archives.
Agreements, Contractual		See Contracts.
Annual Financial Reports		See Financial Statements, Annual.
Applications for Employment, Unsuccessful	1	Destroy after CY + 1 year, federal; CY+3 in some states.
Applications for Employment, Successful	P	Retain for life of Personnel File.
Appraisals, Property	AU	Retain until superseded.
Assessment/Quota Apportionment Data	5	Destroy after 5 years.
Audio and Video Recordings	P	Permanent. Transfer to Parish Archives for final review.
Audit Working Papers, including back-up	4	Destroy after CY + 4 years with audit.
Audit Reports	P	Transfer to Archives.
<b>B</b>		
Balance Sheets, Annual	P	Transfer to Archives.
Balance Sheets, Monthly/Quarterly	2	Destroy after 2 years.
Bank Deposit Books	7	Destroy after 7 years or CY + 4 years after audit.
Bank Deposit Slips	4	Destroy after 4 years.
Bank Statements	7	Destroy after 7 years.
Bank Reconciliations	2	Destroy after CY + 2 years.
Bequest and Estate Papers	P	Transfer to Archives.
Bonds, Canceled	2	Destroy after CY + 2 years from date of cancellation.
Budgets, Approved and Revised	P	Transfer to Archives.
Budgets, Proposed and Worksheets	AU	Destroy after administrative use ceases.
Building Plans and Drawings	P	Retain as-built drawings, architect's renderings, and renovation drawings. Transfer Mylar copies or e-copies of all original drawings to Parish Archives and make duplicate use copies. <i>See also</i> Specifications for Building and Design.
Bylaws	P	Transfer to Archives. Retire previous versions after every revision or amendment.
<b>C</b>		
Camp and/or Conference Center, Health and Safety Records (Including Health Treatment Procedures, Health Logs, Safety Incident Reports, Permission and Treatment Forms, Operations Manuals)	7	Destroy after 7 years unless action pending. <i>See also</i> Personnel Records and related business records for operation of camps and conference centers. Note: some state guidelines advise retention of forms for minors until the participants reach the age of 23.
Canceled Checks	7	Destroy after 7 years or CY + 4 years after audit.
Cash Journals, General Receipts and Disbursements	7	Destroy after 7 years. Retain permanently if used as primary book of entry in lieu of General Ledger.
Cash Journals, Receipts on Plate and Pledge Offerings	7	Destroy after 7 years. <i>See also</i> : Pledge Registers.
Cashbooks, Discretionary Accounts	7	Destroy after 7 years. <i>See also</i> Discretionary Account Checkbooks.

Record Title or Series	Minimum Retention	Retention Recommendation
Cashbooks, Special Fundraising Subscriptions	P	Transfer to Archives.
Certificates of Deposit, Canceled	2	Destroy CY + 2 years after redemption.
Certificates of Title to Property	P	Transfer to Archives.
Certificates of Incorporation	P	Transfer to Archives.
Cemetery and Columbarium Interments	P	Transfer to Archives.
Chart of Accounts	P	Transfer to Archives. Retain superseded copy with date of retirement substantive revisions.
Check Registers	7	Destroy after 7 years.
Check Book/Stubs	7	Destroy after 7 years.
Checks, Canceled		See Canceled Checks.
Committee Minutes and Records	P	Transfer to Archives.
Compensation Schedules, Salary and Benefit Guidelines	AU	Destroy after use ceases.
Computer Records		See Electronic Records, Legacy Files.
Consecration Certificates for Episcopal Church Buildings	P	Transfer to Archives. Keep authentic copy in Parish Archives if original is on display.
Constitution and Bylaws with Revisions	P	Permanent. Retire previous versions after every revision or amendment.
Contracts, Active	P	Retain in active files. <i>See also</i> Contracts, Inactive.
Contracts, Inactive	SR	Transfer to Archives for selective retention. Retain contracts on: New construction: P Betterments and major improvements: P Repairs and maintenance: CY + 6 years. Service: CY + 6 years. Lease agreements: CY + 6 years. Loans and bank notes: CY + 6 years. Employment contracts: see under Personnel Files and Records; <i>See also</i> Consultants Contracts.
Consultants Contracts	6	Destroy CY + 6 years after termination of contract for non-staff consultants.
Contracted Staff and Employees		See Personnel Files and Records.
Conveyances	P	Transfer to Archives. <i>See also</i> Deeds.
Copyright Registrations	P	Transfer to Archives; retain for life of copyright protection (90 yrs from publication or 120 from creation for works performed for hire by parish).
Correspondence Files, subject and name arrangement	SR	Transfer to Archives for Selective Retention. Retain substantive correspondence permanently; destroy routine courtesy correspondence after 5 years.
Correspondence Files, chronological arrangement	2	Destroy after 2 years if duplicative of central correspondence file by topic or subject; otherwise retain for review if used as primary filing system.
Correspondence, Transactional, including payments, receipts, transmittals, credits, etc.	4	Destroy after CY + 5 years.
Correspondence, Legal, including tax, real estate and probate issues	P	Transfer to Archives. <i>See also</i> Litigation Papers.
<b>D</b>		
Deeds: including conveyances, covenants, and easements	P	Transfer to Archives.



Record Title or Series	Minimum Retention	Retention Recommendation
<b>Development and Fundraising Campaign Records</b>	SR	Transfer to Archives for selective retention. Retain donor lists, case statements, correspondence, minutes, and planning documents; destroy receipts, letters of acknowledgment.
<b>Disability Claims</b>	AU	Retain indefinitely against future claims.
<b>Discretionary Account Checkbooks</b>	7	Destroy after 7 years.
<b>Directories and Yearbooks</b>	P	Transfer to Archives.
<b>Employment Taxes, Contributions and Payments</b> , including taxes withheld and FICA/Social Security contributions	7	Destroy after 7 years; a confidential record.
<b>E</b>		
<b>Earnings and Benefits Records</b>		See Employee History and Earnings Records; Personnel Files and Records.
<b>E-mail Correspondence (Email):</b>	SR	Transfer to Archives server space for selective retention. Review
Executive Administration and Finance		
Policy and program planning, official communication and statements, minutes, press releases, etc.		
Executive Program Planning and Administration,		Transfer to Archives.
Exchanges relating to strategic initiatives or mission program activities		
Administrative Support Messages, including travel, meeting appointments, acknowledgments, ordering correspondence, etc.		Destroy after 2 years.
Routine Courtesy Email,		Destroy after use.
Transmittals, reminder notices, cover letters, forwarded mail, confirmations, announcements, etc.		
Circulars/Broadcast Messages		Destroy after use.
List Services, Bulletin Boards, and Online Forums		Review for historical value; if parish forum, secure for Parish Archives.
<b>Electronic Records, Legacy Data</b> and files of accounting systems and other business records	SR	Transfer to Archives for selective retention. Retain legacy records after review of data set, software source code, and other descriptive metadata. Keep all permanent record series not printed, labeled, and verified. <i>See also</i> individual record titles in this schedule.
<b>Employee Contracts</b>		See Personnel Files and Records for contracted employees. <i>See also</i> Consultants Contracts.
<b>Employee Files and Records</b>		See Personnel Files and Records; <i>See also</i> Volunteers Files.
<b>Employee History and Earnings Records</b> , a summary record	P	Transfer to Archives. Retain long term for purposes of risk management. In the absence of the Employee History and Earnings Record, retain individual Personnel Files for 30 years. A confidential record series. <i>See also</i> Personnel Records and Files; <i>See also</i> Service Files for volunteers.



Record Title or Series	Minimum Retention	Retention Recommendation
<b>Employee Manuals and Policies</b>	30	Transfer to Archives. Date and retire previous versions upon revision.
<b>Employee Training Certificates, required sexual misconduct prevention and anti-racism training</b>	P	Place with Personnel Files and Records, and keep indefinitely.
<b>Employee Withholding Statements, Form W-2, and State Withholding</b>	7	Destroy after 7 years; confidential record. <i>See also</i> : Tax Forms, Individual Employees.
<b>Employee Withholding Certificates: Form W-4</b>	7	Destroy after 7 years; confidential record.
<b>Estates and Bequests</b>		See Bequest and Estate Papers.
<b>Every Member Canvass Records</b>	P	Transfer to Archives. Retain canvass lists and fair copy of program literature; discard working papers and memoranda.
<b>Event Files</b>	SR	Selective Retention. Transfer to Archives for final review. <i>See also</i> Office Files.
<b>F</b>		
<b>Financial Statements, Annual</b>	P	Transfer to Archives.
<b>Financial Statements, Monthly</b>	2	Destroy after CY + 2 years.
<b>Form I-9: Immigration and Naturalization Service Certifications</b>	6	Destroy CY + 6 years after termination of employment. Retain original copy in Personnel File for period of employment.
<b>G</b>		
<b>Grant Proposals: Successful Applications</b>	SR	Transfer to Archives for selective retention. Retain proposal, final report and substantive correspondence.
<b>Grant Proposals: Denied Applications</b>	1	Destroy after CY + 1 year.
<b>H</b>		
<b>Human Resources Polices, manuals and handbooks</b>		See Employee Manuals and Policies.
<b>I</b>		
<b>Immigration and Naturalization Certifications: Form I-9</b>		See Form I-9: Immigration...Certifications above.
<b>Incorporation Papers</b>	P	Transfer to Archives. Keep in safe or comparable secure location.
<b>Injury Reports</b>	6	Destroy CY + 6 years after settlement of all claims.
<b>Instruments of Donation of Episcopal Church Property</b>	P	Transfer to Archives. Keep authentic copy in Parish Archives if original is on display.
<b>Insurance, Notices of Employee Claims, including employer's copy of statement of benefits</b>	1	Destroy after CY + 1 year; a confidential record.
<b>Insurance Policies and Plans: Descriptions, Liability</b>	P	Transfer to Archives. Retain inactive policies indefinitely for protection against future claims against employees, volunteers, and other agents.
<b>Insurance Policies and Plans: Descriptions, Employee Medical and Life</b>	AU	Retain indefinitely for protection against future claims.
<b>Insurance Policies and Plans: Auto, Equipment, and Personal Property, Inactive</b>	6	Retain for life of policy; destroy CY + 6 years after termination.
<b>Insurance Policies and Plans: Property, Fine Arts, and Extended Risk Coverage</b>	6	Retain for life of policy; destroy CY + 6 years after termination. <i>See also</i> Inventories of Property.
<b>Insurance, Employee Medical Benefit, Election of Coverage</b>	6	Maintain in separate section of Personnel File; retain for CY + 6 years after termination of employment. Confidential record.

Record Title or Series	Minimum Retention	Retention Recommendation
<b>Inventories of Property and Equipment</b> , with photographs	P	Retain until superseded by new version. Place a back-up copy in separate buildings or sites. Retain old versions and photographs in Parish Archives.
<b>Invoices and Paid Bills on Capital Expenses</b> (Major Building Construction and Alterations)	30	Transfer to Archives for minimum long-term retention period against future liability claims. Review for archival retention thereafter. <i>See also</i> Accounts Payable, Operational Accounts.
<b>Invoices and Paid Bills</b> , General Operating Accounts	7	Destroy after 7 years or CY + 4 years after audit. <i>See also</i> Invoices and Paid Bills on Capital Expenses.
<b>J</b>		
<b>Journals</b> , General and Special	P	Transfer to Archives.
<b>Journal Entry Sheets</b>	7	Destroy after 7 years.
<b>Journals, Payroll</b>	7	Destroy after 7 years.
<b>L</b>		
<b>Lay Ministry and Leadership Files</b> , annual accumulation of service record	P	Transfer to Archives.
<b>Leases</b>	6	Destroy CY + 6 years after expiration.
<b>Ledgers, General and Special</b> Parish Funds	P	Transfer to Archives.
<b>Ledgers, Subsidiary</b>	10	Retain 10 years and transfer to Parish Archives for review.
<b>Legacies</b>	P	Transfer to Archives.
<b>Lists and Schedules of Subscribers/Donors</b>	P	Transfer to Archives.
<b>Litigation Papers</b> , including claims, decrees, court briefs, substantive correspondence, judgments rendered, memoranda of counsel's opinion	P	Transfer to Archives. Remove and discard non-substantive documentation 3 years after settlement: notes, abstracts, routine duplicate copies and drafts. <i>See also</i> Correspondence, Legal.
<b>Loan Schedules</b>	AU	Retain for life of loan.
<b>M</b>		
<b>Manuals</b> , Operations	AU	Retain until superseded; transfer old version to Parish Archives for review.
<b>Medical Insurance Policies</b> and Claims		See under Insurance.
<b>Memorial Gifts Registers</b>	P	Transfer to Archives.
<b>Minutes of Meetings</b> : Vestry or Council, Official Committees, Agencies, and Organizations	P	Transfer to Archives. Keep on permanent paper or in redundant electronic record keeping systems. Records kept in books should be post bound for efficient retirement. Transfer permanent copy of annual proceedings to Parish Archives after 3 years.
<b>Monthly Reports</b> , Financial	2	Destroy after 2 years.
<b>Mortgage Deeds</b>	P	Transfer to Archives. Keep in safe or comparable secure location.
<b>N</b>		
<b>Newsletters and Bulletins</b>	P	Retain 2 fair copies and transfer to Parish Archives. <i>See also</i> Service Leaflets.
<b>O</b>		
<b>Office Files</b> or Administrative "Central Files" arranged by Subject, Topic, Name, Project Title, or Event)	SR	Transfer to Archives for selective retention. Review annually. Retain for Parish Archives records that document administration, lay and clerical ministry, mission programs, and parish activities. Destroy resource materials, duplicate files, redundant reference files, vendor reference files. <i>See also</i> specific record titles herein for retention periods.

Record Title or Series	Minimum Retention	Retention Recommendation
<b>P</b>		
<b>Paid Bills</b>	7	Destroy after 7 years.
<b>Parish Sacramental Registers</b>	P	Transfer to Archives. <i>See also</i> Sacramental Records.
<b>Parochial Reports</b> , National/Diocesan Returns	5	Destroy after 5 years.
<b>Payroll Journals</b>	7	Destroy after 7 years.
<b>Payroll Registers</b> , summary schedule of earnings and deductions and accrued leave time	P	Transfer to Archives. Retain year-end, cumulative, inclusive report on all employees.
<b>Pension Records</b> , Retired Employees, including contributions, schedules, vesting records, and certificates of enrollment	6	Retain for CY + 6 years after termination of benefit payment; destroy thereafter when administrative use ceases. Keep with Personnel Files.
<b>Pension Plans</b> and supporting benefit detail	P	Permanent. Retire previous or superseded plans and retain one copy of the current plan in Archives or a comparable place of safe keeping.
<b>Personnel Files and Records.</b>  File arrangement includes separate folders or sections for: <b>Employment History &amp; Status File:</b> includes Employee History and Earnings Summary, job application, job descriptions, appointment letter and/or agreements; change of status notices, Form I-9, Forms W-4, annual attendance and leave time, Church's required training certificates, and sealed background check <b>Medical, Life, and Disability Records</b> (Coverage election forms, medical reports, disability and worker's compensation claims, flexible spending claims, drug screening) <b>Performance Records</b> (Formal appraisals, memos and correspondence, sealed complaint resolution file)	30	Keep individual Personnel Files for 30 years after termination of employment. Transfer inactive files to Archives CY + 1 year after termination of employment for secure safekeeping. A confidential record series, personnel records should be kept in a locked archives room or cabinet. <i>See also</i> Payroll Registers; Volunteers' Files.  Maintain all medical records in a separate file folder
<b>Petty Cash Receipts and Accounts</b>	7	Destroy after 7 years.
<b>Photographs:</b> Parish inventory, physical plant, windows, memorials, and other insurable property	P	Transfer to Archives. Label photo images with dates and description before transfer to Parish Archives.
<b>Pledge Envelopes</b>	1	Destroy CY + 1 year after reconciliation for audit.
<b>Pledge and Plate Receipts:</b> Individual Cards, Tally Sheets, and Journal Entries and Listings	7	Destroy after 7 years or CY + 4 years after audit, or retain listings permanently if summary records have not been kept.

Record Title or Series	Minimum Retention	Retention Recommendation
<b>Pledge Registers and Journals</b> , cumulative record of weekly stewardship giving	P	Transfer to Archives. <i>See also</i> Cash Journals, Receipts of Pledge and Plate Offerings.
<b>Policy Statements</b>	P	Transfer to Archives. Retire superseded statements after revision. <i>See also</i> Employee Manuals and Policies
<b>Profiles, Parish</b>	P	Transfer to Archives.
<b>Project Files</b> , Special Programs and Ministries	P	Transfer to Archives. <i>See also</i> Office Files.
<b>Property Files</b> including copies of deed, title papers, construction and repair history, specifications and drawings, permits, contracts, lease arrangements, and correspondence	SR	Retain unique files permanently; destroy duplicate files after administrative use ceases. Retain sufficient back-up data on contractors and major renovations for future liability protection.
<b>Property Inventories and Schedules</b>	AU	Retain until superseded. Place current copy in Parish Archives for safe keeping; transfer previous versions to Archives for final review.
<b>Property Surveys/Plans</b>		See Real Estate Surveys/Plot Plans below.
<b>Publications, Parish</b>	P	Retain 2 fair copies and transfer to Parish Archives.
<b>Purchase Orders</b>	7	Destroy after 7 years.
<b>R</b>		
<b>Real Estate Surveys/Plots Plans</b>	P	Transfer to Archives.
<b>Receipts, General Accounts</b>	7	Destroy after 7 years.
<b>Records Schedules and Destruction Logs</b>	P	Transfer to Archives.
<b>Resource Files, External Relations</b> including catalogs, sales brochures, common publications, professional literature, clippings & articles on non-parish events, vendor files, Episcopal Church resources	AU	Retain until superseded or until administrative use ceases; review annually and remove outdated material for destruction.
<b>S</b>		
<b>Sacramental Records: Registers of Baptisms, Confirmations, Marriages, and Burials</b> , including membership registers, and records of transfer not entered	P	Transfer to Archives. Transfer full volumes to Parish Archives safe or comparable secure location. A confidential record series.
<b>Sales Slips</b>	7	Destroy after 7 years.
<b>Search Records, Employee</b>	SR	Transfer to Archives for selective retention. Integrate final candidate application to Personnel File; destroy unsuccessful applications CY + 1. A confidential record series.
<b>Sermons</b>	SR	Transfer to Archives for selective retention. Retain full sermons for review; keep printed sermons as part of an archival series. Destroy sermon notes and duplicates.
<b>Service Leaflets</b>	SR	Transfer to Parish Archives for review and sampling, especially if Service Books are not kept.
<b>Service Books and Registers</b>	P	Transfer to Archives
<b>Service Files, Volunteers</b>		See Volunteers' Files
<b>Shipping and Freight Receipts</b>	3	Destroy after CY + 3 years.
<b>Specifications for Building and Design, new construction</b>	P	Transfer to Archives. <i>See also</i> Building Plans and Drawings.

Record Title or Series	Minimum Retention	Retention Recommendation
<b>Specifications for Service and Sales Contracts, and Minor Repairs</b>	7	Destroy 7 years after completion of transaction.
<b>Statistical Analysis and Reports</b>	SR	Retain until administrative use ceases; review membership, financial, and stewardship analyses for archival value.
<b>Subject Files</b> , including central administrative office files	SR	Transfer to Archives for selective retention: review annually and retain permanent records interfiled in office accumulations; <i>See also</i> Office Files.
<b>Subsidiary Ledgers</b>	SR	Selective Retention: retain permanent record series.
<b>T</b>		
<b>Tax Forms</b> , Individual Employees: W-2, 1099	7	Destroy after 7 years; confidential record.
<b>Tax Returns/Filings</b>	7	Destroy 7 years after filing provided no action is pending.
<b>Tax-exempt Certificates/ Form 990</b>	P	Transfer to Archives.
<b>Time Sheets</b>	3	Destroy after CY + 3 years.
<b>Title Certificates and Search Papers</b>	P	Transfer to Archives.
<b>Trial Balances, Closing</b>	7	Destroy after 7 years.
<b>Trust Fund Files</b>	SR	Transfer to Archives for selective retention. Retain copies of conditions, restrictions, legal opinions, and summary distribution history permanently; retain distribution notices and courtesy correspondence for 7 years.
<b>Trust Fund Registers</b>	P	Transfer to Archives.
<b>V</b>		
<b>Volunteers' Files</b>	30	Treat as Personnel Files. Transfer to Parish Archives for long term retention after CY + 1. Volunteer Files are a cumulative record of annual parish service, including positions held, evidence of required training, policy acknowledgment, performance, and incident reports. <i>See also</i> Personnel Records and Files.
<b>Vouchers</b>	7	Destroy after 7 years or CY + 4 years after audit.
<b>W</b>		
<b>Warranties</b>	AU	Retain until expiration of warranty.
<b>Wills, Testaments, and Codicils</b>	P	Transfer to Archives.
<b>Workers Compensation Claims and Filings</b>	7	Destroy 7 years after filing or settlement of claims whichever occurs later.

**Appendix-1: Sample Records Destruction Register**

**Trinity Episcopal Church  
Records Destruction Register**

<p><b>This register is a log of all records set aside for destruction as previously scheduled in accordance with the approved parish records retention schedule and after final review for legal, administrative and fiscal controls, and archival retention.</b></p>			<p><b>Approval Signatures</b></p>				
			<p>Sr. Warden: _____ Date _____</p> <p>Parish Administrator: _____ Date _____</p> <p>Parish Archivist: _____ Date _____</p>				
Box Unique Reference No.	Record Title or Series/Content Notes	Box Count	Trash or Shred	Location	Retention Schedule No.	Destruction Date	Initials -- Contents verified
2010-01	Treasurer's Paid Bills, 2006, vendor file A-Z	2	T	Basement-Caged Area	2010 ver.- # 2	1/20/2013	
2010-02	Paid Bills, 2006, copies filed by account number	2	T	Basement-Caged Area	2010 ver.- # 5	1/20/2013	
2010-03	Employee Time Sheets, 06/2006 to 12/2006 (boxes wrapped in duct tape 5 old Banker's boxes)	1	S	Room II - Trash Pile	2010 ver.- # 17	1/20/2013	