

**Anglican Diocese of San
Joaquin**

**Treasurer's and Bookkeeper's
Manual**

January 1, 2014

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Section 1: Why do we have a Treasurer's and Bookkeeper's Manual?

For many years, the Diocese of San Joaquin, diocesan auditors, and church treasurers used the Manual of Business Methods in Church Affairs as a reference for appropriate procedures for church financial record keeping. Now, the time has come for the Anglican Diocese of San Joaquin to have its own manual, available to all churches and organizations in the Diocese.

Often, a treasurer will be elected by a church's vestry¹ who will have some accounting background, but will have no experience with church financial records. A new bookkeeper may be hired who has no experience with church financial record keeping. This manual is designed to assist these persons to understand the differences between business accounting and record keeping and church accounting and record keeping. This manual is designed to help treasurers and bookkeepers understand what fund accounting is and why it is important. It is also designed to help treasurers and bookkeepers understand some specific requirements for nonprofit organizations which, in some cases, may be very different from what is learned in an accounting class or in on-the-job training in a for-profit business situation.

This manual is also designed to establish minimum record keeping requirements for all churches, schools, and organizations that operate under the auspices of the Anglican Diocese of San Joaquin.

Finally, while it is understood that each church and organization has its own personality and way of doing things, this manual provides a means for standardizing procedures and policies within the diocese.

¹ For the purposes of this Manual, the term "vestry" is understood to mean a church vestry, a mission bishop's committee, and/or the board of a school or other church organization.

Calendar of Important Due Dates for Treasurers and Bookkeepers

January 1	Triennial Audit Response due to Diocesan Office and Auditor
January 31	Form W2: Employee's Wage & Tax Statement. Form provided to all employees, including clergy.
	Form 941: Employer's Quarterly Payroll Tax Return. File return with the IRS for quarter ending December 31.
	Form 1098: Mortgage Interest. Copy of form provided to recipient (for any mortgages held by churches).
	Form 1099: INT & MISC. Copy of form provided to recipient.
	Substantiation of Contributions: Statements provided to donors of gifts over \$250. Recommended distribution is by mail.
February 28	Form W2: Employee's Wage & Tax Statement. Forms remitted to the Social Security Administration, along with Transmittal form W3.
	Form 1099: INT & MISC. Forms remitted to IRS along with transmittal form 1096.
March 1	Annual Report filed on line.
April 30	Form 941: Employer's Quarterly Payroll Tax Return. File return with the IRS for quarter ending March 31.
July 31	Form 941: Employer's Quarterly Payroll Tax Return. File return with the IRS for quarter ending June 30.
September 1	Audit and financial statements of all congregations to be filed with Diocesan Office.
October 31	Form 941: Employer's Quarterly Payroll Tax Return. File return with the IRS for quarter ending September 30.

Section 2: Internal Controls

Internal controls are policies and procedures established by the Anglican Diocese of San Joaquin, a church vestry, a church finance committee, or some other authority (including state and federal regulations).

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 of internal controls, it is not possible to assure the reliability and integrity of the records or reports generated by the church.

An effective system of internal controls ensures that procedures are in place to meet the following objectives:

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

The overriding objective of all internal controls is to reduce the risk of loss or misuse of funds or property.

In this manual, recommendations for internal controls are made at the end of each section. For example, in the section on income, internal control recommendations will be listed that are specific to receiving and recording the church or organization's income. In addition, specific state and federal regulations will be spelled out as they apply to each section.

In Appendix A, you will find the questions asked in the audit Internal Controls Questionnaire. As you read through this questionnaire, if you find yourself answering, "me," "me," "me" to every question or to many questions, we recommend you carefully review all of the internal control recommendations, to better protect yourself, as well as your church or organization.

Consider these scenarios. Although these did not happen at any one church, the events related have happened in churches in central California and demonstrate why internal controls are necessary.

A small church had a treasurer who was a member of the congregation. He was friends with everyone in the congregation and everyone trusted him. "Larry" occasionally helped count the Sunday offering. He recorded the offerings in the computer, as well as on the contribution statements. Larry was also responsible for paying the church's bills. He wrote the checks, was one of the check signers, put the checks into the envelopes and mailed them. Larry prepared the monthly financial reports and attended the board meetings to explain them and answer questions. Larry balanced the bank statements each month. In a word, Larry did it all and was good at what he did!

Unfortunately, Larry fell on hard times. He wrote a few checks to cash (and pocketed the cash); he paid some dummy bills and changed the payee on the check (but not in the computer). Some checks went through with only one signature (Banks don't check that anymore. It is up to the church to ensure that checks are properly signed and endorsed.). Everyone loved Larry and trusted him.

It is hard to say why Larry got caught. There were no audits and there were no real internal controls. It may have been a vacation, where someone else decided to balance a bank statement and questioned some transactions. It may have been a board member's question about something on a monthly financial report. The fact is, Larry embezzled more than \$25,000 - a lot of money in a small church.

In another case, the treasurer (acting as the bookkeeper) carefully and properly deducted federal and state income tax, medicare tax and FICA from the employee paychecks. The deductions, however, were never sent on as required. The new treasurer, elected some three years later, was looking through the old financial records and computer reports and discovered that the deductions had not been sent out. The new treasurer asked the auditor what she should do, and the auditor's reply was, "First, call the Bishop's office and let the Bishop know what is

happening. Then call IRS - today!" The church ended up owing not only the back deductions, but fines and penalties to both the IRS and the state of California.

When asked, the former treasurer said, "I knew if they wanted the money, they would let me know."

In many cases, churches get audited by the IRS because a member's contributions are audited and something is found that leads them back to the church.

All of this could have been prevented if the churches had only done two things:

- First, established basic internal controls and made sure they were followed;
- And second, had a regular audit and carefully reviewed the findings.

Section 3: Computer Programs and “Manual” Bookkeeping Methods

Most churches today use some type of computer program to keep track of their financial records. Some church organizations, as well, are using computer programs. Others are not. This section describes different types of computer programs and specifies requirements that need to be met in selecting a computer program to use for church record keeping.

In general, there are two different types of computer programs available for financial record keeping. The most significant difference between the two types of programs, for our purposes, is that a true accounting program will **require** that you make a separate entry, called a journal entry, to make any change to any entry that has already been made in the system. The other type of program, originally designed for individuals and small businesses to keep records in their checkbooks, does not require a separate entry to change an entry that has already been recorded.

An example of this is the following: you record the Sunday offering - plate, pledge, etc., forgetting that this is the first Sunday of the month and the loose plate offering is designated for the Rector's Discretionary Fund. With a true accounting program, you must record an entry that subtracts the loose offering from the plate category and adds it to the Discretionary Fund. In a checkbook type program, you can simply go back to the original recording of the deposit and make the change.

1. **Checkbook type programs**: Obviously, there are some specific dangers in using a checkbook type computer program.
 - Any change to an original entry will change the data from that day forward. If the correction is made to a transaction in a previous month, your previously printed month-end reports will not balance to your computer records.
 - The ease of making changes makes it easier to embezzle and makes it harder to find embezzlement.

Having said this, many churches in the diocese are using Quick Books for their financial accounting. Quick Books is a checkbook type program, in that it does not require a separate transaction to change a previously-recorded transaction.

There are, however, some safeguards built into Quick Books. If your church decides to use Quick Books, you **MUST** run the Audit Trail at all times. This report must be available for the auditor to review, either by having the computer available at the audit site or by printing the report. This report shows all initial transactions, such as the recording of loose plate offering, above. In addition, it shows each and every change made to that transaction, whether it is a correction of category, change of amount, change of name, etc.

2. True accounting programs: All of these programs require a journal entry in order to change a recorded transaction. There are many programs available in the market today that are true accounting programs. These include:

- ACS - ACS Technologies (They also have a new program designed for small churches. It is less expensive than the regular ACS programs.)
- Power Church
- Church Windows
and many others

True accounting programs may be more expensive than Quick Books, but they may also be more appropriate, especially for larger churches with multiple funds and multiple bank accounts.

3. "Manual" bookkeeping systems: At this time, there are basically two different types of manual systems - The One-Write System, where writing checks automatically records the expense, and manual ledgers. These are now used infrequently, but can provide an adequate method of recording income and expense for small churches.

4. Unacceptable bookkeeping systems:

- A. Because Quicken does not have an Audit Trail, it is considered inappropriate for church accounting. It may be appropriate, however, for church organizations, such as an Altar Guild, to use along with a manual (hand-written) checkbook register.
- B. Excel, Quattro Pro, and other spreadsheets. Any change made has no record kept and may change multiple cells. Spreadsheets are considered unacceptable for church accounting, unless they are solely used as the mathematics for a manual ledger. (I.e., all transactions are recorded twice, once in a manual (hand-written) ledger and again in the spreadsheet.)

Before purchasing a new accounting program, churches and organizations should carefully investigate what programs might be available, what support (including other churches and organizations in the diocese using the program) may be available, cost, and flexibility. Questions to ask include:

- Can you use the program to record and track contributions and send statements or must you purchase a separate program to do that?
- How easy is the program to use?
- How easily can you make changes to the budget during the year?
- Can you set budget amounts by month, or must they be set by year and then spread evenly by month?
- What support is available from the company selling the program and what does that support cost? (Some programs have monthly or annual fees that include all updates as they are produced - including the annual payroll update; others have you pay for each update as it is produced.)
- **Note:** If you use Quick Books for payroll, you must purchase the payroll update every year. This may be more expensive than updates for one of the true accounting programs or using a payroll service.

You may wish to contact other churches in the diocese using the program you are most interested in, to see if they have specific areas where they are dissatisfied or have unanswered questions.

5. One additional issue with computer programs: Vestries should carefully consider whether it is appropriate for the church's treasurer and/or bookkeeper to use his or her home (or work) computer to keep the church's financial records. This has been the case in several churches in the Diocese.

When this is permitted by the Vestry, the following questions **must** be addressed: (Note: all of these have come up at one time or another in San Joaquin.) **It is recommended that Vestry answers to these questions be documented in writing and that an acknowledgment of the policies be signed by the treasurer/bookkeeper.**

- If the treasurer/bookkeeper resigns his or her position (or simply does no more work), how will the church proceed to ensure that all documents and reports are returned to the church? This could be messy if the treasurer/bookkeeper becomes unhappy or angry with the church.
- Will the treasurer/bookkeeper be permitted to take original documents home, or will all documents need to be photocopied so that the originals (i.e., counter's sheets, check copies, etc.) are kept at the church? If original documents are taken to the treasurer/bookkeeper's home or workplace, how and when are they to be returned to the church?
- Does the computer program belong to the treasurer/bookkeeper or does it belong to the church? If it belongs to the treasurer, is it a commonly available program that the church could purchase? What if the treasurer is doing his or her work on a computer at his or her employment?

- Will a new treasurer/bookkeeper need to be trained on the program? Who will do that? (What if the former treasurer/bookkeeper is not making a choice to resign?)
- How often, and in what format, do backups of the financial records need to be made? Does the church have a computer program that will read the backups? Where are the backup copies kept?
- If the computer program is being run both at the treasurer/bookkeeper's home or work and at the church, how is updated information uploaded or restored to the other computer. Care must be taken here, since restoring information from one computer to a second may remove any new data from the second computer. (I.e., if membership data is kept in the same program as the financial data, but on a different computer; restoring the financial data to the membership computer may cause any new data on the membership computer to be lost.) This really happened and it took many months to straighten out the problems.

6. **Church Organization Record Keeping:** Church organizations, such as the Anglican Churchwomen, Men's Clubs, Thrift Shops, SCRIP, youth groups, and others, may have separate checking and/or savings accounts.

These organizations must also do record keeping, although it will be more basic than what is required for churches. A separate section has been included to deal with accounting and record keeping for church organizations.

INTERNAL CONTROL RECOMMENDATIONS:

1. If your church is using Quick Books, it is recommended that someone, who otherwise has no access to the Quick Books program or the computer on which Quick Books is run, review the Audit Trail report every month, to ensure that all changes to transactions are appropriate.
2. Backups should be made, on a flash drive or CD, and taken off the church premises, every time the program is accessed.

In addition, a monthly backup should be made after all the monthly reports are printed and approved, and before the books are closed for that month. An annual backup should also be made after the Vestry has approved the year-end reports and before the books are closed for the year. The annual backups should also be stored off the church premises. This is a good item to go in a church safe deposit box, if the church has one. Regular backups are critical. You can always buy a new computer program, but you cannot resurrect the data if it is lost!

Section 4: Financial Management and Budgeting

Under the canons of the church, the Vestry is responsible for the financial management of the church. In church schools, financial management is usually the responsibility of the School Board or of the School Board and Vestry jointly.

An annual step in financial management is the preparation of an operating budget. All vestries should have a **realistic** budget in place every year. A budget is not a restriction on spending, but is a plan for the management of the church's resources. The budget should be reviewed on a regular basis, in order to make appropriate changes as needed.² It should be noted that the Vestry is the body that adopts the budget, although it may be presented to the congregation at the Annual Meeting or at some other appropriate time.

It might seem logical to prepare an operating budget, beginning with the anticipated income. Most realistic budgets, however, begin by consideration of program requirements and desires for the year to come. What outreach would the church like to see done? What educational programs are being considered? What are the costs of operating the church, church services, etc., during the year? Large churches, with a committee structure, may wish to hold informal "hearings" so that groups can present the programs they wish to operate and the funding required to do so. (For example, an education committee may wish to make significant changes to a Sunday School program, which would cost a specific amount of money to accomplish.)

Once the expense portion of the budget is outlined, then the vestry can begin to look at what resources will be needed to accomplish the programs that the church wants to operate.

² **NOTE:** Vestries, especially those in large churches, may wish to establish a Finance Committee. A Finance Committee usually is made up of the church treasurer, one or more vestry members, and other members of the congregation with specific talents and/or interests in financial management. The Finance Committee may be responsible for the preparation of a proposed budget, monthly review of financial reports and reporting to the Vestry, and other functions specific to the congregation. The specific duties of the Finance Committee should be documented in the Vestry minutes.

A good budget is a working document. Programs may cost more or less than planned. Expenses may go up or down. Regular review of the budget is one way to spot errors in recording, as well as to note trends in income and expense. If, for example, an expense begins to significantly exceed its budgeted amount, then the Vestry may wish to amend the budget to move expense funds from one category to another. A good computer program should allow this type of change to be made in the middle of the year.

There are some special types of budgets that the vestry may wish or need to make, in addition to the operating budget.

- A Capital Spending budget will be needed if the church is doing building or major remodeling. Again, this budget begins by consideration of the expenses and then the resources needed to accomplish the expenses.
- A Debt Retirement budget is needed if the church has a large loan amount to be repaid. A Debt Retirement budget allocates specific amounts of resources to be paid monthly, quarterly, or annually against the loan, in order to ensure it is retired in a timely manner.

Cash Management:

Cash inflows and outflows vary in amounts during the year. It is critical that the church's treasurer ensure that the church has adequate cash to pay the bills when the inflows are less than the outflows (often during the summer months). Comparisons of income and expenses over several years can help to predict the ebb and flow of money in the church's bank accounts.

The balance a treasurer keeps in the church's checking account may depend upon one or more of the following:

- Timing of the cash flows, pledge payments, investment or endowment income vs. expenses, regular bills, quarterly bills, and large expenditures.

- Maintenance of a good banking relationship by complying with minimum balance requirements.
- Available borrowing power of the congregation to meet emergencies.

Many banks have interest-bearing checking accounts or money-market accounts, where it is possible to see that funds on deposit earn, at least a little, income. Some of these accounts have minimum balances which must be observed or fees to be paid. Money which is not needed for short-term cash flow can be invested in a savings or other account, generally earning a higher return.

Investment Management:

- A. **Short Term Needs:** Funds that are needed for the short term (within 12 months) are generally held in checking or money-market accounts. These accounts may or may not earn interest.
- B. **Longer Term Needs:** Good stewardship of church assets implies that funds which are not needed until some future date (more than 12 months) should be prudently invested. Considerations for such investment include:
- What are our investment objectives?
 - How much risk will we tolerate? How will we allocate the assets? How can we diversify the assets?
 - What will the spending rate/dividend distribution policy be? How much of the investment can be used each year?

Long-term investments are best managed by an investment institution, unless the parish has knowledgeable, qualified persons who can serve as part of an investment committee.

INTERNAL CONTROL RECOMMENDATIONS:

1. Most Vestries adopt a policy that the Treasurer or Bookkeeper is authorized to pay routine bills, which do not exceed the monthly budgeted amount, without further authorization. (i.e., water, electricity, telephone, payroll, etc.)

Bills which are not routine budgeted items must be approved for payment prior to the work being done or the materials ordered, and before being paid. Documentation of this approval should be in the minutes of the Vestry or the Finance Committee, if the Vestry has given the Committee this authority.

The Treasurer and the Bookkeeper should receive a copy of the monthly Vestry minutes, or at least that portion which applies to financial transactions, as that may be the documentation for an expense.

2. The Finance Committee or Vestry should review the budget carefully each month. Expenses which exceed the budgeted amount by more than just a few dollars should be carefully reviewed to ensure that payments are appropriate, as well as recorded properly.

It is helpful if the budget in the computer program can be set in such a way as to reflect anticipated income and expense. For example, regular expenses, such as the water bill, can be set at an equal amount each month; but the quarterly insurance payments can be set at one quarter of the total billing in each month the payment must be made.

In the same way, it may be helpful to set anticipated higher income at Easter and Christmas and lower anticipated income during the summer months.

Section 5: Assets

All churches have assets. The total of the church's assets, minus any unpaid bills and other liabilities, equals the value of the church in dollars. The total assets of the church includes the assets of all church organizations and the discretionary fund.

There are different kinds of assets. Standard assets include:

- A. **Real property**: the land and buildings owned and used by the church. Churches who rent a building do not have real property.

A dollar amount for the land and buildings can be estimated through the county assessor's office or can be listed at purchase price, if that information is available.

- B. **Church furnishings**: this includes all the material furnishings of the church:

1. Church - the altar (if it is moveable), vestments, chalices and other vessels, candlesticks, candles, pews, hymnals and prayer books, Bibles, etc.
2. Office - desks, chairs, computers, printers, file cabinets, books, supplies, etc.
3. Parish hall - refrigerator, stove, tables, chairs, dishes, flatware, supplies, etc.
4. Other - nursery equipment, Sunday School/youth equipment, lawn mower and other maintenance equipment, etc.

All churches should have an inventory of, at a minimum, major items. Small items, such as flatware might be estimated (i.e., flatware for 100 plus serving utensils) rather than counting each piece. Once the church has an inventory of furnishings, an estimated value can be determined, based on either purchase cost or replacement cost. Either may be used, but it must be consistent. This figure, and the method used to determine it, must be provided to the church's insurance carrier to ensure proper coverage. (Note:

if your insurance coverage is for replacement cost, it is important to ensure that the values reported are increased appropriately.)

- C. **Cash assets:** these consist of the balance in all the church's "cash accounts:" petty cash, checking accounts, savings accounts, money market accounts, and CDs with less than a 1-year maturity. The cash value of these accounts should equal the reconciled statements for the accounts each month.

- D. **Investment accounts:** these consist of long-term CDs, stocks, bonds, funds invested with brokerage firms, etc. The value of these funds should equal statements or other documents received by or held by the church. (It is not necessary to adjust the value of these accounts monthly, but it should be done at year-end, so that your year-end reports balance to the statements.)

All of the assets of the church should be included, in some way, in the church's financial record keeping, since all of these represent a portion of the value of the church. This means that the church's year-end balance sheet (see the financial report section for further information) should include all assets of the church.

INTERNAL CONTROL RECOMMENDATIONS:

1. The checking, savings, and investment accounts of the church all have regular statements. Checking accounts have monthly statements; savings and investment accounts may have monthly or quarterly statements. In the case of CDs, these may be at the renewal time only.

These statements should be balanced, and any interest recorded, within a short time after receipt. In general, the monthly reports should not be

printed until the interest income is recorded. If, however, the Vestry meetings occur before the statements are received, reports (except December) can be prepared without the recording of the interest income. The final year-end reports cannot be printed until all income for the year, including interest income, has been recorded, so that the year-end reports balance to the reconciled bank statements. Note: In some cases, banks will state that they are not responsible if they are not notified of errors in a timely manner.

2. A minimum internal control is to have someone balance the bank statements who does not record receipts or disbursements of church funds, write or sign checks, prepare or record journal entries, and/or prepare monthly financial reports. If the church has a Finance Committee, this could be the responsibility of someone on this Committee or of someone on the Vestry.

If it is totally impossible for an outside person to balance the bank statements, then the monthly statement and the detailed worksheets and reports should be reviewed at Vestry or Finance Committee meetings, and should be certified as accurate by the Vestry or Finance Committee.

Note, however: this is not a recommended practice. There should be someone in the church, other than the treasurer and/or bookkeeper who can balance the bank statements.

3. **Real and Personal Property Assets:** Someone in the church, usually the Junior Warden, should be responsible for maintaining the church's inventory of personal property (With digital cameras, this has become a much easier task. The card becomes the inventory record.) This inventory should be kept off church premises. Insurance valuation should be reviewed annually, to ensure that the church has adequate insurance to rebuild and/or replace items which are lost in a disaster.

Section 6: Fund Accounting

What is Fund Accounting? Fund accounting is a system of recording income and expenses that are segregated by purpose. It is primarily used by nonprofit organizations, including churches.

Within each church, there may be several different types of funds. The most common are:

- Real property: land and buildings
- Personal property: furnishings
- Undesignated operating income: income such as pledge, plate, etc.
- Designated or restricted **operating** income: income including Altar Guild, youth funds, money given to pay for yard care, etc.
- Designated or restricted **non-operating** income: income including outreach, capital and building funds, memorial funds (if not used for operations), etc.
- Reserve funds

Restricted and Designated Funds

What are restricted and designated funds?

Restricted and designated funds are any monies or other assets given to the church where either the donor(s) or the Vestry places restrictions on how the funds or assets may be spent or used.

- A. If a **donor restricts** how a donation is to be used, the church has a potentially legal and (at the least) an ethical and moral obligation to use the funds as the donor wishes them used.³ Therefore, the church has two options:
1. The church may keep the donation and use it as the donor has restricted it. If, subsequent to accepting the donation, the church wishes to use it for a different purpose, the Vestry must contact the donor (or heirs) and request that the funds be used for a different purpose. (Permission should be given in writing.) If the donor (or heirs) do not agree to allow the funds to be used for a different purpose, they must be retained for the original purpose or returned to the donor (or heirs).
 2. The church may respectfully decline to accept the donation and either return it outright or request that it be used for a different purpose. It is recommended that Vestries exercise caution in accepting restricted donations. **No church must accept a donation which is restricted for some purpose they do not agree with or wish to fulfill.**
 3. Vestries should carefully consider any gift of material items before accepting them. Material items often come with "strings" attached.

³ It should be noted that there are some restrictions regarding donor-restricted donations. See the section on income for further details.

- In one church, a member gave a large (3' x 5') mirror with a "Victorian-style" gilded frame and matching wall sconces. The church accepted the gift, which ended up being stored for more than 25 years in the church attic. It wasn't something the church wanted to hang on the wall, but they had no donor authorization to dispose of it at a time when it was no longer of value to the congregation.
- In another church, members gave a great deal of money for stained glass windows, but nothing for their upkeep, maintenance, and preservation. This ended up costing the church a great deal of money.

As with restricted gifts of cash, no church must accept a donation that they cannot use, do not want, or cannot support.

- B. The **Vestry may designate** that general funds be used for specific purposes. They may, for example, decide that the offering received at the Christmas services will be given to a local food bank. What the Vestry has designated, they (or any subsequent Vestry) may un-designate. All such Vestry designations **must** be properly documented in the minutes of the committee.

How are restricted or designated funds recorded?

In order to record restricted or designated funds, you must consider the purpose for which the funds will be spent or used.

- A. **Operating Income**: Funds which will be used to pay for operating expenses of the church **must be recorded as operating income**, even though they may be restricted or designated for a specific purpose.

1. Most restricted or designated funds for operating purposes will be recorded as some type of other operating income. Examples include funds restricted or designated for:
 - Payment of babysitters.
 - Payment of musicians.
 - Payment for lawn/yard care.
 - Payment for repairs or maintenance expenses.
 - Payment to supply clergy while the clergyman is on sabbatical.
 - Donations toward clergy salary, housing expenses, or moving expenses.
 - Donations to offset cost of Christian Education.
 - Donations to the Altar Guild for such operating expenses as altar wine, altar bread, candles, and flowers.

Note: it is not appropriate to record any type of operating income against the expense. All operating income must be recorded as income to the church, and reported as such on the church's financial statements and the annual report.

- B. **Non-operating Income:** Donations for non-operating costs of the congregation will usually be recorded as some type of capital funds, trust or endowment funds, or outreach funds. [But see note below]. With the possible exception of outreach, it is preferable to have separate income and expense categories for non-operating income.
- C. **Reimbursements:** Money received by the church to directly offset (reimburse) purchases made or services received by members of the congregation, or refunds received by the church, may be used to offset the expenses for those purchases or services rendered, and may be recorded against the expense. **In such cases, the money received by the church is not a donation to the church, and is not shown on the contribution statement of the member involved.** Examples include:
 - Purchase of a book (at cost) for a class may be used to offset the payment for the same book.

- Reimbursement for personal use of a church copy machine, telephone, etc., may be used to offset the cost of equipment rental, fees, paper, etc.
- Purchase of goods and services (dinners, goods purchased at rummage sales, etc.), where the money given to the church is less than the fair market value of the goods or services received.
- Refund for the return of unused materials.

D. **Outreach Offerings-A Special Case:** Outreach offerings, for work outside the church program, must be treated in a special manner by the treasurer. This money includes canonical offerings and other special offerings.

1. **Canonical offerings:** The canonical offerings are those specifically provided for in the canons of the Diocese or the Province. These may include, but are not limited to:

- Birthday Thank Offering
- Anglican Fund for World Relief
- Church School Missionary Offering
- Good Friday Offering
- Theological Education
- Bishop's Discretionary Fund
- Discretionary Fund of the congregation

Canonical offerings, with the exception of the congregation's discretionary fund, should be forwarded to the diocese on a regular basis. All canonical offerings received should be forwarded to the diocese prior to closing the books for the year.

2. **Other outreach offerings** may include, but are not limited to:

- Local soup kitchens and food pantries
- Missionaries
- Other local outreach projects (but not for such congregational projects such as stewardship, evangelism, etc.)

Other special offerings for work outside the congregation should be forwarded to the appropriate agency on a regular basis, where appropriate. As with canonical offerings, all special offerings should be transmitted prior to closing the books for the year.

NOTE: All monies in these categories are designated for work outside the congregation's program. Evangelism, stewardship, Christian Education, Vacation Church School, etc., are not included. Those are operating expenses of the congregation. Also not included are monies received for votive lights, Christmas or Easter services, etc., unless the money is specifically designated for some purpose outside the operation of the congregation.

Tracking Restricted and Designated Funds

- A. **In all cases**, monies received for restricted and designated purposes of the church should be deposited into the general checking account of the church and then transferred to the appropriate restricted or designated account, if there is a separate account. This ensures proper recording of donations.⁴
- B. Once received and properly recorded in the appropriate fund of the church, designated monies may be commingled in one or more types of checking, savings, or investment accounts, if desired by the congregation. (But, see endowment funds, below.) When different funds are invested together in one type of instrument, it is **mandatory** that careful, appropriate record keeping be established and maintained to protect the integrity of each individual fund involved.
- C. **Journals or ledgers**, showing balances, receipts, and expenditures, must be maintained for each and every different designated fund held in the name of

⁴ **Note:** In a few cases, churches have a separate checking account for non-operating income only. When this is the case, non-operating income may be deposited directly into this account, provided that 1) a separate check has been written for the non-operating income. Split checks **must** be deposited into the general checking and funds transferred. And 2) that such deposits are properly recorded on contribution statements .

the congregation. Such records must clearly show that money received was restricted or designated for that specific fund and that money expended was used only for the designated purposes of the fund. All such subsidiary journals or ledgers are to be presented at the time of the audit of the financial records of the congregation. (Also see information below on trust and endowment funds for additional documentation requirements.)

Trust and Endowment Funds

- A. **Records shall be made** and kept of all trust and permanent funds showing at least the following:
- Source of funds and date received.
 - Terms governing the use of principal and income. (See below.)
 - To whom and how often reports of condition are to be made.
 - How the funds are invested.
- B. **Formal Endowment Funds** are those funds which have restrictions on the expenditure of principal. An endowment fund may be set up such that the principal may not be expended for a specific period of time, or it may be set up such that the principal may never be spent (only the earnings may be spent).
1. Extreme care must be used when the Vestry accepts the donation of a formal endowment fund or decides to establish a formal endowment fund. The constraints placed upon a formal endowment fund are legally binding, and court approval would be required to affect changes in the future.
 2. It is recommended that legal counsel be sought prior to accepting or establishing a formal endowment fund.

3. Records showing the source and date of the endowment, terms governing the use of principal and income, reporting requirements, and any investment requirement; as well as disposition of the fund should the congregation disband **must be in writing, and must be available at the time of the audit.**
4. It is preferable that a formal endowment fund be kept in a separate bank or other investment account (not commingled with other funds of the congregation).
 - The only exception might be an addition too small to add to an existing certificate of deposit or other investment.
 - A congregation **may not borrow** from the principal of an endowment fund unless the legal documentation establishing the fund **specifically** permits borrowing from the fund.

C. **Trust Funds and Informal Endowment Funds:** A trust fund is simply money, held in trust by the Vestry, for a specific purpose of the congregation. An informal endowment fund may be established by a Vestry, with similar restrictions to a formal endowment. The key difference is that a Vestry-established informal endowment fund can be dissolved by any subsequent vestry, rather than by legal action. The prime example of congregational trust funds are memorial funds. Building funds are special types of trust funds and will be discussed below.

1. As with other permanent funds of the congregation, written records of trust funds must include, at a minimum: source and receipt date of the fund, terms governing use of the fund, reporting and investment requirements. If a specific committee within the congregation has some jurisdiction over the trust fund, this must also be clearly stated. Written documentation of each trust fund must be made available at the time of the audit.
2. Restrictions on trust funds may be legally binding, and Vestries should carefully consider the implications of accepting trust funds which are restricted in nature.

3. Unlike endowment funds, generally both the principal and the income of a trust fund may be expended by the congregation, although there may be some restrictions on how and when this is done.
4. It is, generally, the intent of donors to a trust fund that the money will be spent for some specified purpose. While it may be appropriate for a congregation to save a trust fund for a specific, costly purchase; "hoarded" trust funds, which are never spent, may be contrary to the intentions of the donor(s).

D. **Property Funds**: Property funds are trust funds specifically designated for property expenses of the congregation. Property funds may be part of the operating fund of the congregation; may be solely capital funds, or may be both operating and capital funds.

1. **Property funds established for maintenance** or for the replacement of existing furnishings or equipment are a part of the operating funds of the congregation. Income for such funds should be recorded as some type of restricted operating income and expenditures are some category within operating expenses. Examples of these types of funds include:

- Building maintenance (plumbing repair, carpet cleaning, roof maintenance etc.)
- Yard maintenance (annual tree pruning, new flowers in the planter, new sprinkler heads, etc.)
- Organ or Piano Fund (for regular tuning and maintenance of the organ and/or piano)
- Replacement of existing furnishings or equipment (replacement of a garbage disposal, new folding chairs for parish hall, replacement of existing carpeting, etc.)
- Fund established to repay **interest** on a construction or mortgage loan.

It is recommended that congregations consider establishing such funds and making annual deposits to them to provide for the need to eventually replace or repair existing items.

2. **Property funds which are considered capital funds** are for new purchases or for major improvements expected to extend the life of the property for 10 years or more. These funds are expended as some type of major improvement, addition to property, purchase of land or buildings, construction, etc.. Examples of these types of property funds are:

- **Building Funds:** generally for such major repairs to the property as replacement of an entire roof; carpeting or floor tile where it has never been before or with substantial upgrading of old carpeting or flooring; installation of new air conditioning or heating systems; {but not repairing the old ones} etc.
- **Organ or other Music Funds:** for major upgrades or overhaul of existing instruments, purchase of new instruments, etc.
- **Yard or Landscaping Funds:** for such purposes as planting new trees, installation of new sprinkler systems, new fencing, etc., but not maintenance of existing landscaping or systems.
- **Construction Funds:** rebuilding and repaving of parking lots, major remodeling of buildings, construction of new buildings, etc.
- Included in this category is money received to pay the **principal** of construction or other types of loans for major improvements as listed above. Note that the repayment of the interest on the loan is a business expense of the congregation and is properly recorded as some type of operating income and as an operating expense.
- **Computers and software** are a special kind of capital expense. Because technology changes so quickly, computer and software replacement are considered capital items. Repair or service to an existing computer, however, is considered an operating expense.

- E. **Wills and Bequests:** Any time a congregation receives money from a will or bequest (a legal document), it is essential that they request and receive a copy of the will or other documentation specifying how the funds are to be used, or stating that there are no restrictions on the use of the funds. Churches who have not used funds in accordance with a will or bequest have successfully been sued for the return of all funds, as well as any interest that could have accrued to the funds.

Can we borrow between funds?

The simple answer is, "Yes...but..."

- A. **Unless funds are prohibited from loaning or borrowing** from other funds, it is possible to make a temporary loan from one fund to another.
- Unless an Endowment Fund specifically permits such loans, you may not borrow from or lend to an Endowment Fund.
 - Loans between funds are expected to be temporary in nature.
- B. **Appropriate Vestry documentation** in the minutes should be made for all loans between funds. Documentation of loans between funds, even if repaid, is to be available at the time of the audit. Such documentation should include:
- Date of loan.
 - Date loan is to be repaid and terms for repayment.
 - Expected source of funds for repayment (from general funds, expected bequest to congregation, etc.). It is suggested that the committee consider contingency plans, as well, in case the expected source of funds for repayment becomes unavailable.
 - Any specific terms for the use of the funds borrowed. For example, if you are borrowing from the building fund to pay clergy stipend during the summer months, can that money be used for anything else or only for clergy stipend?

- C. **It is expected that Vestries will take borrowing between funds seriously** and consider all the implications of such a loan prior to its authorization. It would be an easy matter for a congregation with a large building fund, for example, to quickly get to a point where repayment of a loan to the general funds would be all but impossible. Considerations include:
- Are there other sources of funding?
 - Do we really need to make these expenditures?
 - Can we realistically repay the loan?
 - What will we do if we cannot repay the loan?
- D. In addition to the documentation noted above, loans between funds are recorded as liabilities and accounts receivable on the church's balance sheet.

Carry-Over

Church undesignated operating funds do not carry over from year-to-year. At the beginning of the new year, the balance of pledges received, for example, is zero. This is always true.

Restricted and designated funds, whether for operations or for other purposes, need to carry a balance from one year to the next. For example, if the church receives funds for building purposes, you will want to carry any unused balance over to subsequent years.

Your computer program should allow for restricted and designated funds to be carried from year-to-year.

If you have a manual bookkeeping system, you will need to keep additional ledgers and worksheets, showing the balances, income, and expenses, for all restricted and designated funds.

INTERNAL CONTROL RECOMMENDATIONS:

1. If your church has formal or informal endowment funds, or trust funds of any type that exceed \$10,000, it is recommended that the Vestry establish a separate committee to monitor these funds. This could be a sub-committee of the Finance Committee.

This committee should review, at least once a quarter, how the funds are invested; that income, including investment income, is properly recorded; and that expenses are properly recorded. The committee should also review any documentation for the fund to ensure that the fund is being used as the documentation requires.

2. The Finance Committee or Vestry should carefully review all transactions and the balances of all restricted and designated funds, at least quarterly, to ensure that income and expenses are properly recorded and that the funds are spent as they have been restricted or designated.

Section 7: Income

A. Counting the Sunday and weekday offerings

Most churches either count the offerings on Sunday, after the service(s) or on Monday mornings.

1. Any money received in the mail or in the church office during the week should be kept in a safe location (safe, locked fire-proof file cabinet, etc.) until it is counted. Most churches count money received during the week along with the regular Sunday offerings.
2. If a large sum of money is received in the mail or in the office during the week, you may wish to make a separate deposit. All documentation that would normally be done for a Sunday offering deposit should be made and kept, including some type of counter's sheet.
3. Loose plate on Sunday: in accordance with the Diocesan Rector's and Warden's Manual, the loose plate offering should be counted and recorded on Sunday, regardless of whether the entire offering is counted at that time.

Counters: In some churches, the ushers count the loose plate offering on Sundays. In other cases, members of the church's counting committee do this task. In all cases, at least two persons **not related to one another**, are to count the offerings. Each church should have a minimum of 5-6 people who are trained in the counting process, so that counting the offering and making the deposit can be done after every Sunday. **No offerings should ever be held from one Sunday to another.**

In all cases, care must be taken to separate operating and non-operating income. (See the section on Fund Accounting for further information.) See sample counting sheets in the Appendix.

4. If the entire offerings is counted on Sunday, it is recommended that you make the deposit on Sunday. Most banks will provide you with night deposit bags and a key to their night deposit box. (There may be a small key deposit required.)
5. If the offering is not counted and deposited on Sunday, the funds must be secured in a safe location until it is counted on Monday. This could be a safe, locked fire-proof file cabinet, etc., at the church office. **In no case is money to be taken to the treasurer's home or any other home for safeguarding until the following day.**
6. **In all cases**, the offering is to be counted and deposited not more than 48 hours following receipt, i.e., not later than Tuesday of each week. All monies received after the previous Sunday are to be counted and deposited.

B. Contributions and Contribution Statements:

Contributions are restricted or non-restricted gifts to the church, given by individuals, organizations, or businesses. Charitable contributions generally must satisfy the following six IRS requirements to be deductible by the donor:

1. **A gift of cash or property** (the gift of services is not a charitable contribution);
2. **Claimed as a deduction in the year in which it is given** (date delivered or postmark, not the date on a check);
3. **Unconditional and without personal benefit to the donor.** Generally, a tax deductible contribution may not be restricted by the donor to be used by a specific individual, regardless of need. The donor may suggest a preference, but the control of where the contribution 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.**

The donor must not receive anything tangible in return for their contribution. Payment for a book for a Bible study class or a meal which is eaten is not a contribution to the church.

- A. **Contribution Statements:** Churches are **required** to acknowledge any one-time contribution of \$250 or more in writing. This acknowledgment may be a contribution statement or a thank you letter, specifically noting the date of the contribution and the amount. This applies to all subsidiary organizations of the church, as well. If the Altar Guild receives a \$250 donation, it must be properly acknowledged. (See further information in Section 13 of this audit.)

For this reason, it is recommended that all contributions to the church be first deposited into the church's general checking account and then transferred to the checking account of the subsidiary organization. In this way, the church will record all contributions on appropriate contribution statements or letters.

- **Contribution records** - each week, all contributions should be recorded to individual donors in some way. This could be a part of your computer program, a separate computer program, or hand-written contribution statements. Both restricted and non-restricted contributions are to be recorded. No non-contribution items should appear on these records.
- **At least at year-end** (prior to January 31 of the following year), each church should send all donors some type of acknowledgment of their contributions. In some churches, these are printed quarterly or semi-annually, and either placed in the back of the church or mailed. Although it is recommended that year-end statements be distributed by mail, if they are placed in the back of the church, any statements not picked up by January 31 **must** be mailed. Any statements returned in the mail should be re-mailed to a correct address, if known, or kept to document the attempt to acknowledge contributions. (Keep the envelope, as well, as that demonstrates timeliness of the documentation.)

- The Internal Revenue Service **requires** that the following statement (or similar) be placed on all contribution statements and acknowledgment letters.

Failure (by the church) to include this statement could result in the donor's contribution being disallowed.

No goods or services, other than intangible religious benefits, were received in return for these contributions.

Note: there are additional special requirements for donors by the Internal Revenue Service for contributions of property exceeding \$500 and additional requirements for contributions of property exceeding \$5,000, as well as contributions of automobiles, airplanes, and boats. See www.irs.gov for further information.

For further information, the pamphlets titled, "IRS Tax Guide for Churches and Religious Organizations," and "Charitable Contributions-Substantiation and Disclosure Requirements" (#1771) can be downloaded from www.irs.gov.

C. Special types of contributions

1. **Receipt of stock:** Churches may, from time to time, receive contributions in the form of stock. Unless the church already owns stock as an investment, and has a good financial advisor, it is recommended that stock be sold as soon as it is received.

The contribution value of the stock (what is reported on the contribution statement or thank you letter) is the **value of the stock at the time it is received**. Your broker, or the company selling the stock on your behalf, can provide you with this value.

When the stock is sold the church will receive a check for the proceeds of the sale. This usually is either more or less than the value of the stock at the time it is sold. The gain or loss on the sale of the stock **accrues to the church** (not to the donor). You will need to set up an income category for the loss or gain on the sale of stock and record the difference between the value credited to the donor and the amount of the check received.

2. **Non-cash contributions:** Members of the congregation will, from time to time, give "things" to the church. These may consist of flowers for the altar, food for events, items they have purchased for the church, etc.

- **It is important to track the value** or approximate value of non-cash contributions for several reasons. First, it is a contribution to the church. Perhaps even more important, however, is that failure to track what members purchase and donate to the church gives a false impression of what it costs to run the church. If, for example, your church school teacher buys all the supplies needed to run the Sunday School, you have no way to know what this costs unless the teacher provides you with some documentation of what he or she has purchased. You don't want to be surprised with a huge bill when the next church school teacher cannot afford to donate all the supplies!
- **Acknowledging non-cash contributions:** All non-cash contributions should be acknowledged in some way. Some computer programs allow you to enter non-cash contributions in the contribution portion of the program. If your computer program does not do this, then a thank you letter should be sent. The acknowledgment, whether on a contribution statement or a letter, must contain a detailed description of the property donated, **but not the value of the donation**. In addition, the required IRS statement regarding no goods or services must also be included in any letter acknowledging a contribution.

- Most computer programs do not allow you to enter estimated dollar values of donated items. In order to track the cost to the church, ledger or a spreadsheet should be kept, listing the items received, and their estimated value.
 - Note: there are special rules for the donation of an automobile, boat, or airplane. See www.irs.gov for more information.
3. **Facility use income:** Churches who own or rent a building may allow other groups to use their facilities for a variety of purposes. (Note: this does not apply to church groups such as ACW, wedding receptions for weddings held at the church, etc.)
- Groups using church facilities should also be tax-exempt organizations. (See also "rent" below.). Any group using your facilities should complete and provide you with a copy of their Welfare Exemption, showing that they are a tax-exempt organization.
 - Tax-exempt groups using church facilities may provide you with income to offset the cost of their use of the property, including electricity, heat, water, normal wear-and-tear, etc. Such income should be called "expense reimbursement" or similar, as it is not rent. The total reimbursement may be recorded against appropriate expenses, **provided** the amount does not exceed the cost of the expenses.
 - Facility use income may be deducted from operating income provided that the church has calculated the reasonable expense of facility use. This can be done on a per hour or some other basis, and in an equitable manner. Any income, above the reasonable expense of facility use, must be recorded as operating income or must be designated, by the Vestry in writing, for some non-operating use. (Note: the expenses are equally reduced. If you deduct \$100 in facility use income for electricity and gas used by a tax-exempt group, then you must also deduct that \$100 from the church's utility expense.)

- **Note:** outside groups using church facilities should also provide the church with a Certificate of Insurance. This is provided, free-of-charge, by their insurance company. While not complete protection against an insurance claim or lawsuit, this will help to mitigate the church's liability in permitting outside groups to use their facilities. Vestries may permit groups (such as Alcoholics Anonymous, Assistance League, etc.) that do not have insurance to use their facilities, but must carefully consider the potential risk to the church before allowing the use.
4. **Rent:** outside groups or individuals who cannot complete Welfare Exemption forms and who are not nonprofit organizations have the potential to put the church at risk with their tax exempt status. You can permit outside groups, who are not nonprofit organizations, to use your property; however:
- That portion of the property they use must be reclassified as commercial property and you must pay property tax on it. You will want to collect sufficient rent from these groups and individuals to ensure that the cost of the facility use, as well as the property tax, are covered by the income received.
 - Examples of this type of use include (all from San Joaquin):
 - a caterer who wishes to use the church's commercial and inspected kitchen for a catering business.
 - paid use of the church's parking lot.
 - use of the parish hall for business meetings.
 - use of an unused Sunday School classroom for an office.

5. **Fund Raising Events:** Many churches have one or more fund raising events during the year. There are several things that must be considered:
- a. **Recording income:** All income from fund raising events **must** be deposited into the church's (or organization's) checking account immediately after the event. If there is a substantial amount of cash or if the event takes place over more than one day, multiple deposits should be made. (A good example of this is a fireworks booth.)
 - b. **No expenses of the fund raising event are to be paid or reimbursed out of the income.** Just as with other expenses of the church, expenses and reimbursements must be properly documented and then paid by check or from the church's petty cash fund, if there is one.
 - c. For reporting purposes, it is appropriate to deduct expenses from income to find the net income. For example, if the church holds a dinner, with most of the food donated, but purchases the meat, then the meat vendor may be paid directly by a church check or an individual may pay the vendor and submit the bill for reimbursement. This amount may be deducted from the income for the dinner to find the net reportable income.
 - d. **Fair Market Value:** the fair market value of an item is the price that would be paid at a local store, restaurant, thrift shop, etc. Any amount paid, above the fair market value, may be considered a donation to the church and recorded as a contribution on the individual's contribution statement. For example, the church has a dinner and charges \$25 per plate. Essentially the same dinner could be purchased at the local Denny's for \$20.00. The difference of \$5.00 may be considered a donation to the church and recorded on the contribution statement.

In the case of dinners, auctions, etc., the church must state the fair market value of the item(s) sold. This can be done on the dinner ticket, auction tag, etc. This is a case where the donor can place a fair market value on an item to be sold at auction.

- e. **State Sales Tax**: The State of California has not given blanket exemption to non profit organizations for state sales tax. Some types of fund raising activities are generally subject to payment of sales tax and others are not. Income subject to sales tax includes, but is not limited to: rummage sales, served meals, boutiques, thrift shops, auctions, etc. It is strongly recommended that churches obtain Publication 18, Tax Tips for NonProfit Organizations. This can be downloaded from the California State Board of Equalization website. Careful study of this publication will help you determine which, if any, of your fund raising activities may be subject to payment of sales tax.

Note: This is a legal issue. Churches cannot hold fund raising events that are subject to state sales tax and fail to collect and remit the appropriate tax.

Also note: if your church holds or sponsors a "craft fair" where outside vendors sell merchandise, there are special rules that you are required to follow regarding state sales tax.

- f. **Unrelated business income**: An exempt organization (church) is not taxed on its income from an activity substantially related to the charitable, educational, or other purpose that is the basis for its exemption. However, if the church regularly carries on a trade or business not substantially related to its exempt purpose, except that it provides funds to carry out that purpose, the organization is subject to tax on its income from that trade or unrelated business. Some examples of unrelated business income include: soliciting and selling commercial advertising, even though it is published in the church

newsletter; operating a commercial parking lot, etc. If you may have unrelated business income, it is recommended you obtain IRS Publication 598, Unrelated Business Income. This may be downloaded at www.irs.gov.

INTERNAL CONTROL RECOMMENDATIONS:

1. The church counters **must** be two unrelated persons. At least one of the two should rotate every week. The counters should sign the counting sheet to show who counted each week. (Note: you could have husbands and wives who both are counters, but they may not count together.)
2. Before the deposit is made, sufficient recounts must be made to ensure that the deposit total balances to the counter's documents. It is too easy to count a quarter and then drop it on the floor or leave a check on the copy machine. (See appendix for sample counter's forms.)
3. **"Change" is never to be made in the church's offering.** It may be tempting to write a check and keep the coins, but large churches (many in Texas) have learned, the hard way, that this is not a good idea.
4. The person responsible for recording the church's income in the computer program should not be one of the two counters, although he or she may be present during the counting to provide information and answer questions.
5. If changes are made from the original counter's documents (i.e., the person recording contributions notes that a check is marked "altar guild" rather than pledge and makes that change to the original counter's documents), the change should be dated, initialed by the person making the change, and noted with the reason for the change.

6. **Deposit documentation:** If your church uses offering envelopes, each envelope should be noted with the name of the donor, the dollar amount of the donation, and if it is cash or check. These should be kept for at least one year. (See section on records retention.)

Copies of checks: many churches make copies of all checks that they receive. This is excellent documentation of the purpose of any donation. It is also very helpful in correcting recording errors which may, from time to time, occur. At a minimum, it is recommended you make and keep copies of checks that are not regular pledge or giver of record. The size can be reduced so that you can fit from 6-10 check copies on a 8 $\frac{1}{2}$ x 11 page.

If you do not wish to make copies of checks, you must, at a minimum, list the following information:

- name of the donor (and address, if it is a visitor)
- check number
- amount of the check
- any designation

Any correspondence received with a contribution should also be kept.

7. Unless your computer program records an increase to the bank account when a pledge or recorded gift is recorded on a contribution record, you must balance pledges and recorded gifts to the accounting records at least at the end of each calendar quarter. While this does not ensure that all contributions are recorded to the correct donor, it does ensure that all income recorded as pledge or giver of record has been recorded on contribution statements.

Section 8: Disbursements

All disbursements of church funds must be made either by check or through the church's petty cash fund, if there is one. **No disbursements are ever to be made through the Sunday offering or directly from the income of a fund raising or other event.**

- A. **Petty Cash:** Many churches have petty cash funds. This can work well for the payment of small expenses such as postage, small amounts of supplies, and small reimbursements.

Considerations for petty cash funds:

1. The church must have a safe place to keep the cash. A safe, locked fire-proof file cabinet, etc.
2. Only one person should have access to the petty cash fund. If multiple people have access to where the cash is kept, then it should be kept in a locked cash box or other security measures should be taken. This is to protect the petty cash custodian, as well as the money of the church.
3. In determining the amount of cash to keep on hand, estimate the petty cash expenses for a period of two weeks up to one month. If you are not replenishing the fund monthly, you have too much cash on hand.
4. All disbursements of petty cash must have some form of documentation: a cash register receipt, postage due bill, etc.
5. To protect the petty cash custodian, someone from the church who otherwise has no access to the fund should count the cash and balance the fund, unannounced, at least every 6-8 weeks. This could be a member of the Vestry or the Finance Committee.

6. Replenishment of the petty cash fund is made by check, **payable to the person who will be going to the bank to cash the check.** The expenses should be recorded against the appropriate expense categories: postage, office supplies, etc.
7. Petty cash funds **do not take in money.** If, for example, someone gives the church money for personal use of the copier, a stamp, etc., it does not become a part of the petty cash fund. This income should be kept in a separate location and deposited, intact, into the church's checking account along with the Sunday offerings.

B. Invoices and Other Documentation: Churches generally receive two types of billing documents. Routine bills such as water, electricity, etc., are either mailed to the church or can be obtained on-line. Other invoices or receipts are obtained when someone goes to the store and purchases an item, or when ordered merchandise is received in the church office. It is important, in these cases, that the person who receives the merchandise notes on the invoice, bill, or packing slip that the materials have been received. Often the person approving invoices or writing checks does not see the case of paper or box of envelopes, and has no way of knowing that ordered materials have been received.

1. **Routine expenses:** In most churches, the adoption of a budget authorizes the treasurer or bookkeeper to pay the routine monthly expenses of the church: water, electricity, insurance, etc.
2. **Non-routine expenses:** All non-routine expenses, however, should go through some type of authorization system. While these differ from church to church, the basic principles are the same.
 - a. There must be some type of original documentation: cash register receipt, bill from the business furnishing the supplies or services, etc..

- b. The invoices should be approved by a Vestry (or Finance Committee) appointed person **who does not write or sign checks**.
- c. Approval for payment may be made before the purchase. In this case, the approval documentation would be in the Vestry minutes. A copy of Vestry minutes should be provided to the treasurer and/or the bookkeeper whenever the Vestry approves an expense in order to streamline the disbursement process.
- d. If approval has not been made before the purchase, then the bill should be submitted to the Finance Committee, the Vestry, or another appropriate individual or committee, in accordance with the church's authorization process. Once approval has been given, the check can be written.

C. Reimbursements: In every church, out of convenience or necessity, individuals will purchase materials for the church and wish to be reimbursed. The church should carefully consider the following:

1. **Are the purchases necessary?** If you make a policy of immediately reimbursing anyone who presents a receipt, the church may quickly exceed its budgeted expenses. How do you control who is authorized to make purchases on behalf of the church? You may wish to require pre-authorization before an individual can purchase items on behalf of the church.
2. Some type of check request should be used for all reimbursements. (See appendix for a sample document.)
3. All reimbursements should go through the authorization process prior to the check being issued.

4. As for any expense, detailed original documentation is required for reimbursements. Note: a credit card receipt, with no information regarding the purchase, is not acceptable documentation.
5. It is of particular importance that any **reimbursement to employees** have complete and detailed documentation, so that there is no chance of confusion between reimbursement and salary.

D. **Advances:** Employees or volunteers may request and receive advances of funds so that they can directly pay for project or travel expenses.

1. **Project advances:** Project advances are normally used to permit an employee or volunteer to pay for various items needed for a specific project, without having to use their personal funds. The person who receives the advance, settles it by providing appropriate receipts in the amount of the advance and/or repaying any funds not spent.
2. **Travel advances:** Travel advances are used to permit an employee or volunteer to travel, on behalf of the church, without using their personal funds. Travel advances are settled by the submission of a Travel Expense Report and supporting documentation. Any unexpended funds must be repaid at the time the Travel Expense Report is submitted.

E. **Church Credit Cards:** There are two different types of credit cards that churches may have.

1. **A vendor's or store credit card** (Staples, Home Depot, etc.). These may be useful for the regular and routine purchases of budgeted materials such as office supplies, repair and maintenance supplies, etc. In some cases, the Vestry elects to allow, for example, the Junior Warden to have a Home Depot card or the secretary to have a Staples card.

Care must be taken by the Vestry or Finance Committee to carefully review purchases made on these cards to prevent excessive spending or exceeding budget limitations. Often Vestries or Finance Committees place limitations on how much can be spent on the card(s) each month without prior authorization. Note that these are internal limitations. The credit card bills must be carefully reviewed by the Vestry or Finance Committee in order to ensure that monthly limitations are not exceeded, and take appropriate action if they have been exceeded.

2. **MasterCard or Visa:** Some churches apply for and are granted a MasterCard, Visa card, or similar. **If your church has such a card or is considering having a credit card, the Vestry should seriously consider the internal controls required.** (See 7 below.)

INTERNAL CONTROL RECOMMENDATIONS:

1. The person who writes the checks and records them on the computer should not sign checks. Some churches put all members of the Vestry on their bank account as signers. This ensures that there are always two people around to sign the checks.
2. All church checks must have two signatures. Since the bank will not review this, the person who balances the monthly bank statements must review all checks for proper signatures. A report should be made to the Vestry, monthly, stating that all checks were signed appropriately or that there were exceptions. Exceptions should be detailed on the report.

Check copies: some banks and most credit unions do not return paid checks. If your church does not return paid checks, the person who balances the account must have on-line access to the church's checking account, as paid checks can be reviewed on-line.

3. Complete documentation for all checks must remain with the checks and must be reviewed by both persons signing the checks to ensure that the check is payable to the correct party, that the amount is correct, and that the check is properly documented.

If the two signers are not present at the same time to sign the checks, the church should establish a system to ensure that the same checks have been signed. For example, if you prepare checks on the computer, you can print a "check register" or other report for each check run. Signer one can review the check register and write on it "__ checks signed" then date and sign the page. Signer two can review the check register and what signer one has written, and then write the same information, date and sign it as well. Whoever puts the checks in the envelopes and mails or distributes them should do the same.

4. **No checks are to be payable to "cash."** If it is necessary to cash a check (only for change for a fund-raising event or for petty cash), the check should be made payable to the person who is going to the bank to get the cash.
55. If the church has a petty cash fund, there must be an internal audit (counting cash and adding the receipts) done on an unannounced basis, not less often than every 6-8 weeks. This must be done by someone who otherwise has no access to the petty cash fund.
6. **Advances:** No employee or volunteer should be given a second advance until the first advance has been settled. Normally, all advances should be settled within 30 days of the advance. Any employees with advances that are not settled by December 31st should be either issued a 1099-Misc. for the unsettled amount of the advance or should be subject to salary withholding in the amount of the unsettled advance.
7. If the church has a MasterCard or Visa card, or a vendor's credit card, there should be an internal audit of **each and every credit card statement** to ensure that each charge on the statement has appropriate documentation, that spending limitations have not been exceeded, that only approved purchases (no personal charges) have been made, and that the entire bill is

paid each month. This could be done by a member of the Vestry or the Finance Committee. (Although this may seem to be a large task, if done monthly it should not take very long to complete.) In addition:

- a. **Who has the card? Where is it kept?** If the card is kept in the church safe or locked fire-proof file cabinet, and only used for such things as on-line purchases by Vestry-authorized individuals, that may be sufficient control. This is the recommended procedure for church credit cards.
- b. **If an employee or member of the church is allowed to carry the card, under what circumstances can it be used?** What dollar limitation has the Vestry placed on credit card purchases? What categories of expenditures are permitted?
- c. **Under any circumstances, all charges made on church credit cards must be backed up with appropriate documentation. This includes, but is not limited to:**
 - Internet purchase receipt or copy of order.
 - Charge slip plus detailed information from a vendor. (Note: the charge slip alone is insufficient documentation, details regarding items purchased must be provided.)
 - If the credit card is used to pay for a business meal, names of all persons attending and major subject of discussion (purpose) must be noted.
 - If the credit card is used to charge gasoline, it must be for a **church-owned vehicle**. (See payroll section for information regarding mileage reimbursement for use of personal vehicles.)
- d. **Under no circumstances are personal charges to be made on church credit cards.** Any person who makes personal charges on a church credit card should immediately be removed from the credit card users list and should not be permitted to make any further charges on a church card.
- e. Documentation for each credit card bill must be attached to the billing statement and filed with the other paid bills of the church.

- f. The entire credit card bill must be paid each month. (If you are unable to pay the entire bill, then you should not be using the credit card!)

Section 9: Payroll

Payroll is an issue for every church. Even if your church pays its clergy and any other employees through the Diocesan Payroll Program or some other payroll program, there are still requirements that you must follow. Careful attention to the information below will help to ensure that your church is following all the appropriate rules and regulations.

A sample human resources manual is available from the diocese. It is recommended that churches, with employees other than clergy, revise (as appropriate) and adopt this manual if they do not already have their own HR manual.

- A. **Who is an employee** (we don't get to choose): The Internal Revenue Service has set up a list of criteria to help employers determine whether persons they pay are employees or independent contractors. The determination of employee status is generally based on 3 factors:
1. **Behavioral control**: Does the employer direct where and when the worker can work and what tools he/she may use?
 2. **Financial control**: Is the worker free to seek out similar business opportunities? Can he/she realize a profit or loss?
 3. **Type of relationship**: Is there a written contract? Are employee benefits provided? Is the worker's service a key aspect of the employer's regular business?

Major points in the IRS criteria are listed below. Details may be found at www.IRS.gov.

1. **Instructions**: Employees are required to comply with instructions about when, where and how they work.
2. **Training**: An employee may receive training for their job by another experienced employee.
3. **Services rendered personally**: If the services must be rendered by the person hired, they are an employee. A contractor has the right to hire a substitute without the knowledge of the employer.

4. Hiring, supervising, and paying assistants: If the individual has the right to hire, supervise, and pay (personally) an assistant, that generally indicates they are a contractor.
5. Set hours of work: If the employer sets the hours of work, that is an indication of control which is an indication of an employer-employee relationship. Contractors can set their own hours.
6. Doing work on the employer's premises: If the individual is required to work on the employer's premises, that indicates an employer-employee relationship.
7. Payment by hour, week, or month: An employee is usually paid by the hour, week, or month. A contractor is usually paid on a lump-sum basis, although there may be progress payments.
8. Payment of business expenses: Payment by the employer of business expenses or mileage suggests an employer-employee relationship.
9. Tools and equipment: If the employer furnishes the tools and equipment for the job, that indicates an employer-employee relationship.
10. Right to discharge: Self-employed persons generally cannot be fired as long as they produce results in accordance with their contract. Employees may be fired.
11. Right to terminate: Employees generally have the right to terminate their employment at any time. Contractors are usually responsible to complete the work they have agreed to do in a satisfactory manner or are legally obligated to make good for failure to complete the work.

The following people are normally considered employees:

- Rectors, vicars, and their assistants;
- Interim clergy and regularly employed supply clergy who consistently work at the same congregation;
- Secretaries, sextons, directors of Christian education, childcare providers who are not volunteers, yard maintenance workers (including teenagers who cut the lawn), the organist or accompanist, any paid choir members, and the choir director.

- Organized yard maintenance services and cleaning services may be considered contractors, but see #9 above.

B. **Employee Documentation:** The following documents **MUST** be obtained by the church, whether the church is doing the payroll or it is being done by a payroll service:

1. IRS Form W4 "Employee Withholding Allowance" should be completed when a clergy or lay employee is hired or when a change is withholding is requested. (It is recommended that every 2-5 years a new W4 be obtained from all clergy or lay employees to ensure that any appropriate changes are made.) If a payroll service is doing the church's payroll, this form is forwarded to the payroll service. (Note: although withholding is not done for clergy, this requires the cleric to write his or her social security number down for you.)
2. Form I9 "Employment Eligibility Verification" must be completed for all clergy and lay employees, regardless of citizenship, prior to the first paycheck. **(Note: Neither the payroll service nor the Diocese does not do this for you.)** Someone at the church must **personally** examine the documentation for this form and then must certify that they have done so. To be valid, the signed and dated certification must be on the I9 form.

All I9 forms should be kept in a separate "I9" file and not filed with any other employee documentation, including resumes, letters of reference, copies of I9 documentation, etc.

As the treasurer or bookkeeper, you cannot write or authorize a paycheck for any employee who has not completed the I9 form or has not provided the documentation required to certify the I9.

- C. **Overtime:** This is another area where churches could find themselves embroiled in legal issues.

Under current federal law, persons can be considered exempt from overtime in a variety of ways. In general, persons are considered exempt if they are administrators or by virtue of specialized training.

1. Key tests for administrative employees:
 - they supervise 2 or more employees, **and**
 - at least 50% of their work is administrative in nature, **and**
 - they are able to exercise independent judgment.

The exercise of independent judgment means that they are able to commit the church to financial or legal obligations **independently** (without the knowledge or approval of the Vestry, Finance Committee, clergy, etc.)

2. Specialized training includes seminary. Ordained clergy are exempt from overtime when they are hired to perform a clergy function, such as a rector, vicar, or their assistants. Credentialed teachers, teaching in church-operated schools, are also exempt employees.

Whether an employee is salaried or paid on an hourly basis is **not a factor** in determining exempt status. Under the law, employees such as secretaries, bookkeepers, babysitters, custodial staff, etc., are clearly not exempt from the overtime laws. Parish administrators are usually non exempt if they have secretarial and/or bookkeeping duties. None of these persons, including parish administrators, have the ability to make independent decisions committing the congregation financially or legally.

An additional piece of legislation, passed in April 2004, states that regardless of other factors, no employee who does not earn \$455 per week (\$23,660/year) is exempt from overtime. The state of California has imposed a higher minimum compensation of \$33,280 per year for exempt employees.

It is the church's (the employer) responsibility to keep the appropriate records to show that non exempt employees are not entitled to be paid for overtime and that they are appropriately compensated for all hours worked. A salary is based on a particular number of hours. A non exempt, salaried employee must be compensated for all hours worked. Compensatory time may be given for extra hours worked; however any overtime hours (more than 8 in one day, 40 hours in one week) must be **paid** to the employee.

Under the labor laws, all non exempt employees must have a job description or contract that specifically states the number of hours per day or week that they are expected to work. For employees who are paid on a salary-basis, the hourly wage can be figured by dividing weekly salary by the number of hours to be worked each week.

Time Cards: All non exempt employees must keep time cards, signed by the employee and his/her supervisor, showing hours and days worked. These do not have to be formal time cards, they can be time sheets, calendars, etc., as long as they indicate time in and time out and hours worked. (A sample time card is in the appendix of this manual.)

It should also be noted that, under the federal Wage and Hour laws, an employee is **prohibited** from volunteering to do the work they are normally paid to do. What this means is that the church secretary is legally prohibited from volunteering to do additional, unbudgeted office work. He or she may, however, perform Altar Guild duties, for example, as a volunteer.

D. **Other considerations:**

1. **Pay periods:** All employers are required to have stated pay periods and pay dates, and are required to pay their employees in accordance with these stated dates.
2. **Salary deductions:** All employers are required to make certain types of deductions from employee pay, including federal income tax, social security tax, and medicare tax. Clergy are exempt from this withholding, but may have federal income tax withheld on a voluntary basis. (In California, churches are exempt from unemployment and disability taxes.)

3. **Worker's compensation:** All employers are required to cover their employees with worker's compensation insurance.
4. **Benefits:** Any employee benefits, including but not limited to, health insurance, pensions, etc., must be stated in writing.
5. **Employment contracts:** Any employment contracts or stated policies are made by the Diocese and the Vestry, not by the employees.
6. **Clergy compensation:** Clergy are required to be compensated following Diocesan policy.

E. **Clergy Compensation:** Clergy are considered employees only for Federal (and, where applicable, State) income taxes purposes. Clergy are considered to be self-employed for Social Security and Medicare tax purposes. Federal Income, State Income, Social Security and Medicare taxes are not withheld from clergy compensation, and compensation subject to Social Security and Medicare taxes is not reported on the W2. Clergy may, however, elect to have federal income tax withheld on a voluntary basis.

The following items are considered compensation and must be reported on the clergy W2:

- Salary, **excluding** the housing and utility allowance
- Honoraria
- Bonuses and "Love offerings"
- 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 donors.
- Amounts received from weddings and funerals if kept by the clergy. This is excluded if they are deposited into the church's general checking account and then into the discretionary fund.
- Any amount to cover the clergy self-employment taxes
- Transfers of property by the church to the employee, including automobiles, homes, etc. This includes forgiveness of loans to clergy.
- Any travel or business expenses not paid under an "accountable reimbursement plan."
- Any non-qualified moving expenses.

F. **Expense reimbursements**: Employees are permitted to have one of two different types of expense reimbursement plans.

1. **A non-accountable reimbursement plan**: does not require the employee to document any advances for business expenses or mileage. **The total amount advanced, however, must be reported as income on the employee's W-2 form.** It is then up to the employee to keep appropriate records and receipts in order to deduct any business expenses or mileage from his or her income.

2. **An accountable reimbursement plan**: must meet three criteria:
 - There must be a business connection for the expenses;
 - The expenses must be substantiated in writing to the employer within a reasonable period of time not to exceed 60 days after the expenses are incurred; and
 - [If the employee receives an advance,] 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.

Payment may be made as a flat amount each month. Any amounts advanced which exceed the accounted expense must be either returned to the employer, as stated above, or must be reported as income on the W2 form.

An easier method of using an accountable plan is to reimburse an employee upon presentation of a mileage log and receipts for any expenses. (See the appendix for sample forms for mileage and expense recording.)

Note: any request for reimbursement for business meals must include the names of the persons attending the meeting and the main topic of discussion (purpose of the meeting).

H. **Gifts to employees** (including clergy): Federal tax law requires that all wages and compensation paid to employees be reported on the employee's W2. Exceptions are made for de minimis benefits. In general, a de minimis benefit is considered to have a value of less than \$100, and is made up of one or more of the following types of items:

- occasional use of photocopier
- occasional snacks, coffee, etc.
- occasional tickets for entertainment events
- holiday gifts (but see below)
- occasional meal money or transportation for working overtime
- flowers, fruit, books, etc., under special circumstances.

IRS states specifically that a de minimis benefit "must not be a form of disguised compensation." IRS also states that cash (or check, gift card, credit card, etc.) is not a de minimis benefit with the exception of occasional meal or transportation money to work overtime.

This means that if employees of the church receive, for example, a cash Christmas gift or a gift card, the amount of the gift must be included on the W2. Because the subsidiary organizations of the church (ACW, Altar Guild, etc.) are a part of the church, any gifts from these organizations, or the discretionary fund, must also be reported on the W2.

More information may be found on-line at www.irs.gov.

G. **Special considerations:**

1. **Cell phones:** Cell phones are considered listed items. If the church provides an employee (clergy or lay) with a cell phone, any personal use of the cell phone is taxable compensation, just as any personal use of a church-owned automobile is taxable compensation.

2. **Reimbursement for personal cell phone use, land-line telephone use, internet use (at home), etc.:** While it may be appropriate for the church to reimburse an employee for the business use of such items, the employee must either document their business use monthly or determine a typical percentage of use for reimbursement.

Note: It may be easier for the church to increase employee (usually clergy) compensation to cover the reimbursement, and have the employee deduct the expense.

3. **Wage garnishment, assignment, and support withholding:** If the church is served with an order for garnishment, assignment, or support withholding for any employee; or a request for information pursuant to one of these orders; the church must comply with that request or order. These funds are withheld from the employee salary **after** taxes have been withheld. Any such order will provide directions for remitting the funds withheld.

4. **Termination of employment:**

- a. **Voluntary termination:** This occurs when an employee makes the decision to leave.

If the employee gives appropriate notice (usually 2 weeks or longer) and has returned anything they have belonging to the church (keys, etc.), they **must receive their final paycheck on their last day of work.**

The final paycheck must include all compensation due them, including any accrued, but unused, vacation days.

Employees who give little or no notice must receive their final paycheck within 72 hours of their final day of work.

- b. **Involuntary termination**: This occurs when the church makes the decision to terminate the employment, regardless of the reason.

Employees who are involuntarily terminated must receive their final paycheck at the time of termination.

The final paycheck must include all compensation due them, including any accrued, but unused, vacation days.

In an emergency situation (i.e., the employee is terminated for serious misconduct), the final paycheck must be given to the terminated employee within 24 hours of termination.

- I. **1099s**: Federal law requires that employers and other businesses issue 1099s to individuals and organizations who are not incorporated and who are paid \$600 or more for services (labor), rent, legal fees, and a variety of other items. In some cases, you may also be required to file a 1099 for a corporation (attorney fees are a part of this requirement). The 1099 should include any materials billed by the individual or organization, as there is no way to determine if the cost billed is the actual out-of-pocket cost or if it includes profit or income for the individual or organization. It is their responsibility to deduct their costs as business expenses.

Any time the church does business with a new vendor who provides services, it is recommended that the church immediately send a W9 to the vendor. This requires the vendor to provide certain information to the church, including their status (incorporated, partnership, etc.) and the vendor's tax identification number.

Note: scholarships are not reported on a 1099, but a W2, when reporting is required.

See www.irs.gov and the instructions for the 1099-MISC for further information.

INTERNAL CONTROL RECOMMENDATIONS:

1. The church's I9 file should be reviewed annually to ensure that a certified I9 is on file for each person who receives a W2 from the church.
2. Disbursement records should be reviewed to ensure that 1099s have been sent as required.
3. Employee files should be reviewed annually to ensure that all required documents are in place and that the files are up-to-date.
4. Payroll records should be reviewed from time-to-time to ensure that time-recording and compensation is paid for all hours worked.

Section 10: Other Accounting Transactions

A. **Transfers between accounts**: Some type of Vestry or Finance Committee authorization is required for transfers between the various accounts of the church.

1. A Vestry or Finance Committee may provide blanket authorization for some types of transfers. For example, if all income for the Altar Guild is first deposited into the church's general checking account (recommended), then the person who is responsible for disbursements may have blanket authorization to transfer the Altar Guild income to the Altar Guild's checking account on a regular basis.

Another example would be a church that has a money-market or savings account for restricted and designated funds. These should also be first deposited into the church's general checking account. The Vestry or Finance Committee may give blanket authorization for monthly transfers from the general checking account to the money-market or savings account. Blanket authorization for monthly transfers from the money-market or savings account back to the general checking account to pay authorized disbursements may also be given.

2. Other transfers: generally, specific authorization for non-routine transfers should be documented in the Vestry or Finance Committee minutes.

B. Loans between funds: Loans between funds of the church may be an appropriate way to fund **short-term** cash flow short-falls. However, any time a Vestry considers making a loan between funds, several issues must be resolved. Vestries who fail to consider these issues may quickly fall into the trap of never being able to make repayment.

1. **Is the loan necessary?** Are there other ways to resolve the short-fall?
2. **How will the loan be repaid?** What if those funds don't come in?
3. **How long will it take to repay the loan?** What if additional funds are needed in the meantime?
4. **What if we need the funds for their original purpose,** but they are not available because of the loan?

Any loans between funds must be documented in the Vestry minutes. This documentation must include:

1. The amount of the loan,
2. How the loan will be "disbursed," i.e., all at one time, an amount per month for a specified number of months, etc.
3. How the loan will be repaid. **This must be realistic.** If you are making a loan between funds for short-falls during June, July, and August, it is not realistic to expect that your September offerings will not only cover September expenses, but repay the entire loan, as well!

Reminder: While you may consider borrowing from trust funds, you **cannot borrow** from an endowment fund unless the terms of the endowment allow it.

Loans between funds cause a liability to the church. This liability must be shown as a loan payable and an account receivable on the church's balance sheet.

C. Bank loans: Bank loans require special approval from the Diocese and will not be addressed in this manual except to state that once made, they must be shown as liabilities on the church's balance sheet.

INTERNAL CONTROL RECOMMENDATIONS:

1. The Finance Committee or Vestry should review all transfers between accounts monthly for proper authorization.
2. If the church has loans between funds, these should also be reviewed monthly to ensure that repayment is being made, as stated in the Vestry minutes, and that any further advances are being made only as stated in the minutes.

Section 11: Financial Reports

At the end of every month a variety of financial reports must be prepared. If the church keeps its financial records on a computer, the program will probably prepare all of these reports for you. If, however, you are using a hand-written ledger, you will need to prepare these reports yourself. (See the appendix for sample reports.)

- A. **Statement of income and expenses**: A statement of income and expenses (called a profit and loss statement in Quick Books) shows the church's income, by category, and expenses, by category. It will also make a comparison to the budget. The monthly statement of income and expenses may show only the current month. At least quarterly, the statement (or a separate statement) should show the year-to-date totals as well as a year-to-date budget.

- B. **Balance sheet**: The fundamental accounting equation is: Assets equals Liabilities plus Fund Balances. A balance sheet provides this information. In order for the balance sheet to be accurate, all liabilities must be included.

- C. **Record of all restricted/designated funds**: This should be a report that can be generated by the computer program, but if hand-written ledgers of these funds are being kept, this will have to be manually prepared. This report should show beginning balance, income, disbursements, and ending balances for all restricted and designated funds, whether operating or non-operating.

- D. **Year-end reports:** At the end of each year, the following year-end reports must be prepared. These are considered permanent records of the church. These reports must all be prepared "to the penny." (i.e., dollars and cents, not rounded dollar amounts.)
1. **Year-end statement of income and expense**, showing total income, by category, and total expense, by category, and a budget comparison for the year.
 2. **Year-end balance sheet.**
 3. **General ledger**, if you are using a computer program. This may have a different name (posting journal, etc.) depending on the computer program being used. The general ledger should show all transactions in all accounts, operating and non-operating, for the year. If you are not using a computer program, your hand-written, monthly ledgers, must be kept.
 4. **Audit Trail Report** (if you are using Quick Books) or the adjustment journal. This does not need to be printed, as long as the computer used for all financial transactions is at the site of the annual audit. If, for example, the treasurer or bookkeeper does his or her work at home, but the audit is at the church, then the audit trail report must be printed and brought to the audit.

INTERNAL CONTROL RECOMMENDATIONS:

1. The Vestry or Finance Committee should carefully review all financial statements every month. This review should include an explanation for areas that have exceeded the budgeted amounts, as well as a review of those areas that are significantly under the budgeted amounts. If the Vestry needs assistance in understanding how to read the reports, they can contact the Diocesan Treasurer or one of the Diocesan Auditors for assistance.

2. The report of restricted/designated funds should be carefully reviewed by the Vestry or Finance Committee to ensure that only items which are appropriately spent from these categories are charged against them.

Section 12: Clergy Discretionary Funds

Because financial responsibility, transparency, and accountability are fundamental obligations in this Diocese, clergy discretionary funds must be handled according to a very high standard of financial integrity, equally for the protection of the clergy person and that of the congregation. Balancing this obligation with the need of confidentiality in the disbursement of discretionary funds, the following procedures are deemed to be appropriate and necessary, but the "Discretionary Fund as a Budget Line Item" is preferred.

It is generally the understanding of members of the congregation, who may contribute to discretionary funds from time to time or who may see a discretionary fund line item, that discretionary funds are used for the "relief of the poor." It is improper, therefore, for the clergy to apply the funds for his/her personal use and benefit. (Further, there are tax consequences for using church funds for personal benefit.)

General Information

- A. **Income**: All income for discretionary funds shall first be deposited into the church's general checking account and then transferred into the discretionary fund. **In no case** are funds to be deposited directly into a discretionary fund account by the cleric. This is to ensure that there is no question of personal money being commingled into the fund. Any funds that remain in a discretionary account when the cleric leaves the parish remain with the church.

- B. **Disbursements**: No check on the discretionary account may be written to the cleric, any member of their family, or to cash. If it is necessary to reimburse the cleric or family member for personal funds used for a discretionary purpose, the documentation (see below) is to be presented to the church treasurer, who will authorize the reimbursement from the church's general checking account and deduct the amount from funds not yet transferred to the discretionary fund checking account.

C. **Documentation of expenditures:** Note: it is preferable that discretionary fund checks be made payable to a vendor and not to an individual requesting assistance.

1. **Bills:** If a bill is being paid, a copy of the bill must be made and kept to document the expenditure. This includes items such as utility bills, receipts for the purchase of groceries or grocery store gift cards, medical bills or pharmacy charges, etc. Where rent or partial rent is being paid, a copy of the late notice, rental billing, etc. must be made and kept. If the fund is used for an internet purchase, a copy of the order is appropriate documentation, provided it specifies all charges.
2. **Meals:** It is not appropriate for the discretionary fund to pay for personal meals; however, there may be occasions when the cleric may need or want to use the fund to pay for a meal. This would include such things as taking the church secretary to lunch on Administrative Employee's Day or having a breakfast meeting with the Senior Warden. When this is done, a receipt must be obtained from the restaurant. In addition to the receipt, the person(s) attending the meal must be listed along with the general subject of discussion and/or purpose of the meal.
3. **Contributions:** If a contribution to a charitable organization is being made, a copy of the request letter or other documentation must be made. Care must be taken to ensure that the organization is aware that this is a gift from the church and not a personal gift from the cleric.
4. **Gifts:** If a gift is made to an individual, notation must be made of the purpose of the gift. It is recommended that some type of identification be obtained and noted, e.g., driver's license number, etc., unless it is a member of the congregation.
5. **Purchase of material items:** If material items are purchased with the discretionary fund, such as a book, it should be noted that the item(s) belong to the church, not to the clergy, and are to be left when the cleric leaves the congregation.

Discretionary Fund as a Budget Line Item- Preferred Procedure

- A. A clergy discretionary account is to be maintained under the Tax I.D. number and in the name of the congregation, e.g., "St. Such-and-Such Anglican Church, The Rev. So-and-So Discretionary Fund." It is also appropriate to call the discretionary fund by title, e.g., "Rector's Discretionary Fund" or "Assistant's Discretionary Fund," etc. Discretionary funds are funds of the church, not the personal funds of the clergy person.
- B. At least one other person, designated by the cleric and other than a church employee, e.g., a Warden or a Vestry member, shall sign the signature card and shall receive the bank statements so as to have knowledge of the discretionary account and its activity.
- C. Such other person (or a church employee) shall keep the checkbook and prepare the checks for the cleric's signature, and shall make and preserve a photocopy of each check and of all documentation backing-up expenditures (see above).
- D. The records of the account shall be available to the congregation's auditor. The Discretionary Fund shall be audited and reconciled at least once each year.
- E. There should be an annual report to the congregation of the discretionary account activity, including dollars in and dollars out, and, on a no-personal-names basis, the categories of expenditures, e.g., food, books, scholarships, utility bills, etc.

This procedure means that clergy may direct the use of their discretionary funds and sign discretionary fund checks, but that another person(s) shall maintain the account, prepare the checks, and keep the records.

Discretionary Fund as a Separate Account

- A. A clergy discretionary account is to be maintained under the Tax I.D. number and in the name of the congregation, e.g., "St. Such-and-Such Anglican Church, The Rev. So-and-So Discretionary Fund." It is also appropriate to call the discretionary fund by title, e.g., "Rector's Discretionary Fund" or "Assistant's Discretionary Fund," etc. Discretionary funds are funds of the church, not the personal funds of the clergy person.
- B. At least one other person, designated by the cleric, e.g., the Treasurer or a Vestry member, shall sign the signature card and shall receive all bank statements, so as to have knowledge of the discretionary account and its activity.
- C. The cleric shall keep the checkbook updated with the register balanced, and shall make and preserve a photocopy of each check and of all documentation backing-up expenditures (see above).
- D. The records of the account shall be available to the congregation's auditor. The Discretionary Fund shall be audited and reconciled at least once each year.
- E. There should be an annual report to the congregation of the discretionary account activity, including dollars in and dollars out, and, on a no-personal-names basis, the categories of expenditures, e.g., food, books, scholarships, utility bills, etc.

This procedure means that clergy may direct the use of their discretionary funds to write and sign discretionary fund checks, and must keep his/her own records and receipts, but that another person(s) shall audit and reconcile the account, at least once each year.

Discretionary Fund as a Part of the Church's Checking Account

- A. A clergy discretionary fund is established as a line item in the church's general ledger.
- B. When discretionary funds are needed, a check request is prepared by the cleric, with attached documentation (see above) and presented to the church treasurer who will issue a check, payable as noted on the check request and documentation.
- C. Documentation and check requests are filed with the other paid bills of the church.
- D. The annual report of the church shall include a section on clergy discretionary funds, including dollars in and dollars out, and may include the categories of expenditures as noted above.
- E. Clergy discretionary funds are audited, along with all other funds of the church.

This procedure means that clergy persons may direct the use of their discretionary funds, but that the treasurer or bookkeeper of the church is responsible for writing checks and keeping the records. The church's regular check signers are responsible for reviewing the documentation and signing the checks.

INTERNAL CONTROL RECOMMENDATIONS:

1. **Any assistance, in any form (bill paid, gift, etc.) to any paid employee** of the church must be reported on that employee's W2. At a minimum, this requires that the treasurer of the church is notified of any such assistance.

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.

Section 13: Church Organizations, Thrift Shops, Book Stores, Schools, etc.

- A. Church Organizations:** Record keeping for church organizations may be done in one of two ways.
1. **Church checking account:** The monies may be kept as a separate fund or category in the church's checking account. Income would be counted, along with the Sunday offering, or as a separate deposit, but would be credited to the organization's fund or category. Expenses would be paid or reimbursed, just as general church expenses, upon presentation of invoices, receipts, minutes, or other appropriate documents.
 2. **Separate checking account:** Organizations may be permitted to have their own bank accounts, using the church's tax identification number. When this is done, the organization must, at a minimum, have and maintain the following records:
 - **Check book register:** either a manual register, like that provided by the bank, or a computer register. This register must be kept up to date and balanced.
 - **Signatures:** As with all church checking accounts, checks are to have two signatures.
 - **Bank statements:** these must be balanced every month. The reconciled balance must be compared to the check book register to ensure that the register is accurate.
 - **Ledger:** Some type of ledger, showing income by category and expense by category. This may be handwritten or computer generated.

- **Monthly report**: showing beginning bank balance, income (by category), expenses (by category) and ending bank balance. An Altar Guild example might include income: flowers, candles, memorials; and expense: flowers, candles, cleaning supplies, etc.
- **Year-end report**: At a minimum, the year-end report, showing total income and expense for the year, by category, must be provided to the Vestry and Finance Committee of the church. Vestries or Finance Committees may ask organizations to provide these reports more frequently.

B. **Thrift Shops and Book Stores**: Some churches in the Diocese operate Thrift Shops and/or Book Stores. Where a rummage sale is a one-time event, a thrift shop or book store is generally open year-round or seasonally. Thrift shops and book stores generally operate under the church's tax identification number, so their actions and transactions may have consequences for the church.

1. **Record keeping**: As with any church organization, accurate records of income and expense must be kept. Thrift shops should have separate checking accounts from the church. Book stores may have separate accounts or may use the church's checking account.

Income for thrift shops and bookstores comes primarily from the sale of merchandise and is subject to state sales tax. Sales tax can be added to the cost of merchandise or can be computed, and must be properly remitted as required.

In addition, the church may be required to file federal reports for unrelated business income. See www.irs.gov for more information.

If the shop has a separate checking account, the following reports must be provided monthly and at year-end to the Vestry or Finance Committee. The year-end reports must include all income and expense for the year.

- Statement of income and expense,
- Balance Sheet,
- Some type of statement showing income subject to sales tax and sales tax payable.

2. **Paid employees:** Some Thrift Shops have a paid manager and may have other paid employees. Because the Thrift Shop operates under the church's tax identification number, these employees are technically employees of the church. All documentation and reporting requirements are the same as for the church.

When Thrift Shops have paid employees, their payroll is done in the same way as the church's payroll, with one set of reporting documents. Church book stores generally do not have paid employees, but the same would apply to them if they did have employees.

It is recommended that thrift shop and/or bookstore employees be paid through the church's payroll system and that the church be appropriately reimbursed for the payroll expenses.

- C. **Schools:** A few churches in the Diocese have schools, preschools, or "mom's clubs." The requirements for financial accounting for these types of programs are generally the same as for the church, itself. These schools may or may not have their own tax identification number. They generally all have paid employees, who may be handled through the church's payroll or separately.

Reminder: if the schools have fund raising events, they may be subject to state sales tax, just as the church may be subject to state sales tax.

INTERNAL CONTROL RECOMMENDATIONS:

Ultimately, the Vestry of the church is responsible for the proper record keeping of all subsidiary organizations. There is no requirement that subsidiary organizations must have separate bank accounts and do their own record keeping.

If there is any question about the accuracy or completeness of the records, it is strongly recommended that the Vestry fold the organization's accounts into the church's bank accounts, as a separate restricted fund.

1. It is recommended that all organizations having separate checking accounts, and receiving contributions, have such contributions first deposited into the church's general checking account, in order to ensure that all contributions are properly recorded on the giving statements.

If organizations receive contributions directly, then the Finance Committee, or some other appointed person, should review their financial records, at least quarterly, to ensure that proper documentation of contributions is being kept and that receipts are mailed at year-end.

2. The Finance Committee, or other appointed person, should periodically review the financial records of all subsidiary organizations to ensure that proper record keeping is being done.
3. **Thrift shops or other organizations with activities subject to state sales tax:** This is a potential area of liability for the church. The Finance Committee, or other appointed person, should review the organization's records periodically to ensure that proper record keeping for sales tax is being done and that the sales tax is remitted as required.

Section 14: Audits

Beginning in 2014, the Anglican Diocese of San Joaquin will establish a new procedure for audits. The requirement for audits has not changed, however. By canon, each church is required to have an audit of all funds each year.

- A. Triennial Audit:** Once every three years, each church is required to have a formal audit, by a CPA or an approved diocesan auditor, **using the diocesan forms**. In general, an audit by an approved diocesan auditor will be considerably less expensive than an audit by a CPA. In addition, a CPA may not be willing to use the approved diocesan forms.
1. **Audit year:** Each church will be assigned a year, in rotation. **In order to keep the schedule fair and equitable, you will not be able to change your audit year.**

Any church, not scheduled for a formal audit, may request one. That will be scheduled, subject to auditor availability. The first priority, however, for diocesan auditors, will be the churches scheduled for that year.

You and your auditor will schedule a mutually convenient date for the on-site portion of the audit. You will be provided with a complete list of materials needed for your triennial audit, at least 30 days prior to your scheduled audit date. (See appendix for the current list of materials.)

It is the Vestry's responsibility to ensure that all required documents are available at the time of the scheduled audit. This includes all required documents from subsidiary organizations and discretionary funds. Failure to have all required documents available at the time of the on-site audit may require scheduling an additional day or mailing materials to the auditor.

2. **Audit response:** When you receive your completed audit, you will also receive a Post-Audit Questionnaire. This will consist of a series of questions, based on the audit findings.

The purpose of the questionnaire is to ensure that the Vestry carefully reviews the audit and audit recommendations, discusses those recommendations, and makes decisions as to how they wish to address those recommendations. The Post-Audit Questionnaire will be due to the Bishop's office and to your auditor, 90 days after you have received it; and in no case, later than January 1 of the following year.

As a part of the Post-Audit Questionnaire, you will receive a Request for Informal Audits. This should be completed by the Vestry and returned to the Bishop's office.

- B. Interim Informal Audits:** During the two years between the formal, triennial audit, churches that do not have significant audit findings may have informal audits for each year. If your church has significant audit findings, the diocese may require you to have a full formal audit or to have a partial formal audit, targeted at one or more specific areas. This formal audit would be done by an assigned diocesan auditor.

At the beginning of each year, churches having informal audits will receive an audit format to follow. This format will list the needed materials for the informal audit.

1. Small churches will be asked to partner with another nearby small church. Two people from each church will review the records of the other church, following the provided format.
2. Large churches (100 or more members) may form an Internal Audit Committee of at least two persons who are not on the Finance Committee, who have no responsibility for the church's financial record keeping, and who are not related to anyone who has responsibility for the church's financial record keeping.

Whether done by a partner church or by an Internal Audit Committee, the informal audit will be due to the Diocese not later than September 1. A copy of the form will also be sent to your diocesan auditor.

Section 15: Records Retention

The Vestry, officers, and employees of the church have a fiduciary and custodial responsibility to maintain adequate records of the church's activities. Records should be properly labeled and secured. While confidentiality must be observed, key financial and administrative data must be accessible to those who have the responsibility for the operation of the church.

Some records have a permanent administrative and legal value; others have a historical value. Off-site storage of records, for their protection, may be necessary. When this is done, it must be done in such a way that the church retains title and ownership. A safe-deposit box, in the name of the church, is a better means of off-site storage of permanent and legal records (such as title to your property) than someone's home.

Special Kinds of Records

- A. **Financial and Audit Records**: Tax-exemption does not limit or remove the need for proper record-keeping. Certificates, filings, and evidential backup documentation are required for compliance with statutory and industry standards. This includes:
1. Employee payroll, withholding, and related records;
 2. Income on rent, purchase, and sale of real estate;
 3. Income from the operation of gift and bookstores, thrift shops, etc.
 4. Fund raising and solicitation of charitable gifts.

Financial records and supporting documentation must be kept to demonstrate the difference between income related to church activities and unrelated business income. Documentation must be kept to allow re-creation of data in case of a tax inquiry or audit.

Tax laws are such that the burden of proof is always on the taxpayer (the church) to show evidence of income, deduction, and exemption. 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). Minimum retention of financial transaction and reporting documents is strongly implied by tax law.

B. Employment and Personnel Records: There are many state and federal legislative acts and statutes that apply in the area of employment and personnel records.

The church should keep a personnel file for all paid (full or part time) employees, as well as any unpaid volunteers who have official duties and responsibilities. Employee files should, at a minimum, contain:

1. Employment history (hiring information, job description, earnings history, required training, promotions, etc.);
2. Benefits enrollment information as applicable; and
3. Performance evaluations.

A separate file should be established for the federal I9 forms required for all paid employees.

Employees have the legal right to review their personnel files. Therefore, nothing irrelevant or unsubstantiated should be included in the file. Personnel files should be kept in a locked and secure location. Confidentiality should always be maintained.

Volunteers in key positions, such as governance, education, youth work, etc., should also have personnel files. Information regarding their volunteer work, background checks, etc., would be appropriate to keep in these files.

Records that demonstrate due diligence in verifying past employment of candidates and conducting oversight and training of employees and volunteers who are in contact with minors is essential.

The IRS, Department of Labor, and the Equal Employment Opportunity Commission require that certain payroll and benefits records be kept. These records include:

1. Verify employment (I9, and W4 forms, job descriptions, salary schedules);
2. Enumerate hours (time sheets, payroll journals);
3. Document recruitment and hiring (applications, resumes, search records);
4. Detail injury and illness (worker's compensation claims, disability leave).

C. Other records: Other kinds of records are also kept by the church, including:

1. Sacramental records: Parish Registers, Communicants, and Membership lists;
2. Corporate records: Minutes, reports, charters, bylaws, deeds, and governance documents;
3. Property and building records: Plans, specifications, contracts, paid bills on major construction;
4. Legal records: Contracts, agreements, trusts;
5. Historical records: Older records and supporting documents for projects, events, and mission.

- D. Electronic Records Management:** Most churches use computers to create and store their data. When the "record copy" of any operational data is kept electronically, it must be regularly "fixed" in an unchangeable medium to guarantee authenticity and accuracy. High quality CDs or tape back up systems will meet this requirement. Regular, periodic (daily, weekly, or monthly) backups should also be made on a removable device, and stored off-site.

Electronic Record Keeping Procedure— A Simple Back-up Approach

- Regularly save a snapshot record copy of the electronic record to a CDR/DVD or tape media.
- Do not rely on re-writable disks to save money as these are inherently weaker; for longevity use true gold-layered disks.
- Avoid combining different record series on a single disk.
- On the CD/DVD case, list the disk contents by record title and the inclusive dates covered.
- Record the date the disk 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 disks in their protective cases in a secure, dust-free, and moderate (< 76° F) environment.
- Back-up disks should be stored in a building or site away 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 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)

E. Records Retention Policy: Each church should have a records retention schedule, adopted by the Vestry. The appendix of this manual contains a general records schedule. Churches may wish to customize this schedule to fit their specific circumstances.

Each Vestry must determine how they can make their records retention policy practical and enforceable.

F. Retirement and Disposition of Inactive Records: Active records are usually easy to find, either in a file cabinet or on the church's computer. Inactive files are often moved to a storage location.

1. Storage boxes should be carefully labeled with a list of the contents. A specific listing of contents should be made, with one copy in the box and a second copy in the parish files.
2. Boxes of items to be destroyed at a future date should be labeled with that date. For example, a box of items to be destroyed should be labeled with the destruction date.
3. Temporary records should be destroyed carefully, in the presence of more than one person. The contents of the box must be verified to ensure that the only items being destroyed are temporary records. The contents of the box must also be verified to ensure that what is labeled on the box is actually what is in the box. Any confidential data, such as payroll records, donor information, and personnel data must be shredded.

INTERNAL CONTROL RECOMMENDATIONS:

1. At least annually, the Vestry should review the church's records retention policy and schedule to ensure that it is being followed and that records subject to destruction are properly shredded and destroyed.
2. At least annually, the Vestry, or some appointed person, should review all personnel files of both employed persons and volunteers, to ensure that proper documentation is in place.

Section 16: Additional References and Sources of Help

A. Web sites:

1. **Internal Revenue Service:** www.irs.gov. This web site has many forms, and instructions for those forms, related to
 - payroll
 - federal payroll deductions
 - payroll reporting
 - Charitable Contributions-Substantiation and Disclosure Requirements, publication #1771: includes information on how contributions must be substantiated by the receiving charitable organization.
 - IRS Tax Guide for Churches and Religious Organizations: includes much useful information
 - Unrelated Business Income, publication #598: includes information on what is considered unrelated business income and how to report it.

2. **California State Board of Equalization**
 - Tax Tips for Nonprofit Organizations, publication #18: includes information on state sales tax, which is subject to tax and what isn't.

B. Anglican Diocesan of San Joaquin:

1. **Diocesan Office:** Carol Gill, Bookkeeper, Payroll
Hours: Monday - Friday, 8:00 am - 5:00 pm
4159 E. Dakota Avenue, Fresno, CA 93726
Phone: 559/244-4828
Fax: 559/244-4832

2. **Diocesan Treasurer:** Dave Francis
Phone: 559/679-8162

3. **Diocesan Auditors:**

- a. Sue Piper
Cell: 559/287-7335
Home phone: 928/515-3784
Email: suepiper@cableone.net

- b. Fr. Don Seeks
Phone: 559/638-5765
Email: frds@comcast.net

- c. Pat Smith
Phone: 661/822-8106
Email: sbsmith93561@yahoo.com

Please remember that we are here to help you. We would rather spend time with you on the phone or by email correspondence and resolve an issue at the beginning, than have to help you with a clean-up project months or even years later.

Appendix

- A Internal Control Questionnaire
- B Sample Financial Forms
 - Sample counter's sheets/counter's cover sheet
 - Sample check request form
 - Sample petty cash request form
 - Sample balance sheet
 - Sample statement of income/expense
 - Sample mileage log
 - Sample employee time card
- C List of Materials Needed for the Formal Audit
- D Records Retention Schedule

Appendix A: Internal Control Questionnaire

Internal Controls and Procedures

(This questionnaire is completed for each triennial audit.)

INCOME AND CONTRIBUTIONS
Are there at least two unrelated people who count the weekly offering?
Is the offering counted immediately following the Sunday service(s)? If not, when is it counted.
Where is the offering kept until it is counted?
Are amounts received by the church during the week (mail or hand-delivery) kept in a secure location?
Is the offering deposited at the bank immediately after it is counted?
If not, where is the offering kept until it is deposited at the bank? How long after it is counted, is the offering deposited?
Who takes the offering to the bank?
Does the church have substitute counters and people who can make the deposit at the bank if the regular people are unable to?
DISBURSEMENTS OF CHURCH FUNDS
Are pre-numbered checks used for all payments?
Are checks signed before the payee and amount sections are completed?
Are the disbursement documents attached to the checks to be signed? Are they reviewed by the check signers, <u>before</u> they sign the checks.
How many signatures are required on every check?
If the church does not require two signatures on every check, is there an amount over which two signatures are required? If yes, what is that amount?
Are voided checks kept? Are they clearly marked "void?"
Is there a file labeled "voided checks" in which those checks are placed in numerical order?
If a hand-kept check register is used, are the voided check stubs clearly identified?
Has the Board/Finance Committee authorized electronic transfers and payments from the church accounts?

Does the Board/Finance Committee receive a separate report of all electronic transfers and payments each month?
ACCOUNTING AND RECORD KEEPING
Who enters the deposit information in the <u>contribution</u> records?
Who enters the deposit information in the <u>accounting</u> records?
Does the person who records the deposits in the accounting records also receive and open the mail?
Does the church have a person or persons who have been designated to authorize payments?
Does the church have at least three (unrelated) authorized signers on all church accounts?
Is the person who authorizes payments one of the check signers?
Is the person who writes the checks one of the check signers?
Is the person who reconciles the bank accounts one of the signers?
Are there complete explanations for all journal entries?
Is appropriate supporting documentation for all journal entries kept in designated files?
Does someone, other than the person(s) who records the deposits, checks, and contributions in the accounting records, record adjustments (journal entries) to previously recorded entries?
Does someone, other than the person(s) who records the deposits, checks, contributions, and journal entries in the accounting records, reconcile the bank accounts?
Does the person who reconciles the bank accounts check for outstanding activity that is more than 90 days old and take action to resolve the activity?
Does the person who reconciles the bank account review signatures on the checks for proper authority and endorsements?
Are finance reports provided to the Board/ Finance Committee each month?
Does someone, other than the person(s) who records the deposits, checks, and journal entries in the accounting records, prepare the monthly finance reports?
Are finance reports printed from the accounting/bookkeeping program used by the church? If not, what form is used?
Are the finance reports easy for the Board/ Finance Committee members to read and understand?

PETTY CASH
Does the church have a petty cash fund?
Do any church organizations have petty cash funds?
Does an authorized person (other than the auditor) conduct an audit of all petty cash funds? How often is this done each year?
Are petty cash funds kept in secure locations at the church?
Does more than one person have access to each petty cash fund?
PAYROLL
Does the church process its own payroll? If not, what payroll service is used?
Are personnel files for all employees kept at the church?
Are employee I9s kept in a file separate from the personnel files?
Are the personnel files reviewed annually, by an appropriate employee (i.e., office manager, etc.) or a Board member, to ensure that all appropriate documentation is included?
Are all payroll records kept at the church?
If the church uses a payroll service, does someone review documentation to ensure that the church has received all appropriate year-end records, including a copy of all employee W2s?
Does the treasurer/person who is responsible for payroll receive a copy of the clergy compensation agreement/resolution, including a housing resolution, each year?
Does the treasurer/person who is responsible for payroll receive, in writing, the compensation for all employees at the beginning of each year, and during the year if compensation amounts change?
INSURANCE
Does the church have fidelity bond coverage for all persons who handle the money and write checks?
Does the church have workers' compensation, property, and liability insurance?
Has the insurance coverage been reviewed in the last five years to ensure that the coverage (the amount covered for the church) is adequate?
Since insurance coverage is often not aligned to a fiscal year, is there a separate file(s) for insurance documents (i.e., separate from the church's accounting files for each year.)?
Does the church have proof of insurance from regular building users?

Does the church have proof of liability and worker's compensation insurance from independent contractors? (A contractor's license number does not guarantee proper insurance coverage.)

COMPUTERS

Does the church have procedures in place to back up all computerized information?

Do these procedures require that backed up information is kept off the church premises?

Are these procedures being followed by church personnel?

Does the church store program disks of operating systems and programs in a secure location?

Are computer passwords, safe combinations, and other codes kept in a secure location?

ADDITIONAL INTERNAL CONTROL ITEMS

Does the church have appropriate policies related to those working with children and youth?

Who reviews the church's policy and compares it with what is actually happening to ensure that the church is following their policy? How often is this reviewed?

If the church is incorporated, do the incorporation papers state the relationship of the church to the Diocese or other authority?

Is there one person who oversees the church keys?

Does the church have a safe deposit box?

If yes, who reviews the list of persons authorized to access the safe deposit box to ensure that those people are still active in the church? How often is this done?

Appendix B: Sample Financial Forms

Most churches already have some or all of these forms. These samples, however, are provided to assist churches in revising their forms or in setting up new forms, as appropriate.

[Church Name]
Counter's Cover Sheet

Sunday, _____ (date)

Plate

coin

x \$1

x \$2

x \$5

x \$10

x \$20

x \$50

total plate

Deposit

coin

x \$1

x \$2

x \$5

x \$10

x \$20

x \$50

total cash

total
checks

**Total
deposit**

Breakdown

Plate

Pledge

GOR

Flowers

RDF

Other
(specify)

**Total
deposit**

These totals must match and must match deposit slip.

Counter

Counter

On reverse, list coin count for plate and coin count for entire deposit.

Sample Petty Reconciliation Form

Petty Cash Reconciliation

Currency	Quantity	Total
\$20.00		\$
\$10.00		\$
\$5.00		\$
\$1.00		\$
Total currency		\$

Coin	Quantity	Total
\$1.00		\$
50 ¢		\$
25 ¢		\$
10 ¢		\$
5 ¢		\$
1 ¢		\$
Total coin		\$
Plus total currency		\$
Total of cash in cash box		\$

Total Receipts (attach adding machine tape)	\$
---	----

Grand total, cash plus receipts	\$
---------------------------------	----

Total of cash plus receipts should equal total carried on the church's balance sheet.

Sample Statement of Income & Expense

Note: The year-end statement of income and expense would include all 12 months. Further, while this sample report is to the rounded dollar, all statements for audit purposes must be to the penny.

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	2,300	1,150	933	217
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	6,000	-0-	-0-	-0-
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 Balance Sheet

Note: While this sample report is to the rounded dollar, all statements for audit purposes must be to the penny.

**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 Mileage and Transportation Expense Report

Name:				
Date	Location To/From	Purpose of Travel	Toll/ Parking	Miles
Total				

Summary	
Total Tolls/Parking Fees	\$
Total Miles _____ x _____ per mile	\$
Total Due	\$

Sample Entertainment and Travel Expense Report

Name

Address

Travel location(s)

Purpose

Day/Date									Total
Transportation									
Auto: Number of miles									
___ miles x ___/mile									
Parking fees & tolls									
Airfare									
Car rental									
Taxi, bus, limo									
Lodging Hotel, motel, etc.									
Meals									
Breakfast									
Lunch									
Dinner									
Incidentals									
Telephone/fax									
Tips									
Miscellaneous									
Total per day									

Detailed Entertainment Record

Date	Person(s) entertained	Purpose	Location	Amount

Summary

Total Expenses	
Less travel advances	
Amount due employee/Amount due congregation	

Sample Check Request

Payable to: Name

Address

Account Name	Account Number	Amount
Check Total		\$

Purpose(s)	
Date of Request	Date Needed

Requested by: _____

Approved by: _____
Designated representative

Approved by: _____
Treasurer

Please attach documentation of all expenditures.

Appendix C: List of Materials Needed for the Formal Audit

- A. **Note:** this list is as of January 1, 2014. A current list will be provided to the church not less than 30 days prior to the scheduled on-site audit.
- B. **Records retention:** All financial materials for the interim audit years must be retained until the next formal audit. (I.e., for an audit of the 2013 financial records, the 2011 and 2012 records must be retained.) While it is unlikely that the auditor will ask to review these materials, the current audit could require backtracking into a previous year.
- C. **Format:** This has been set up in a check-list format to help treasurers and bookkeepers keep track of what has been collected and what has yet to be collected.

Note: all reports for the formal audit must include cents as well as the dollar amounts.

- Assets: Bank Accounts, Investment Accounts, etc.**
 - All the checking account statements for the year being audited as well as January's statement for the following year. (The bank statement received in January will include the December transactions.)
 - All statements from any savings accounts or investment accounts for the year being audited (including the January statement for the following year).
 - Copies of bank account reconciliation reports, worksheets, etc.: checking, savings, investment accounts.
 - Petty cash: Petty cash must be available to be reconciled by the auditor.

- **Offerings, Deposits**
 - All origination documents: this includes offering envelopes, check copies, correspondence regarding contributions, etc.
 - Original forms used by the counters to record the receipts.
 - All duplicate deposit slips.
 - All original contribution records. This consists of one of the following:
 - copy of manual statements sent, or
 - copy of printed statements sent, or
 - summary report which includes the amount given, by each contributor, to **each fund** and total given for the year (some computer programs will prepare this type of report)
 - **Note: if the contribution records provided do not include home addresses, an address list will be needed.**
 - Any correspondence pertaining to special gifts, grants, legacies, etc.
 - Records pertaining to income from sources other than pledges, contributions, and plate offerings.
 - Records pertaining to receipts for use outside the Church, such as outreach funds, canonical offerings, etc.
 - Records pertaining to special use funds, such as building fund, etc.

- **Expenditures**
 - Check register (in check number order) for the year being audited. (**Note:** if you are using Quick Books, please print the "Missing Check" report.)
 - All canceled checks for the year being audited. This includes photocopies of canceled checks, if this is what your bank provides.

Note: If your bank does not provide you with canceled checks or copies of the checks, you will have to obtain them for the formal audit. You may be able to print them on-line or you can order them from the bank.

 - All disbursement documents used for the writing of checks, i.e.: Vestry motions, paid invoices, copies of contracts, etc.

- All disbursement documents used for automatic payments from the checking account.

- Ledgers, journals, and other non-computerized documents.** (If you maintain financial records with a computer system, skip this section and use section 5, below.)
 - Ledger pages
 - Detail of the Transfer Account, including break-down by category of the balance at the end of the year.
 - Detailed records of all special fund accounts (i.e., building fund, memorial fund, etc.)
 - Monthly treasurer's reports to the Board.
 - Year-end financial statement for the year being audited which shows year-to-date totals. Note: this report must include cents, as well as dollar amounts.

- Computer Records** (disregard if you do not maintain financial records with a computer) **Note: all reports provided for audit must include cents, as well as dollar amounts.**
 - Printed** general ledger report (or equivalent) for the year being audited. Some titles for this report are listed below by computer program. Other programs may have a different title for this report.
 - ACS - Yearly Posting Journal - Detail by Fund
 - Quick Books - General Ledger
 - Power Church - Account Activity
 - Quicken - Category Report
 - Adjustment journal or Audit Trail Report if using Quick Books. (If the computer is available at the audit site, don't print the Audit Trail Report. It can be long.)
 - Monthly treasurer's reports to the Board.
 - Year-end financial statement for the year being audited which shows year-to-date totals.
 - Copy of your chart of accounts for year being audited.

- Other documents**
 - All payroll records:
 - Payroll records for each employee:
 - Personnel files including W4s.
 - I9 Folder. Federal form I9 has been required since July 1987. These must be complete and certified for each employee, including the clergy.
 - Time sheets
 - Payroll ledgers
 - Copy of housing resolution for the year being audited for all clergy receiving a housing allowance or living in a church-owned residence.
 - 941s, W2s, DE6, and related.
 - Copy of 1099s provided to independent contractors.
 - Complete** set of Minutes of your Board meetings for the year being audited.
 - Copy of the budget for the year being audited.
 - Copy of all audits from the last formal audit to the present. (May include as many as 1 formal triennial audit and 2 interim audits.)
 - Copy of your church safety plan.
 - Parochial Report/Annual Report for the year being audited.
 - Sales tax records, if appropriate.
 - Property tax exemption forms, including welfare exemptions for religious use and welfare exemptions for groups using your property.

- **All Church Organizations:** This includes any organizations with separate bank accounts: Mens or Women's groups, Youth Groups, Altar Guild, etc. They are all a part of the church and are required by Canon to be included in the audit.

Please ask these organizations to provide the records at least one week before your audit, and check them to be sure they have included all requested materials and that all materials provided are for the year being audited.

- Checkbook register
 - Bank statements: checking, savings and investments
 - Duplicate deposit slips
 - Receipts and disbursements journals
 - All authorizations used to write checks, i.e.: paid invoices, committee minutes, contracts. (It is suggested that check documentation be put in order by the organization prior to the audit. If the auditor needs to do this, it will result in increased time and cost to the church.)
 - Annual Report to the Board
 - Sales tax records, if appropriate
-
- **Discretionary fund(s):** All records are treated as confidential. **If you have more than one cleric, all discretionary funds must be available for review.**
 - Checkbook register
 - Bank statements
 - Paid invoices where appropriate, and other documentation i.e.: gas receipts, utility company receipt, food purchase receipt, rental assistance receipts, etc. (It is suggested that these be attached to the appropriate bank statements or otherwise put in order prior to the audit, in order to save the church time and cost.)
 - Annual Report to the Board

Appendix D. Records Retention Schedule

The following codes and definitions apply:

CY + = Calendar Year plus a number of years for retention.

P = Permanent retention for purposes of indefinite legal or administrative use or archival preservation.

AU = Retain record for its ongoing administrative use and destroy only after all current use ceases.

SR = Retain for selective review of individual files for permanent retention in the church archives.

NOTE: All materials listed as needed for audit must be retained for all 3 years of the audit cycle plus at least one additional year. (I.e., for an audit of the 2013 financial records, records for 2011 and 2012 should also be retained.)

<u>Record Title or Series</u>	<u>Minimum Retention</u>	<u>Retention Recommendations</u>
Accounts Payable Files, Operational Accounts	7	Destroy after 7 years. See also Invoices and Paid Bills, Capital Expenses.
Act of Incorporation	P	Permanent.
Agreements, Contractual		See Contracts.
Annual Financial Reports		See Financial Statements, Annual.
Applications for Employment, Unsuccessful	1	Destroy after CY + 1 year.
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.

<u>Record Title or Series</u>	<u>Minimum Retention</u>	<u>Retention Recommendations</u>
Audit Reports	P	Permanent
Balance Sheets, Annual	P	Permanent
Balance Sheets, Monthly/ Quarterly	4	Destroy CY + 1 year after reconciliation for formal audit.
Bank Deposit Books	7	Destroy after 7 years or CY + 4 years after formal audit.
Bank Deposit Slips	4	Destroy after 4 years.
Bank Statements	7	Destroy after 7 years.
Bank Reconciliations	4	Destroy CY + 1 year after reconciliation for formal audit.
Bequest and Estate Papers	P	Permanent.
Bonds, Canceled	4	Destroy CY + 1 year after reconciliation for formal audit.
Budgets, Approved and Revised	P	Permanent.
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. See also Specifications for Building and Design.
Bylaws	P	Permanent. Place a copy in the Archives after every revision or amendment.
Canceled Checks	7	Destroy after 7 years or CY + 4 years after formal 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. See also: Pledge Registers.
Cashbooks, Discretionary Accounts	7	Destroy after 7 years. See also Discretionary Account Checkbooks.

<u>Record Title or Series</u>	<u>Minimum Retention</u>	<u>Retention Recommendations</u>
Cashbooks, Special Fundraising Subscriptions	P	Permanent
Certificates of Deposit, Canceled	4	Destroy CY + 1 year after reconciliation for formal audit.
Certificates of Title to Property	P	Permanent.
Certificates of Incorporation	P	Permanent.
Cemetery and Columbarium Interments	P	Permanent.
Chart of Accounts	P	Transfer superseded copy with date of retirement to Parish Archives after substantive revisions.
Check Register	7	Destroy after 7 years.
Check Book/Stubs	7	Destroy after 7 years.
Checks, Canceled		See Canceled Checks.
Committee Minutes and Records	P	Permanent.
Compensation Schedules, Salary and Benefit Guidelines	AU	Destroy after use ceases.
Computer Records		See Electronic Records, Legacy Files
Consecration Certificates for Church Buildings	P	Permanent. Keep authentic copy in Parish Archives if original is on display.
Constitution and Bylaws with Revisions	P	Permanent. Retire previous versions to Parish Archives.
Contracts, Active	P	Permanent. Retain in active files. See also Contracts, Inactive.

<u>Record Title or Series</u>	<u>Minimum Retention</u>	<u>Retention Recommendations</u>
Contracts, Inactive	SR	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; see also 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	Permanent. See also Deeds.
Copyright Registration	P	Permanent; 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	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.	5	Destroy after CY + 5 years.
Correspondence, Legal, including tax, real estate and probate issues	P	Permanent. See also Litigation Papers.
Deeds: including conveyances, covenants, and easements	P	Permanent.

<u>Record Title or Series</u>	<u>Minimum Retention</u>	<u>Retention Recommendations</u>
Development and Fundraising Campaign Records	SR	Selective Retention. Retain donor lists, case statements, correspondence, minutes, and planning documents; destroy receipts, letters of acknowledgment.
Disability Claims	AU	Retain indefinitely against future claims.
Discretionary Account Checkbook	7	Destroy after 7 years.
Directories and Yearbooks	P	Permanent.
Employment Taxes, Contributions and Payments, including taxes withheld and FICA/Social Security contributions	7	Destroy after 7 years; a confidential record.
Earnings and Benefits Records		See Employee History and Earnings Records; Personnel Files and Records.

<u>Record Title or Series</u>	<u>Minimum Retention</u>	<u>Retention Recommendations</u>
<p>E-mail Correspondence (Email):</p> <p>Executive Administrative, Policy and program planning, official communication and statements, minutes, press releases, etc.</p> <p>Program Planning, Discussions relating to strategic initiatives or mission program activities.</p> <p>Administrative Support Messages, including travel, meeting appointments, acknowledgments, ordering correspondence, etc.</p> <p>Routine Courtesy Email, Transmittals, reminder notices, cover letters, forwarded mail, confirmations, announcements, etc.</p> <p>Circulars/Broadcast Messages</p> <p>List services, Bulletin Boards, and Online Forums</p>	<p>SR</p>	<p>Review for selective retention with the following guidelines in mind.</p> <p>Permanent.</p> <p>Permanent.</p> <p>Destroy after 2 years.</p> <p>Destroy after use</p> <p>Destroy after use.</p> <p>Review for historical value; if parish forum, secure for parish archives.</p>
<p>Electronic Records, Legacy Data and Files of accounting systems and other business records</p>	<p>SR</p>	<p>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. See also individual record titles in this schedule.</p>
<p>Employee Contracts</p>		<p>See Personnel Files and Records for contracted employees. See also Consultants Contracts.</p>
<p>Employee Files and Records</p>		<p>See Personnel Files and Records; see also Volunteers Files.</p>

<u>Record Title or Series</u>	<u>Minimum Retention</u>	<u>Retention Recommendations</u>
Employee History and Earnings Records , a summary record	P	Permanent. 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. See also Personnel Records and Files; see also Service Files for volunteers.
Employee Manuals and Policies	P	Permanent. Transfer superseded, dated copies to Archives.
Employee Training Certificates , required sexual misconduct prevention and anti-racism training	p	Place with Personnel Files and Records, and keep indefinitely.
Employee Withholding Statement, Form W-2 ,and State Withholding	7	Destroy after 7 years; confidential record. See also: Tax Forms, Individual Employees.
Employee Withholding Certificate: Form W	7	Destroy after 7 years; confidential record.
Estates and Bequests		See Bequest and Estate Papers.
Every Member Canvass Records	p	Permanent. Retain canvass lists and fair copy of program literature; discard working papers and memoranda.
Events Files	SR	Selective Retention. Transfer to Archives for final review. See also Office Files.
Financial Statements, Annual	P	Permanent.
Financial Statements, Monthly	4	Destroy CY + 1 year after reconciliation for formal audit.
Form I-9: Immigration and Naturalization Service Certifications	6	Destroy CY + 6 years after termination of employment. Retain original copy for period of employment.
Grant Proposals: Successful Applications	SR	Selective Retention. Retain proposal, final report and substantive correspondence.
Grant Proposals: Denied Applications	1	Destroy after CY + 1 year.

<u>Record Title or Series</u>	<u>Minimum Retention</u>	<u>Retention Recommendations</u>
Human Resources Polices, manuals and handbooks		See Employee Manuals and Policies.
Immigration and Naturalization Certifications: Form I-9		See Form I-9: Immigration...Certifications above.
Incorporation Papers	P	Permanent. Keep in Parish Archives or comparable place of safe keeping.
Injury Reports	6	Destroy CY + 6 years after settlement of all claims
Instruments of Donation of Church Property	P	Permanent. Keep authentic copy in Parish Archives if original is on display.
Insurance, Notices of Employee Claims, including employer's copy of statement of benefits	1	Destroy after CY + 1 year; a confidential record.
Insurance Policies and Plan Descriptions, Liability	P	Permanent. Retain inactive policies indefinitely for protection against future claims against employees, volunteers, and other agents.
Insurance Polices and Plan Descriptions, Employee Medical and Life	AU	Retain indefinitely for protection against future claims.
Insurance Policies and Plans: Auto, Equipment, and Personal Property, Inactive	6	Retain for life of policy; destroy CY + 6 years after termination.
Insurance Policies and Plans: Property, Fine Arts, and Extended Risk Coverage	6	Retain for life of policy; destroy CY + 6 years after termination. See also Inventories of Property.
Insurance, Employee Medical Benefit, Election of Coverage	6	Maintain in separate section of Personnel File; retain for CY + 6 years after termination of employment. Confidential record.
Inventories of Property and Equipment, 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.

<u>Record Title or Series</u>	<u>Minimum Retention</u>	<u>Retention Recommendations</u>
Invoices and Paid Bills on Capital Expenses (Major Building Construction and Alterations)	30	Transfer to Archives for minimum long-term retention period against future liability claims. Review for archival retention thereafter. See also Accounts Payable, Operational Accounts.
Invoices and Paid Bills, General Operating Accounts	7	Destroy after 7 years or CY + 4 years after audit. See also Invoices and Paid Bills on Capital Expenses.
Journals, General and Special Funds	P	Permanent.
Journal Entry Sheets	7	Destroy after 7 years.
Journals, Payroll	7	Destroy after 7 years.
Lay Ministry and Leadership Files , annual accumulation of service record	P	Permanent.
Leases	6	Destroy CY + 6 years after expiration.
Ledgers, General and Special Parish Funds	P	Permanent.
Ledgers, Subsidiary	10	Retain 10 years and transfer to Parish Archives for review.
Legacies	P	Permanent.
Lists and Schedules of Subscribers/Donors	P	Permanent.
Litigation Papers , including claims, decrees, court briefs, substantive correspondence, judgments rendered, memoranda of counsel's opinion	P	Permanent. Remove and discard non-substantive documentation 3 years after settlement: notes, abstracts, routine duplicate copies and drafts. See also Correspondence, Legal.
Loan Schedules	AU	Retain for life of loan.
Manuals, Operating and Procedural	AU	Retain until superseded; transfer old version to Parish Archives for review.
Medical Insurance Policies and Claims		See under Insurance.

<u>Record Title or Series</u>	<u>Minimum Retention</u>	<u>Retention Recommendations</u>
Memorial Gifts Register	P	Permanent.
Minutes of Meetings: Vestry or Council, Official Committees, Agencies, and Organizations	P	Permanent. 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.
Monthly Reports, Financial	4	Destroy CY + 1 year after reconciliation for formal audit.
Mortgage Deeds	P	Permanent. Keep in Parish Archives or comparable place of safe keeping.
Newsletters and Bulletins	P	Retain 2 fair copies and transfer to Parish Archives. See also Service Leaflets.
Office Files or Administrative "Central Files" arranged by Subject, Topic, Name, Project Title, or Event)	SR	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. See also specific record titles herein for retention periods.
Paid Bills	7	Destroy after 7 years.
Parish Sacramental Registers	P	Permanent. See also Sacramental Records.
Parochial and Annual Reports, National/Diocesan Returns	5	Destroy after 5 years.
Payroll Journals	7	Destroy after 7 years.
Payroll Registers, summary schedule of earnings and deductions and accrued leave time	P	Permanent. Retain year-end, cumulative, inclusive report on all employees.
Pension Records, 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.

<u>Record Title or Series</u>	<u>Minimum Retention</u>	<u>Retention Recommendations</u>
Pension Plans and Literature	P	Permanent. Transfer superseded plans to Parish Archives. Retain copy of current plan in Archives or a comparable place of safe keeping
<p>Personnel Files and Records. File arrangement includes separate folders or sections for:</p> <p>Employment History & Status File (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.)</p> <p>Medical, Life, and Disability Records (Coverage election forms, medical reports, disability and worker's compensation claims, flexible spending claims, drug screening);</p> <p>Performance Records (Formal appraisals, memos and correspondence, sealed complaint resolution file)</p>	30	<p>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. See also Payroll Registers; Volunteer Files.</p> <p>Maintain all medical records in a separate file folder</p>
Petty Cash Receipts and Accounts	7	Destroy after 7 years.
Photographs: Parish inventory, physical plant, windows, memorials, and other insurable property.	P	Permanent. Label photo images with dates and description and transfer to Parish Archives.
Pledge Envelopes	4	Destroy CY + 1 year after reconciliation for formal audit.

<u>Record Title or Series</u>	<u>Minimum Retention</u>	<u>Retention Recommendations</u>
Pledge and Plate Receipts: 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.
Pledge Registers and Journals, cumulative record of weekly stewardship giving	P	Permanent. See also Cash Journals, Receipts of Plate and Pledge Offerings.
Policy Statements	P	Permanent. Retire superseded statements to Parish Archives after revision. See also Employee Manuals and Policies
Profiles, Parish	P	Permanent.
Project Files, Special Programs and Ministries	P	Permanent. See also Office Files.
Property Files 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.
Property Inventories and Schedules	AU	Retain until superseded. Place current copy in Parish Archives for safe keeping; transfer previous versions to Archives for final review.
Property Surveys/Plans		See Real Estate Surveys/Plot Plans below.
Publications, Parish	P	Retain 2 fair copies and transfer to Parish Archives.
Purchase Orders	7	Destroy after 7 years.
Real Estate Surveys/Plots Plans	P	Permanent.
Receipts, General Accounts	7	Destroy after 7 years.
Records Schedules and Destruction Logs	P	Permanent.

<u>Record Title or Series</u>	<u>Minimum Retention</u>	<u>Retention Recommendations</u>
Resource Files , External Relations including catalogs, sales brochures, common publications, professional literature, clippings & articles on non-parish events, vendor files, Church resources and entities.	AU	Retain until superseded or until administrative use ceases; review annually and remove outdated material for destruction.
Sacramental Records: Registers of Baptisms, Confirmations, Marriages, and Burials, including membership registers, and records of transfer not entered	P	Permanent. Transfer full volumes to Parish Archives. A confidential record series.
Sales Slips	7	Destroy after 7 years.
Search Records, Employee	SR	Selective Retention. Integrate final candidate application to Personnel File; destroy unsuccessful applications CY + 1. A confidential record series.
Sermons	SR	Selective Retention. Retain full sermons for review; keep printed sermons as part of an archival series. Destroy sermon notes and duplicates.
Service Leaflets	SR	Transfer to Parish Archives for review and sampling, especially if Service Books are not kept.
Service Books and Registers	P	Permanent. Transfer to Parish Archives.
Service Files, Volunteers		See Volunteers' Files
Shipping and Freight Receipts	4	Destroy CY + 1 year after reconciliation for formal audit.
Specifications for Building and Design, new construction	P	Permanent. See also Building Plans and Drawings.
Specifications for Service and Sales Contracts, and Minor Repairs	7	Destroy 7 years after completion of transaction.
Statistical Analysis and Reports	SR	Retain until administrative use ceases; review membership, financial, and stewardship analyses for archival value.

<u>Record Title or Series</u>	<u>Minimum Retention</u>	<u>Retention Recommendations</u>
Subject Files , including central administrative office files	SR	Selective Retention: review annually and retain permanent records that are filed within office file accumulations; see also Office Files.
Subsidiary Ledgers	SR	Selective Retention: retain permanent record series.
Tax Forms , Individual Employees: W-2, 1099	7	Destroy after 7 years; confidential record.
Tax Returns/Filings	7	Destroy 7 years after filing provided no action is pending.
Tax-exempt Certificates/ Form 990	P	Permanent.
Time Sheets	4	Destroy after CY + 4 years.
Title Certificates and Search Papers	P	Permanent.
Trial Balances, Closing	7	Destroy after 7 years.
Trust Fund Files	SR	Selective Retention: Retain copies of conditions, restrictions, legal opinions, and summary distribution history permanently; retain distribution notices and courtesy correspondence for 7 years.
Trust Fund Registers	P	Permanent.
Volunteers' Files	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. See also Personnel Records and Files.
Vouchers	7	Destroy after 7 years or CY + 4 years after formal audit.
Warranties	AU	Retain until expiration of warranty.
Wills, Testaments, and Codicils	P	Permanent.

<u>Record Title or Series</u>	<u>Minimum Retention</u>	<u>Retention Recommendations</u>
Workers Compensation Claims and Filings	7	Destroy 7 years after filing or settlement of claims whichever occurs later.