The Episcopal Diocese of San Diego

Leadership Academy

February 24, 2018

Financial and Administrative Best Practices

Presented by

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the episcopal diocese of san diego

fearless love

Introductions

I. Familiarize Yourself with Resources

- The Episcopal Church Canons
- The Episcopal Diocese of San Diego Canons
- Your own church by-laws

- Manual of Business Methods in Church Affairs
  - Available on EDSD website – search on title

II. Financial Management is Key

- *Approve a balanced budget and manage finances accordingly*
  - *Create an effective stewardship plan*
  - *Take only a 4-5% payout from investments*
  - *Let your property work for you!*

II a. Financial Statements

- Statement of Activities (also known as Income Statement or Profit & Loss (P &L) Statement
- Statement of Financial Position (commonly known as the balance sheet)

Understand how to read

Make sure vestry receives

Ask questions (there are no dumb questions)

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)

Statement of Activities (*aka Income Statement)*

Approved budget should be on statement!

Know whether your church does accrual or cash accounting

Income Statement February 2018 (cash basis)					
	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	**3500**	**4,000**	7,500	8,000	500
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

also known as Balance Sheet

Three Components:

- Assets: Bank and Investment Accounts, Property, Accounts Receivable
- Liabilities: Mortgages, Payables (unpaid bills)
- 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.

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

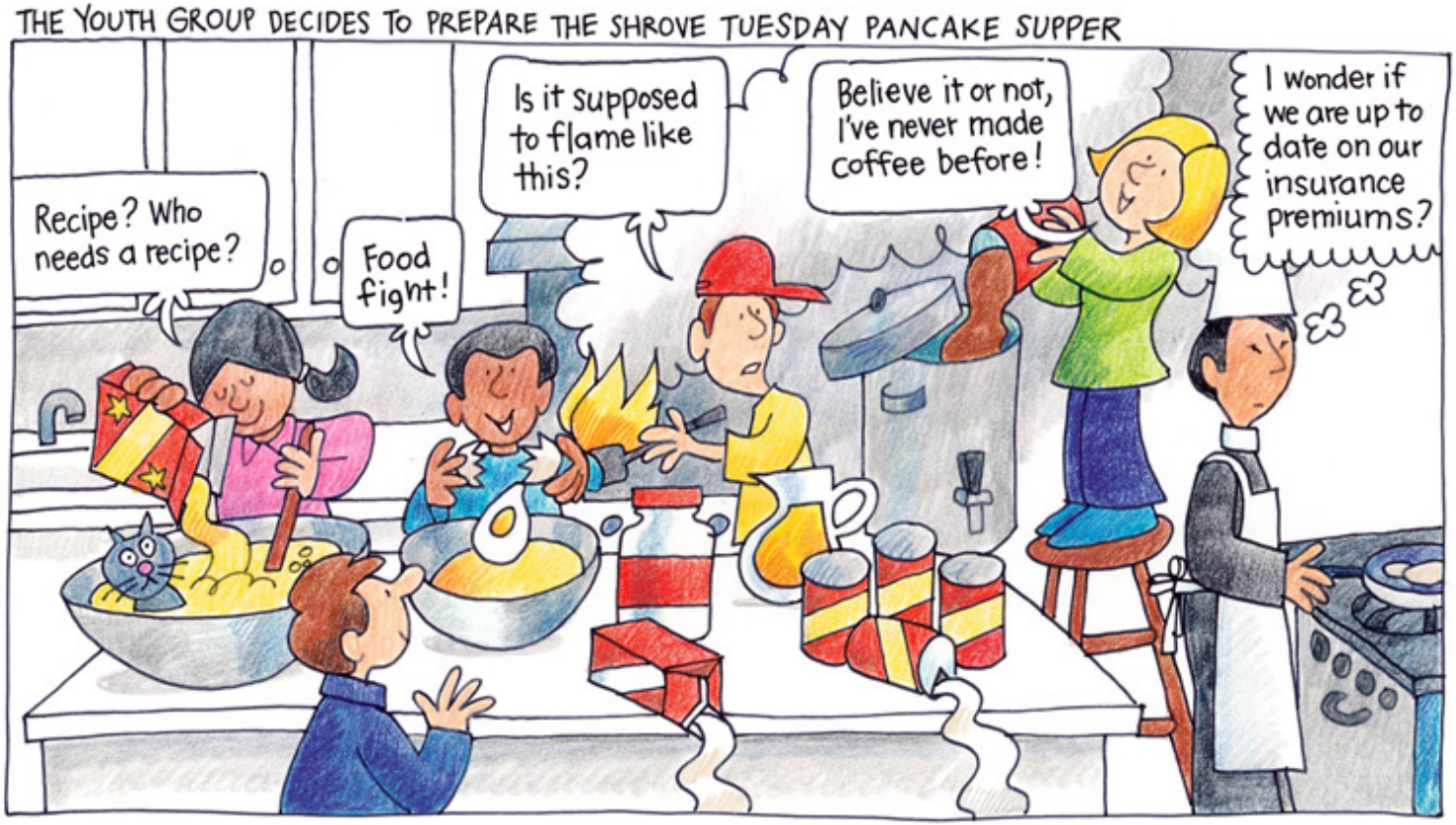
Unrestricted: Assets that have no restrictions put on them.

Key: Restricted net assets are obligations of church and sufficient funds should be available to cover them

Balance Sheet February 28, 2018

Cash and Investments		Net Assets	
Checking	$3,330	Temporarily Restricted	
Investments	$12,000	Endowment Earnings	$1,000
Total Current Assets	$15,330	Building Fund	$27.168
		Altar Guild	$2,359
Fixed Assets		Pastoral Fund	$599
Church Building	$325,000	Total Temporarily Restricted	$31,126
Church Land	$250,000		
Furnishings	$49,231	Permanently Restricted	$10,000
Less Accumulated Depreciation	$32,000		
Total Fixed Assets	$592,231	Unrestricted	$441,435
TOTAL ASSETS	$607,561	Total Net Assets	$482,561
Liabilities			
Payables	$25,000		
Mortgage	$100,000		

III. Make sure you have adequate insurance



Minimum Insurance Guidelines

- Minimum Insurance Guidelines approved by diocesan executive council: http://edsd.org/church-property-resources
- If Church Insurance Agency is your carrier, your insurance meets the minimum
  - Churches insured with Church Insurance Agency have additional diocesan wide “blanket” coverage for property related claims
  - If you don’t use Church Insurance Agency, a certificate of insurance naming the diocese as “additionally insured” must be provided annually
- Church Insurance Agency Corporation insures most of our churches
  - Jack Rutledge is the VP, Client Services

Minimum Insurance Guidelines

- Commercial Package: Insure for replacement value of property
  - Consider fine arts insurance
  - Commercial Crime: $25k blanket fidelity bond for employees and key volunteers
- Comprehensive General Liability 1 mln/5mln
  - Employees Benefits Liability 1 mln ea. Event
  - Medical Payments $25,000 per person
  - Sexual Misconduct: 1 mln/2 mln
  - Hired and Non-owned auto: 1 mln ea. event

IV. Property needs routine maintenance . . . *And more*

Recommend a physical property evaluation and establish a property reserve

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Replacement Reserve Schedule

	Year 1	Year 2	Year 3	Year 4
Roof				10000
Furnace		4000		
Organ restoration			5000	
Total Needs				19,000
Reserve payment	4750	4750	4750	4750
End of year balance	4750	5500	5250	0

V.a. Compliance with California Employment Law – come to Human Resource Management Workshop next in this same room http://edsd.org/what-we-do/human-resources/

Most if not all your lay employees are not exempt from wage-hour laws so should be paid by the hour and submit a time sheet for approval and payment

Also should not volunteer in same capacity that they are paid

V.b. Compliance with the IRS

- Priest's income (except short term supply) is reported on W2 but no FICA or Medicare tax is taken out of pay – priests pay SECA

- Section 125 plan required if payroll deductions are taken for health insurance if deduction is pre-tax
  - Ask your payroll service for help setting this up

- Section 106 Plan needs to be approved by vestry
  - Simple resolution that approves implementation of 106 plan so that health insurance benefits paid by the church are not taxable income

V.c. Use a Payroll Service

Missions are required to use a diocesan approved outside payroll service; parishes are strongly encouraged to.

Episcopal Payroll Services offers low cost service through ADP

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?

V.d. Use Independent Contractors Appropriately

- 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 (template on our website)
- Provide 1099 at the end of the year that includes gross payment to non incorporated contractor if total payments exceed $600
- Short term supply priests are considered independent contractors and given a 1099.

VI. Safeguard God's People

- Make sure background checks are conducted of all new employees
  - Low cost background checks are available for lay employees from Praesidium through the diocese
- Make sure Safeguarding God's People is completed by key volunteers and ALL employees

VII. Know canons and deadlines

- Any encumbrance (including leases) to your property must be approved by the Bishop and the Standing Committee
- Annual Meeting report due March 1
- Property Tax Exemption Claim due to County Feb. 15
- Parochial Report Due March 1(include 2017 financial statement, 2018 budget, and reconciliation worksheet)
- Roster of vestry or Data Collection form due March 1
- Notification of type of audit to diocese April 16
- Audit Due to Diocese September 1
- Common Life Share Pledge form due November 15

VIII. Understand Clergy Discretionary /Pastoral Needs Fund

- TEC Canon III.9 provides that the “loose offering” at one Sunday a month is designated for the rector or priest in charge “pious and charitable uses”. Others can make contributions to the fund as well.
- Cannot be used for personal use or gifts

See chapter V of the Manual of Business Methods in Church Affairs

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

IX. Have Internal Controls in Place

- 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

Remember to ask questions!

Think of internal controls as a 3 legged stool!

Internal Controls Key Elements

- Segregation of duties: All steps in transactions should NOT be handled by one person
- Authority Levels should be clearly spelled out
- Documentation and record keeping
- Independent reviews

- **Review Internal Control Questionnaire on page II-8 of Manual of Business Methods in Church Affairs**

Internal Controls, Cont'd. -- Cash

- 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

Internal Controls, Continued
Reconciling Bank Accounts

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

Internal Controls, Continued
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

X. Make Sure an Audit is Conducted (MMR & Audit = Healthy Congregation)

- 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 and internal controls are in place
- 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.*
- *A workbook has been sent to each church that explains the guidelines and procedures for conducting audit*

How can we help?

- Quarterly trainings/roundtables?
- Additional templates on website?

- *Don’t forget to sign up for Finance and Admin News – each edition includes “Treasurer tip of the month”*

Thanks for participating!

- For more information:

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Please fill out an evaluation!

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