

# The Episcopal Diocese of San Diego

Vestry Training

January 31, 2015

*Top Ten Things You Need to Know about  
Church Finance and Administration*

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# #10

## How to Read a Financial Statement

# Accounting: Cash vs Accrual

- Cash: Income is recorded/dated when it is received and expenses are recorded/dated when they are paid
- Accrual: Income is recorded/dated when it is earned and expenses are recorded/dated when it is incurred

Both are acceptable methods for use by congregations. If cash accounting is used, it is recommended that all unpaid bills should be recorded as a liabilities at the end of the year.

*(Business Manual p. i-4)*

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*(Business Manual p. i-4)*

# Financial Statements

- Statement of Activities (also known as Income Statement or Profit & Loss (P &L) Statement)
- Balance Sheet
- Cash Flow Statement

# Ask Questions

- Ask whether books are kept on a cash or accrual basis
- Ask whether all bills and expenses have been recorded
- Ask if all the current bills and expenses have been paid
- Ask about major variances from budget

# Statement of Activities

Income Statement February 2015						
	February		Year to Date			
	Actual	Budget	Actual	Budget	Variance	
Revenue						
Pledge	5,100	5,000	11,123	10,000	1,123	
Plate	349	500	795	1,000	-205	
Other	25	100	53	200	-147	
Total	5,474	5,600	11,971	11,200	771	
Expenses						
Personnel	4,000	4,000	8,000	8,000	0	
Liturgy	250	400	599	800	201	
Office	99	200	315	400	85	
Maintenance	1,000	750	3,523	1,500	-2,023	
Total	5,349	5,350	12,437	10,700	-1,737	
Net Income (Loss)	125	250	-466	500	-966	

# Statement of Financial Position

Three Components:

- Assets: Bank and Investment Accounts, Property, Accounts Receivable
- Liabilities: Mortgages, Payables
- Net Worth/Net Assets

Assets - Liabilities = Net Worth/Net Assets



# Statement of Financial Position, cont'd

## NET ASSETS Categories

- Permanently Restricted: Funds restricted by donors in perpetuity. Commonly known as endowments
  - Earnings from endowments are considered temporarily restricted
- Temporarily Restricted: Funds that are donor restricted for a specific use or for a specific time

# Statement of Financial Position

## cont'd.

- Unrestricted Net Assets
  - Designated: Funds that the vestry has set restricted for a certain use
    - Designated funds can be permanently or temporarily restricted funds
      - Example of temporarily restricted: Property reserve
      - Permanently restricted: Quasi-endowment
    - Designated restrictions can be changed by vestry vote

*Unrestricted: Assets that have no restrictions put on them.*

<b>Balance Sheet</b>			
<b>February 28, 2015</b>			
Cash and Investments		Net Assets	
Checking	\$3,330	Temporarily Restricted	
Investments	\$12,000	ECW	\$4,569
Total Current Assets	\$15,330	Building Fund	\$23,599
		Altar Guild	\$2,359
Fixed Assets		Earnings on Endowment	\$599
Church Building	\$325,000	Total Temporarily Restricted	\$31,126
Church Land	\$250,000		
Furnishings	\$49,231	Permanently Restricted Endowment	\$10,000
Less Accumulated Depreciation	\$32,000		
Total Fixed Assets	\$592,231	Unrestricted	\$441,435
Total			
		Total Net Assets	\$482,561
Total Assets	\$607,561		
Liabilities			
Note payable on church	\$125,000		

# #9 Make sure you have adequate insurance

THE YOUTH GROUP DECIDES TO PREPARE THE SHROVE TUESDAY PANCAKE SUPPER



# Insurance Recommended

- Commercial Package: Insure for replacement value of property
- Comprehensive General Liability
  - Employees Benefits Liability
  - Medical Payments
  - Sexual Misconduct:
  - Hired and Non-owned auto:

# Minimum Insurance, Con't

- Directors and Officers (D & O)
- Umbrella Policy: Provides excess coverage
- Worker's Comp

***Church Insurance Agency is required for missions and recommended for parishes***

# #8 Property needs more than routine maintenance

Recommend a physical property evaluation and establish a property reserve



# Replacement Reserve Schedule

	Year 1	Year 2	Year 3	Year 4
Roof				10000
Furnace		5000		
Organ restoration			4000	
Reserve payment	4750	4750	4750	4750
End of year balance	4750	4500	5250	0



# #7 Comply with Employment Law and Canons

# Classification of Employees and Other

- Employees
  - Exempt
  - Non-Exempt
- Independent Contractors

# Payroll and other compensation

- Exempt Employees: Paid by the job and not by the hour
  - Must be paid more than 37,440 per year
    - This CANNOT be prorated for part time employees
  - Must be managerial or other specialized skills

# Employees, etc

- Non-exempt
  - Minimum wage in California \$9.00 per hour
  - Paid by the hour: **MUST** turn in a timesheet and be paid according to that time sheet, stipends or salaries not legal
  - Must be paid overtime for more than 8 hours per day or 40 hours per week
  - **CANNOT** volunteer in the same capacity as they are paid
  - “Comp” time is not allowed
  - Sextons and organists typically should be non-exempt

# Employees, etc

- Independent Contractors
  - Have control over how they deliver the job
  - Request Certificate of Insurance naming church as additionally insured, W-9, and (if applicable), copy of license
  - Have a written contract specifying scope, pay and term
  - Provide 1099 at the end of the year that includes gross payment to contractor if total payments exceed \$600

# # 6 Use a Payroll Service

*Do you really want to worry about making sure W2's and Form 941's are filed?*

*Do you really want the potential liability of unpaid payroll taxes?*

***Missions are required to use a diocesan approved payroll service!***

# #5 Safeguard God's People

- Make sure background checks are conducted – all clergy, employees and key volunteers
- Make sure online Safeguarding God's People is completed by key volunteers and employees

# #4 Keep Current

- Denominational Health Plan
- Lay Pension Plan
- Unemployment Insurance
- State Disability Insurance



# Denominational Health Plan

- Missions are required to offer the diocesan parity; diocesan plan is available on the website
- Parishes were required to approve their plan in keeping with the guidelines passed at last years convention. The approved plan was to have been submitted to the diocese by November 30, 2012 – *some have not yet!*

# Lay Pension Plan

- A pension plan must be offered to all lay employees who work greater than 1,000 hours per year.
- Implementation date: January 1, 2013 or sooner
- If a defined benefit plan, employer contribution must be at least 9 % of employees compensation
- If defined contribution plan – employer must contribute at least 5 % and match at least 4% of employee contribution

# Lay Pension Plan, continued

- Unlike the DHP which allows thrift shops and schools to be excluded, lay pension plan applies to all employees of a church or institution under the authority of the church
- However, schools are allowed a transitional period

# Lay Pension Plan

## **Extended Phase-In Schedule of Employer Contributions *for Schools Only***

<u>Required As of</u>	<u>Base Contribution Match Contribution</u>	
January 1, 2013	0%	0%
January 1, 2014	1%	0%
January 1, 2015	2%	1%
January 1, 2016	3%	2%
January 1, 2017	4%	3%
January 1, 2018	5%	4%

# Unemployment and Disability

- Church employers are exempt from participation in State Unemployment and Disability Insurance Programs
- Church employers may elect to participate in both programs – cannot opt into one program only
  - Employer pays for unemployment insurance
  - Employee pays for disability
- Missions are required to offer to employees

# #3

## Clergy Discretionary Fund

- Canon III.9 provides that the “loose offering” at one Sunday a month is designated for the rector’s discretionary fund. Others can make contributions to the fund as well.
- Generally recognized that fund is to be used for “pious and charitable” uses consistent with the church mission
- Cannot be used for personal use or gifts

# Accounting for Discretionary Fund

- Two Methods
  - All gifts made to the fund and all expenditures from the fund are handled from the church operating account
  - Or vestry may approve a separate account.
    - All gifts to the fund are deposited in the general account and then transferred into discretionary account
    - Bank statements are sent to someone other than the rector who should verify that deposits and review checks written against backup material provided.
    - Cash Disbursements are discouraged
  - Subject to audit

# # 2

## Internal Controls

- Goal: to prevent or identify errors as well as potential misuse of funds.
- Objectives:
  - Adequately safeguard cash and other assets
  - Ensure all transactions are documented and authorized
  - Expend funds in accordance with donor restrictions
  - Provide accurate and timely financial reporting



# Internal Controls Key Elements

- Segregation of duties: All steps in transactions should NOT be handled by one person
- Authority Levels
- Documentation and record keeping
- Independent reviews
- **Ask to see internal controls policy of church**

# Cash Controls

- Sunday Offering:
  - Two Counters should count the money after the services and put in sealed envelope with the amount and their signatures on it. Counters should rotate
  - Separate individual should make the deposit
  - Ideally, separate person should record deposit
- Petty Cash: Petty cash should be counted by person not in charge of cash. Verify amount against receipts

# Reconciling Bank Accounts

- Bank Accounts should be reconciled monthly.
- Person that is not a signer or the processing the checks should open the bank statement
- Person that is not reconciling the account should review the monthly reconciliation

# Payroll

- Risks:
  - Overpaying existing employees
  - Paying fictitious employees
  - Failure to recover advances
- Payroll should be checked or recorded by someone other than the person processing payroll
- Make sure proper documentation of advances, pay rate, time sheets and advances is available
- Use a payroll service

# #1 Make Sure an Audit is Conducted

- Annual audits are required by the Canons of the Episcopal Church for all parishes, missions and other institutions
- Purpose is to assure financial statements are fairly stated
- Designed to protect the assets of the organization as well as the people handling those assets

# Audit Guidelines cont'd

- *Diocese has specific guidelines regarding the type of audit that is required. Guidelines are based primarily on the revenue of the church including school, thrift shop, etc.*
- *This year, we will send a workbook to each church that explains the guidelines and procedures for conducting audit*

# Resources

- *Manual of Business Methods in Church Affairs (on website)*
- Julie Young, Canon for Finance and Administration [jyoung@edsd.org](mailto:jyoung@edsd.org)
- Rosa Feeney, Assistant Treasurer [rfeeney@edsd.org](mailto:rfeeney@edsd.org) – Parochial reports, Audits, Payroll, Tax
- Thank you!!





