

# The Episcopal Diocese of San Diego

Diocesan Convention 2012

*Financial and Administrative Best Practices*

Presented by Julie Young

Treasurer and Canon for Finance



# Introductions

- Your Name
- Congregation
- Position at your church
- For how long
- What you enjoy doing when not working for the church

# Fiduciary Responsibility



WHAT THEY WERE THINKING WHEN VESTRY MEMBERS HEARD THAT THEY WERE AS VULNERABLE TO LAWSUITS AS SECULAR PROFESSIONALS AND INSTITUTIONS.

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# I. Three books you need to have

- Bible
- Book of Common Prayer
- Manual of Business Methods (link is on handout)

## II. Financial Statements

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

*Understand how to read*

*Ask questions (there are no dumb questions)*

# Statement of Activities (*aka Income Statement*)

***Approved budget should be on statement!***

Income Statement February 2012						
	February		Year to Date			
	Actual	Budget	Actual	Budget	Variance	
Revenue						
Pledge	5,100	5,000	11,123	10,000	1,123	
Plate	349	500	795	1,000	-205	
Other	25	100	53	200	-147	
Total	5,474	5,600	11,971	11,200	771	
Expenses						
Personnel	4,000	4,000	8,000	8,000	0	
Liturgy	250	400	599	800	201	
Office	99	200	315	400	85	
Maintenance	1,000	750	3,523	1,500	-2,023	
Total	5,349	5,350	12,437	10,700	-1,737	
Net Income (Loss)	125	250	-466	500	-966	

# Statement of Financial Position

*also known as Balance Sheet*

Three Components:

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

Assets - Liabilities = Net Worth/Net Assets

# Statement of Financial Position, cont'd

## NET ASSETS Categories

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

# Statement of Financial Position cont'd.

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

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

Balance Sheet February 28, 2011			
Cash and Investments		Net Assets	
Checking	\$3,330	Temporarily Restricted	
Investments	\$12,000	ECW	\$4,569
Total Current Assets	\$15,330	Building Fund	\$23,599
		Altar Guild	\$2,359
Fixed Assets		Pastoral Fund	\$599
Church Building	\$325,000	Total Temporarily Restricted	\$31,126
Church Land	\$250,000		
Furnishings	\$49,231	Permanently Restricted	\$10,000
Less Accumulated Depreciation	\$32,000		
Total Fixed Assets	\$592,231	Unrestricted	\$441,435
Total			
		Total Net Assets	\$482,561
Total Assets	\$607,561		
Liabilities			
Note payable on church	\$125,000		

# III. Make sure you have adequate insurance

THE YOUTH GROUP DECIDES TO PREPARE THE SHROVE TUESDAY PANCAKE SUPPER



# Minimum Insurance Recommended

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

# Minimum Insurance, Con't

- Directors and Officers (D & O) 1 Million
- Umbrella Policy: Provides excess coverage
  - Missions with minimal activity: 1 million
  - Large Congregations: 10 million
  - All Other Congregations: 4 million
- Worker's Comp: \$500,000

# IV. Property needs more than routine maintenance

Recommend a physical property evaluation and establish a property reserve



# Replacement Reserve Schedule

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

# V. Compliance with California Employment Law

# Classification of Employees and Other

- Employees
    - Exempt
    - Non-Exempt
  - Independent Contractors
- 
- ❖ *All employees should have a job description that includes their classification*
  - ❖ *All employees should be evaluated annually (clergy should have mutual ministry review)*

# Payroll and other compensation

- Exempt Employees: Paid by the job and not by the hour
  - Must be paid more than 33,280 per year
    - This CANNOT be prorated for part time employees
  - Must be managerial or other specialized skills

# Employees, etc

- Non-exempt
  - Minimum wage in California \$8.00 per hour
  - Paid by the hour: MUST turn in a timesheet and be paid according to that time sheet, stipends or salaries not legal
  - Must be paid overtime for more than 8 hours per day or 40 hours per week
  - CANNOT volunteer in the same capacity as they are paid
  - “Comp” time is not allowed
  - Sextons and organists typically should be non-exempt

# Employees, etc

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

# ***Stay tuned!***

## **New Diocesan Personnel Committee**

### **Tasks in Process:**

- Creation of Personnel Handbook for Diocese including missions; handbook template for parishes
- Development of consistent job descriptions, offer letters, and other personnel related documents
- Research compensation ranges for priests and lay employees
- Analysis and Recommendation of other benefit offerings such as disability and unemployment insurance

*Educational opportunities will be available later in the year*

## VI. Use a Payroll Service

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

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

# VII. Safeguard God's People

- Make sure background checks are conducted
- Make sure Safeguarding God's People is attended by key volunteers and employees

## VIII. Know canons and deadlines

- Any encumbrance (including leases) to your property must be approved by the Bishop and the Standing Committee
- Denominational Health Plan: Effective January 1, 2013
- Lay Pension Plan: Effective January 1, 2013
- Property Tax Exemption Claim due to County Feb. 15
- Parochial Report Due March 1
- Audit Due to Diocese September 1
- Mission Share Pledge due November 1

# Denominational Health Plan

- Requires parity between clergy and lay employees working 1500 hours per year or more at a minimum of 100% of employee only coverage of base plan (currently Aetna PPO)
  - Existing letters of agreement will be honored
  - Letters of agreement executed after 2-28-12 must be in compliance
- Requires full participation January 1, 2013 or sooner

# Lay Pension Plan

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

# IX. Understand Clergy Discretionary /Pastoral Needs Fund

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

# Accounting for Discretionary Fund

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

# X. Have Internal Controls in Place

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

***Remember to ask questions!***

# Internal Controls Key Elements

- Segregation of duties: All steps in transactions should NOT be handled by one person
- Authority Levels
- Documentation and record keeping
- Independent reviews
  
- **Review Internal Control Questionnaire on page II-8 of Manual of Business Methods in Church Affairs**

# Internal Controls, Cont'd. -- Cash

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

# Internal Controls, Continued

## Reconciling Bank Accounts

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

# Internal Controls, Continued

## Payroll

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

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

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

# Audit Guidelines cont'd

## *New Audit Guidelines!*

- Churches with revenues greater than \$2 million: Every year
- Churches with revenue between \$1.5 and \$2 million: Every other year
- Churches with revenue between \$1 and \$1.5 million: Every third year
- Churches with revenue between \$500,000 and \$1,000,000: Every 4<sup>th</sup> year
- Parishes in the process of calling a full time priest

# Audit Committee Guidelines

- Audit committees should be independent of the decision making and record keeping of the financial functions of the congregation
- Typically 3 person committee, it should have at least one person with financial expertise
- Treasurer should not be on audit committee

# Audit Committee Scope and Deadline

- **See Chapter VI of Manual of Business Affairs**
- All accounts should be audited including restricted, property funds, and endowments
- Should include sufficient tests of transactions
- Verification of financial statements
- Review of internal controls
- Vestry receives and approves audit report
- Copy of report required to be filed with Diocese not later than September 1

# *Stay Tuned!*

*Diocesan Audit Team being formed and will work with congregations to conduct internal audits and audit exchanges*

# Thanks for participating!

- For more information:

Julie Young

Treasurer and Canon for Finance

619-481-5453

[jyoung@edsd.org](mailto:jyoung@edsd.org)

*Please fill out an evaluation!*