Manual of Business Methods in Church Affairs

In accordance with Title I, Canon 7, "Of Business Methods in Church Affairs

December 2019

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

The General Convention of The Episcopal Church

To the members of The Episcopal Church:

The Canons of The Episcopal Church set forth the general responsibility and accountability for the stewardship of the Church's money and property. Title I, Canon 7 specifically addresses the business methods prescribed for every diocese, parish, mission, and institution subject to the authority of the Episcopal Church.

This *Manual* identifies requirements and seeks to provide helpful advice on sound, practical internal controls, accounting guidelines and business practices. We believe that it can be a tool that will support your efforts to perform the duties and responsibilities of your office.

Sections of the *Manual* are updated regularly. The date of the latest update appears at the final page of each chapter.

As always, we welcome your comments, which help us with any future updates. Thank you for the opportunity to serve you and our Church.

Faithfully,

N. Kurt Barnes, Treasurer

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MANUAL OF BUSINESS METHODS IN CHURCH AFFAIRS

TABLE OF CONTENTS

INTRODUCTION: GENERAL INFORMATION

CHAPTER CONTENTS

Introduction

This Manual outlines the internal controls, accounting guidelines, and business practices for the financial oversight of a diocese or congregation.

The general responsibility and accountability for the stewardship of the Church's money and property is delineated in the Canons of the Episcopal Church. Title I, Canon 7, specifically addresses the business methods prescribed for every diocese, parish, mission, and institution subject to the authority of the Episcopal Church. This Canon (as of July 2018) is produced in its entirety on the following pages.

Christian stewardship requires ethical management of financial resources. The Church entrusts its leadership with the funds placed in its hands for mission and ministry. Treasurers and financial officers at all levels in the Church are custodians of this trust. This Manual is a guide that will assist in preserving this trust.

The guidelines in this Manual have been designed for the use of dioceses and congregations of the Episcopal Church and may not be appropriate for use by other church controlled or related institutions, such as hospitals, colleges, universities, and health and welfare organizations.

Section A. Constitution and Canons for the Governance of the Protestant Episcopal Church in the USA: Title I, Canon 7: Of Business Methods in Church Affairs

CANON 7: Of Business Methods in Church Affairs

Section 1. *In every Province, Diocese, Parish, Mission and Institution connected with this Church, the following standard business methods shall be observed:*

(a) *All accounts of Provinces shall be audited annually by an independent certified public accountant, or independent licensed accountant or such audit committee as shall be authorized by the Provincial Council. The Audit Report shall be filed with the Provincial Council not later than September 1 of each year, covering the preceding calendar year.*

(b) *Funds held in trust, endowment and other permanent funds, and securities represented by physical evidence of ownership or indebtedness, shall be deposited with a National or State Bank, or a Diocesan Corporation, or with some other agency approved in writing by the Finance Committee or the Department of Finance of the Diocese, under a deed of trust, agency or other depository agreement providing for at least two signatures on any order of withdrawal of such funds or securities. But this paragraph shall not apply to funds and securities refused by the depositories named as being too small for acceptance. Such small funds and securities shall be under the care of the persons or corporations properly responsible for them. This paragraph shall not be deemed to prohibit investments in securities issued in book entry form or other manner that dispenses with the delivery of a certificate evidencing the ownership of the securities or the indebtedness of the issuer.*

(c) *Records shall be made and kept of all trust and permanent funds showing at least the following:*

(1) Source and date.
(2) Terms governing the use of principal and income.
(3) To whom and how often reports of condition are to be made.
(4) How the funds are invested.

(d) *Treasurers and custodians, other than banking institutions, shall be adequately bonded; except treasurers of funds that do not exceed five hundred dollars at any one time during the fiscal year.*

(e) *Books of account shall be so kept as to provide the basis for satisfactory accounting.*

(f) *All accounts of the Diocese shall be audited annually by an independent Certified Public Accountant. All accounts of Parishes, Missions or other institutions shall be audited annually by an independent Certified Public Accountant, or independent Licensed Public Accountant or such audit committee as shall be authorized by the Finance Committee, Department of Finance, or other appropriate diocesan authority.*

(g) *All reports of such audits, including any memorandum issued by the auditors or audit committee regarding internal controls or other accounting matters, together with a summary of action taken or proposed to be taken to correct deficiencies or implement recommendations* *contained in any such memorandum, shall be filed with the Bishop or Ecclesiastical Authority not later than 30 days following the date of such report, and in no event, not later than September 1 of each year, covering the financial reports of the previous calendar year.*

(h) *All buildings and their contents shall be kept adequately insured.*

(i) *The Finance Committee or Department of Finance of the Diocese may require copies of any or all accounts described in this Section to be filed with it and shall report annually to the Convention of the Diocese upon its administration of this Canon.*

(j) *The fiscal year shall begin January 1.*

Section 2. *The several Dioceses shall give effect to the foregoing standard business methods by the enactment of Canons appropriate thereto, which Canons shall invariably provide for a Finance Committee, a Department of Finance of the Diocese, or other appropriate diocesan body with such authority.*

Section 3. *No Vestry, Trustee, or other Body, authorized by Civil or Canon law to hold, manage, or administer real property for any Parish, Mission, Congregation, or Institution, shall encumber or alienate the same or any part thereof without the written consent of the Bishop and Standing Committee of the Diocese of which the Parish, Mission, Congregation, or Institution is a part, except under such regulations as may be prescribed by Canon of the Diocese.*

Section 4. *All real and personal property held by or for the benefit of any Parish, Mission or Congregation is held in trust for this Church and the Diocese thereof in which such Parish, Mission or Congregation is located. The existence of this trust, however, shall in no way limit the power and authority of the Parish, Mission or Congregation otherwise existing over such property so long as the particular Parish, Mission or Congregation remains a part of, and subject to, this Church and its Constitution and Canons.*

Section 5. *The several Dioceses may, at their election, further confirm the trust declared under the foregoing Section 4 by appropriate action, but no such action shall be necessary for the existence and validity of the trust.*

Section B. Uniform Business Methods and Accounting Principles

In June 1993 the Financial Accounting Standards Board (FASB) issued two comprehensive statements, Numbers 116 and 117, which established the basis for generally accepted accounting principles for not-for-profit organizations (NFP). In August 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments, effective for all annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018, are intended to improve financial statement presentation by not-for-profit (NFP) organizations—a model that has existed for more than 20 years. The new guidance will affect substantially all NFPs, including religious organizations, and requires NFPs to improve their presentation and disclosures to provide more relevant information about their resources (and the changes in those resources) to their donors, grantors, creditors, and other users. There are qualitative and quantitative requirements in a number of areas, including net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. The following summary focuses on these new disclosure requirements.

Net Asset Classification The new guidance requires NFPs to present, on the face of the statement of financial position, the amount for each of two classes of net assets—net assets with donor restrictions and net assets without donor restrictions—as opposed to three (i.e., permanently restricted, temporarily restricted, and unrestricted). The guidance does retain current requirements to provide information about the nature and amounts of different types of donor-imposed restrictions, and also requires similar information about governing board designations. The disclosures are intended to highlight the importance of information about how those restrictions and designations affect the use of resources, including their liquidity.

Information about Liquidity In order to provide more transparency, the new guidance includes requirements to disclose both quantitative and qualitative information about the availability of and how the NFP manages its liquid available resources to meet cash needs for general expenditures within one year of the balance sheet date.

Functional Expense Presentation The new guidance requires all NFPs to provide information about their operating expenses by both nature and function— either on the face of the statement of activities, as a separate statement, or in the notes to the financial statements, supplemented with enhanced disclosures about the methods used to allocate costs among functions.

The two statements issued by the FASB amended or superseded many of the Statements, Opinions, Statements of Position and Interpretations previously issued. Not-for-profit organizations should follow the guidance in the effective provisions of FASB Statements and Interpretations unless the specific pronouncement explicitly exempts not-for-profit organizations or the subject matter precludes such applicability. Subsequent pronouncements issued by the FASB apply to not-for-profit organizations unless those pronouncements explicitly exempt not-for-profit organizations or the subject matter precludes their applicability.

Compliance with these FASB statements is required in order to be in accordance with Generally Accepted Accounting Principles (GAAP). Most financial institutions and other users of financial statements, including government and private granting sources, require that church financial statements be presented in accordance with GAAP. Please be aware that when financial statements are not in accordance with GAAP, auditors must note those exceptions in their auditor's opinion.

Method of Accounting. The use of the accrual method of accounting is required by GAAP and is the preferred method. Many congregations, however, continue to use the Cash Basis method of accounting, in which receipts are recorded when received and expenses are recognized when they are paid. Although this method is not in accordance with GAAP, it is considered an "Other Comprehensive Basis of Accounting" (OCBOA) and is an acceptable method for use by congregations. The Cash Basis may be modified to accrue some, but not all, activities or to record depreciation. **Dioceses should use the accrual method of accounting.**

Financial Statements

In general, GAAP requires not-for-profit organizations to issue a statement of financial position, a statement of activities, and a statement of cash flows.

Statement of Financial Position (SFP) – is the primary financial statement that provides information about an organization's assets, liabilities and net assets and about their relationship to each other at a particular point in time. This statement, which is frequently referred to as the Balance Sheet or Statement of Assets and Liabilities, assists donors, creditors, members of the organization itself, and others to determine the organization's ability to continue to provide services. The SFP also allows for the assessment of the organization's liquidity, solvency, and financial flexibility needed to obtain external financing and satisfy its day-to-day debts.

The SFP should classify accounts as current or non-current; by sequencing assets according to their nearness to conversion to cash; and liabilities according to their maturity and resulting use of cash.

The SFP should present two classes of net assets: those with donor restrictions and those without donor restrictions. Each of these classifications is discussed below:

- *Net assets with donor restrictions* will include assets that are temporarily and permanently restricted. Additional disclosure regarding the nature of the restrictions may be presented either on the face of the financial statements or in the footnotes. Note that
  - — Contributions and other inflows of assets whose use by the organization is limited by donor-imposed restrictions that do not expire or cannot be satisfied by actions taken by the organization contain permanent restrictions;
  - — Contributions and other inflows of assets whose use by the organization is limited by donor-imposed restrictions that either expire with the passage of time or can be satisfied or removed by actions taken by the organization contain temporary restrictions;

- *Net assets without donor restrictions* are that part of the NFPO's net assets that are not restricted by the donor.

Information relating to the nature and amounts of varying Net assets with donor restrictions should be shown by reporting their amounts either in the body of the SFP or in footnotes to the organization's financial statements.

Net assets without donor restrictions are generally constrained only by the broad limits resulting from the mission of the organization, its operating environment, articles of incorporation, or specific business contracts. Any such contractual and self-imposed limits should be shown in the notes of the financial statements.

Statement of Activities (SOA) – is commonly referred to as the Income Statement or Statement of Cash Receipts and Disbursements (or, in for-profit organizations, Profit and Loss Statement). The SOA enables donors, creditors, and other readers to:

- Determine the entity's performance during a given period of time
- Gauge the organization's service efforts and its ability to continue to perform services
- Appraise management's performance.

Specifically, the SOA presents: (1) the effects of transactions and other events and circumstances that change the amount and nature of net assets, (2) the relationship of those transactions or other events to each other and (3) how the organization's resources are used in providing various programs and services.

Statement of Functional Expenses (SFE) – provides information about all expenses in one location, either on the face of the statement of activities, in the notes to the financial statements, or in a separate statement. All not-for-profit entities are now required to present the relationship between functional expenses (such as major classes of program services and supporting activities) and natural expenses (such as salaries, rent, electricity, supplies, interest, and depreciation). This analysis will provide a more in-depth look at how nonprofits spend toward their missions.

Statement of Cash Flows (SCF) – provides information about the cash receipts and disbursements during the year. The flows are classified according to whether they resulted from investing, financing or operating activities. The SCF is normally only prepared at year-end.

Report Preparation Frequency. Financial reports should be prepared for the Vestry at least quarterly and should include all funds of the congregation, specifically the restricted funds. The reports should contain enough detail to enable the Vestry members to exercise their fiduciary responsibility for church funds, to make informed financial decisions, and to determine how they are doing in relationship to the budget.

Section C. Introduction to Fund Accounting

Not-for-profit organizations' classification of net assets, revenues, expenses, gains, and losses are based on whether there are restrictions imposed by donors. Fund accounting is a system of recording the organization's resources based on those donor-imposed restrictions. Assets in the SFP are categorized as being with or without restrictions. To maintain records of these restrictions for internal purposes or for reporting back to the donor and grantor, some not-for-profit organizations maintain separate funds for specific purposes. Each fund consists of a self-balancing set of asset, liability and net asset accounts. While fund accounting is not required by generally accepted accounting principles, organizations may use fund accounting for internal purposes.

Terminology can be confusing, especially when the same word is used to describe different things. Two potentially confusing words often encountered are "fund" and "account".

The word "fund" is often used as a synonym for "money". It may also be used as a title for each of the segregated reporting categories of the fiscal operation. When the terminology is used in this Manual as a title or description of a reporting category, it will be capitalized – "Fund".

"Account" is used both to describe the basic units of double-entry bookkeeping and to describe bank accounts or accounts at other financial intermediaries. In this Manual, we will always explicitly refer to "bank accounts" when referring to the financial intermediary.

It is important to note that the segregation of assets into "Funds" and "Accounts" does not automatically create a need for multiple bank accounts for each Fund or Account.

Section D. Calendar of Important Due Dates

Note: The following calendar does not include due dates that may be imposed by diocesan, local or state governmental requirements.

January 31	Form W-2: Employee's Wage and Tax Statement Form provided to all employees, including parochial clergy.
January 31	Form 941: Employer's Quarterly Payroll Tax Return File return with the Internal Revenue Service for quarter ending December 31.
January 31	Form 1098: Mortgage Interest Copy of form provided to recipient (for any mortgages held by churches or dioceses).
January 31	Form 1099: INT & MISC. Copy of form provided to recipient.
January 31	Substantiation of Contributions statements provided to donors of gifts over $250.
February 28	Form W-2: Employee's Wage and Tax Statement Forms remitted to the Social Security Administration along with Transmittal Form W-3.
February 28	Form 1099: INT & MISC Forms remitted to Internal Revenue Service along with Transmittal Form 1096
March 1	Episcopal Church Parochial Report to be filed with Diocesan Office
April 30	Form 941: Employer's Quarterly Payroll Tax Return File return with the Internal Revenue Service for quarter ending March 31
July 31	Form 941: Employer's Quarterly Payroll Tax Return File return with the Internal Revenue Service for the quarter ending June 30
September 1 (or sooner, as required by Diocesan Canons)	Audited Financial Statements of all congregations and institutions to be filed with the Diocesan Office
September 1	Annual Diocesan Report to be filed by all dioceses with the Executive Council/General Convention Office
October 31	Form 941: Employer's Quarterly Payroll Tax Return File return with the Internal Revenue Service for the quarter ending September 30

Updated as of November 2019

CHAPTER I: FINANCIAL MANAGEMENT

CHAPTER CONTENTS

Introduction

Budgeting is the allocation of the church's resources, in accordance with a plan, for the achievement of its objectives and goals. The church budget is one of the most effective tools available for the proper stewardship of the church's assets.

The bookkeeping and accounting system, along with the related internal controls and procedures, the budgeting process, the financial audit, and the management oversight provided by the Vestry should be viewed as a single system. No part stands alone; each supports the other. This entire system enables the Vestry to fulfill its obligation of fiduciary responsibility and proper stewardship.

Section A. Budget Methods

The most frequently used budgeting methods are Incremental; Program; and Zero-based.

<u>Incremental Budgeting</u>

Most congregations adopt incremental budgeting (sometimes called line item or traditional budgeting). Incremental budgeting uses this year's budget as the basis for next year's budget and adjusts each line item. It is an easy method to use and to understand, but problems can arise if the budgeted amounts become routine. Prior programs and costs may not be re-evaluated. The budget and programs become reliant on the past and may not incorporate new ideas.

<u>Program Budgeting</u>

Costs are identified with the specific programs (activities/ministries) being carried out by the congregation. This budget method requires the congregation to do its planning before preparing the budget. This method begins by requiring the appropriate committees and groups to identify each program it conducts along with needs and objectives of each program. Each program chair and/or staff member examines his/her own program in terms of how well it is achieving its goals. If improvements are indicated, the chair assesses the benefits to the congregation as well as the cost implications. Finally, an estimate of the resources needed to operate the program for the next year is developed. Each program chair then compiles the data into a program budget format that includes a statement on the purpose of the program, a description of the services provided, program goals and objectives, the amount of money needed, and the benefits and costs of any requested program change.

Zero-Base Budgeting

Zero-based budgeting is very time- and paperwork-intensive; it is not recommended annually but periodically (e.g., once every five years).

Each program chair and/or staff member is asked to assume the program is new and has received no funding previously. This means that program groups must take an in-depth look at their programs and how their activities are conducted.

Other Budgeting Methods

Other budget methods include:

- Scenario Budgeting – which involves the creation of multiple versions of a budget by making variations to a base (or the most likely budget). The most frequent variations are **optimistic**, **realistic (base)** and **pessimistic** scenarios. The different budget scenarios enable you to test and analyze the alternatives before adapting a final budget;
- Dynamic Budgeting – which involves revising and adopting a budget as circumstances change. This can be done periodically or constantly, though the process becomes less meaningful as the frequency of revisions increases; and
- Contingency budgeting – which allows management the flexibility of reacting to uncertainties without seeking additional approval from the board. Management may typically be allowed a certain percentage (e.g., 5%) over the adopted budget. An advantage of a contingency budget is that it may encourage managers not to exaggerate their budgets and may discourage the 'use it or lose it' spending mentality at year end.

Section B. Budget Process

Each year, using information provided by the finance and stewardship committees, the Vestry should establish a plan and timeline for its budget process and stewardship campaign.

Budget preparation will always involve estimates, especially estimates of income and contributions. If the congregation conducts its stewardship campaign before preparing and voting a budget, budget preparation is made easier.

Discerning the congregation's mission and ministry is the foundation of budget building and should involve all members of a parish, where possible. When many people share ideas and opinions about congregation-sponsored programs, their acceptance and support for the budget will likely be enhanced. When members of the congregation participate in the formulation of the budget, they are also more inclined to make sure that the budgeted programs are implemented and provided with necessary resources.

Following the mission discernment phase, the finance committee drafts a tentative budget to present to the Vestry, which reviews, discusses, makes changes, adopts and presents the budget to the congregation.

Effective communication and explanation of the budget require different techniques designed to address the different ways that people learn. Some people learn through pictures. For them, a graphic presentation of the budget is useful; pie charts, bar graphs and line graphs are helpful. Other people love numerical detail; a line by line presentation of the numbers along with a brief narrative description of each line could be ideal.

Any budget presentation should include amounts and sources of income, line item expenditures with narrative descriptions, a summary page or chart, a timeline of the budget process, and a roster of finance committee and Vestry members.

The budget presentation goal is to have the congregation consider and embrace the budget as its own – not the Vestry's budget or the rector's budget.

Section C. Budget Implementation and Review

If possible, the treasurer should prepare a month-by-month budget, incorporating as much information about the timing of receipts and expenditures as possible (e.g., Is income expected in 12 equal amounts or does income decline during the summer months? Are utilities payments higher during January and February than in July and August or *vice versa*?). The result of this exercise is a cash flow forecast which is used by the treasurer and finance committee (see Section E of this Chapter 1).

The approved budget should be incorporated into the monthly financial statements presented to the Vestry. Each line item should show the budgeted amount and the actual receipts or expenditures (see the example in Chapter III).

An approved budget serves as authorization to expend funds for the purposes allocated within it. Individuals or committees responsible for line items should not exceed the budgeted amount without the Vestry's approval. Adjustments during the year may be necessary due to unanticipated costs, changes in income and new programs. All modifications to the budget should be approved by and included in the Minutes of the Vestry.

The budget should be a flexible document, which reflects the sources and uses of resources in order to accomplish the mission and ministry of the congregation. Periodic reviews assure that the budget reflects current financial conditions. Any deviations from budgeted amounts should be fully understood. A budget that is consistently "on target" may indicate that programs are static (or worse, uninspiring for program directors and the program beneficiaries) and that unnecessary expenditures are being made just to conform to the budget.

Section D. Capital Budgeting

Every financial plan should include consideration of the need to acquire, replace or renovate long-lived assets. The congregation's overall plan should include a reasonable anticipation of all but the most unusual future needs. Planning for these "capital needs" is often reflected in the operating budget each year (e.g., a reserve or allowance for depreciation and replacement of plant and equipment). When capital items are budgeted through the operating budget, however, there is a tendency to plan only for the next year, rather than for longer periods of time. An alternative, though not required, is to have a separate capital budget or a restricted endowment or savings account to fund future expenditures for such items as building renovation or a balloon mortgage repayment.

Section E. Cash Management

Cash inflow and outflow rarely occur in equal amounts or during the same time period. Because no organization wants to jeopardize its reputation as a result of unpaid legitimate bills, it is critical that the organization's treasurer maintains adequate cash to facilitate bill payments in periods when cash inflow is less than outflow. Forecasts of cash flows can be made either by comparing the monthly expense budgets to the monthly cash flow estimates or by analyzing activity from prior years or quarters.

The amount of cash a treasurer plans to keep in the checking account may depend upon the following factors:

1. Timing of the cash flows, pledge payments, investment or endowment income versus expenses, monthly bills, and, more particularly, large expenditures and quarterly bills;
2. Available borrowing power of the congregation to meet emergencies; and
3. Maintenance of a good banking relationship by complying with minimum balance requirements.

Interest-bearing checking accounts make it possible for every treasurer to see that funds on deposit earn money. The treasurer should be aware of the minimum balance required, the bank's fee structure and interest rate, and whether investing monies in the same bank will be rewarded with special banking services. Good banking relationships bear fruit when the congregation is seeking a long-term loan. Banks will often work creatively with good customers to develop favorable loan packages, which might include a line of credit.

Money that will not be called upon for short-term cash flow can be invested for the long term, generally earning a higher return.

Section F. Long-Term Financing

Long-term financing may be derived from loans from individuals, financial institutions and foundations. Bond sales in the public market are another source of long-term financing.

Before the congregation undertakes any long-term financing, however, the finance committee and Vestry should conduct a careful and thorough study of financing options and implications. Then the Vestry, by resolution, should authorize long-term debt before the commitment is undertaken. Congregations should pay careful attention to diocesan and General Convention canons, as well as state laws, relating to long-term financing and the encumbrance of property.

Section G. Investment Management

<u>Short-term Needs</u>

Funds that are needed in the near term (e.g., within 12 months) for operations are generally held in checking accounts that may or may not earn interest or in money market accounts typically invested in government securities and other high-grade fixed-income securities. Bonds, treasury securities and certificates of deposit pay interest, but the original investment remains essentially unchanged.

<u>Longer-term Needs</u>

Good stewardship of church assets suggests the longer-term investment of funds that will not be needed until a future date, primarily to ensure that the future purchasing power of those funds will not be eroded by inflation. Assets that are prudently invested can provide a sustainable and increasing level of income to support the ministries of the congregation while preserving the real (inflation-adjusted) purchasing power of the funds. For the level of income distribution to increase, however, the portfolio must grow at a rate faster than the rate of inflation. To achieve this, the types of securities in the portfolio are diversified (i.e., not all eggs are in the same basket) but are typically focused on equities, with smaller percentages invested in fixed income securities and alternative assets.

Congregations should not be fearful of investing for the long term, but there are some basic factors that should be considered, including:

- What are the investment objectives, policies and strategies for the management of the portfolio?
- How much risk (variation of returns) will the congregation tolerate? What will the asset allocation be? How will the assets be diversified among different classes/types of investments?
- What will the spending rate/dividend distribution policy be? What percentage of the total return (i.e., dividends, interest plus price appreciation) can be used each year in line with objectives to: i.) preserve long term purchasing power; ii.) provide a reasonably stable and predictable revenue stream to support the operating budget; and iii.) protect the investment portfolio from repeated withdrawals for ad hoc operating needs?
- Are the fees necessary and appropriate? Investment fees, if not properly managed, can consume a significant portion of investment returns so a prudent investment committee needs to review periodically the cost structure of its investment program to determine if a similar risk/return profile can be obtained at a lower cost.

These considerations are discussed further in the Investment Policy Statement developed for the management of the endowment assets of the Domestic and Foreign Missionary Society. The IPS is available at https://www.episcopalchurch.org/investing-us .

Long-term investment is best managed by institutions with proven investment expertise. Many dioceses, as well as The Domestic and Foreign Missionary Society, provide professionally managed balanced investment funds. Any Episcopal parish, diocese or other Episcopal-affiliated organization is welcome to place funds in custody, at no cost, in the Society's Endowment Portfolio. The procedures for co-investing are available at https://www.episcopalchurch.org/investing-us.

Most often, long-term investments are set up in an endowment or trust fund.

A financial endowment is a legal structure for managing and, in many cases indefinitely perpetuating, a pool of financial, real estate, or other investments for a specific purpose according to the direction of its donors. Endowments are often structured so that the principal value is kept intact, while the investment income or a small part of the principal is available for use each year.

Most private endowments in the United States are governed by the Uniform Prudent Management of Institutional Funds Act, which is based in part on the concept of donor intent that helps define what restrictions are imposed on the principal and earnings of the fund. Endowments in the United States are commonly categorized in one of four ways:

1. Unrestricted endowments can be used in any way the recipient chooses to carry out its mission.
2. Term endowment funds stipulate that all or part of the principal may be expended only after the expiration of a stated period of time or occurrence of a specified event, depending on donor wishes.
3. Quasi endowment funds are endowments designated by an organization's governing body rather than by the donor. As a result, both the principal and the income may be accessed at the organization's discretion. Quasi endowment funds are still subject to any other donor restrictions or intent.
4. Restricted endowments ensure that the original principal is held in perpetuity and that the earnings from this original principal are allocated according to the donor's requirements.

Regardless of the type of investment, the congregation's treasurer is responsible for reporting on a regular basis to the Vestry such specifics of the invested monies as:
- The source of the funds;
- The conditions under which the funds can be used;
- Where they are invested;
- Interest earned compared with past performance;
- Total portfolio return compared with past performance;
- Fund balances;
- Additions and withdrawals since the last report; and
- Investment costs and fees.

Reporting should be made in two specific categories: assets without donor restrictions and assets with donor restrictions. Sub-categories under each of these items may be added to clarify the statements further.

Last updated November 2019

CHAPTER II: INTERNAL CONTROLS

CHAPTER CONTENTS

Section A. Introduction

What type of bookkeeping system should be used? How many bank accounts are needed? Who should be able to sign checks? Who should deposit the weekly receipts in the bank, and how? These are just some of the questions to be answered when setting up an accounting system for a congregation. Such questions should be periodically reviewed.

Often, many of these decisions are made without adequate thought. Others may require more deliberate consideration. Altogether, the decisions that are made become the policies and procedures of the accounting system and are referred to as "internal controls." Good internal controls will ease the treasurer's job. They the guidelines that provide greater assurance that transactions are recorded properly, that the records are reliable, and that church assets are protected. They also assure compliance with civil laws, church canons, and organizational policies.

A system of internal controls consists of all measures used by an organization to safeguard its resources and ensure accuracy, efficiency and reliability in accounting and operating information.

It is important to emphasize that internal controls are designed to prevent or identify inadvertent errors as much as they are intended to prevent the deliberate theft or misuse of funds. Without an appropriate system it is not possible to assure the reliability and integrity of the records or reports generated by an organization.

An effective control system ensures that procedures exist that meet the following objectives:

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

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

Section B. Internal Control Concepts & Considerations

Conflict of Interest
In all matters related to the parish, all employees, clergy and vestry are expected to avoid conflicts of interest and have a duty to disclose all instances of apparent or potential conflicts of interest. A sample Conflict of Interest Policy is found in the appendix to this chapter.

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

1.	Request	request to purchase
2.	Approval	authorized personnel approve request
3.	Authorization	approval to purchase, issuance of purchase order
4.	Execution	purchasing, receiving and payment
5.	Recording	accounting

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

1) The custody of assets must be separate from the responsibility for accounting for these assets.

2) The authorization of transactions must be separated from the custody of related assets. For example;
   a.) The warehouse staff distributing goods should not be able to approve the distribution of goods.
   b.) Cashiers cannot be authorized to approve cash disbursements.
   c.) Program staff approving the purchase of supplies may not also keep the program supplies inventory.

3) The authorization of transactions must be separated from the accounting for the transactions. For example:
   a.) Check signers should not also be authorized to approve accounting transactions.
   b.) Staff authorized to hire employees or temporary labor should not be able to approve the payroll accounting entries.

4) For procurement activities attention must be paid to separating the authority for the selection of vendors, bidding process and approval of the final supplier. For example:
   a.) The person responsible for maintaining the vendor list should not authorize the final selection of a supplier.
   b.) The person soliciting bids cannot be responsible for maintaining the vendor list.

Authority Levels

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

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

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

<u>Authorization List(s)</u>

1. e

<u>Payments & Cash Disbursements</u>

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

<u>Accounting Transactions</u>

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

Documentation & Record Keeping Standards

Financial activities and transactions must be clearly and appropriately documented, recorded and maintained according to the minimum recordkeeping policy (see Records Management for Congregations published by the Archives of The Episcopal Church at https://www.episcopalarchives.org/sites/default/files/RecManManual_rev_07-2017.pdf).

Documents must be safely stored to prevent loss or damage. An appropriate filing system and/or storage system for historical records needs to be in place to ensure that documents can be located when required.

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

Independent Reviews

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

Procedures need to be in place to ensure periodic independent reviews are performed. For example:

- Someone not involved with cash or accounting should perform periodic surprise cash counts.
- Program staff and management should review monthly expenditure reports.
- Inventory, or supplies, should be independently counted and verified to the bin cards/logistics system & accounting records.
- Annual performance evaluations should be required for all staff, utilizing a standard format and review process.

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

Cash

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

Risks with cash are:

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

Reconciliations & Verification

Standard reconciliations and independent verification are essential to maintaining the integrity of control over cash.

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

1. Petty cash balances should not exceed $1,500.
2. The petty cash log should always be complete (e.g., petty cash on hand, plus receipts should equal the original petty cash balance).
3. Petty cash should not be used as an operating fund (not used to pay for goods or services, salaries, etc.).
4. Petty cash funds should be maintained in a secure area such as a locked drawer or small safe.
5. Custodian should replenish funds when the cash balance is low, as well as periodically close inactive accounts.

Payroll

The major risks associated with payroll are:

1. Failure to appropriately terminate employees
2. Failure to adhere to laws and regulations
3. Overpayment to legitimate employees
4. Payment of fictitious persons
5. Failure to recover advances
6. Misappropriation of payroll funds

7. Under or overpaying withholding taxes

Required Forms

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

The following types of forms are recommended:

1. Employee Employment Letter
2. Employee Timesheets – for recording hours worked, by grant, and absences
3. Employee Leave Form – for requesting and approving leave time
4. Employee Action/Change Form – for recording changes in salary, title, benefits or other pay related actions
5. Employee Termination Form – for recording the termination of a person from the payroll
6. Salary Advance Form – for requesting salary advances, repayment date should be specified (i.e. next payroll date)

Personnel

Competent, trustworthy personnel are essential for an effective internal control system. Hiring or retaining dishonest or incompetent staff is a major cause of the loss or misuse of assets.

1. Staff must be hired on an unbiased basis, and candidates selected on qualifications and experience to avoid or minimize conflicts of interest.
2. A standard performance evaluation process will recognize good performance but must also identify underperforming staff so that appropriate corrective action can be taken either to improve performance or remove the employee.
3. Employees can only fulfill the requirements of their position if the requirements are clearly communicated. Every employee must have an up-to-date job description, which clearly states his/her duties and responsibilities.

Procurement

Management of procurement should be a top priority.

The major risks associated with procurement are:

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

Suggested Forms

All organizations should consider using the following types of forms for purchases. (The list may be shortened for very small organizations.)

1. Purchase Requisition
2. Standard Bid Request
3. Bid Summary Worksheet
4. Purchase Order
5. Receiving Report

Vendor List

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

(1) An acceptable vendor list should be developed and maintained.
   a) This list should include the name of the vendor and what types of goods or services it provides.
   b) Those developing the list should include reliable vendors, whose recommendation has come from an outside organization , from published material and from employees who are familiar with the vendor.
   c) At least three vendors for each type of good or service purchased should be included in the list. When fewer than three reliable vendors are identified, the staff should confirm and document in writing that fewer than three reliable vendors exist for a given type of procurement.
   d) The vendor list should be revised periodically (at least annually), based on formal feedback that the procurement department obtains from other employees on the quality of procurement from a given vendor. The feedback should be reviewed to determine whether it has been considered in revising the list.

(2) Access to making changes to the vendor list should be restricted to those employees assigned the responsibility of developing and maintaining the list.

(3) Those employees who solicit bids should not be involved in developing or maintaining the vendor list or have access to making changes in it.

(4) The employee assigned to establish and maintain the approved vendor list should not be the same employee who solicits bids or who selects the wining bidder.

Purchasing Process

1. A purchase requisitions form, signed by the requisitioner and approved by his/her supervisor, or next higher-level employee with sufficient authority to approve, must be prepared for all procurement.
2. The employee approving the requisition must ascertain that sufficient funds remain in the budget to make the procurement and that the procurement is necessary to achieve objectives.
3. The employee initiating the purchase request should not approve the request.
4. Before executing a procurement transaction, procurement personnel must determine whether those signing the requisition form have authority according to the established Authorization List.
5. Procurement personnel must solicit at least three written, independent bids for procurement above a certain dollar amount. Bid solicitations should include a detailed description of the items, specifications, maximum cost, and quantity along with a required delivery date.

6. The person soliciting the bids should not approve the vendor selection.
7. Sealed bids should be required for procurement above a certain reasonable limit (e.g., $250,001 as outlined in the Uniform Guidance established by the US Office of Management and Budget). Vendor selection should be unbiased.
8. A bid summary worksheet should be completed for all procurement requiring bids. The worksheet should document the reason for selecting the vendor and should be signed by an authorized employee as evidence of review and approval.
9. Requisitioners should be discouraged from making purchases themselves. The procurement unit should purchase as many items as possible and all items costing more than $500.
10. Centralized purchasing and blanket purchase orders of office supplies, spare parts, etc. are encouraged in order to take advantage of vendors' quantity discounts .

Procurement Personnel

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

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

Commitment tracking

- Most financial systems do not track commitments. An alternative system should be implemented to track outstanding purchase orders and subcontracts.
- As part of the approval of new purchases, outstanding commitments must be considered in order to avoid overspending the budget.

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

Advances are funds provided to employees to pay for business expenses. The two types of advances are project advances and employee advances. Project advances are provided for project expenses, typically when cash is not readily available from the source where disbursements are usually made. The person receiving the advance liquidates it by providing receipts totaling the amount of the advance and/or by repaying it in the original currency advanced. Employee advances typically cover travel expenses. In this case, the employee liquidates the advance by submitting a Travel Expense Report with supporting documentation.
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Procedures to ensure adequate control would include:
1. A written approval process for employee advances (i.e., who has the authority to approve the advance).
2. A policy should be established that precludes an employee from obtaining an advance if he/she has an outstanding advance, or that places a limit on the number of outstanding advances allowed an employee.
3. A monthly review of advances is recommended in order to identify any advances outstanding for more than 30 days. Advances outstanding for more than a year should be withheld from the employee's salary.

Information Technology and Telecommunications

A parish (mission, diocese, etc.) should commit to having its "Information Technology and/or Telecommunications Systems" (including, but not limited to, computers, networks, Internet access, Intranet access, e-mail accounts, telephones, voice mail, organization-issued or owned cellular phones, smart phones or similar devices and/or any other means of communication known or hereafter developed, and provided cellular phone service, PDA smart phones or similar device service and/or any other communication service known or hereafter developed) used in a responsible, efficient, ethical, and legal manner, and to safeguarding its information assets. Parishes should also make certain, to the extent possible, that all confidential information is kept confidential.

The Parish should adopt a policy that provides:

1. All data on the parish's Information and/or Telecommunication Systems, unless otherwise available in the public domain, are classified as confidential and/or proprietary.
2. Unauthorized use, destruction and/or modification of the Parish's Information and/or Telecommunications Systems are strictly prohibited.
3. Parish information and/or Telecommunications Systems are provided to employees for official parish business. Employees may use these resources for incidental personal use, provided such use does not interfere with employee productivity and/or parish operations and is consistent with parish policies and all applicable laws.

4. Employees do not have an expectation of privacy in anything they create, store, access, send, or receive on the parish Information and/or Telecommunications Systems. The parish has the right, but not the duty, to monitor any and all of the aspects of its Information and/or Telecommunications Systems.
5. The parish reserves the right to use software to identify any Internet site(s) that it deems inappropriate, illegal, sexually explicit, or violates applicable equal employment opportunity principles and any policies against harassment and other discrimination.
6. Any attempt to circumvent parish security procedures is prohibited.
7. Employees must ensure that personal blogging and social networking activities do not interfere with work assignments or disseminate information in a manner bringing disrepute, damage, or ill-will against the parish.
8. Employees cannot use parish-owned facilities or equipment, including computers, licensed software, or other electronic equipment, to conduct personal blogging activities. Employees are reminded that they should have no expectation of privacy.
9. Users of parish Information and/or Telecommunications Systems must comply with all laws regarding the use of such devices while driving. Electronic devices should be used only when it is safe to do so under the circumstances and users must be aware that, even with a hands-free device, electronic devices should not be used during adverse weather or difficult traffic conditions.
10. Cellular phones/smart phones purchased by the parish and issued to employees are the property of the parish.
11. Individuals assigned cellular phones/smart phones are responsible for safeguarding them from damage and misuse.
12. The parish reserves absolute discretion and control over whether, and if upon what terms (*e.g.,* minute allotment, personal use, cost to employees, etc.), to issue cellular phones/smart phones or other electronic devices and/or to provide cellular phones or other electronic services to employees.

Section C. Electronic Banking

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

Policies and Procedures
Before electronic processing is begun, detailed policies and procedures should be in place that specify the online banking activities and electronic funds transactions in which the organization engages. The policies should include the following:

- What online banking and EFT activities will be used
- Who has the authority to establish an electronic bank account
- Who is authorized to initiate electronic transactions
- Who will approve electronic transactions
- Who will transmit electronic transactions
- Who will record electronic transactions
- Who will review and reconcile electronic transactions?

This policy must be consistent with the statutory and other legal responsibilities of the officers and employees involved. It is advisable to have all employees who engage in electronic banking activities to participate in training that helps them identify various technology threats.

Segregation of Duties
Classic internal controls, if well designed, work well with EFT technologies. Proper segregation of duties is important in almost any business function but is critical for electronic transactions. Without proper segregation of duties, the risk increases that one person could be in a position both to commit a wrongdoing and to conceal it. At least two individuals should be involved in each electronic transaction. The authorization and transmitting functions should be segregated and, if possible, the recording function should also be delegated to someone who has neither approval nor transmitting duties. Generally, the same controls should be used for electronic disbursements through online banking as apply to the manual preparation of checks. Payments made using electronic funds transfer services cannot circumvent laws, regulations, and/or the internal control policies.

Electronic or Wire Transfers
Electronic or wire transfers are transfers of funds that are usually effective within minutes of being executed. For wire transfers, a secure ID Access should be required (e.g., an RSA SecurID authentication mechanism).

Safeguards
Some banks offer electronic or wire transfer capability in their online banking programs, allowing input of the required information to initiate, authorize and transmit wire transfers in-house without outside assistance from a depository. Access to in-house electronic or wire transfer software should be controlled, and its use should be authorized and monitored frequently due to the ease with which transfers can be

made. Safeguards for initiating an electronic or wire transfer include phoning the bank and using a password to authorize the transfer verbally, hand delivering a letter of authorization to the bank with the transfer instructions or sending a fax with the authorized signature and password.

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

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

Electronic Check Images
Most banks no longer provide cancelled paper checks to their customers but offer electronic check images online or on CD. These electronic images may be accepted in lieu of cancelled checks, upon authorization by the governing board.

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

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

Section D. Internal Control Questionnaire

The following Internal Control Questionnaire provides guidance for setting up an accounting system and a checklist for periodic review and evaluation of an existing system. The questionnaire is designed also to assist a congregation's internal audit committee. The questions largely refer to some recommended internal control. The normative answer to a question will be positive. A negative response suggests an area that needs to be strengthened. Developing a narrative description is suggested to provide documentation of a current review and should be retained for reference in future evaluations.

General: The following items provide general information to aid in understanding the overall accounting and internal control system.

1.	Are prior internal control questionnaires and auditors' recommendations available?	Yes☐ No☐
2.	Have recommendations of prior reports on internal controls been implemented?	Yes☐ No☐
3.	Is a complete and current chart of accounts, listing all accounts and their respective account numbers, available?	Yes☐ No☐
4.	Is there an accounting policy and procedure manual? Is it up to date?	Yes☐ No☐
5.	Is a current edition of this manual available?	Yes☐ No☐
6.	Is the accounting system using a double-entry bookkeeping method?	Yes☐ No☐
7.	Have the findings of external auditors been reported to the Vestry?	Yes☐ No☐

Budget: The development and use of a budget is a critical management tool that will aid in the stewardship and administration of church resources and program.

1.	Is the budget approved by the Vestry?	Yes☐ No☐
2.	Are all changes to the budget authorized by the Vestry and recorded in the minutes of the meetings?	Yes☐ No☐
3.	Is there a periodic review of the budget by the Vestry?	Yes☐ No☐

Reporting: The best accounting system is of little value, unless it communicates the information it contains to the staff responsible. Although there may be variations, certain minimum standards exist to assure adequate communication of the financial information.

1.	Is a Treasurer's report submitted to the Vestry or accounting committee each month?	Yes☐ No☐
2.	Is the Treasurer's report presented in enough detail to inform the reader about the nature of the various income and disbursement items?	Yes☐ No☐
3.	Does the report present the current actual financial data compared with the approved budget?	Yes☐ No☐
4.	Is there periodic reporting, at least quarterly, of all other funds	Yes☐ No☐

	and activities, including designated or restricted funds?	

Cash Receipts: Clearly stated policies and procedures regarding the handling of cash and other receipts help to prevent loss and assure that all receipts are properly recorded.

1.	Are there safeguards to protect the collections from theft or misplacement from the time of receipt until the time the funds are counted and deposited?	Yes☐ No☐
2.	Are the collection receipts counted and deposited so that the deposit equals the entire amount of receipts on a timely basis?	Yes☐ No☐
3.	Are there at least two unrelated persons responsible for counting and depositing the collections?	Yes☐ No☐
4.	Are the persons responsible for counting receipts rotated on a periodic basis?	Yes☐ No☐
5.	Do the counters have a standardized form for recording the deposit information?	Yes☐ No☐
6.	Are the counters' sheets retained and reconciled with actual deposits, and are all discrepancies investigated?	Yes☐ No☐
7.	Are all the pledge envelopes or other memoranda retained and reconciled to the recorded amounts?	Yes☐ No☐
8.	Are all other cash receipts recorded and deposited on a timely basis?	Yes☐ No☐
9.	Are all checks received restrictively endorsed — "for deposit only" immediately upon receipt?	Yes☐ No☐
10.	Are all cash receipts deposited into the general operating checking account?	Yes☐ No☐
11.	Are there procedures that will highlight or call someone's attention to the fact that all receipts or income have not been received or recorded?	Yes☐ No☐
12.	Are periodic statements provided to donors of record (i.e. at least quarterly)?	Yes☐ No☐
13.	Do acknowledgments of contributions in excess of $250 include a receipt from the recipient organization that states that it is "the contemporaneous acknowledgment required by the Internal Revenue Code and that, in accordance with Section 170(F)(8)(B), any goods or services provided consist solely of intangible religious benefits"?	Yes☐ No☐
14.	Are all discrepancies investigated?	Yes☐ No☐

Cash Disbursements: The following procedures will assist in assuring that all payments are properly approved, recorded, and supported by appropriate documentation.

1.	Are all disbursements made by check, except for small expenditures made from petty cash?	Yes☐ No☐
2.	Are all checks pre-numbered and used in sequence?	Yes☐ No☐
3.	Is there a clearly defined approval process for all disbursements?	Yes☐ No☐
4.	Are all voided checks properly cancelled and retained?	Yes☐ No☐
5.	Are all checks made payable to specified payees and not to cash or to bearer?	Yes☐ No☐
6.	Are all disbursements supported by original documentation?	Yes☐ No☐
a.	Is signing blank checks prohibited?	Yes☐ No☐
b. c.	Is using a signature stamp or pre-printed signatures prohibited?	Yes☐ No☐
d.	Does all supporting documentation accompany checks presented for signature?	Yes☐ No☐
e.	d. Are all account signers authorized by the Vestry?	Yes☐ No☐
f.	e. Is more than one signature required for any check?	Yes☐ No☐
g.	f. If not, do checks for more than $2,500 require more than one signature?	Yes☐ No☐
h.	g. If signature imprint machines are used, are the keys kept under lock and key except when in use?	Yes☐ No☐
7.	Are all disbursements requiring special approval of funding sources or the Vestry properly documented in the Vestry or Finance Committee minutes?	Yes☐ No☐
8.	Are there adequate controls and segregation of duties regarding electronic funds transfers?	Yes☐ No☐

Journal Entries: Journal entries offer a special opportunity to adjust accounting records. The general journal is an equally important book of original entry as the cash receipts and cash disbursements journals

1.	Is there an appropriate explanation accompanying each journal entry?	Yes☐ No☐
2.	Are all journal entries approved by a knowledgeable authority other than the person initiating the entry?	Yes☐ No☐
3.	Is adequate documentation maintained to support each journal entry?	Yes☐ No☐

Bank Account Reconciliation: The monthly reconciliation of all bank accounts is a primary tool for assuring the proper recording and accounting for all cash account activity.

1. Are all bank accounts reconciled within 10 days of receipt of bank statement?	Yes☐ No☐
2. Do two different people perform the tasks of opening and reconciling the bank statement?	Yes☐ No☐
3. Does someone complete the bank account reconciliations other than the person who participates in the receipt or disbursement of cash?	Yes☐ No☐
4. Do the reconciliation procedures provide for:	Yes☐ No☐
1. Comparison between the bank statement and the cash receipts journal of dates and amounts of deposits?	Yes☐ No☐
2. Investigation of bank transfers to determine that both sides of the transactions have been recorded?	Yes☐ No☐
3. Investigation of all bank debit and credit memos?	Yes☐ No☐
4. Review of all checks outstanding more than 90 days?	Yes☐ No☐
5. Are checks more than 180 days outstanding voided during the year-end reconciliation?	Yes☐ No☐
6. Is the bank immediately notified of all changes of authorized check-signers?	Yes☐ No☐
5. Are all journal entries for bank charges and bank account interest recorded routinely?	Yes☐ No☐
6. Are all bank accounts included on financial reports to the Vestry?	Yes☐ No☐

Petty Cash: The following controls provide a timely recording of cash expenditures in the accounting system.

1. Is the responsibility for the petty cash fund assigned to one person?	Yes☐ No☐
2. Are all petty cash funds maintained on an imprest basis, i.e., the total amount of vouchers paid or disbursed, plus cash, always equaling the amount of the fund?	Yes☐ No☐
3. Is adequate review made of documentation before the fund is reimbursed?	Yes☐ No☐
4. Is the petty cash fund reimbursed at least monthly?	Yes☐ No☐
5. Are check cashing and making loans to employees prohibited?	Yes☐ No☐
6. Is the actual petty cash protected from theft or misplacement?	Yes☐ No☐

Investments: Procedures for proper recording and control of all investment instruments will help to assure that all assets and related income are accounted for and properly reported.

1.	Are all investment instruments held in the name of the church only?	Yes☐ No☐
2.	Is authorization for the sale and/or purchase of investments provided for by the Vestry or authorized investment committee?	Yes☐ No☐
3.	Are all investment instruments adequately protected from fire, theft,	Yes☐ No☐

	or misplacement?	
4.	Are the income/dividends/interest recorded?	Yes☐ No☐
5.	Are all investment accounts included in financial reports to the Vestry?	Yes☐ No☐

Property and Equipment: Certain procedures involving the physical assets of the church will aid in detecting, identifying, and preventing losses.

1.	Is formal approval of the Vestry required for all property and equipment additions and dispositions?	Yes☐ No☐
2.	Is a detailed inventory of all property, furniture, fixtures, and equipment maintained showing:	
	a. Date acquired?	Yes☐ No☐
	b. Detailed description?	Yes☐ No☐
	c. Cost or fair market value at time of donation?	Yes☐ No☐
	d. Any funding source restrictions?	Yes☐ No☐
3.	Is a periodic review conducted to compare the actual property, furniture and fixtures, and equipment with the recorded inventory listing?	Yes☐ No☐
4.	Is there a safe deposit box?	Yes☐ No☐
	a. Who is authorized to enter it?	Yes☐ No☐
	b. Is there an inventory of its contents?	Yes☐ No☐
5.	Are permanent records such as articles of incorporation, if applicable, by-laws and real estate deeds kept in a safe place?	Yes☐ No☐
6.	Are they up to date?	Yes☐ No☐

Insurance: Insurance should be maintained that is adequate to protect against all reasonable risks of loss.

1.	Is a detailed inventory of all property, furniture, fixtures, and equipment maintained showing:	
Date acquired?		Yes☐ No☐
	a. Detailed description?	Yes☐ No☐
	b. Cost or fair market value at time of donation?	Yes☐ No☐
	c. Any funding source restrictions?	Yes☐ No☐
2.	Is a periodic review conducted to ensure the adequacy of the insurance coverage for:	Yes☐ No☐
	a. Property?	Yes☐ No☐
	b. Liability?	Yes☐ No☐
	c. Fidelity bond?	Yes☐ No☐
	d. Sexual misconduct?	Yes☐ No☐
	e. Directors' and officers' liability?	Yes☐ No☐
	f. Workers' compensation?	Yes☐ No☐
3.	Is a periodic review conducted to ensure that adequate controls are in place to prevent loss?	Yes☐ No☐

Liabilities and Other Debt: All liabilities and other debt must be clearly reported, and all provisions or restrictions complied with.

1.	Is all borrowing or indebtedness authorized by the Vestry and the appropriate diocesan board or committee?	Yes☐ No☐
2.	Are all loan agreements and/or lease agreements in writing and properly safeguarded?	Yes☐ No☐
3.	Are there periodic reviews conducted to determine compliance with any debt/lease provisions?	Yes☐ No☐
4.	Are all liabilities noted on Financial Reports to Vestry?	Yes☐ No☐

Restricted Gifts and Income: Gifts restricted by donors are not handled in the same manner as other contributions. Procedures are necessary to assure that these gifts are recorded properly and all restrictions observed.

1.	Are records maintained of all bequests, memorials, endowments, or any other restricted gifts to include:	Yes☐ No☐
	a. Date, amount and donor of gift?	Yes☐ No☐
	b. Any restrictions or limitations?	Yes☐ No☐
2.	Does the Vestry or other authoritative body approve all restricted gifts and grants?	Yes☐ No☐
	a. Are the income and other transactions periodically reported to the Vestry?	Yes☐ No☐
	b. Are written acknowledgments issued for whom they are required?	Yes☐ No☐

Payroll: The application of policies and procedures involving the employment of individuals assures compliance with payroll tax reporting to the various governmental entities.

1.	Are personnel files maintained to include:	Yes☐ No☐
	a. Employment application and/or letter of employment?	Yes☐ No☐
	b. Authorizations of pay rates and effective dates?	Yes☐ No☐
	c. Internal Revenue Service Form W-4?	
	d. Department of Justice Form I-9?	
	e. State Withholding Forms?	
	f. New hire reporting?	
2.	Is there a written record of hours worked, approved by a supervisor when applicable?	Yes☐ No☐
3.	Are there adequate records to:	Yes☐ No☐
	a. Show computation of gross pay?	Yes☐ No☐
	b. Account for all deductions from gross pay?	Yes☐ No☐
	c. Support payroll tax returns and Forms W-2?	Yes☐ No☐
4.	Are payroll tax returns filed on a timely basis?	Yes☐ No☐
5.	Are payroll tax deposits made on a timely basis?	Yes☐ No☐
6.	Are all employees, clergy and lay, receiving a Form W-2?	Yes☐ No☐

7.	Are Forms 1099 being provided for all individuals who are not employees, and for all unincorporated entities paid $600 or more annually?	Yes☐ No☐
8.	Are Form W-2 wages reconciled to the general ledger accounts, and all four quarterly payroll tax returns?	Yes☐ No☐
9.	Are clergy housing allowances recorded in the minutes of the Vestry no later than the first meeting of the year?	Yes☐ No☐

<u>Computer Systems</u>: The use of computers creates the need for additional procedures to safeguard the system and data.

1.	Are current or duplicate copies of the operating system and programs maintained off premises?	Yes☐ No☐
2.	Are the files backed up daily and the backups maintained off premises?	Yes☐ No☐
3.	Is access to the computer and computer programs limited to authorized persons?	Yes☐ No☐
4.	Is there adequate documentation, including user manuals, available on-site for all computer programs?	Yes☐ No☐
5.	Is there a plan for data recovery and continuation of operations in the event of a disaster?	Yes☐ No☐

Last update November 2019

CHAPTER III: BOOKKEEPING

CHAPTER CONTENTS

Introduction

The accounting year for all Episcopal congregations and dioceses is January 1 through December 31, according to the Canons of the Episcopal Church, Title I, Canon 7, Section 1(i), found in the Introduction of this manual.

Section A. General Information

1. A double entry bookkeeping system should be used, a method whereby at least two offsetting entries must be made to record a transaction. As a point of reference, these offsetting entries are referred to as a debit and a credit.

2. The double entry bookkeeping system is based on the concept of assets, liabilities, and net assets. Assets are holdings of value, such as cash and investments. Liabilities are claims against holdings of value, such as unpaid bills, outstanding loans, and mortgages on property. Net assets are the difference between the assets and liabilities and represent the net worth. Net assets are increased by income and decreased by expenses.

   Assets are normally posted as debits, liabilities as credits, income as credits, and expenses as debits. A positive balance in the net assets would be a credit.

3. Under ideal circumstances, the books are posted and balanced monthly. A Statement of Financial Position and Statement of Activities should be prepared every month as well. However, in most circumstances a monthly statement of cash receipts and disbursements (with the budget as a comparison) is sufficient for parishes operating on a cash basis, with formal statements created only at year end.

   Note: Cash vs. Accrual Accounting
   With the cash method, income is recorded when payment is received and the cash is in hand. Similarly, expenses are recorded when a check is written and the cash leaves the bank account.

   With the accrual method, income and expenses are recorded when they are obligated to be paid. In other words, if a sale is made, it is recorded as income on the date of the sale, not when payment is in hand. And an expense is recorded the day it is incurred, even if it is not paid until a later date.

   Accounting standards outlined by the Generally Accepted Accounting Principles (GAAP) stipulate the use of accrual accounting for financial reporting, as it provides a clearer picture of a company's overall finances.

4. These accounts may be kept manually (materials may be purchased at any office supply store), or by using a computerized bookkeeping program. Many small and medium-sized parishes use Church Windows or QuickBooks management software.

	Debit	Credit
Assets	xxxx	
Liabilities		xx
Net Assets		xxx
	xxxx	xxxx
Income		x
Expenses	x	

Section B. Basic Record Keeping

1. Bookkeeping for Cash Receipts Journal: The cash receipts journal is used to record cash and checks received, securities, and earned income. Deposits should be made promptly into a general operating checking account, with all checks properly endorsed.

   a. Cash and checks are recorded to the cash receipts journal from a deposit slip, which should be attached to the counting form. The counting form or deposit slip should have the allocation of the deposit noted.

   Debit the cash account and credit the specific income account(s), such as pledges or loose offerings. It is recommended that quarterly statements be furnished to regular contributors.

   b. Earned income, such as interest earned on a checking or savings account, may be recorded in the cash receipts journal. If this is done when statements are received the bank reconciliation may be done without adjustments, provided there are no other errors. This method helps to prevent omitting interest accidentally. A debit to the checking account cash and a corresponding credit to interest income will be all that is necessary to record checking account interest. If the interest is earned on a savings account, a certificate of deposit, or other account, a debit needs to be made in a miscellaneous column noting the particular asset account, and a credit to the corresponding income account. The income account to be posted would comply with the restrictions of the fund. Therefore, if interest were earned on an account restricted for capital expansion, the income would be recorded as income to that account.

   c. Gifts may be offered where the donor has imposed constraints or conditions on the use or purpose of the money. Once the contribution is accepted, there is a legal obligation to honor the donor‘s restrictions. It is important that the congregation maintains a record of each restricted gift that includes:

      1) Date of gift
      2) Exact description and amount of the gift
      3) Nature of restrictions on the use(s) of the gift

   The Vestry should approve the acceptance of any restricted gift and, if it is other than cash, determine the disposition of the gift. Restrictions are legally binding. Donor or court approval is required in order to use the restricted funds for any purpose other than that imposed by the donor at the time of the gift.

Spending restrictions can be avoided at the time of the gift if the donor is made aware of potential problems and reasonable provisions included with the gift that provide for more liberal use. Gift receipt policies should be established in writing by the Vestry and made available to members of the congregation. The current Gift Acceptance Policy adopted by the Society is attached as Appendix 1 to this chapter. Note: As of July 2019, the Society has not taken a position regarding the Acceptance of cryptocurrencies like Bitcoin. The U.S. Department of Treasury has issued guidance on Bitcoin since 2013. The Treasury has defined Bitcoin not as currency, but as a money services business (MSB). No traditional commercial banks in the U.S. currently accept Bitcoins; they trade/transact in government-backed fiat currencies only.

Restricted funds should be segregated in the accounting records so that information is available to demonstrate that fund expenditures have been made in conformity with the restrictions imposed by the donor. All receipts of restricted gifts may be deposited into the general operating bank account and then be recorded in the appropriate sub-account. For gifts having time or purpose restrictions, the gift income plus subsequent earnings less transfers to make expenditures is recorded as net assets with restrictions (see more discussion of net assets in items 1 and 2 of section C).

An Endowment Fund is created when a donor's conditions allow only the earnings from his/her gift to be expended. Such a gift restricts the gift itself (often referred to as the principal) to be held either in perpetuity or for a specified term.

If the principal is restricted, either in perpetuity or for a specified term, the gift income is recorded as Net assets with donor restrictions. (See more discussion of net assets in items 1 and 2 of section C). If the donor imposes no restrictions on the earnings from the gift, then the income generated by the gift less transfers to make expenditures is recorded as Net assets without donor restrictions. If the donor imposes time or purpose restrictions on the endowment earnings, then the income generated by the gift less transfers to make expenditures is recorded as Net assets with donor restrictions.

d. Donated securities are recorded at fair market value at the date of receipt. When received, a letter or receipt must be given to the donor noting the date received, a description of the securities, and the number of shares. If the shares are regularly traded on a national exchange, the securities value may be include. It is recommended that securities be sold immediately upon receipt unless the congregation has in place an investment advisory committee to make those decisions. If the latter is provided, a congregation must follow Title I, Canon 7, Section 1(b). Refer to this Canon which is reproduced in its entirety in the Introduction to this manual.

   At month end total all columns and cross check for accuracy. The journal may be used as a general ledger by adding month-end totals together cumulatively. This may be desirable for efficiency in small congregations. The General Ledger is described in paragraph 5 of this Section.

2. Bookkeeping for Cash Disbursements Journal: The cash disbursements journal is used to record all checks. Checks should be pre-numbered and signed only after being properly completed. Checks should be listed in the journal numerically, noting the date and payee of the check. Voided checks should be recorded in the order of the number pre-assigned to the check, noting the check as "VOIDED". Voided checks should be retained for audit verification and kept with the cancelled checks for the time period indicated in the records retention schedule (see Chapter IX [Records Management], Section D). The signature section may be cut out of the check so that it cannot be used or, alternatively, the check should be manually (or with a stamp) marked "VOID".
   a. Consider using electronic funds transfer (EFT) or wire transfer for all disbursements except for very small expenditures made from petty cash.
   b. Pay only from original invoices or requisitions with appropriate documentation attached, which have been approved by proper authority and checked for accuracy. If the disbursement is for services, obtain a Federal Employer's Identification Number or social security number prior to disbursing the check. Chapter IV (Taxes) describes who should receive Form 1099.
   c. Record the payment in the journal by crediting the checking account cash column and distributing the amount by debit(s) to the proper account(s).
   d. Notations of date paid and check number should be indicated on the original documents or a copy of the check may be attached.

Controls for EFT Payments

More organizations are using EFT payments as part of the accounts payable process. Strong controls are needed to secure sensitive data and to prevent fraudulent transactions.

Vendors

Vendors may shy away from receiving ACH payments with concerns about revealing their bank information. The increased volume of EFT transactions has led to increased data breaches. To prevent data breaches, nonprofit organizations should ensure that their hardware and software have the proper security controls, including:

- Creating and maintaining a secure computer environment
- Reviewing and understanding any software limitations
- Requiring multiple layers of password security
- Controlling the number of authorized users
- Limiting the use of online banking transactions to specific computers
- Encrypting changes to EFT data

Controls Over Processing

Typically, when processing paper checks, there is some type of control in place such that someone outside of accounting approves transactions and someone other than the person directly involved in the accounts payable process reviews the bank statement before it is given to accounting for reconciliation. This process cannot be used for EFT payments. Instead, the following controls are recommended:

- Pre-approved listing of vendors and banking information
- Development of user profiles, which enforce separation of duties
- Multiple approvals should occur before disbursement of funds
- Dollar limitations
- Timely review of exceptions
- Frequent monitoring of cleared banking transactions to catch unauthorized transactions

3. Bookkeeping for Payroll: Bookkeeping for payroll should be done in a separate payroll journal. It is important both that this journal records the proper expenses and liabilities, and that it ties into the quarterly Form 941 and end-of-year Form W-2. When set up properly, it will make the job of reporting much easier.

   a. Columns which should be set up for recording payroll are:

      1) Taxable portion of gross salary (debit to salary expense)

      2) Housing and utility allowance (debit to housing & utility allowance expense)

      3) Social Security and Medicare withholding for lay employees (credit liability)

      4) Federal income tax withholding (credit liability)

      5) State income tax withholding (credit liability), if applicable.

      6) Net check amount (credit to checking account)

      Note: There may be a need for other columns if the employee has tax deferred annuities, loans, or other deductions, or if travel allowance is paid without a reimbursable plan, or if there are other taxable benefits.

   b. A column may be set up to record the congregation's portion of Social Security and Medicare as expenses, or the expenses may be recorded when tax payments are made, which include Social Security and Medicare.

   c. Individual payroll records should be maintained for each employee. These should be checked periodically by month and quarter and annually to make sure they agree with the payroll journal.

   Note: Payroll tax reporting instructions and examples are found in Chapter IV (Taxes). Alternatively, payroll functions can easily be outsourced; many dioceses offer the service to their parishes.

4. Miscellaneous Journal Entries: A general journal is used to enter any other entry that is not accommodated by one of the above journals. These may include adjustments to accounts, depreciation if used, recording the closing entries at year end, and interest, if it is not recorded through the receipts journal.

   a. A columnar form may be used with space for the date and description, account numbers, a debit and credit column and entry number. Record the date of each entry in the first column. In the description space, write the name of the account, which will be debited first. On the next line, indent slightly and record the name of the credit account. Then indent on the next line and write a clear, concise statement explaining why the journal entry is made. These entries are recorded individually.

b. Post each individual entry to the general ledger in the month that is selected in the date column. It is helpful to place a small check mark against each entry when it is posted from the general journal to the general ledger.
c. A general journal file should be maintained containing supporting documentation for each entry.

An example of a general journal entry is:

Entry	Date	Description	Account	Dr	Cr
J/E 1	12/01/xx	Operating Cash Account	1001	$ 12.01	
		Interest Income	4001		$ 12.01
To record earned checking account interest.					

5. The General Ledger: The General Ledger is a summary account book of all the accounts set up individually. It is divided into five sections: Assets, Liabilities, Net Assets, Income and Expenses.
   a. At the end of each month the totals in each journal are posted to the various accounts in the general ledger.
   b. At year end the revenue and expenditures are "closed" to the Net Assets. Revenue is posted as a debit in each revenue account and as a credit in the appropriate Net Asset account. Expenses are posted as a credit in each expense account and as a debit to the appropriate Net Asset account. Year-end closing will leave all revenue and expense accounts with a zero balance. The Net Assets are adjusted to reflect the new financial position at year end.

6. Bookkeeping for Petty Cash: Establish a fixed or imprest amount sufficient to meet necessary minor expenses such as freight delivered COD, postage, etc. for a period of not more than thirty days.
   a. Cash and receipts for expenditures should always equal the total amount of the petty cash fund.
   b. Replenish the fund by check for expenditures.
   c. Allocate the check in the disbursement journal based on the use of the funds (e.g., natural classification such as postage, supplies, etc.).
   d. The petty cash fund should not be used for cashing checks.
   e. Advances or borrowing should never be done through the petty cash fund.
   f. The petty cash fund should be replenished at least monthly. This will help establish how much cash should be held on hand.
   g. The money should be kept in a locked cabinet or safe, and a sole custodian for the fund should be appointed.

7. Transfer of Funds: It is necessary at times to transfer sums from the general operating checking account to special accounts. All money, as it is received, should be deposited in the general operating checking account. If it is appropriate to transfer the funds to a special account, a check should be written (or an EFT authorized) and the funds transferred from the general operating checking account to the proper checking or investment account. These may include savings accounts, payroll accounts, special designated or restricted accounts, and trust or endowment accounts.

   a. Interfund transfers: Generally, interfund transfers are used to fund expenditures by transferring cash from one fund to another. For example, money collected for the discretionary fund and deposited in the general operating checking account is transferred to the discretionary account. Transfers such as this appear on the Statement of Activities as interfund transfers.

   b. Interfund loans: Funds may be transferred to another fund in the form of a loan. One example might be temporarily loaning operating income to a building fund during the period that building fund pledges are being collected, while the construction is in progress and invoices must be paid timely. Borrowing from restricted funds must be done with extreme caution so that all restrictions are observed. These transfers appear on the Statement of Financial Position as interfund receivables and interfund payables.

8. Subsidiary Ledgers: Subsidiary ledgers are individual records which maintain details that are necessary to segregate receivables and payables or to help the treasurer clarify the details of restricted funds. An example of a subsidiary ledger is one in which memorial gifts may be recorded. Record these transactions as follows:

   a. Record the receipt of the funds, noting the date received, by whom, in memory of whom, and the amount received.
   b. When the funds are used, note the date used, check number, and which restricted fund was spent.
   c. The total of subsidiary accounts should equal the total of the specific fund in the general ledger account.

9. Bookkeeping for Investments: Proper investment and accounting of funds is important in the management of all funds.

   a. Savings and certificates of deposit should be reported as a separate line item in the asset section of the Statement of Financial Position, usually as cash, or short-term assets, depending on the original maturity date.
   b. Account numbers of each savings account and the balances should be maintained on the books.
   c. Certificate of deposit account numbers, rates of interest, and renewal date information should be maintained for each certificate of deposit.
   d. Investments in securities should be recorded at cost when purchased or at market value on date of receipt, if donated. Adjustments to market value should be made at least annually, recording a gain or loss in the general journal.
   e. Securities should be deposited with a custodian bank or broker or kept in a safe deposit box, and a notation of the date received, number of shares, cost value, and description of the security should be maintained in a subsidiary ledger.

10. Loans (Receivable and Payable): It is necessary at times for congregations to loan or borrow money. This should be done only with full knowledge of the effects on cash flow, interest costs (long and short-range), and a total plan for collection or repayment. All loans should be evidenced by a written note and approved by the Vestry and recorded in the Vestry minutes.

    a. Funds loaned are set up as a note receivable and should be reported as a separate line item under assets on the Statement of Financial Position. If a loan is made, it should be made only by check, never from loose offerings or from the petty cash fund. (Research state laws before making any loan to an employee or an officer of the congregation, as it may be prohibited or limited.) Any advances are considered loans until repaid or supported by proper documentation. If an employee receives a "no-interest" loan, federal tax law requires that interest be imputed (calculated), the interest be included as income to the employee and reported to the Internal Revenue Service. Check state laws regarding the method of reporting this income to a specific state.

    b. Funds borrowed are set up as a note or mortgage payable and should be reported as a separate line item under liabilities on the Statement of Financial Position. The note should be recorded at the date of receipt of the funds. Interest paid on all loans is considered an expense and the principal portion reduces the liability. Before any property is encumbered, permission must be obtained from the Standing Committee and the Bishop of the Diocese. Please consult Diocesan Canons and State Law in this regard.

11. Discretionary Funds: Refer to Chapter V (Discretionary Funds).

12. Furniture, Fixtures and Equipment: Normally, small purchase items of furniture, fixtures, and equipment are expensed. Purchases of items for an amount, such as $1,500 or more, should be recorded as an asset if the item has a lifetime expectancy of three or more years. A separate subsidiary ledger should be maintained as a property inventory file, and a physical inventory should be taken yearly and differences reconciled. If an item is removed or loses its use or value, it should be removed from the inventory and the asset account should be reduced. The net asset value reduction would be recorded as a debit to an expense account. This should be done through the general journal.

13. Land and Buildings:
    a. Land is recorded at cost, plus all expenses included in the closing costs. Any major improvements, such as ditching, emplacement of sewer lines, etc., should be recorded as a land expense.
    b. Buildings are recorded at cost plus all expenses adhering to them, such as construction interest and closing costs.
    c. Major improvements to land or buildings may be added to the original cost, or a separate account may be set up called "major improvements to land or buildings."
    d. If land or buildings are donated, the amount recorded is the fair market value at date of receipt of the property.

14. Depreciation: US Generally Accepted Accounting Principles requires an organization to record depreciation expense. If depreciation is not recorded, the Certified Public Accountant will assess the impact on the financial statements and appropriately modify their opinion.

When depreciation is used by a congregation, two accounts should be established as follows:

Account Title	**Type of Account**	**Explanation**
Accumulated Depreciation	Statement of Financial Position	Credited for each year's depreciation. Accumulated depreciation recorded over the years on assets still owned.
Depreciation Expense	Statement of Activity	Debited for current year's depreciation expense.

The straight-line depreciation method is recommended. Under this method the annual depreciation expense for a particular asset is determined by dividing the cost of the asset by the estimated useful life of the asset. For example:

Asset:	Computer
Cost:	$7,500
Useful Life:	5 years
Annual Depreciation Expense	$1,500

It is also recommended that the Vestry establish an asset capitalization and depreciation policy. It is important that the Vestry establish designated funds set aside for major future repairs and replacement needs for all capital items.

15. Conditional/Unconditional Pledges (Promises to give): The Statement of Financial Accounting Standards (SFAS) Numbers 116 and 117 relate how non-governmental nonprofits account for contributions and how they present their financial statements. SFAS 117 sets requirements on reporting pledges based on Conditional Pledges and Unconditional Pledges. Following SFAS 117 requires major changes in the present church reporting standards. The changes might, in all probability, cause confusion and would not add any significant benefit to the financial statements. This Manual recommends that churches report pledge receipts as received and adjust the year-end books to reflect a receivable for any pledges expected to be received in the forthcoming year. In the case of Capital Fund Receipts from a large fund-raising campaign, it may be preferable and important to follow the guidelines for Unconditional Pledges.

    Individual promises should be evaluated based on the ability and likelihood of the donor to honor the promise. High-volume pledges generated through a broad-based appeal may be evaluated as a whole based on historical or statistical data. Multiple year pledges should be recognized in the year the pledge is made and valued at the present value of the estimated future cash flows.

    The following are brief definitions of Conditional and Unconditional Pledges for information purposes.

    a. Conditional Pledges depend on the occurrence of some specified uncertain event, such as a matching requirement. Conditions refer to events that must occur before a pledge becomes binding on the one making the pledge. Conditional pledges are not recorded until the condition is substantially met, at which time they become unconditional.
    b. Unconditional Pledges are considered contributions, provided sufficient evidence exists that a promise was made and received. Unconditional pledges must be recorded in the

period when verifiable evidence exists that the promise was made and received. It further suggests that these pledges be discounted to present value, less an allowance for uncollectible amounts.

16. Month-End Closing:
    a. Total all journals.
    b. Total individual payroll records and check that they all total to the payroll journal totals.
    c. Reconcile the checking account(s). The best way to do this is to follow the instructions on the back of any bank statement. To check off current month checks and deposits, check against the receipts and disbursements journal. This will catch any posting errors that may have occurred between the check register and the journals. Any corrections may be done directly to the journals or through the general journal. Any outstanding check (a check written and disbursed but has not cleared the bank) of over three months should be investigated. Any check outstanding for six months or more should be voided.
    d. If a general ledger is used, verify that the balances in all accounts (checking, savings, investment), receivables, and payables correspond to the reconciled checking account and the detailed listings of outstanding receivables and payables.

17. End of Quarter: Total monthly payroll for the current quarterly reports. Complete quarterly payroll reports, comparing amounts with journals and individual ledgers to verify accuracy. File quarterly reports with appropriate taxing authorities.

18. Year End:
    a. Total the quarterly payroll totals. Complete Forms W-2 and W-3. Verify that all amounts on the individual ledgers and payroll journals correspond to the Form W-3. File year-end reports with appropriate taxing authorities.
    b. Total all cumulative totals in journals if the journals are used as the general ledger.
    c. If a general ledger is used, close out all revenue and expense accounts to appropriate Net Asset account. This will leave zero balances in the income and expense accounts. Verify that all checking, savings, investment accounts, receivables, and payables correspond to the actual balances in the subsidiary accounts and outstanding invoices uncollected or unpaid at the year end.

19. Financial Statements: Financial statements consist of the Statement of Financial Position, Statement of Activities, Statement of Functional Expenses, and the Statement of Cash Flows. At a minimum, a Statement of Financial Position and a Statement of Activities should be prepared monthly.
    a. The Statement of Financial Position should be a comparative statement. The comparison is with the same date of the prior year. The statement consists of assets (current and long-term), liabilities (current and long-term), and Net Assets with restrictions and Net Assets without restrictions. Net Assets are Assets less Liabilities.
    b. The Statement of Activities should show, at a minimum, a comparison of budget to actual activity to date. It is recommended that at year end the statement should report on actual activity for the current year compared with the budget and with the actual activity for the prior year.
    c. The Statement of Cash Flows should be prepared at least once per year, at year end.

d. The financial statement should include notes. Short, clear, and concise notes should be used to clarify information contained in the financial statements.
e. Statements should be provided, presented, and explained at all Vestry meetings.
f. Full disclosure of all funds of the organization is a must. This includes other organizations operating under the congregation's authority, such as discretionary funds and the Episcopal Church Women.

20. Acceptable Accounting Methods for Congregations:
    a. Cash Accounting: Revenue is reported when it is received and expenses are reported when paid. In this method, for example, pledge income would be recorded on the books when each pledge payment is made.
    b. Accrual Accounting: Revenue is reported when earned and expenses are reported in the period for which they are incurred (e.g., a telephone invoice is received in December for November expenses, thus the expense would be reported in November). In this method, the full amount of a parishioner's annual pledge would be recorded at the beginning of the year, with the offsetting entry to Accounts Receivable. As payments come in on a weekly or monthly basis, the pledge's receivable balance would be lowered as cash is applied.
    c. Modified Accrual Accounting: Revenue and expenses are reported either using the cash method or the accrual method. However, expenses are reported frequently using the accrual method and income is reported using the cash method. It is recommended that, for churches using the cash method during the year, the financial statement be adjusted to accrual or modified accrual at yearend.

Section C. Net Asset Reporting

Net Assets are reported in two specific categories: net assets without donor restrictions and net assets with donor restrictions. There may be sub-categories under each of these items to clarify the statements.

Net assets with restrictions include:
1. Funds restricted by the donor in perpetuity, which cannot be altered by the congregation. These would commonly be endowment funds; and
2. Funds that contain donor-imposed restrictions that are satisfied by time or some action of the congregation, which might include:
    a. Income earned on permanently restricted endowments;
    b. Donations given for a certain purpose, such as donations solicited to pay for a youth group mission trip; and
    c. Term endowments, which may be expended at such time as a specific event takes place, such as the construction of a chapel funded from a donated endowment with the restriction that the funds be expended for the construction of a chapel.

Net Assets without restrictions are by definition any net assets which do not contain permanent or temporary restrictions. They may be categorized on the statements for clarification as follows:
1. Undesignated Funds consist of funds that are fully expendable and have no donor-imposed constraints regarding their use or purpose. However, they may have administratively imposed constraints.

2. Designated Funds consist of funds upon which a Vestry or other governing board has imposed constraints regarding their use or purpose. Since a Vestry or other governing board may, at its discretion, modify or remove the constraints, these funds are not legally restricted. A common example would be a reserve for major repairs.
   a. Furniture, Equipment, Land, and Buildings are usually Net assets without restrictions. However, to avoid confusion and to clarify the statements, they may be listed as a separate category under Net assets without restrictions.

1. Basic Bookkeeping for Restricted Net Assets:

   To record the receipt of restricted funds:

   - In Operating Fund: **Debit** Operating Cash Account
     Credit Due to Restricted Fund

   - In Restricted Fund: **Debit** Due from Operating Fund
     Credit Contributions Received

   To record the transfer from operating fund to restricted funds:

   - In Operating Fund: **Debit** Due to Restricted Fund
     Credit Operating Cash Account

   - In Restricted Fund: **Debit** Restricted Cash Account
     Credit Due from Operating Fund

   The principal amounts may be placed in a common or pooled investment account with other restricted funds. If the funds are pooled, the income should be allocated to each of the separate funds to assure compliance with all restrictions. If the funds are relatively large, separate bank accounts for each fund may provide easier accounting. All investment income should be recorded to the appropriate net asset.

   To record investment income:

   - In Restricted Fund: **Debit** Cash Account
     Credit Investment Income

   If the principal or income from restricted or designated funds is used for expenditures that would otherwise be considered operating expenses, the expense should be included in the operating budget and the funding should be shown as a transfer to the operating fund from the restricted or designated fund.

2. Reporting in Financial Statements: Restricted gifts may be combined for presentation purposes in the financial statements under a separate Restricted Fund caption.

   If the financial statements are presented in a combined format in a single statement, the restricted balances and accounts should be clearly segregated and identified as restricted. They should not be combined with other funds, accounts or balances.

Section D. Financial Report Examples

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

Accounts	Annual Budget	Budget To Date	Actual To Date	Over/ Under
Revenue:				
Operating Income:				
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	1,200	600	55	545)
Total Operating Income	$177088	$88,544	$90,539	$1,995
Non-Operating Revenue:				
Net realized gains on investments	$1,290	$645	$933	$288
Restricted gifts not for operations	2,810	1,405	864	(541)
Capital fund receipts	50,000	25,000	24,300	(700)
Total Non-Operating Revenue	$54,100	$27,050	$26,097	$953)
Total Revenue	$231,188	$115,594	$116,636	$1,042
Expenses:				
Operating Expenses:				
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	$185,369	$92,684	$91,628	$1,056
Net Operating Totals	$ (8,280)	$ -0-	$(1,089)	$ 939
(operating income in excess of operating expenses)				
Non-Operating Expenses:				
Capital purchases	$48,100	-0-	$8,436	(8,436)
Depreciation expense	6,000	-0-	-0-	-0-
Total Non-Operating Expenses	$54,100	-0-	$8,436	$(8,436)
Total Expenses	$239,468	$92,684	$100,064	$(7,380)
Net Totals	$ (8,280)	$22,910	$ 16,572	$ (6,338)

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:		
Net assets without donor restrictions	$715,138	$686,870
Net assets with donor restrictions	166,392	162,470
Total Net Assets	$881,530	$849,340
Total Liabilities and Net Assets	$941,660	$929,270

SAMPLE YEAR END FORMAT
A STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, [CURRENT YEAR]

Changes in net assets without restrictions:	
Revenues and gains:	
Contributions	$ 116,070
Rental income	5,400
Income on long term investments	5,600
Other investment income	850
Net realized and unrealized gains on long term investments	8,228
Other	150
Total unrestricted revenues and gains without restrictions	$ 136,298
Net assets released from restrictions:	
Satisfaction of program restrictions	$ 13,490
Expiration of time restrictions	1,250
Total net assets released from restrictions	$ 14,740
Total revenues, gains and other support without restrictions	$151,038
Expenses and losses:	
Program A: Outreach	$ 13,100
Program B: Christian Education	8,540
Program C: Preschool	5,760
Management and general	92,420
Fund raising	2,150
Total expenses	$121,970
Fire loss	800
Total expenses and losses	$122,770
Increase in Net Assets without restrictions	$ 28,268
Changes in temporarily restricted net assets:	
Contributions	$ 8,110
Income on long term investments	2,580
Net unrealized and realized gains on long term investments	2,952
Net assets released from restrictions	(14,740)
Decrease in temporarily restricted assets	$ (1,098)
Changes in permanently restricted net assets:	
Contributions	$ 280
Income on long term investments	120
Net realized and unrealized gains on long term investments	4,620
Increase in Net assets with restrictions	$ 5,020
Increase in net assets	$ 32,190
Net assets at beginning of year	849,340
Net assets at end of year	$ 881,530

SAMPLE YEAR END FORMAT B
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, [CURRENT YEAR]

	Net Assets without Restrictions	Net Assets with Restrictions	Total
Revenues, gains, and other support:			
Contributions	$ 116,070	$ 8,390	$124,460
Rental income	5,400	-	5,400
Income on long-term investments	5,600	2,700	8,300
Other investment income	850	-	850
Net unrealized and realized gains on		-	
long-term investments	8,228	7,572	15,800
Other	150	-	150
Net assets released from restrictions:		-	
Satisfaction of program restrictions	13,490	(13,490)	0
Expiration of time restrictions	1,250	(1,250)	0
Total revenues, gains, and other support	$ 151,038	$ 3,922	$154,960
Expenses and losses:			
Program A – Outreach	$ 13,100	$ -	$13,100
Program B – Christian Education	8,540	-	8,540
Program C – Preschool	5,760	-	5,760
Management and general	92,420	-	92,420
Fund raising	2,150	-	2,150
Total expenses	$ 121,970	$ -	$121,970
		-	
Fire loss	800	-	800
Total expenses and losses	$ 122,770	$ -	$122,770
Change in net assets	28,268	3,922	32,190
Net assets at beginning of year	686,870	162,470	849,340
Net assets at end of year	$ 715,138	$ 166,392	$881,530

Sample Year End Format
Statement of Cash Flows
for Year Ended December 31, [current year]

Cash flows from operating activities:		
Change in net assets		$32,190
Adjustments to reconcile change in net assets		
To net cash provided by operating activities:		
Depreciation		$3,200
Fire loss		800
Increase in accounts and interest receivable		(460)
Decrease is prepaid expenses		390
Increase in contributions receivable		(3,250)
Decrease in accounts payable		(7,930)
Decrease in refundable advance		(650)
Decrease in grants payable		(425)
Contributions restricted for long-term investment		(2,740)
Interest and dividends restricted for long-term investment		(300)
Net unrealized and realized gains on long-term investments		(15,800)
Net cash used by operating activities		$ 5,025
Cash flows from investing activities:		
Insurance proceeds from fire loss on building		$7,550
Purchase of equipment		(1,500)
Proceeds from sale of investments		76,100
Purchase of investments		(74,900)
Net cash provided by investing activities		$7,250
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment		$ 200
Investment in term endowment		70
Investment in plant		1,210
Net cash provided by restricted contributions		$ 1,480
Other financing activities:		
Interest and dividends restricted for reinvestment		$ 300
Payments on notes payable		(1,155)
Payments on long-term debt		(10,000)
Net cash used by other financial activities		(10,855)
Net cash used by financing activities		$(9,375)
Net increase in cash and cash equivalents		$ 2,900
Cash and cash equivalents at beginning of year		4,600
Cash and cash equivalent at end of year		$ 7,500
Supplemental data:		
Noncash investing and financing and financing activities:		
Gifts of equipment	$140	
Gift of paid-up life insurance, cash surrender value	80	
Interest paid	382	

Section E. The Chart of Accounts

In developing a chart of accounts, provision must be made for each fund that has its own assets, liabilities, net assets, support and revenue and expense accounts. The chart of accounts must integrate these separate funds into an account structure that facilitates bookkeeping procedures and preparation of financial statements and the Parochial Report.

Congregations with an existing, working chart of accounts do not need to change their system if it serves the church's purposes.

Some dioceses may mandate a specific chart of accounts. Each congregation should take into account the information that will be needed to file the annual financial statements and the Parochial Report. The following chart of accounts will help in accumulating those data.

The Chart of Accounts is designed to:

- Maintain uniformity of classification of transactions from year to year and from congregation to congregation;
- Facilitate the preparation of the financial statements on a uniform basis; and
- Provide a tie-in between the accounting records and the Parochial Report.

The chart of accounts is also a useful tool in the budget process. An example for a numbering scheme follows.

Digits denoting major categories might be:

1	Assets
2	Liabilities
3	Net Assets
4	Income or Revenue Accounts
5	Expense Accounts

The next step would add subcategories. Usually asset and liability accounts are ordered according to liquidity. An example would be as follows:

Assets (1)

Petty Cash	101
Checking Account	102
Savings Account	103
Accounts Receivable	104
Short Term Investments	105
Long Term Investments	110
Furniture	120
Equipment	121
Building	125
Accumulated Depreciation	126
Land	130

Liabilities (2)

Accounts Payable	201
Payroll Taxes Payable	202
Current Notes Payable	205
Long Term Notes Payable	210

Net Assets would use the numbering as set up for presentation in the financial statement. Using the examples previously shown for this manual would follow:

Net Assets (3)

Without restrictions	
Undesignated	301
Designated	305
Furniture, Land, Buildings	310
With restrictions	320

Income should be set up in as much detail as needed. Remember, by grouping breakdowns based on the financial reports and Parochial Reports, reporting will be made easier.

Revenue and Gains (4)

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

Expenses (5)

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

Non-operating Expenses:

Capital Purchases	530
Depreciation Expense	535

The income and expenses can be broken up into as much detail as needed. Simply add two or more numbers following the major category number.

By adding a number in front of the main categories, the chart of accounts can be set up for separate funds (using Cash as an example):

	Operations	*Custodian Funds*	*Conference Center*	*Book Store*
Petty Cash	1101	2101	3101	4101
Checking	1102	2102	3102	4102
Savings	1103	2103	3103	4103

It is important to remember that these are just examples. The chart of accounts should be a useful tool that is designed to enhance the bookkeeping function and make the work of coding and categorizing easier. It should be developed to work with computer programs. Beware of making so many categories that the general ledger printout carries more detail than is necessary.

Special Notes

Manual Systems: In manual systems, simplicity is usually best. The more complicated the chart of accounts, the greater the chance of error and more time will be required to post and prepare reports.

Computer Systems: Take the time to develop a good chart of accounts. Read the manual carefully to understand how the account structure works. Review the section of the manual on printing reports to understand how the chart of accounts design will enhance or limit your reporting capability.

Create a chart of accounts first by listing each account by name and then assigning account numbers leaving plenty of room for future expansion. Instead of 420, 421, 422, …, use 420, 425, 440. This will make 5 to 10 account numbers available between each number currently in use.

Pre-designed chart of accounts: Many computer software packages come with a pre-designed chart of accounts. Often these will suffice for a congregation, especially if one operating account and few special items are used. If a congregation‘s financial situation is more complex, it will usually be better served over the long term by developing a chart of accounts specific to its needs.

Changing the chart of accounts: Many computer systems will allow comparisons between current year data with previous year(s) actual history. Most software packages lose this capability when chart of accounts numbers are changed. Carefully weigh the advantages of changing account numbers against the disadvantages of not having the prior history easily available when changing the chart of accounts.

Creative reporting: Some churches report to vestries based on the operational structure of the church. For example, if the church is operating on a Ministry System or Program System, you may want to design your chart of accounts differently from the example shown above to allow the Vestry or program groups to receive reports that fit their needs. Please allow for the eventual reporting required on the Parochial Report. This is important to both the diocese and churchwide.

Appendix 1

Domestic & Foreign Missionary Society
Gift Acceptance Policies

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

I. Purpose of Policies and Guidelines

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

II. Use of Legal Counsel

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

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

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

III. Restrictions on Gifts

The Society may accept gifts without restrictions, and gifts for specific programs and purposes, provided such gifts are not inconsistent with its stated mission, purposes, and priorities. The Society will not accept gifts that are overly restrictive in purpose. Gifts that are overly restrictive are those that violate the terms of the Society's charter, gifts that are too difficult to administer, or gifts that are for purposes outside the mission of the Society. The Chief Operating Officer, in conjunction with legal counsel, is responsible for implementing these policies. The Society will review its Gift Acceptance Policy annually.

IV. Types of Gifts

A. The following gifts are acceptable:

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

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

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

1. **Cash**: Cash is acceptable in any form. Checks shall be made payable to the Domestic & Foreign Missionary Society and shall be delivered to P.O. Box 12074, Newark, NJ 07101.

2. **Securities**: The Society can accept both publicly traded securities and closely held securities.

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

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

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

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

3. **Tangible Personal Property**: These gifts include artwork, jewelry, cars, boats, and any other personal property item owned by a donor. These gifts will rarely be accepted and, if they are ever considered for acceptance by the Society, they shall be examined in light of the following criteria:

    - Does the property fulfill the mission of the Society?
    - Is the property marketable?
    - Are there any undue restrictions on the use, display, or sale of the property?
    - Are there any carrying costs for the property?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

V. Changes to Gift Acceptance Policies

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

CHAPTER IV: TAXES AND THE EPISCOPAL CHURCH

CHAPTER CONTENTS

Introduction

Timely and accurate compliance with all applicable Federal and State tax laws is an essential element of sound management of church finances. Federal and State governments have increased pressure on all governmental units to increase revenues through intensified application of existing tax laws to all types of organizations, including churches.

All churches should be particularly attentive to three areas of taxation:

- Payroll taxes and related reporting
- Unrelated Business Income Taxes
- Treatment of cash and non-cash contributions received in connection with certain types of fundraising events

Officers and directors of an organization, including wardens and Vestry, can be held personally liable for unpaid payroll taxes.

Penalties are levied against those who fail to file, fail to pay, are late in filing or paying, or understate any tax reported on a return. In addition, interest is charged on any unpaid balance from the date the tax return was due to the date of payment.

Section A. Payroll Taxes

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

1. Behavioral control: does the employer direct where and when the provider can work; what tools he may use; or does the provider supply his own tools?
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-type benefits provided; is the relationship expected to continue indefinitely; is the provider’s service a key aspect of the employer’s regular business?

The Internal Revenue Service uses the 20 Common Law factors, established in Revenue Ruling

87-41, as a guideline when determining if sufficient control is present to establish an employer-employee relationship. While not all factors need to be "met," the more factors established in favor of classifying a worker as an independent contractor, the stronger the position for treating them as such. The factors are:

1. *Instructions:* A person who is required to comply with instructions about when, where and how to work is ordinarily an employee.
2. *Training:* The training of a person, by an experienced employee or by other means, is a factor of control indicating that the worker is an employee.
3. *Integration:* Integration of a person's services into the business operations generally shows that the person is subject to direction and control and accordingly is an employee.
4. *Services rendered personally:* If services must be rendered personally by the individual employed, it suggests an employer-employee relationship. Self-employed status is indicated when an individual has the right to hire a substitute without the employer's knowledge.
5. *Hiring, supervising, and paying assistants:* Hiring, supervising, and paying assistants by the employer generally indicates that all workers on the job are employees. Self-employed persons generally hire, supervise, and pay their own assistants.
6. *Continuing relationship:* The existence of a continuing relationship between an individual and the organization for which the individual performs services indicates an employer-employee relationship.
7. *Set hours of work:* Establishing set hours of work by the employer is indicates control and accordingly the existence of an employer-employee relationship. Self-employed persons are "masters of their own time."
8. *Full time required:* If the worker must devote full time to the business of the employer, he/she ordinarily will be an employee. A self-employed person, on the other hand, may choose for whom and when to work.
9. *Doing work on employer's premises:* Doing the work on the employer's premises may indicate that the worker is an employee, especially if the work could be done elsewhere.
10. *Order or sequence of work:* If a worker must perform services in an order or sequence set by the organization which he/she serves, this indicates that the worker is an employee.
11. *Oral or written reports:* A requirement that workers submit regular oral or written reports to the employer is indicative of an employer-employee relationship.
12. *Payment by hour, week or month:* An employee usually is paid by the hour, week, or month, whereas a self-employed person usually is paid by the job on a lump sum basis, although the lump sum may be paid in intervals.
13. *Payment of business expenses:* Payment by the employer of the worker's business or travel expenses suggests that the worker is an employee. Self-employed persons usually are paid on a job basis and take care of their own business and travel expenses.
14. *Furnishing of tools and materials:* The furnishing of tools and materials by the employer indicates an employer-employee relationship. Self-employed persons ordinarily provide their own tools and materials.
15. *Significant investment:* The furnishing of all necessary facilities (equipment and premises) by the employer suggests that the worker is an employee.
16. *Realization of profit or loss:* Workers who are in a position to realize a profit or suffer a loss as a result of their services generally are self-employed, while employees ordinarily are not in such a position.
17. *Working for more than one firm at a time:* A person who works for a number of persons or

organizations at the same time is usually self-employed.

18. *Making services available to the general public:* Workers who make their services available to the general public are usually self-employed. Individuals ordinarily hold their services out to the public by having their own offices and assistants, hanging out a "shingle" in front of their office, holding a business license, and by advertising in newspapers, telephone directories, and electronic media.
19. *Right to discharge:* The right to discharge is an important factor, which indicates the person possessing the right is an employer. Self-employed persons ordinarily cannot be fired as long as they produce results that measure up to contract specifications.
20. *Right to terminate:* An employee ordinarily has the right to end a relationship with an employer at any time he or she wishes without incurring liability. A self-employed person usually agrees to complete a specific job and is responsible for its satisfactory completion or is legally obligated to compensate for failure to complete the job.

The following persons are normally considered to be employees:

- Rectors, vicars, and their assistants;
- Interim clergy and regularly employed supply clergy who consistently work at the same congregation; and
- Secretaries, sextons, directors of Christian education, childcare providers who are not volunteers (including teenagers), yard maintenance workers (including the teenagers who cut the lawn regularly), the organist and choir director, and all others to whom a fee is paid for their services and who are controlled by the Church.

Churches should be careful to issue or timely file the following documents:

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

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

Special Instructions for Reporting Clergy Compensation

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

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

- Salary, excluding housing and utility allowance
- Honoraria
- Bonuses
- "Love offerings," even if there is a special offering to provide the income
- Retirement gifts when 1) any of the funds were provided by the church or 2) the gift has been given as a tax-deductible contribution by the donor(s). If the recipient is still considered an employee, it should be included on the Form W-2; otherwise a Form 1099 should be provided.
- Personal use of a church-provided car (leased or owned by the congregation) usually must be reported on the Form W-2 as income. There are several methods of including such income as compensation (see Internal Revenue Service publications).
- Amounts received for weddings and funerals
- An amount to cover the clergy self-employment taxes paid either directly to the clergy or reported and paid as income tax withheld
- Transfers of property by the church to an employee, such as automobiles, homes, furniture, etc., based on the fair market value, less any amount paid by the employee
- Travel and expense allowances for which an "accountable plan" is not provided to the employer; reference Section B of this chapter
- Moving expenses reimbursed to the employee are to be included in Form W-2 as taxable wages (subject to withholding and Social Security and Medicare taxes if for a lay employee).

Clergy compensation attributable to housing and utility expenses (parsonage allowance) as declared by the clergy (in conjunction with the Church) may be excluded from taxable income, but are included in earnings for self-employment tax. Clergy should complete housing and utility allowance resolutions prior to the start of the calendar year. Refer to Appendix A for sample housing allowance resolutions and forms for estimating housing allowance. The Vestry shall designate and record the housing and utility allowance in its Minutes before the clergy receives a paycheck in any year.

Housing and utility allowances are not reported on the Form 941 or the Form W-2. A memo of the amounts excluded for housing and utilities may be noted in the memo notation box of Form W-2 (box 14) or in other appropriate boxes.

Clergy may elect to have Federal income tax withheld. If the cleric is the only employee and does not choose to have tax withheld, a Form 941 and a Form W-2 must still be completed and submitted noting taxable wages and other income.

If a clergy person is participating in a tax deferred annuity plan, taxable gross wages are reduced by the amount of the contribution to the tax-deferred annuity. An authorization signed by the employee is required.

<u>Special Instructions for Reporting Lay Employee Compensation</u>

Lay employees are classified as employees for both income tax and Social Security tax purposes.

Lay employees are not eligible to designate a portion of their compensation for housing and utility allowance. Withholding is required from lay employees' pay for federal and state income taxes and for Social Security and Medicare taxes.

If a lay employee is participating in a tax-deferred annuity plan, the taxable gross wages for Federal income taxes are reduced by the amount of the contribution to the tax-deferred annuity. However, gross wages subject to Social Security and Medicare taxes are not reduced. The employee must sign an authorization for the deduction from wages.

Churches are not subject to the Federal Unemployment Tax Act but may be subject to state unemployment laws.

Special Instructions for Reporting Non-Employee Income

IRS regulations require that "every person engaged in a trade or business" shall issue a Form 1099 for each calendar year with respect to payments made during the calendar year in the course of the trade or business to another person. Churches are considered to be in trade or business by the IRS for purposes of issuing a Form 1099.

The following individuals must receive a Form 1099 or Form 1099-NEC:

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

The following exceptions may be applicable for compensation reporting:

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

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

A congregation is responsible for obtaining the person's or company's Federal Employer Identification Number. This may be in the form of a Federal Employer Identification Number or an individual Social Security number. If a person refuses to provide an identification number, back-up withholding in the amount of 28% must be taken and reported on the Form 941

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

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

Section B. Travel and Business Expense Reporting

Amounts received by an employee under an "accountable plan" are not required to be included as compensation on Form W-2. An accountable plan must meet three criteria:

1. There must be a business connection for the expenses;
2. The expenses must be substantiated in writing to the employer within a reasonable period of time not to exceed 60 days after expenses are incurred; and
3. The employee must return amounts in excess of the substantiated expenses within a reasonable period not to exceed 120 days after expenses are paid or incurred. An accountable plan should be in writing and adopted by the governing body.

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

- Reimbursement at no more than the standard mileage rate established by the Internal Revenue Service for business mileage (excluding personal and commuting miles). Tolls and parking fees are additional to the mileage rate. In lieu of the standard mileage rate, actual automobile expenses allocated to actual business miles driven can be claimed. (Note: Since the 1980s, the IRS charitable mileage rate has remained unchanged at 14 cents per mile. If a parish reimburses its volunteers at more than 14 cents per mile, any excess reimbursement that exceeds $600 annually must be reported through an IRS Form 1099 as taxable income to the volunteer. In 2019, this would be necessary when the volunteer is reimbursed for more than

1,369 miles: IRS business allowance is $0.58 minus charitable allowance of $0.14 equals an excess reimbursement of $0.44; $0.44 times 1,369 miles equals $601. The $1 excess is reportable taxable income.);

- Reimbursement of travel reasonable and customary expenses away from home to conduct work or business. Examples are transportation fares, meals and lodging, cleaning and laundry expenses, and telephone. Deductions may be limited if the travel is extravagant, part of a vacation, or for travel outside the United States. Original supporting documentation is required for expenditures of $75 or more. United States government per diem rates may apply in some instances for meals and lodging;
- Business gifts (up to but not exceeding $25.00 per person); education expenses (if required by the employer or by law or regulation to maintain a salary, status, or job, or to maintain or improve the skills necessary to one's present work);
- Business expenses directly reimbursed for subscriptions and books related to the job; clothing that cannot take the place of ordinary clothing; business calls made on personal phones; professional memberships; licenses; and dues;
- Cell phones – recent legislation and IRS guidance has eliminated the need to quantify the amount of personal usage of cell phones provided by the Church or payment for cell phone service. Personal usage is now deemed de minimis as long as the Church has a policy stating that the provision of cell phones and/or payment of cell phone service fees are primarily for business purposes and it is expected that personal usage is minimal.
- Original documentation should be provided to the employer to support all expenses claimed by the employee. (The IRS exempts amounts below $75, but most employers use a lower limit.)

Unsubstantiated business expenses paid to an employee in a "non-accountable plan" must be included on Form W-2 as wages paid to an employee. These wages are subject to Federal withholding and Social Security and Medicare tax withholding if paid to non-clergy employees and to clergy, who choose to have Federal income tax withheld.

Per Diem amounts in excess of Internal Revenue Service approved per diem rates must be included on the Form W-2.

Section C. Tax-Exempt Status

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

Exemption from Federal taxes does not extend to exemption from state sales taxes. Congregations may be subject to sales and/or use tax on purchases and may be required to report to their states.

Regardless of whether they are covered under a group or individual exemption, all dioceses, congregations, and institutions of the Episcopal Church must have their own Employer Identification Number. (Use IRS Form SS-4 "Application for Employer Identification Number.)

Contributions made in the name of the church and its affiliated and subordinate units are deductible in the manner and to the extent provided by Section 170 of the Code.

The notification of a granting of tax-exempt status was addressed to The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America on March 23, 1942. It was routinely confirmed on June 3, 1971.

The Episcopal Church is listed twice in the "Cumulative List of Organizations" Publication 78 ("the List") in Section 170(c) of the Internal Revenue Code. Reference the List as revised to September, 1996, as follows:

> **DOMESTIC AND FOREIGN MISSIONARY SOCIETY OF THE PROTESTANT EPISCOPAL CHURCH IN THE UNITED STATES OF AMERICA, NEW YORK, NEW YORK, PAGE 610.**
>
> **EPISCOPAL CHURCHES AND DIOCESES IN THE UNITED STATES AND INSTITUTIONS THEREOF, NEW YORK, NEW YORK, CODE 1, PAGE 685.**

Reference to the listing of the Society in the foregoing manner should help to establish the deductibility of individual gifts to particular dioceses and parishes, although the Internal Revenue Service may take the position that inclusion on the list does not necessarily establish such deductibility.

Charitable contributions: Charitable contributions generally must satisfy the following six requirements to be deductible by the donor:

1. A gift of cash or property (*the value of services is not, unless provided by a professional who also includes that amount in their reported business income*);
2. Claimed as a deduction in the year in which the contribution is made (the date delivered or the postmark date on a contribution which is mailed are the controlling factors, not the date written on a check);
3. The contribution is unconditional and without personal benefit to the donor. As a general rule, tax deductible contributions may not be restricted by the donor to be used for specific individuals, regardless of the person's great need. The donor may suggest a preference, but control resides with the tax-exempt organization;
4. The contribution is made to or for the use of a qualified charity;
5. The contribution is within the allowable legal limit; and
6. The contribution is properly substantiated.

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

For gifts of property valued at $500 or more, a donor must submit a Form 8283, and, for property valued at more than $5,000, a donor must obtain a qualified appraisal of the property and attach an appraisal summary to the tax return on which the contribution is claimed. If the property is sold within a three-year period, the recipient of the donation must submit an information return, Form 8282 to the IRS.

Section D. Unrelated Business Income Tax (UBIT)

Income earned by a church from activities that are unrelated to its exempt purpose may be considered taxable income. The following factors determine Unrelated Business Income:

- The organization must be engaged in a trade or business
- The trade or business must be regularly conducted
- The conduct of the trade or business must not be substantially related to the organization's exempt purpose or function.

Income derived from unrelated business activities used by a church for its operations is recognized as unrelated business income subject to tax and reporting, unless the income is derived from:

- An activity where substantially all work is performed without compensation (e.g., a church bookstore which sells other than religious books, substantially run by volunteers);
- A trade or business carried on for the convenience of the students or members of another 501(c)(3) organization;
- The sale of merchandise received as gifts or contributions;
- A trade or business that consists of conducting qualified bingo games;
- The exchange or rental of member lists between exempt organizations to which deductible contributions can be made; and
- The distribution of low-cost articles incidental to the solicitation of charitable contributions for exempt organizations to which deductible contributions can be made.

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

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

1. Dividends, interest and annuities;
2. Payments with respect to securities loan;
3. Royalties;
   Rents from real property, unless more than 50 percent of the rent is attributable to personal property (i.e., furnishings and equipment leased with it); or where services are also provided (i.e., event coordination, catering, technical services);
4. Rents from personal property leased with real property if they are an incidental amount, but not exceeding 10 percent of the total rents from all property leased;
5. Gains or losses on the sale or exchange of property.

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

The Tax Revision of 2018 now requires a tax-exempt organization to add back as UBIT certain fringe benefits it either subsidizes for its employees or for which it allows those employees to set aside pre-tax dollars to pay. A parish must report in line 34 of its IRS Form 990-T any amount that it provides in:

- Free or subsidized parking that is not included as taxable compensation to employees
- Pre-tax deferrals of wages for purposes of parking
- Pre-tax deferrals of wages for commuter passes
- Any other subsidized transportation benefit

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

Section E: Jeopardizing Tax-Exempt Status and Intermediate Sanctions

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

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

In 1996, the Taxpayer Bill of Rights 2 added section 4958 to the Internal Revenue Code. Prior to section 4958, if a transaction with an exempt organization resulted in private inurement or private benefit, the only option available to the Service was to revoke the organization's exemption. Section 4958 adds "intermediate sanctions" as an alternative, allowing the IRS to impose penalties (i.e., excise taxes) on persons who improperly benefit from transactions with an exempt organization. Intermediate sanctions penalize the person(s) who benefit from an improper transaction, rather than the organization.

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

Automatic Excess Benefit transactions – even if compensation is considered “reasonable”, if it is not reported correctly for tax purposes, it may be considered an automatic violation of the Intermediate Sanctions rules and become subject to correction and taxes. An example of this is if the Church pays for the companion of a disqualified person to travel when no clear business purpose is established and does not treat it as taxable wages for the employee.

Penalties for excess benefit payments include:

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

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

Last update November 2019

CHAPTER V: CLERGY DISCRETIONARY FUNDS

CHAPTER CONTENTS

Introduction

These guidelines are for clergy, dioceses, congregations, institutions, those with authority over church funds, donors of monies to be distributed by clergy for charitable uses. The guidelines provide information and direction in the structure and use of restricted or designated funds, generally known as "clergy discretionary funds." These are funds owned by a church entity (typically a parish or a diocese) that may be distributed at the sole discretion of an individual (typically a parish rector or diocesan bishop) rather than that of a governing body (e.g., a vestry or diocesan council). This Chapter discusses funds distributed at the discretion of parish rectors, but the guidelines also apply to funds distributed at the discretion of other clergy, including bishops, serving in other church capacities, as well as funds established for discretionary disbursement by laity serving the Church.

The existence and use of clergy discretionary funds in The Episcopal Church largely rest on Church Canon, III.9.6(b)(6), regarding "almoner's funds," as well as a long tradition implementing this canon in our congregations. The canon, originally adopted in 1814, provides as follows:

> "The Alms and Contributions, not otherwise specifically designated, at the Administration of the Holy Communion on one Sunday in each calendar month, and other offerings for the poor, shall be deposited with the Rector or Priest-in-Charge or with such Church officer as the Rector or Priest-in-Charge shall appoint to be applied to such pious and charitable uses as the Rector or Priest-in-Charge shall determine. When a Parish is without a Rector or Priest-in-Charge, the Vestry shall designate a member of the Parish to fulfill this function."

Section A. Sources of Funds

1. The canon quoted above is generally interpreted to require that on one Sunday a month, when the Eucharist is celebrated at the parish's principal service or services, the "loose offering" – that is, gifts exclusive of payments toward a member's annual pledge – be designated for the rector's discretionary fund, primarily for the aid of the needy. Other church entities (such as dioceses) may also establish discretionary funds, although not required to do so by canon.

2. Because the loose offering is often insufficient for the discretionary fund, many vestries set aside a monthly or annual budgeted amount for the rector's discretionary fund in addition to the traditional source or as a substitute for it. Some parishes have trusts the income of which has been designated for the discretionary fund. Parishioners, visitors, friends of the rector, and others traditionally have made contributions to the rector's discretionary fund, sometimes in significantly larger amounts than those contributed by the vestry. In some congregations the vestry follows a policy of designating fees or gifts received in connection with weddings, funerals, and baptisms for the discretionary fund of the clergy person performing those services.

Section B. Uses of the Funds

1. The "alms" canon quoted above provides that gifts and "other offerings for the poor" collected in the parish are to be "applied to such pious and charitable uses as the Rector or Priest-in-Charge shall determine." Therefore, it is generally recognized that the rector's discretionary fund is to be used for aid to the poor and other purposes that the rector considers "pious and charitable," uses that are consistent with the Church's mission. It is clear that the scope of permissible uses under the canon generally lies within the sound discretion of the rector.

2. The canon does indicate some limitations on the rector's discretion. Since the alms are donated to the parish (the manner of holding the funds is discussed below), and the intended uses are to be "pious and charitable," the funds may not be used as if they were individual or personal gifts to the rector. Thus, it would be improper for the rector to apply the funds for his or her personal use and benefit, that is, uses that are not intended to carry out the mission of the Church. Using the funds for personal or family clothing, entertainment, or basic living expenses is not appropriate, whereas those same uses, when intended to benefit needy persons within or without the parish, are wholly appropriate.

3. Gray areas include payments by the rector to institutions or causes that are charitable in nature but also inure to the benefit of the rector in some way. For example, a donation to the rector's school or college may be considered inappropriate if there would otherwise be little or no reason for the parish to favor such an institution; donations to the rector's seminary, on the other hand, may be

regarded as appropriate if they are understood to be parish gifts in which the rector has joined.

4. To avoid potential confusion and criticism, the rector should inform the vestry when gifts are made from the discretionary fund about which there could be any question, particularly gifts to institutions as opposed to gifts to private individuals, where pastoral sensitivity warrants confidentiality.

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

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

Section C. Accounting/Recordkeeping

1. All deposit accounts for clergy discretionary funds should be approved by the vestry and be opened using the congregation's Federal Employer Identification Number. The bank accounts should be in the name of the parish and not that of the rector or another individual member of the clergy. Discretionary funds are subject to audit and are included in financial reports following standard accounting procedures. Discretionary funds should remain with the parish when the clergy departs.

2. There are two common practices for the administration of discretionary funds. All gifts received may be deposited in the congregation's general operating account , with disbursements made by checks drawn on the general operating account upon written request of the rector or other authorized clergy orlay person. Or, the vestry may approve the use of a separate checking account for the rector's discretionary fund.

3. The rector or other person authorized to make payments from the fund will maintain confidentiality over expenditures made to assist named individuals in a manner determined and jointly agreed to by the rector or other authorized person and the vestry.

4. Clergy disbursing monies from a discretionary fund should keep detailed records, including receipts, regarding each disbursement. Those detailed records should be reviewed annually with a trusted individual, perhaps an accountant conducting the audit. Otherwise, the clergy person should report regularly to the vestry regarding disbursements from the fund, describing in general terms how the funds have been used while protecting the names of the recipients.

5. Monthly bank statements for a separate checking account should be mailed directly to a person of trust other than the rector or other member of the clergy authorized to make disbursements. Normally, this is the Treasurer of the parish, but the vestry may direct that another person, such as the senior warden, receive the statements.

6. The person receiving the statements for a separate checking account should verify that all payments from the general account of the parish have been deposited into the account; review all checks to payees and who endorsed them, as well as the purposes noted in the check register or on the cancelled checks; reconcile the checking account; and review all back-up invoices and/or letters. This individual should state in writing on the monthly statement that all verifications were made and, finally, file the bank statements with the other financial records of the parish. Discretionary funds are "temporarily restricted" funds of the parish and are subject to audit even if they are kept in a separate checking account.

7. Checks should be written to a vendor, such as a utility company or landlord, rather than to individuals receiving assistance. Clergy commonly arrange with drug stores, gas stations, grocery stores, etc. for people to make purchases with clergy approval, Checks from the discretionary fund are written directly to the vendor upon receipt of bills. Cash disbursements should only be made for small amounts or in an emergency where a check cannot meet the needs.

8. Following these procedures provides trustworthy accounting for and stewardship of church funds and protect responsible persons from suspicion and mistrust. Thus, clear records of deposits and expenditures are essential. Parishes and other entities with discretionary funds might consider adopting a written policy addressing the points set out in this Chapter.

Section D. Tax Consequences

1. Gifts for a properly established discretionary fund are generally deductible from federal and state taxation by donors as charitable contributions .

2. Contributions made to the discretionary fund for the direct benefit of a named individual ("pass through" gifts) are generally not deductible charitable contributions and should not be accepted.

3. When discretionary funds are used to provide a gift to an employee, the value of the gift may need to be reported on the individual's W-2 form.

4. Any payments from the discretionary fund to the rector for personal, rather than charitable, purposes as discussed above will likely be treated as taxable income to the rector.

Last udpate November 2019

Chapter VI: Audit Guidelines for Congregations

Chapter contents

Introduction

a. *Purpose:* These audit guidelines are to assist auditors in performing the annual audit of the financial statements of congregations of The Episcopal Church (TEC).

b. *Reasons for an Audit:* Annual audits are required by the Canons of TEC for all parishes, missions, and other institutions. The primary purpose of an audit is to assure that financial statements are fairly stated. Any person handling the monies or investments of the church needs an audit to protect the church assets and his/herself against suspicion of mishandling those assets. Similarly, rectors, vestries, vicars, bishops' committees, treasurers, and other persons holding positions of fiduciary responsibility may be liable for any losses, which would have been discovered by an ordinary audit but were not discovered because of failure to have an audit conducted.

   In addition, an announcement to the congregation that a completed audit reveals that all monies and investments are properly accounted for will have a positive impact on stewardship.

c. *Pre-Audit Advice:* When meeting with the auditors, be prepared to discuss plans and objectives. Auditors are in the position to advise and serve one's interest when they understand the goals that have been set and when expectations of their services are clearly explained.

   Keeping good records saves money by helping the auditor avoid using professional time for routine work, such as gathering information.

   Keep the auditor informed of changes and new directions in the congregation.

   The treasurer and others, such as Vestry members, rectors, and staff, should be available to the auditor to provide any needed information.

   A copy of the *Manual of Business Methods in Church Affairs* should be made available to the auditors.

d. *Approved Auditors:* The Canons permit the auditing of congregational accounts by "an independent Certified Public Accountant or by such committee as shall be authorized by the Finance Committee, Department of Finance, or other appropriate diocesan authority." This is an alternative to a full financial statement audit; regulations may vary among dioceses, however.

   Certified Public Accountant: Very often the complexity and/or size of congregations necessitate an independent examination and reporting on their financial statements.

   1) Certified Public Accountants offer several levels of service. These include the audit, the compilation, and the review. Refer to the Glossary of this manual for definition of these terms. Neither a review nor a compilation is acceptable in place of an audit of a parish, mission, or other institution of the church.

   2) Certified Public Accountants engaged in public accounting are available to all who wish to engage them for independent accounting skills. These skills consist primarily of the design and installation of financial systems, audits, investigations and reports based on audits, advice on management and financial policies, and tax return

preparation.

3) Certified Public Accountants have met the statutory requirements of a state or other political subdivision of the United States as to age, education, residence, moral character, and expertise, and have passed a uniform examination administered by the appropriate regulatory authority.
4) Certified Public Accountants are permitted to advertise their services. This should be helpful in a search. Generally, when people do not know an accountant in the community, they will ask friends for a recommendation. Businesspersons, especially those in the not-for-profit field, can be helpful in finding an accountant with expertise in the not-for-profit sector. Lawyers and bankers can be of assistance as well.
5) Fees are based on time charges. Moreover, fees vary with the level of experience of those required to perform the work. The prevailing cost of conducting a practice in the community will affect professional audit fees. Fees also vary based upon the time of year the audit work is performed.

e. *The Alternative Committee Examination:* While the Canons permit an alternative audit by committee where approved by a diocesan authority, audits completed by CPAs or LPAs are preferred. To accommodate parishes with limited income, some dioceses have authorized Alternative Audit Procedures. These Audit Guidelines were specially prepared for audit by committees. The Audit made by an audit committee will be termed a Committee Examination. The Auditor's Opinion Letter of an Audit Committee will be termed an Audit Committee Certificate. The Auditor's Comments on Internal Control will be termed Audit Committee Findings on Policies and Procedures.

Audit committee members should be independent of the decision making and financial record keeping functions of the congregation. The members of the audit committee should include at least one financial expert.

A typical audit committee has three members. The actual number of members should be determined by the size and scope of the audit.

6. *Scope of the Committee Examination:* The scope of the audit shall include:
   a. Sufficient tests of transactions to assure compliance with these guidelines and adequate control of the assets of each congregation.
   b. Verification (or preparation) of financial statements in the form approved for TEC as set forth in this manual. Refer to Chapter III (Bookkeeping).
   c. A review of management control practices using the Internal Control Questionnaire found in Chapter II (Internal Controls).
7. *Statements to be Audited:* All accounts must be subject to audit. The audit requirement covers not only the operating accounts of the organization, but also all of its restricted, endowment, and property funds, and the accounts, if any, of its affiliated organizations. No church money is exempt from the requirements of an audit. If a separate auditor has audited an account of a separate treasurer, the report should be included in the consolidated financial statements.

8. *Objectives of the Audit:* The major objectives of an audit of a congregation's financial statements are to ascertain the following:

a. That the financial statements for the year were prepared from the financial records and present fairly the financial position and changes in net assets and cash flows of the congregation.
b. That the various transactions during the year are proper and are documented appropriately (i.e., authorized, appropriate church purposes, complete and accurate);
c. That the various transactions during the year are recorded in the proper amounts and in the proper accounts and that there were no "off the books" accounts or activity;
d. That the assets, liabilities, income and expenses, which should be in the financial records, are shown in the proper amounts and accounts;
e. That, to the extent feasible, adequate internal control procedures were and continue to be in effect; and

9. *Timing of the Audit:* The Canons call for a church fiscal (i.e., financial) year ending on December 31 of any given year. The engagement of the auditor should be done prior to the end of the period being examined. This timing allows the auditor to include certain audit procedures that can only be performed at year-end.

10. *Contents of the Audit Report:* The Audit Report shall consist of:

    a. The Report of the Independent Auditor (or Audit Committee Certificate in the case of a Committee Examination);
    b. The Statement of Financial Position;
    c. The Statement of Activities;
    d. The Statement of Functional Expenses;
    e. The Statement of Cash Flows;
    f. Footnotes to the Financial Statements;
    g. Audit Program Checklist;
    h. The Audit Committee Findings on Policies and Procedures; and
    i. A corrected parochial report as a result of audit adjustments, if applicable.

11. *Filing of the Audit*:

    a. Prior to actual delivery of the audit report, the Vestry should issue a letter to the auditor stating that all records have been made available for audit and there are no funds omitted.

    b. Upon completion, the Audit Committee shall present the audit report to the Treasurer, Rector, and Wardens.

    c. Any findings and recommendations should be presented in the Audit Committee Findings on Policies and Procedures, not in the Audit Committee Certificate. These items will be discussed with the Treasurer and/or others responsible and within 30 days their written response, attached to the audit report, is presented to the Vestry.

    d. The Vestry receives the audit report upon completion.

    e. A copy of the audit report should be filed with the Bishop or Ecclesiastical Authority not later than 30 days following its completion and never later than September 1 of each year, covering the financial reports of the previous calendar year. The minutes of the Vestry will officially record the receipt, acceptance, and subsequent filing of the audit report with the Ecclesiastical Authority.

f. If, at any time during the audit, the records suggest that something is seriously wrong, the matter should be brought immediately to the attention of someone of superior authority, including the Vestry and the appropriate diocesan authority.

Section A. Audit Program Checklist

Please copy this section for Audit Committee use. Instructions for the Audit Program may be found in Section D.

1. *General Information:*

Congregation	
Street Address	
Mailing Address	
City, State, Zip	
Rector/Vicar/ Priest in Charge	
Senior Warden	
Junior Warden	
Treasurer	
Other	
Financial Records Maintained by	
Location of Financial Records	
Location of Audit	
Commencing	
Audit Committee	

2. *Pre-Audit Meeting:* Date ______________________

Attended by:

Name	Title

	Pre-Audit Discussion	Yes	No	N/A
a.	Objectives and scope of audit discussed?			
b.	Time Schedule arranged?			
c.	Reimbursement for out of pocket expenses discussed?			
d.	Availability of workspace established?			
e.	Availability of required records established?			
f.	Availability of *Manual of Business Methods in Church Affairs determined?*			
g.	Assistance of staff requirements established?			
h.	Engagement letter setting forth agreements between Vestry and Audit Committee discussed?			

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

4.	*Cash, Wires, EFTs*	Yes	No	N/A
a.	Is the petty cash fund imprest?			
b.	Is the checking account(s) reconciled to the accounting records and checkbook, using unopened year-end bank statement(s) or an independently received bank confirmation?			
c.	Have paid checks been examined for authorized signatures?			
d.	Have paid checks been examined for endorsements?			
e.	Have the checks been compared to the disbursements journal for payees and amounts?			
f.	Have all voided checks been accounted for?			
g.	Has the subsequent January statement been reviewed?			
h.	Are disbursements supported by vouchers approved by authorized party other than check signer?			

i.	Are two signatures required on large checks (e.g., for $500 or more)?			
j.	Is the bank notified immediately of all changes to authorized check signers?			
k.	Are cash journal totals tested for accuracy?			
l.	Are receipt records compared with bank deposits for the full year?			
m.	Are all transfers between accounts traced?			
n.	Does an authorized party other than a check-signer approve journal entries, and are they adequately documented?			
o.	Are all checking accounts (including discretionary funds and Episcopal Church Women) in the name of the congregation using its Federal Employer Identification Number?			

5.	*Pledges and Other Gifts:*	Yes	No	N/A
a.	Do the records of total receipts per individual pledge agree with the amounts recorded and reported in the cash receipts journal?			
b.	Have the postings and arithmetic on individual pledge records been tested?			
c.	Number of individual pledge records sampled:			
d.	Are records from separate gift systems reconciled to the general ledger on a periodic basis?			
e.	Is there budgeting of contributions that can be reasonably estimated?			
f.	Are contribution budgets periodically compared to actual, and are significant differences investigated?			
g.	Are records kept and periodically reviewed of gifts, such as bequests, which are contingent on future events?			
h.	Are future bequest and gift files, such as proceeds from life insurance policies or sale of property willed to a congregation, maintained on a current basis?			
i.	Are files kept on life income, endowment, and annuity gifts, including information on the nature of the principal, investment of the principal, or use of the principal income, as well as correspondence with donors or beneficiaries, and copies of pertinent documents?			
j.	Are individuals designated to be responsible for assuring compliance with the terms and conditions of all grants, restricted contributions, endowments, etc. received?			

6.	Securities	Yes	No	N/A
a.	Is the securities list verified against subsidiary ledger accounts, validating serial numbers against purchase records of gifts?			
b.	Is the name verified in which securities are registered?			
c.	In the case of coupon bonds, are unmatured coupons intact?			
d.	Is the market value of securities established at the date of the examination?			
e.	Are securities examined or confirmed if held by depository or transfer agent?			
f.	Are brokers reports examined for securities bought or sold through broker?			
g.	Were security purchases or sales authorized by appropriate Vestry action and recorded in the minutes?			
h.	Have cash receipts records of dividends and interest been compared with records of securities held?			
i.	Have all manager statements been received and reconciled to the general ledger?			
j.	Have audited financial statements of alternative investments been received / evaluated?			
k.	Have future capital commitments been tracked periodically and reconciled to the subscription agreement?			
l.	Has the portfolio been reviewed to ensure it is in line with the approved investment allocation policy?			

7.	*Trust and Endowment funds:*	Yes	No	N/A
a.	Has a list of trust and endowment funds been obtained, including their terms and locations of the investments?			
b.	Has there been an examination of the deed of trust or agency agreement for each trust and endowment fund?			
c.	Have the agency accounting records been checked to determine whether or not the terms of the trust or endowment funds are being properly followed?			

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

9.	Liabilities: Payroll Taxes	Yes	No	N/A
a.	Have total wages been reconciled with quarterly Federal Form 941, Form W-2, and Form W-3 and other required forms?			
b.	Have total withholding taxes been reconciled with Form 941 and other required forms?			
c.	Has it been determined that all Federal, State and local withholding taxes were remitted on a timely basis to avoid hidden penalties?			
d.	Is a current, signed Form W-4, I-9 or other required forms on hand for each employee?			
e.	Has a housing resolution been included in the Vestry minutes for each cleric employed by the congregation?			

10.	*Other Indebtedness:*	Yes	No	N/A
a.	Have appropriate church officials properly authorized all indebtedness?			
b.	Have unpaid balances per church records been reconciled with balances as reported by creditor?			
c.	Is a detailed schedule of all loans prepared, including name of creditor, date of origin, original amount of debt, collateral (if any), interest rate payment schedule, monthly payment, unpaid balance, loan purpose, and authorizing body?			

11.	*Payables*	Yes	No	N/A
a.	Have payments made subsequent to the end of the year been investigated for items which should have been included as an expense and account payable in the audit year?			
b.	Have inquiries been made as to any unpaid items from the audit year that should have been included as a payable?			
c.	Have inquiries been made as to any paid items from the audit year that should not have been expensed but recorded as a prepaid item?			

12.	*Other*	Yes	No	N/A
a.	Has insurance coverage been reviewed, and has a copy of policies been obtained and a schedule prepared detailing name of carrier, description of coverage, period covered, premium amount, and date of premium payment?			
b.	Has there been inquiry as to whether there are any contingencies or commitments facing the church, e.g., legal action with prospects of potential loss?			
c.	Is there a policy covering the procedure for write-offs of receivables or loans, approval required, provision for reserves?			
d.	Is there a process in place for ongoing review of the budget?			

Section B. Sample Audit Committee Certificate

Date ___________________

*To the Rector, Wardens and Vestry of (*Church Name; Church Address; City and Zip)
Subject: (*Audit Year*) Audit of (*Church Name*)

We have inspected the statement of financial position of (*Church Name*) as of December 31, (*Audit Year*), and the related statement of activities and cash flows for the year then ended. Our inspection was made in accordance with the audit guidelines of the *Manual of Business Methods in Church Affairs*, and the financial statements are prepared on a (cash, modified accrual, or accrual – *accrual being the preferred method*) basis in accordance with principles adopted by The Episcopal Church and approved by its General Convention except as noted. (*Note exceptions here, if any: e.g., was depreciation recognized?*)

We have taken steps to see that the accompanying financial statements present fairly, in all material respects, except as noted above, the financial position of the Congregation at December 31, (*Audit Year*); and that the changes in its net assets and its cash flows for the year then ended are in accordance with the principles authorized by General Convention of The Episcopal Church on a basis consistent with that of the preceding year.

Our inspection and certificate are not meant to be construed as an audit and opinion rendered by a Certified Public Accountant.

Sincerely, Members of the Audit Committee (*List names and phone numbers of Audit Committee Members and have each member sign the Audit Committee Certificate*)

Section C. Sample Audit Committee Findings on Policies and Procedures

Date ________________

To the Rector, Wardens and Vestry of (*Church Name*)
Subject: (*Audit Year*) Audit of (*Church Name*)

During the course of the above inspection, the following items pertaining to internal control and other operation matters were noted. The first group includes areas of management control where prior year auditor recommendations have been implemented; the second group includes comments and recommendations of current year auditors.

Areas where prior year auditors recommendations have been implemented:

Comments and recommendations of current year auditors:

Members of the Audit Committee (*List names and addresses of Audit Committee Members and have each member sign the Audit Committee Certificate*)

Section D. Instructions for the Audit Program

1. *General:* The following procedures merely act to determine the appropriateness of the financial statements presented. An audit is a series of procedures to test, on a predetermined selective basis, the various transactions occurring in the year under examination. It is unrealistic to examine every transaction for the year. Therefore, certain tests are necessary to verify the reasonableness of all transactions.

2. *Pre-Audit Needs:*

   a. Obtain a preliminary understanding of the accounting systems (both manual and computer) that generate significant financial statement items and of related principal internal accounting controls.
   b. Obtain copies of the minutes of the Vestry meetings for the period under examination. This should include the minutes of any committee authorized to receive and disburse monies. Read the minutes regarding the election of officers, compensation of personnel, bonding of the treasurer, budget approvals, contracts entered into, items purchased, monies borrowed, purchase and sale of securities, resolution confirming clergy housing allowance for tax purposes, etc. This should be done before the actual examination of any accounting records. You may need to see the minutes of the previous year if they contain authorizations for expenditures in the year being audited.
   c. Obtain a copy of the previous audit complete with the Committee Examination Findings on Policies and Procedures. This provides a firm set of starting balances which may differ from the Treasurer's reports. It will also offer the chance to check on the progress of corrections of management control deficiencies, an important part of the teaching process.
   d. Obtain a copy of the annual financial statements as prepared and presented by the treasurer.
   e. Review the procedures being used to account for church monies. Identify by name and position the individuals with responsibility for financial operations and decisions and verify with them that all the funds of the congregation are included in the statements.
   f. Identify all bank accounts and authorized check and withdrawal signers, including those under separate treasurers.
   g. Request that all accounting records of all funds be presented together including:

      1) Chart of Accounts and Organization Chart
      2) General Ledger
      3) Cash Receipts Journals
      4) Cash Disbursements Journals
      5) Bank Statements including canceled checks
      6) Paid Invoices
      7) Individual payroll records including Forms W-4 and I-9
      8) Passbooks and evidence of other investments
      9) Pledge Records by individual and total

h. Meet with members of the Finance Committee to discuss the annual financial statements. Inquire about the occurrence during the year of any significant matters of which the auditor should be informed. Also, inquire about significant variances noted on the financial statements.
i. Request a location in which to perform the audit. The audit can be more thoroughly and efficiently performed if it is conducted where the records are located.

3. *Receipts:*

a. Plate offerings: Cash receipts journal entries should be traced to weekly cash receipts records on a test basis.

b. Pledge receipts:

Pledge receipts should be verified by tracing cash receipt entries to individual pledge records on a test basis. A minimum of 10% of postings should be traced. Results will indicate if a broader sampling is necessary.

Random selection of individual pledge records should be tested for accurate total and balance. A minimum of ten percent should include the same individuals as above.

If the auditor is engaged before yearend and if the church sends statements to the pledgors, the auditor can save time and effort by supervising the mailing of the yearend statements. The auditor can then use this mailing to obtain direct confirmation.

The auditors should always review the pledge receipts of the congregation personnel involved in money transactions.

The decision regarding the size of the representative sample of postings and pledge records for examination depends on the dollars involved and the sophistication of the parish records.

c. Contributions from congregation organizations: Receipts must be listed separately for each organization and amounts entered in the cash receipts journal, traced to the weekly cash receipts records. These listed amounts shall be confirmed with their sources.

d. Contributions from the Diocese: Receipts must be listed and amounts entered in the cash receipts journal, traced to weekly cash receipts records.

e. Investment and endowment income: Income from securities should be verified by an examination of the brokerage house statement. Income from investment accounts should be verified by an examination of the statements provided or confirmed by the trustee or agency. Income from savings bank deposits should be confirmed by the bank.

f. Restricted income: Income received for special purposes should be noted by the auditor, who should trace the cash receipts journal entries to the weekly cash receipts records. The auditor should also be satisfied that the income was used for the purpose for which the gift was made.

g. Non-income receipts: Verify all cash receipts journal entries by tracing them and ascertaining that the proper authorization has been given for any transfer or inter-fund borrowing, or for the sale or redemption of any investments or property.

h. All cash receipts records should be traced to duplicate deposit slips or bank statements to ascertain that these receipts are deposited intact.

i. Petty cash: The auditor should be satisfied that a proper imprest system is being maintained. Petty cash is not to be used to cash personal checks. Cash flow and size of fund over audit period should be checked for possible misuse.

j. All receipts should be compared to budgeted amounts and material variances should be explained.

k. Contributions of tangible assets or services. Refer to Chapter III (Bookkeeping) for discussion and proper treatment of these contributions.

l. Verify the totals in the cash receipts records for two to three months. Check postings of monthly totals to the general ledger or to the monthly financial statements.

4. *Disbursements:*

a. Tests are to be made to satisfy that disbursements have been accurately classified, and that invoices supporting the disbursements have been properly approved and canceled or marked "PAID."

b. The committee must be familiar with the financial statement expenditure categories listed on the congregation's chart of accounts.

c. All disbursements should be compared to budgeted amounts and material variances should be explained.

d. Testing of Disbursements: Select a sample of disbursements. Results will indicate if a broader sampling is necessary. Test the disbursements to invoices as follows:

1) Compare invoices with the recordings in the cash disbursements journal for a sufficient number of items to assure the committee that they are fairly recorded and classified. Comparison should include vendor's name, date and amount billed.
2) Examine invoices for verification signature that the items were received or services performed for a sufficient number of items so the committee may be satisfied that goods and services were acknowledged by a person authorized to do so.
3) Check the arithmetic on invoices and vendors' monthly statements for a sufficient number of items to assure the committee that invoiced amounts were properly recorded on the statements.
4) Travel and business expense reimbursements should be checked to see that they are in accordance with the qualified reimbursement policy of the congregation. Reference Chapter IV (Taxes) for discussion of a qualified reimbursement policy.

e. Verify the totals of the cash disbursements records for two to three months. Check postings of monthly totals to the general ledger or to the monthly financial statements.

5. *Bank Accounts:*

a. The committee should ascertain the number of bank accounts maintained and the purpose for which each is maintained.

b. The committee should examine the canceled checks for:

1) Authorized signature(s)
2) Proper endorsement
3) Comparison with the cash disbursements journal for proper recording of payee and amount. If fewer than ten checks are written each month then all items should be examined.

c. The auditor should account for all voided checks.

d. Outstanding checks from the previous period should be examined to determine proper bank clearing and amount. Any check outstanding for a period longer than three months from the balance sheet date should be questioned for satisfactory explanation.

e. The auditor should verify bank balances at the end of the period being audited and should check that the closing cash amount is correctly stated.

Examine the January bank statement following the close of the audit year for items impacting the audit year.

f. Determine whether transfer of funds occurred between bank accounts near the date of the Statement of Financial Position. Determine that the transfers were recorded in the books in the same accounting period and that any transfers not recorded by the bank in the same accounting period appear in the appropriate bank reconciliation.

6. *Investments:*

a. Obtain or prepare a list of securities owned showing:

1) The description of each security
2) The serial number of bonds or securities
3) The denomination of each security or its par value
4) The interest rate of each bond
5) The cost of each security and the amount recorded on the books
6) The interest and dividends received during the year
7) The market value of each bond or security as of December 31 of the year being audited

b. Review the investment summary for reasonableness, consistency of amounts between years and obvious omissions.

c. Compare the securities listed with ledger accounts and/or with the statement. Whenever practicable, serial numbers should be compared with records of security purchases or gifts in order to obtain positive identification and to avoid the possibility of substitution.

d. Examine securities listed or obtain confirmation from the holders if any are held by depositories. It is preferable for this examination to occur as close to the examination date as possible. Ensure that the securities are registered in the name of the congregation or are endorsed appropriately to be transferable to the congregation. Examine the coupons on bonds to ascertain that unmatured coupons are intact.

e. Examine all transactions for verification of acquisitions and disposition.

f. Trace acquisitions to disbursement records and sales (dispositions) to receipts records.

g. Examine broker statements and compare with investment ledger where applicable.

h. The auditor should be satisfied that the securities are being adequately safeguarded.

i. Examine securities for ownership, certificate number, dates, endorsements, assignments, etc.

j. Verify any income that has not yet been distributed.

k. Determine, by reference to dates of purchase and disposal of investment, interest rates and published dividend records, whether income earned and accrued income receivable have been appropriately recorded.

7. *Restricted Funds*:

a. Obtain or prepare a list of restricted funds showing:

1) The source and date;
2) Terms governing the use of principal and income;
3) To whom and how often reports of condition are to be made; and
4) How the funds are to be invested.

b. Examine the donor letter, or trust or agency agreement, for each new gift and contribution received during the fiscal year.

8. *Loans:*

a. Obtain or prepare a schedule of all loans to include:

1) The name of the lending institution
2) The date of origin
3) The original amount of loan
4) The interest rate and payment schedule

5) The monthly payment
6) The unpaid balance
7) The purpose of loan
8) The authorizing body
9) The collateral for the loan
10) The restrictions placed by the lender

b. Review balances for reasonableness, consistency of amounts between years and obvious omissions.

c. Determine that any loans from the year being examined had the proper authorization and were recorded in the minutes of the Vestry or mission committee.

d. Verify, by direct communication with any lender, the outstanding indebtedness at the year-end as well as the terms of the indebtedness.

e. Verify that the borrower is in compliance with any loan covenants.

f. Reconcile the unpaid balance of all loans as reported by the congregation records to the figure reported by the lending institutions.

9. *Property and Equipment:*

a. Obtain a list of significant fixed assets showing the cost and date of purchase, if known.

b. Review balances for reasonableness, consistency of amounts between years, and obvious omissions.

c. Examine all the deeds and titles of ownership related to the properties owned by the congregation. Review them for the proper recording of the name of the owner and to determine if any encumbrances or liens exist.

d. Determine if any inventory identification procedure is in effect.

e. The congregation must have a physical inventory of capital assets. A sampling test of this inventory is to be made by the committee.

f. Ensure that all property and equipment is adequately insured.

g. If depreciation of property is recognized, review entries for accuracy.

10. *Payroll Records:*

    a. Examine the individual earnings records for name, address, social security number, number of exemptions, rate of pay, and effective date.

    b. Ensure that the salary paid is authorized and proper by comparing with the amount budgeted.

    c. Trace the individual earnings record postings to the check register.

    d. Reconcile total wages paid and total withholding taxes with the quarterly Form 941 and end-of-year Form W-3, checking that they were remitted on time.

    e. Determine if a current signed Federal Form W-4 and a Form I-9 (Immigration and Naturalization Service) is on file for each employee hired after November 6, 1986.

    f. Determine if a Form W-2 has been given to each employee (including the clergy) and that the Forms W-2 are correct and properly filed.

    g. Determine if Forms 1099 are being provided for all individuals who are not employees and unincorporated entities paid $600 or more annually and all recipients of educational scholarship funds of $600 or annually.

       1998 Instructions for Forms 1099, 1098, 5498, and W-2G, Department of the Treasury, Internal Revenue Service, (p. 23, Scholarships) reads:

       "Do not use Form 1099-MISC to report scholarship or fellowship grants. Scholarship or fellowship grants that are taxable to the recipient because they are paid for teaching, research, or other services as a condition for receiving the grant are considered wages and must be reported on Form W-2. Other taxable scholarship or fellowship payments (to a degree or non-degree candidate) are not required to be reported by you to the IRS on any form."

    h. Test the payroll to be sure that a real employee exists for payroll checks written.

    i. Ensure that terminated employees have been removed from the payroll in a timely manner.

    j. Review employment agreements and ensure that there are no commitments requiring accrual or disclosure.

11. *Receivables and Payables:*

    a. Prepare a schedule of accounts receivable as of the date of the Statement of Financial Position. These may include pledge payments, which were made after the end of the year in which the money was pledged, or authenticated obligations owed to the congregation at year end.

b. Prepare a schedule of accounts payable as of the date of the Statement of Financial Position. These may include monies owed by the congregation to vendors at year-end for goods and services received during the year being audited. Discuss with the treasurer any old or disputed payables.

12. *Insurance:* A schedule should be prepared listing the name of the carrier, description of coverage, period of insurance, premium amount and date of premium payment for the following policies, which the committee is to review:

    a. Fire insurance on buildings and equipment
    b. General Liability (Public Liability and Property Damage)
    c. Burglary
    d. Fine Arts
    e. Malpractice
    f. Worker's Compensation
    g. Fidelity Bond
    h. Automobile coverage on cars owned by the congregation
    i. Non-ownership liability insurance for cars owned by others when used for congregation business
    j. Directors' and Officers' Liability
    k. Umbrella Liability
    l. Other special policies held by the church

13. *Discretionary Fund:* Check that the discretionary fund is in the congregation's name, that the congregation's Federal Employer's Identification Number is the number used to identify the account at the bank, and that the fund has not been used for operating fund expenses or for the personal expenses of the clergy. If a separate checking account has been authorized, all monies for the discretionary fund must pass through the congregation's general bank account and subsequently a check should be written to transfer the monies to the separate discretionary fund checking account. Reference Chapter V (Clergy Discretionary Funds) before proceeding.

14. *Work Papers:* The committee should retain a file of the work papers that were prepared during the audit. When the next year's audit is performed, these papers could be an invaluable guide. The next auditor should be provided with a copy of the work papers. These work papers should include such things as: the complete audit and internal control check lists; lists of bank accounts, restricted funds, investments, insurance accounts and loans; the schedules prepared; the procedures followed in performing the audit and memoranda describing significant issues raised during the audit.

15. *Audit Committee Certificate:* The Audit Committee Certificate states that steps have been taken to ensure that the financial statements are presented fairly in all material respects. The Audit Committee Certificate should identify exceptions when the audit committee questions any aspect of the financial statement. When this occurs, the audit committee should carefully describe the condition raising the question. Such a statement does not nullify the accuracy or the importance of the audit, but it does alert the reader that the financial statements may be affected in some way because of the noted variance.

16. *Audit Committee Findings on Policies and Procedures:* The Audit Committee should comment in a separate letter to the Vestry regarding the internal control procedures in effect at the congregation. This letter should be made a part of the minutes.

    Exceptions to adequate procedures should also be noted in these comments. Repeat items from previous years should be noted. Good business practices and policies, as well as safeguards, should be recommended. A copy of this letter should accompany the audit report.

    The Audit Committee should look for opportunities to educate the Treasurer, Vestry and bookkeeper by teaching the accrual method of accounting.

Last update November 2019

CHAPTER VII: RISK MANAGEMENT & INSURANCE

Introduction

Responsible stewardship includes protection of the Church's people and assets from a variety of risks. Title I, Canon 7 (6) provides that, "All buildings and their contents shall be kept adequately insured," and Title I, Canon 7 (3) states that, "Treasurers and custodians, other than banking institutions, shall be adequately bonded, except treasurers of funds that do not exceed $500 at any one time during the fiscal year."

Commercial insurance is a device for handling risk. For a fixed financial consideration (the premium, plus any applicable deductible), the policyholder transfers risk of unforeseen financial loss to the insurance company. In addition to insurance, several other complementary techniques exist to manage risk, as described in the following section.

Risk Management

Risk management is a disciplined process that promotes asset conservation. It involves several steps:

- *Identifying* risk: examining the entity's operations and determining its vulnerabilities to loss of life, property, or other assets;

- *Assessing* risk: evaluating the potential financial and operational impacts of each risk and prioritizing risks according to severity;

- *Avoiding or reducing* risk: discontinuing certain practices or operations because of the inherent hazards; developing property maintenance, premises safety, and accident prevention programs to avert incidents or reduce their potential severity;

- *Transferring* risk: developing standardized procedures, such as hold-harmless agreements and requirement of proper insurance, to screen out and deflect risk when contracting for services or entering into agreements with others;

- *Retaining* risk: assuming financial responsibility for a limited amount of predictable, affordable risk through use of insurance deductibles or self-insured retentions;

- *Reevaluating* the chosen techniques and adjusting them, as necessary, for maximum impact.

These techniques should be explored in tandem with the purchase of commercial insurance since they may improve the quality of risk and help reduce premiums. The Church Insurance Companies, an operating unit of the Church Pension Group, an agency of The Episcopal Church, can provide guidance in assessing church risk, together with broad, cost-effective insurance in many instances. In addition, many local and regional insurance brokers and other intermediaries and direct-writing insurers can provide valuable assistance.

Protecting Physical Assets and Revenues

Property insurance covers costs to repair or replace property damaged by various causes of loss or perils. This protection is available on a "Named Perils" basis (insuring against a limited number of specified perils) or on an "All-Risks" or "Special Perils" basis (insuring against all risks of physical loss or damage except those excluded in the policy). Whenever available at acceptable cost, All-Risk property insurance is preferable because it provides broader protection.

The most important consideration when buying property insurance is insuring to value. The amount of insurance, or policy limit, should always reflect the total value of the assets being protected: buildings, including their systems and special architectural features; general contents; computer equipment; fine arts; grounds keeping and other mobile equipment; property of others for which the organization has assumed responsibility; and revenue stream. New property acquisitions, construction, and upgrades also affect the amount of property insurance needed.

Underinsuring the value of the property can expose the organization to a financial cost at the time of loss. For example: Suppose a church has a replacement cost value of $1 million and the church arranges an insurance policy with a 100% coinsurance clause (i.e., requirement to insure the property for 100% of the replacement cost). If the church buys only $700,000 of property insurance, or 7/10 of the amount required, and sustains $200,000 of covered smoke damage originating from a smoldering Advent wreath, the insurance company will pay only $140,000 (i.e., 7/10 of the amount of the loss) less any applicable deductible.

Commercial insurance commonly recognizes several methods of property valuation:

- *Replacement Cost*: the cost of repair or replacement with comparable kind and quality;

- *Actual Cash Value*: the replacement cost value, less depreciation for wear and tear, age, deterioration, utility, and functional obsolescence;

- *Reproduction Cost*: the cost of repair or replacement with identical (not simply comparable) material – sometimes required for historic buildings, despite higher premiums associated with expensive reproduction values;

- *Functional Replacement Cost*: the cost of repair or replacement to achieve the same function as the original – occasionally used when replacement would be impractical;

- *Market Value*: the price at which the property would change hands between a willing buyer and willing seller on the open market – sometimes used for fine arts, vacant buildings, and property obviously for sale.

Accurate determination of insurable property values and periodic revaluation – whichever valuation method is used – is the cornerstone of an effective property insurance program. A skilled insurance advisor can facilitate physical appraisals of buildings and other property by the insurance company or independent experts.

Many property insurance policies limit the amount of protection applicable to certain kinds of property or causes of loss. Coverage for such property as fine art, valuable papers, trees and plants, and personal effects is often capped at amounts considerably below their value. Property damage by such perils as sewer and drain backup, flood, and earth movement may also be sharply limited or excluded altogether; though such exposures can sometimes be accommodated by paying an additional premium.

Property insurance can also be arranged to protect an organization's revenue base in the aftermath of damage to the physical plant. This specialized protection, often called *"Time Element"* or *"Business Interruption"* coverage, includes:

- *Extra Expense* insurance, which covers increases to post-loss operating cost incurred to maintain operations during property restoration or replacement; and

- *Loss of Earnings* insurance, can cover a post-loss revenue reduction, plus any operating expenses that do not abate during the period of repair or reconstruction, for a specific period of time (usually one year). This coverage may be structured to address specific revenue sources, such as rents or tuitions and fees.

Accurate assessment of the worst-case financial exposure is a prerequisite of adequate protection.

Although a property insurance company bears most of the financial cost of loss, the policyholder will share a portion in the form of a deductible. The deductible is typically a fixed dollar amount or, in the case of properties exposed to catastrophic perils (e.g., flood, earthquake, or hurricane), a percentage of the value insured. In most instances, the deductible amount is a function of the risk size, complexity, location, and other characteristics, as well as the insured organization's willingness to assume more financial risk in return for a lower premium.

Safeguarding Against Civil Liability

Churches are vulnerable to civil liability in many of the same ways as for-profit businesses and other nonprofit organizations. Each church has a duty to maintain its premises free of defect and safe to the visitor, and to conduct its operations in a manner that protects others from harm. When the organization breaches its legal duty of care to others, it may be found by a court to be negligent and legally liable – with financial consequences.

Commercial General Liability insurance protects the organization and those acting for it against civil liability for property damage, bodily injury, or personal injury to others. Bodily injury involves physical injury; property damage involves the damage or loss to a third party's property; and personal injury involves harm of an emotional nature caused by specific offenses such as defamation, false arrest, and invasion of one's right of privacy.

Liability claims are usually presented after an event has triggered them – sometimes weeks, months or years later. For this reason, a Commercial General Liability ("CGL") policy is normally issued on an "occurrence" basis, meaning that the policy that was in effect on the date of an event should cover any subsequent claims, regardless of when they are presented.

CGL policyholders should always notify the insurer **as soon as possible** of an insured "occurrence" to comply with policy requirements and enable the insurer to gather important evidence quickly. This may be when a lawsuit is filed, or the threat of a lawsuit is imminent.

Most CGL policies provide a policy limit of at least $500,000 for each occurrence, with $1,000,000 being the norm for many businesses, including churches. In addition to a per-occurrence limit (the amount payable under the policy for all claims arising from a single event), the policy may also provide for an aggregate limit, or cap, on the total policy payout for a given policy year. The policy limit covers settlements and judgments, while defense costs and related expenses are normally payable on an unlimited basis in addition to the policy limit. Most liability policies are issued on a first-dollar basis (i.e., no deductible applies).

The CGL policy may also provide lesser limits for *Medical Payments*, which covers minor medical costs without regard to liability; *Fire Legal Liability*, which insures against fire-related damage or injury arising from the policyholder's occupancy of someone else's property (e.g., as a tenant); and *Employee Benefit Liability*, which insures against mistakes in the day-to-day administration of the organization's various group health and welfare plans.

Additionally, churches face two risks associated with close personal contact or relationships:

- *Sexual Misconduct Liability* arising from sexual abuse (as between an adult and a minor, or as perpetrated upon mentally or physically impaired persons) or sexual exploitation (as committed by a person who uses a position of power, authority, or trust to influence another); and

- *Pastoral Professional Liability* arising from a cleric's professional mistakes – for example, negligence in counseling parishioners. This exposure does not include risks associated with fee-for-service counseling, which must be addressed under separate *Counselors' Professional Liability* insurance.

CGL policies designed for religious institutions usually provide both specialty coverages or can be tailored to accommodate such risks. The policy limits may be the same full per-occurrence amounts that apply to other types of claims, or they may be segregated for these exposures and, in some cases, reduced.

If a church operates a cemetery or columbarium, it should consider *Cemetery Liability* coverage, which protects against civil liability arising from negligence in the burial, cremation, disinterment, or handling of human remains.

Insuring Against Management Liability

Church leaders continually take actions and make decisions on behalf of their organizations. Although usually made with the best of intentions, such decisions sometimes have unintended, adverse consequences. *Directors' & Officers' ("D&O") Liability* insurance protects the organization and its leaders against civil liability arising from acts, errors, omissions, misstatements, misleading statements, neglect, or breach of duty – in short, against management mistakes.

Examples might include:

- A finance committee's decision to invest the organization's assets in a new fund that fails to perform as expected, causing the organization to lose money;
- A vestry's decision to use restricted funds for purposes other than the donor's original intent;
- An outreach committee's decision to fund a controversial cause (or to withdraw support from a popular one)

D&O insurance for nonprofit organizations normally protects the organization and its elected or appointed directors and officers, who may be personally liable for wrongful acts. Many D&O products available also cover managers, other employees and volunteers for their actions in the service of an organization. Policies designed for religious entities sometimes include more specific references to clergy, wardens, vestry members and other church leadership positions.

Unlike a Commercial General Liability policy, which applies on an "occurrence" basis, a D&O policy is normally issued on a "claims-made" basis. Where an "occurrence-based" policy is triggered by the date of the accident or event, a "claims-made" policy has two triggers: the date of the loss must occur within the policy period (or a subsequent renewal of the policy) *and* the claim must be reported within the policy period or its renewal. This means that the D&O policy in force when the claim is presented should respond, so long as the claim is first made during the policy term. A D&O policy commonly specifies a retroactive ("retro") date, which walls off earlier events from the scope of coverage, and a discovery date extending the period in which the claim can be filed for a defined period. It is very important to negotiate the broadest possible retroactive date and discovery date into the policy if the entity changes insurers from one policy period to the next, otherwise the entity and its elected or appointed directors and officers face a risk of an uninsured claim.

Since the mid-1990s, employment-related offenses such as sexual harassment, wrongful termination, discrimination, and defamation have been the fastest growing type of litigation against churches and their leaders. Most D&O policies include *Employment Practices Liability* ("EPL") protection, but each must be verified.

Church D&O policies are usually issued with a $1 million aggregate policy limit, with higher limits available to address the significant risk exposures of organizations with large budgets and financial portfolios. Unlike a Commercial General Liability policy, which covers claim defense costs in addition to the policy limit, a D&O policy includes defense costs within the limit. This means that payment of defense costs reduces the amount of protection available for settlements and judgments. Moreover, the typical D&O policy requires a self-insured retention (i.e., deductible) for the entity, and a much smaller or no deductible for the individual policyholder before the insurance company begins to pay its share. (Defense costs borne by the policyholder normally count toward satisfaction of its self-insured retention.)

D&O policyholders should always remember to notify the insurer **as soon as possible** of a possible insured "claim" to satisfy policy requirements. D&O policies generally require that the policyholders secure the insurer's consent <u>before</u> engaging defense counsel. Failure to obtain consent in advance creates the risk that those expenses may not be covered.

Insuring Against Workplace Injuries

Most states require entities with one or more employees to insure against on-the-job injuries and illness. A *Workers' Compensation & Employer's Liability* policy satisfies this legal requirement by providing two types of coverage:

- *Workers' Compensation* – which delivers state-prescribed wage loss, medical, and other benefits to injured workers and their families; and

- *Employer's Liability* – which insures against an employer's common law liability for bodily injury by accident or disease.

The benefits available under Workers' Compensation coverage are set by state law, while Employer's Liability insurance is typically issued with a limit ranging from $100,000 to $1 million.

Workers' Compensation insurance premiums are based upon payroll (including clergy housing allowances and Social Security offsets) plus an experience modification factor (a numerical factor calculated to reflect the relative quality of a risk compared to its peer group). A church with few or no claims during the three preceding years will earn a low ("credit") experience modification factor, while one with worse-than-average claims experience will earn a higher ("debit") modification factor. Preserving a safe, accident-free workplace is very important in minimizing Workers' Compensation premiums.

Although Workers' Compensation insurance applies strictly to an organization's employees, it can be extended to cover volunteers. A *Voluntary Compensation* endorsement to the policy, available at modest additional cost, enables payment of a volunteer's medical and other qualifying expenses following injury in the course and scope of service to the organization.

Safeguarding Assets from Criminal Acts

As noted at the beginning of this chapter, Church canons require that treasurers and other financial custodians be bonded to safeguard their organizations' assets against dishonesty. A *Commercial Crime* insurance policy (sometimes called a "bond") delivers protection against employee dishonesty, as well as against other criminal acts such as burglary, robbery, theft, computer fraud, and wire transfer fraud.

Surprisingly, employee dishonesty is a major cause of financial loss to many religious organizations – and one for which few are adequately insured. Employee dishonesty involves taking money, securities, or other property for personal gain by individuals within the organization – employees, leaders, and volunteers. Most losses from employee dishonesty occur through multiple events perpetrated over a period of time, yet Commercial Crime policies apply to the aggregate loss. Therefore, when selecting an amount of coverage, the organization should consider a worst-case scenario, taking into account check countersigning protocols, money and securities handling procedures, and other internal controls that may reduce the financial exposure.

Other sections of a Commercial Crime policy protect the organization against financial loss perpetrated by outside sources and activities, including computer fraud. The coverage limits are severable, enabling the buyer to select the forms and amounts of protection that are most applicable.

Like property insurance, Commercial Crime insurance is normally subject to a per-claim deductible borne by the policyholder.

Other Insurances

The types of insurance described above are "core" protection. Some churches have operational risks that warrant consideration of the following coverages.

Insurance	*Risk*
Automobile Liability policy	Civil liability arising from employee or volunteer use of owned, leased, personal, or borrowed vehicles
Umbrella Liability policy	Civil liability in excess of General Liability, Employer's Liability, and Automobile Liability policy limits (for catastrophic losses)
Special Risk (Accident) policy	Medical expenses incurred by participants in organized trips, outings, or athletic events
International Package policy	Foreign travel, including (1) on-the-job injuries occurring overseas; (2) civil liability for overseas property damage or bodily injury to others arising from premises or operations; (3) civil liability for property damage or bodily injury caused by overseas vehicular use; (4) emergency medical expenses and travel assistance, including medical evacuation; (5) kidnap, ransom and extortion

Additional Risks in the Electronic Age

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

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

Consider, for example, that a diocese, church, or other institution maintains electronic or hard-copy employee, parishioner/donor, and client records containing "personally identifiable information" (names, physical and email addresses, telephone numbers, social security numbers, etc.) now protected under the laws of most states. If this information is breached – whether by criminal act or human error – the organization may be required to notify the potentially-affected parties, to provide credit monitoring services, and to satisfy other regulatory requirements - all at considerable expense. Recent studies suggest that the cost of a breach averages $3.9 million, or $148 per compromised record (Ponemon Institute, 2018).

Technology and operating safeguards are the first line of defense. Such safeguards include firewalls, encryption, access controls, intrusion detection, antivirus software, and backup/recovery procedures, as well as periodically changing passwords and locking systems when not in use. Commercial insurance is also available to finance the first party (Network Security) and third-party (Privacy Liability) exposures, including response and regulatory costs. The entry of many new providers and insurance products has created a variety of options and reduced costs for clients.

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

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

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

Caring for Employee Welfare

Employees are among the most important assets of an organization. Managers should be as attentive to safeguarding employee wellbeing as they are to safeguarding the organization's physical property and financial assets. Group health and welfare insurance programs assist in providing financial security for clergy and lay employees.

- *Medical and Dental insurance* cover medical and dental treatment costs for employees and their eligible dependents;
- *Disability and Life insurance* can replace future earnings lost through disability or death; and
- *Retirement benefits*, including pension and voluntary contribution plans, can provide a source of income after retirement.

The Episcopal Church Medical Trust and the Church Life Insurance Company, operating units of the Church Pension Group, specialize in Medical, Dental, Disability, and Life insurance products marketed to dioceses and individuals. While group health and welfare insurances are important financial security tools, they are not mandated by the Canons but are encouraged by General Convention and may be mandated by government regulation for some employers (depending on size).

The Church Pension Fund, established by the Church canons, is the exclusive clergy pension administrator for the Episcopal Church. Pursuant to authority conveyed in Title I, Canon 8, the Church Pension Fund collects clergy pension assessments from all parishes, missions, and other ecclesiastical organizations. The current assessment rate is 18% of total annual compensation, including stipend, housing, utilities and self-employment tax allowance.

Each organization is responsible to notify the Church Pension Fund when a cleric begins employment, when there is a change in the cleric's salary, and when a cleric ends employment. The Church Pension Fund (www.cpg.org) publishes a pamphlet, "What Every Treasurer Should Know," as a guide to reporting and paying of clergy pension premiums.

The Lay Pension Plan, created by resolution of the General Convention of 1991, creates pension entitlement for all lay employees who work a minimum of 1,000 hours annually for organizations participating in the Church Pension Fund. The pension benefits may be arranged through the Episcopal Church Lay Employees' Retirement Plan (ECLERP) or an equivalent plan.

There are two basic types of pension plans:

- In a *defined contribution* plan money is contributed in a fixed amount or percentage of salary on behalf of each participant, whether by the employer alone or the employer and employee. That contributed amount plus subsequent investment performance determine the retirement benefits that are eventually received. The plan does not promise a specified payout upon retirement. Under certain options, a residual amount of money may be left in the employee's estate. The employer's responsibility is limited only to providing the defined contribution.

An employer's contribution to a defined contribution plan must be at least 5% of the employee's salary, with an agreement to match employee contributions up to another 4%.

- In a *defined benefit plan* a guaranteed minimum benefit is payable upon retirement, usually based on salary and years of service. The employee knows what minimum amount will be paid at retirement – whether a dollar amount or an amount calculated according to a formula based on salary and length of employment. The employer is responsible for ensuring that the plan is funded with adequate assets to provide the payments promised in retirement.

The employer is responsible to contribute at least 9% of the employee's salary to a defined benefit pension plan.

The employer may limit participation in either plan to employees at least 21 years of age who are continuously employed for up to year.

Last updated November 2019

CHAPTER VIII: PAROCHIAL REPORTS

CHAPTER CONTENTS

Section A: Why Congregations File an Annual Report

Since the first General Convention of the Episcopal Church, congregations have provided a report of membership, baptisms, communicants, services and finances. In 1804, the Committee on the State of the Church was established to review this information and prepare a summary report to General Convention. The authority for the Parochial Report is described in the *Constitution and Canons of the Episcopal Church,* Canons I.6 and I.17. The text of these canons is included as an appendix to these instructions.

The annual Parochial Report is a report of each congregation to the Bishop of the Diocese and The General Convention, which is the governing body of the Episcopal Church. Faithful attention to filing this report provides vital information about the life of the Church. Each congregation and diocese as well as the committees, commissions and agencies of General Convention benefit from the data accumulated from these reports.

The vestry is required by Canon I.6.1 annually to review and approve the Parochial Report data and to indicate the date of vestry approval on page 1 of the report form. Approval can also be made by a bishop's committee or mission council if there is no vestry. Beginning in 2020, parishes and dioceses will have access to an online tool that will "map" parochial report data for the last 10 years, as well as provide demographic information about the neighborhood surrounding each parish. This tool will be accessible via https://episcopalchurch.org/research-and-statistics and https://www.generalconvention.org/research-and-statistics, as well as linked on the new filing site: https://reports.dfms.org/ Parishes and Diocesan offices can use the data as they address the needs for congregational growth and development.

Section B: Filing the Parochial Report

Online filing. The General Convention Office, working with the dioceses, has developed an on-line filing system, which filing parishes and missions are expected to use. Go to https://reports.dfms.org/ to file online. For a first login, one needs a UEID and PIN in order to file. A new login name and password is created by following the prompts. Please contact the Diocesan Office to obtain the UEID and/or PIN.

Canonical Due Dates: The Parochial Report is to be filed with the bishop of the diocese no later than March 1st of the year following the report year, unless a diocese requires an earlier deadline for its parishes. The bishop or the ecclesiastical authority shall keep a copy and submit the report to the Executive Council of the Episcopal Church no later than May 1st of that subsequent year. When a congregation files its report online the report is filed with the bishop of the diocese and the Executive Council simultaneously.

To File a Parochial Report online https://reports.dfms.org/

- Parochial Reports for prior years may be reviewed and downloaded at https://reports.dfms.org/

Appendix:

Canonical Reference (2018 Constitution and Canons.)

Canon I.6: Of the Mode of Securing an Accurate View of the State of This Church

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

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

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

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

Canon I.17: Of Regulations Respecting the Laity

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

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

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

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

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

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

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

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

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

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

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

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

(1) is a communicant;

(2) is recorded as being in good standing;

(3) has been confirmed or received by a Bishop of this Church, or a Bishop in communion with this Church.

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

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

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

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

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

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

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

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

Last updated December 2019

CHAPTER IX: RECORDS MANAGEMENT

Chapter Contents

Introduction

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

This chapter is an abridged version of a manual created by The Archives of the Episcopal Church and approved by the Board of the Archives of the General Convention. To obtain a copy of the full manual, or for other advice on records related matters, contact The Archives of the Episcopal Church, PO Box 2247, Austin, TX 76768, 800-525-9329, email the Archives at research@episcopalarchives.org, or visit the Archives website at: https://www.episcopalarchives.org/Records_Manual_For_Congregations .

Custodial Responsibility for Records

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

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

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

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

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

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

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

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

Records and Litigation

A congregation's records and archives may be relevant to future litigation and are subject to legal discovery. Should litigation or an investigation appear to be approaching, all relevant records should be carefully preserved and must not be destroyed or altered in any way.

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

Special Classes of Records

Records of Financial Accountability and Audit

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

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

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

The Internal Revenue Service (IRS) requires taxpayers to retain, "permanent books of account or records, including inventories as are sufficient to establish…any return of such tax or information" (26 CFR 1.6001-10). By "permanent," the IRS refers to the treatment and format of the record for its period of legal usefulness. Minimum retention of financial transaction and reporting documents is strongly implied by tax law.

Employment and Personnel Records

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

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

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

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

Be aware that employees have rights to access and review their personnel files. Supervisors should be extremely careful not to introduce irrelevant or unsubstantiated material into the personnel file. Confidentiality should be observed, especially in using computer files to document employee activity. Personnel files should be kept locked and secure at all times, even after the file is retired from the office to an Archives/Records Center. If you do not have a reinforced vault-type room, important paper records should be kept in a four-hour rated, fire-proof file cabinet. Before making this decision consider the floor load requirements, especially in wood framed buildings, and the cost of rated file cabinets. The cost of multiple fire proof cabinets may well exceed the cost of reinforcing walls and ceilings in a records room.

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

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

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

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

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

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

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

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

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

Operational and Administrative Records

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

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

Electronic Records Management

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

The "record copy" of operational information that is kept in electronic form should be periodically "fixed" as a snapshot of the data and stored on a read-only medium to guarantee an archive file for a system that is constantly being updated and revised. High quality external storage drives, tape systems, or cloud back-up systems will serve this requirement. Regular periodic (monthly or quarterly) snapshots of electronic content should be stored on a device other than the user's hard drive or the file server. The fixed, archived copy should be kept in a separate, secure physical location. Documentation on legacy and snapshot files should be extracted and recorded in a manual that identifies the named files, and briefly describes the content of computer databases and other records. Redundancy is a key concept in being able to recover from a disaster or data failure. Consider also the value of storing one version of the data capture off-site.

Parish data may be stored and kept remotely by third-party vendors who perform vital operations such as payroll or accounts payable. The trade off in using hosted (cloud) applications is that in-house computer expenses are reduced but responsibility for data protection is transferred to an outside vendor. One will want to take precautions not to relinquish too much responsibility. Common concerns include:

- Security of data in a shared environment outside of firewalls
- Ownership and control of the data

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

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

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

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

Electronic Record Keeping and Archiving — A Simple Back-up Approach
• Regularly save a snapshot copy of folders/directories that contain permanent electronic records to external drives, tape, or remote storage. • Do not rely on flash/thumb drives or cheap external drives to save money as these are inherently weaker; for longevity, research the industry-rated best value for reliability and durability. Use standard equipment rather than the "latest and greatest". • Alongside the external drive, place a description of the general drive contents with title of record(s), dates covered, creating office/staff person, and the date of the data backup. • e • Store drives in protective labeled cases in a secure, dust-free, and moderate (< 76° F) environment. • Back-up disks should be stored in a building or site physically removed from the site of the file server in the event of a localized disaster. • Retain system documentation such as the name of the software application, version number, file format, operating system, etc. • Keep an inventory or log of the backed-up data, 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). • External drives should be checked periodically for data loss (minimum once a year). The location of external drives should be at the place of business in a well-known but secure location. • Cloud storage has its own complications. A policy and an audit routine are needed to manage permission layers, passwords, migration options, and risks involving storage of confidential personal information.

Email Communications. Emails are records and should be included in the parish's records management plan. Email records are subject to legal discovery and must be produced at the request of a court. Because of their quantity, the frequency of trivial content, and a tendency for email to pile up in the "Inbox" and "Sent" mail box, regular housekeeping is advisable. The records creator has to take charge of saving important email. This is largely done by creating folders or directories for filing away important messages. These folders should have names that ideally reflect the active folders in terms of conveying the purpose or function of the communication. Routine, transient correspondence should not be saved or, if saved, should be scheduled for destruction. The planned and scheduled destruction of temporary email messages, carried out as part of the regular conduct of business in accordance with the records management scheme, nullifies an accusation that email has been deleted for purposes of disposing of evidence.

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

Records Retention and Disposition

Records Retention Policy

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

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

Regulatory Requirements for Records Retention
Record keeping requirements are assigned by statutory legislation, administrative law, professional standards, and best practices. Some of the more important legislative requirements are defined within the Civil Rights Act, Equal Pay Act, Fair Credit Reporting Act, Fair Labor Standards Act, Federal Unemployment Tax Act and the Uniform Rules of Evidence Act, the Immigration Reform and Control Act and the Health Insurance Portability and Accountability Act. Administrative regulations are also defined by the IRS, the Equal Employment Opportunity Commission and the Wage and the Department of Labor and published in the Code of Federal Regulations. The sample retention schedule in this manual takes into account the record keeping requirements defined by the above mentioned legislation and agencies. The individual States impose record keeping requirements in certain areas, especially labor law, privacy, worker's compensation, health, and safety. These should be researched by parish counsel before implementing a records retention schedule.

For the sake of simplicity, retention periods are usually measured in annual accumulations.

Some records can be discarded when they are superseded and all administrative use ceases (AU). These files, and others designated for "selective retention" (SR), should be discarded after review by the administrator and/or archivist for any documents that may have long-term administrative or historical value. Selective retention (SR) is the careful separation of permanent records from complex collections of obsolete material. It is a review step that applies particularly to filing systems (paper or electronic) where material is arranged by subject or as an undifferentiated mass. Again, the parish should have a competent person assigned to conduct this aspect of records and archives management. Retention periods for most records are usually expressed as "CY+__ ", i.e. retain for the current year, plus a number of succeeding years. Thus, a three-year retention (CY+3) period for a record dated January 1, 2013 indicates a destruction date no earlier than January 1, 2017.

Retirement and Disposition of Inactive Records

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

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

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

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

Destruction of Temporary Records

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

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

Secure Storage in a Parish Archives and Records Center

Every congregation should attempt to set apart its archives. The Parish Archives is a room that is a secure, supervised, structurally reinforced, and stable environment. (A stable environment is one in which the average temperature does not fluctuate seasonally more than 5 degrees from a norm of about 68 F and relative humidity changes of no more than 5-7% from a norm of about 55%.) Physical access to the archives room should be limited to persons designated by the vestry. For many parishes, it may be practical to combine the Archives and the Records Center storage in one place. A Records Center is used for storing inactive records – records that are still too current to transfer to the Parish Archives. If combined in one room, the temporary records should be strictly shelved apart from permanent records and labeled. Vital and important corporate records should be placed in the more secure Parish Archives for safekeeping as soon as they can be retired.

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

General Records Retention Schedule for Congregations

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

These definitions apply in the Records Schedule that follows:

P = permanent retention for purposes of indefinite legal, administrative or historical use

AU = retain the record for its current administrative use and destroy only after all use ceases

SR = selective retention of individual files after review: transfer permanent records to archives and destroy obsolete records.

Record Title or Series	Minimum Retention	Retention Recommendation
	A	
Accounts Payable Files, Operational Accounts	7	Destroy after 7 years. *See also* Invoices and Paid Bills on Capital Expenses.
Act of Incorporation	P	Transfer to Archives.
Agreements, Contractual		See Contracts.
Annual Financial Reports		See Financial Statements, Annual.
Applications for Employment, **Unsuccessful**	1	Destroy after CY + 1 year, federal; CY+3 in some states.
Applications for Employment, **Successful**	P	Retain for life of Personnel File.
Appraisals, Property	AU	Retain until superseded.
Assessment/Quota Apportionment Data	5	Destroy after 5 years.
Audio and Video Recordings	P	Permanent. Transfer to Parish Archives for final review.
Audit Working Papers, including back-up	4	Destroy after CY + 4 years with audit.
Audit Reports	P	Transfer to Archives.
	B	
Balance Sheets, Annual	P	Transfer to Archives.
Balance Sheets, Monthly/Quarterly	2	Destroy after 2 years.
Bank Deposit Books	7	Destroy after 7 years or CY + 4 years after audit.
Bank Deposit Slips	4	Destroy after 4 years.
Bank Statements	7	Destroy after 7 years.
Bank Reconciliations	2	Destroy after CY + 2 years.
Bequest and Estate Papers	P	Transfer to Archives.
Bonds, Canceled	2	Destroy after CY + 2 years from date of cancellation.
Budgets, Approved and Revised	P	Transfer to Archives.
Budgets, Proposed and Worksheets	AU	Destroy after administrative use ceases.
Building Plans and Drawings	P	Retain as-built drawings, architect's renderings, and renovation drawings. Transfer Mylar copies or e-copies of all original drawings to Parish Archives and make duplicate use copies. *See also* Specifications for Building and Design.
Bylaws	P	Transfer to Archives. Retire previous versions after every revision or amendment.

Record Title or Series	Minimum Retention	Retention Recommendation
	C	
Camp and/or Conference Center, Health and Safety Records (Including Health Treatment Procedures, Health Logs, Safety Incident Reports, Permission and Treatment Forms, Operations Manuals)	7	Destroy after 7 years unless action pending. *See also* Personnel Records and related business records for operation of camps and conference centers. Note: some state guidelines advise retention of forms for minors until the participants reach the age of 23.
Canceled Checks	7	Destroy after 7 years or CY + 4 years after audit.
Cash Journals, General Receipts and Disbursements	7	Destroy after 7 years. Retain permanently if used as primary book of entry in lieu of General Ledger.
Cash Journals, Receipts on Plate and Pledge Offerings	7	Destroy after 7 years. *See also*: Pledge Registers.
Cashbooks, Discretionary Accounts	7	Destroy after 7 years. *See also* Discretionary Account Checkbooks.
Cashbooks, Special Fundraising Subscriptions	P	Transfer to Archives.
Certificates of Deposit, Canceled	2	Destroy CY + 2 years after redemption.
Certificates of Title to Property	P	Transfer to Archives.
Certificates of Incorporation	P	Transfer to Archives.
Cemetery and Columbarium Interments	P	Transfer to Archives.
Chart of Accounts	P	Transfer to Archives. Retain superseded copy with date of retirement substantive revisions.
Check Registers	7	Destroy after 7 years.
Check Book/Stubs	7	Destroy after 7 years.
Checks, Canceled		See Canceled Checks.
Committee Minutes and Records	P	Transfer to Archives.
Compensation Schedules, Salary and Benefit Guidelines	AU	Destroy after use ceases.
Computer Records		See Electronic Records, Legacy Files.
Consecration Certificates for Episcopal Church Buildings	P	Transfer to Archives. Keep authentic copy in Parish Archives if original is on display.
Constitution and Bylaws with Revisions	P	Permanent. Retire previous versions after every revision or amendment.
Contracts, Active	P	Retain in active files. *See also* Contracts, Inactive.

Record Title or Series	Minimum Retention	Retention Recommendation
Contracts, Inactive	SR	Transfer to Archives for selective retention. Retain contracts on: New construction: P Betterments and major improvements: P Repairs and maintenance: CY + 6 years. Service: CY + 6 years. Lease agreements: CY + 6 years. Loans and bank notes: CY + 6 years. Employment contracts: see under Personnel Files and Records; *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	Transfer to Archives. *See also* Deeds.
Copyright Registrations	P	Transfer to Archives; retain for life of copyright protection (90 yrs. from publication or 120 from creation for works performed for hire by parish).
Correspondence Files, subject and name arrangement	SR	Transfer to Archives for Selective Retention. Retain substantive correspondence permanently; destroy routine courtesy correspondence after 5 years.
Correspondence Files, chronological arrangement	2	Destroy after 2 years if duplicative of central correspondence file by topic or subject; otherwise retain for review if used as primary filing system.
Correspondence, Transactional, including payments, receipts, transmittals, credits, etc.	4	Destroy after CY + 5 years.
Correspondence, Legal, including tax, real estate and probate issues	P	Transfer to Archives. *See also* Litigation Papers.
D		
Deeds: including conveyances, covenants, and easements	P	Transfer to Archives.
Development and Fundraising Campaign Records	SR	Transfer to Archives for 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 Checkbooks	7	Destroy after 7 years.
Directories and Yearbooks	P	Transfer to Archives.
Employment Taxes, Contributions and Payments, including taxes withheld and FICA/Social Security contributions	7	Destroy after 7 years; a confidential record.
E		
Earnings and Benefits Records		See Employee History and Earnings Records; Personnel Files and Records.
E-mail Correspondence (Email): Executive Administration and Finance	SR	Transfer to Archives server space for selective retention. Review message batches for permanent email with the following guidelines in mind.

Record Title or Series	Minimum Retention	Retention Recommendation
Policy and program planning, official communication and statements, minutes, press releases, etc. Executive Program Planning and Administration, Exchanges relating to strategic initiatives or mission program activities Administrative Support Messages, including travel, meeting appointments, acknowledgments, ordering correspondence, etc. Routine Courtesy Email, Transmittals, reminder notices, cover letters, forwarded mail, confirmations, announcements, etc. Circulars/Broadcast Messages List Services, Bulletin Boards, and Online Forums		Transfer to Archives. Destroy after 2 years. Destroy after use. Destroy after use. Review for historical value; if parish forum, secure for Parish Archives.
Electronic Records, Legacy Data and files of accounting systems and other business records	SR	Transfer to Archives for selective retention. Retain legacy records after review of data set, software source code, and other descriptive metadata. Keep all permanent record series not printed, labeled, and verified. *See also* individual record titles in this schedule.
Employee Contracts		See Personnel Files and Records for contracted employees. *See also* Consultants Contracts.
Employee Files and Records		See Personnel Files and Records; *See also* Volunteers Files.
Employee History and Earnings Records, a summary record	P	Transfer to Archives. Retain long term for purposes of risk management. In the absence of the Employee History and Earnings Record, retain individual Personnel Files for 30 years. A confidential record series. *See also* Personnel Records and Files; *See also* Service Files for volunteers.
Employee Manuals and Policies	30	Transfer to Archives. Date and retire previous versions upon revision.
Employee Training Certificates, required sexual misconduct prevention and anti-racism training	P	Place with Personnel Files and Records, and keep indefinitely.
Employee Withholding Statements, Form W-2, and State Withholding	7	Destroy after 7 years; confidential record. *See also*: Tax Forms, Individual Employees.
Employee Withholding Certificates: Form W-4	7	Destroy after 7 years; confidential record.
Estates and Bequests		See Bequest and Estate Papers.
Every Member Canvass Records	P	Transfer to Archives. Retain canvass lists and fair copy of program literature; discard working papers and memoranda.

Record Title or Series	Minimum Retention	Retention Recommendation
Event Files	SR	Selective Retention. Transfer to Archives for final review. *See also* Office Files.
	F	
Financial Statements, Annual	P	Transfer to Archives.
Financial Statements, Monthly	2	Destroy after CY + 2 years.
Form I-9: Immigration and Naturalization Service Certifications	6	Destroy CY + 6 years after termination of employment. Retain original copy in Personnel File for period of employment.
	G	
Grant Proposals: Successful Applications	SR	Transfer to Archives for selective retention. Retain proposal, final report and substantive correspondence.
Grant Proposals: Denied Applications	1	Destroy after CY + 1 year.
	H	
Human Resources Polices, manuals and handbooks		See Employee Manuals and Policies.
	I	
Immigration and Naturalization Certifications: Form I-9		See Form I-9: Immigration…Certifications above.
Incorporation Papers	P	Transfer to Archives. Keep in safe or comparable secure location.
Injury Reports	6	Destroy CY + 6 years after settlement of all claims.
Instruments of Donation of Episcopal Church Property	P	Transfer to Archives. 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 Plans: Descriptions, Liability	P	Transfer to Archives. Retain inactive policies indefinitely for protection against future claims against employees, volunteers, and other agents.
Insurance Policies and Plans: 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.

Record Title or Series	Minimum Retention	Retention Recommendation
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.
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.
	J	
Journals, General and Special	P	Transfer to Archives.
Journal Entry Sheets	7	Destroy after 7 years.
Journals, Payroll	7	Destroy after 7 years.
	L	
Lay Ministry and Leadership Files, annual accumulation of service record	P	Transfer to Archives.
Leases	6	Destroy CY + 6 years after expiration.
Ledgers, General and Special Parish Funds	P	Transfer to Archives.
Ledgers, Subsidiary	10	Retain 10 years and transfer to Parish Archives for review.
Legacies	P	Transfer to Archives.
Lists and Schedules of Subscribers/Donors	P	Transfer to Archives.
Litigation Papers, including claims, decrees, court briefs, substantive correspondence, judgments rendered, memoranda of counsel's opinion	P	Transfer to Archives. Remove and discard non-substantive documentation 3 years after settlement: notes, abstracts, routine duplicate copies and drafts. *See also* Correspondence, Legal.
Loan Schedules	AU	Retain for life of loan.
	M	
Manuals, Operations	AU	Retain until superseded; transfer old version to Parish Archives for review.
Medical Insurance Policies and Claims		See under Insurance.
Memorial Gifts Registers	P	Transfer to Archives.
Minutes of Meetings: Vestry or Council, Official Committees, Agencies, and Organizations	P	Transfer to Archives. Keep on permanent paper or in redundant electronic record keeping systems. Records kept in books should be post bound for efficient retirement. Transfer permanent copy of annual proceedings to Parish Archives after 3 years.
Monthly Reports, Financial	2	Destroy after 2 years.
Mortgage Deeds	P	Transfer to Archives. Keep in safe or comparable secure location.

N		
Newsletters and Bulletins	P	Retain 2 fair copies and transfer to Parish Archives. *See also* Service Leaflets.
O		
Office Files or Administrative "Central Files" arranged by Subject, Topic, Name, Project Title, or Event)	SR	Transfer to Archives for selective retention. Review annually. Retain for Parish Archives records that document administration, lay and clerical ministry, mission programs, and parish activities. Destroy resource materials, duplicate files, redundant reference files, vendor reference files. *See also* specific record titles herein for retention periods.
P		
Paid Bills	7	Destroy after 7 years.
Parish Sacramental Registers	P	Transfer to Archives. *See also* Sacramental Records.
Parochial 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	Transfer to Archives. 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.
Pension Plans and supporting benefit detail	P	Permanent. Retire previous or superseded plans and retain one copy of the current plan in Archives or a comparable place of safe keeping.
Personnel Files and Records. File arrangement includes separate folders or sections for: **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	30	Keep individual Personnel Files for 30 years after termination of employment. Transfer inactive files to Archives CY + 1 year after termination of employment for secure safekeeping. A confidential record series, personnel records should be kept in a locked archives room or cabinet. *See also* Payroll Registers; Volunteers' Files.
Medical, Life, and Disability Records (Coverage election forms, medical reports, disability and worker's compensation claims, flexible spending claims, drug screening)		Maintain all medical records in a separate file folder.
Performance Records (Formal appraisals, memos and correspondence, sealed complaint resolution file)		

Petty Cash Receipts and Accounts	7	Destroy after 7 years.
Photographs: Parish inventory, physical plant, windows, memorials, and other insurable property	P	Transfer to Archives. Label photo images with dates and description before transfer to Parish Archives.
Pledge Envelopes	1	Destroy CY + 1 year after reconciliation for audit.
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	Transfer to Archives. *See also* Cash Journals, Receipts of Pledge and Plate Offerings.
Policy Statements	P	Transfer to Archives. Retire superseded statements after revision. *See also* Employee Manuals and Policies.
Profiles, Parish	P	Transfer to Archives.
Project Files, Special Programs and Ministries	P	Transfer to Archives. *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.
R		
Real Estate Surveys/Plots Plans	P	Transfer to Archives.
Receipts, General Accounts	7	Destroy after 7 years.
Records Schedules and Destruction Logs	P	Transfer to Archives.
Resource Files, **External Relations** including catalogs, sales brochures, common publications, professional literature, clippings & articles on non-parish events, vendor files, Episcopal Church resources	AU	Retain until superseded or until administrative use ceases; review annually and remove outdated material for destruction.

S		
Sacramental Records: **Registers of Baptisms, Confirmations, Marriages, and Burials**, including membership registers, and records of transfer not entered	P	Transfer to Archives. Transfer full volumes to Parish Archives safe or comparable secure location. A confidential record series.
Sales Slips	7	Destroy after 7 years.
Search Records, Employee	SR	Transfer to Archives for selective retention. Integrate final candidate application to Personnel File; destroy unsuccessful applications CY + 1. A confidential record series.
Sermons	SR	Transfer to Archives for selective retention. Retain full sermons for review; keep printed sermons as part of an archival series. Destroy sermon notes and duplicates.
Service Leaflets	SR	Transfer to Parish Archives for review and sampling, especially if Service Books are not kept.
Service Books and Registers	P	Transfer to Archives.
Service Files, Volunteers		See Volunteers' Files.
Shipping and Freight Receipts	3	Destroy after CY + 3 years.
Specifications for Building and Design, new construction	P	Transfer to Archives. *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.
Subject Files, including central administrative office files	SR	Transfer to Archives for selective retention: review annually and retain permanent records interfiled in office accumulations; *See also* Office Files.
Subsidiary Ledgers	SR	Selective Retention: retain permanent record series.
T		
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	Transfer to Archives.
Time Sheets	3	Destroy after CY + 3 years.
Title Certificates and Search Papers	P	Transfer to Archives.
Trial Balances, Closing	7	Destroy after 7 years.
Trust Fund Files	SR	Transfer to Archives for selective retention. Retain copies of conditions, restrictions, legal opinions, and summary distribution history permanently; retain distribution notices and courtesy correspondence for 7 years.
Trust Fund Registers	P	Transfer to Archives.

V		
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 audit.
W		
Warranties	AU	Retain until expiration of warranty.
Wills, Testaments, and Codicils	P	Transfer to Archives.
Workers Compensation Claims and Filings	7	Destroy 7 years after filing or settlement of claims whichever occurs later.

Appendix-1: Sample Records Destruction Register

Trinity Episcopal Church
Records Destruction Register

This register is a log of all records set aside for destruction as previously scheduled in accordance with the approved parish records retention schedule and after final review for legal, administrative and fiscal controls, and archival retention.	**Approval Signatures** Sr. Warden: ____________________ Date __________ Parish Administrator: ____________________ _ Date __________ Parish Archivist: ____________________ Date __________

Box Unique Reference No.	Record Title or Series/Content Notes	Box Count	Trash or Shred	Location	Retention Schedule No.	Destruction Date	Initials -- Contents verified
8-9	Treasurer's Paid Bills, 2015, vendor file A-Z	2	T	Basement-Caged Area	2010 ver.- # 2	1/20/22	
12-13	Paid Bills, 2016, copies filed by account number	2	T	Basement-Caged Area	2010 ver.- # 5	1/20/2023	
15	Employee Time Sheets, 06/2017 to 12/2017 (boxes wrapped in duct tape 5 old Banker's boxes)	1	S	Room II - Trash Pile	2010 ver.- # 17	1/20/2021	

APPENDIX A: FORMS

This appendix lists many forms commonly used by treasurers of congregations and provides instructions for obtaining copies of them. Samples of some generic forms appear on the pages immediately following this Appendix.

Internal Revenue Service

W-2	Wage and Tax Statement
W-3	Transmittal of Wage and Tax Statements
W-4	Employee's Withholding Allowance Certificate
W-9	Request for Taxpayer ID Number and Certification
941	Employer's Quarterly Federal Tax Return
1096	Annual Summary and Transmittal of U. S. Information Returns
1099-MISC	Miscellaneous Income
4782	Employee Moving Expense Information
SS-4	Application for employer Identification Number
8282	Donee Information Return
8283	Noncash Charitable Contributions

The forms listed above can be obtained from the following sources:

Internet — The Internal Revenue Service web site is at http://www.irs.gov

Phone — Obtain forms, publications, instructions and tax information 24 hours a day, 7 days a week at (800) 829-3676.

U.S. Department of Justice Immigration and Naturalization Service

I-9 Employment Eligibility Verification

Form I-9 is used for verifying the identity and employment authorization of individuals hired for employment in the United States. All U.S. employers must ensure proper completion of Form I-9 for each individual they hire for employment in the United States. This includes citizens and noncitizens. Both employees and employers (or authorized representatives of the employer) must complete the form. Copies of Form I-9 can be obtained online at https://www.uscis.gov/i-9 .

Church Pension Group

Forms for clergy and lay employee pension, group health insurance, annuities, etc. can be obtained from the diocesan office or the Church Pension Group, 19 East 34th Street, New York, NY 10016, https://www.cpg.org/forms-and-publications or 1-800-223-6602.

Sample Forms

Sample copies of the following forms appear on the pages following this Appendix:

- Contribution Statement
- Mileage and Transportation Expense Report
- Petty Cash Reconciliation
- Accounts Payable Check Request Voucher
- Entertainment and Travel Expense Report
- IRS brochure of criteria to determine Independent Contractor or Employee Status
- Sample Resolution and Letter for Housing Allowance (for parishes who **do not** provide a residence for clergy)
- Sample Resolution and Letter for Housing Allowance (for parishes who **do** provide a residence for clergy)
- Housing Allowance Estimation Worksheet

CONTRIBUTION STATEMENT

Congregation Name
Congregation Address
Telephone

To:

Member number		Page	
Envelope number		Date	

Date of Contribution	**Description**	**Amount**

Unless otherwise noted, the only goods or services provided are intangible religious benefits.

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	

PETTY CASH RECONCILIATION

NOTE: The sum of the Petty Cash Vouchers plus the Balance always equals the Imprest Amount of the Petty Cash Fund.

Date	Payee	Charge Account No.	Charge Amount	Replenish Amount	Balance
Balance forward					**$**

ACCOUNTS PAYABLE
CHECK REQUEST VOUCHER

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.

ENTERTAINMENT AND TRAVEL EXPENSE REPORT

Name	
Address	

Travel location(s)	
Purpose	

Date								
Weekday	**Sun**	**Mon**	**Tues**	**Wed**	**Thurs**	**Fri**	**Sat**	**Total**
TRANSPORTATION								
Auto: Number of miles								
___ miles x $0.___ per mile								
Parking fees and tolls								
Airfare								
Car rental								
Taxi, bus, limo								
LODGING								
Hotel, motel, etc.								
MEALS								
Breakfast								
Lunch								
Dinner								
INCIDENTALS								
Telephone/fax								
Tips								
Miscellaneous (list below)								
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	

Independent Contractor *or* Employee

Which are you?

For federal tax purposes, this is an important distinction. Worker classification affects how you pay your federal income tax, social security and Medicare taxes, and how you file your tax return. Classification affects your eligibility for social security and Medicare benefits, employer provided benefits and your tax responsibilities. If you aren't sure of your work status, you should find out now. This brochure can help you.

The courts have considered many facts in deciding whether a worker is an independent contractor or an employee. These relevant facts fall into three main categories: behavioral control; financial control; and relationship of the parties. In each case, it is very important to consider all the facts – no single fact provides the answer. Carefully review the following definitions.

Behavioral Control

These facts show whether there is a right to direct or control how the worker does the work. A worker is an employee when the business has the right to direct and control the worker. The business does not have to actually direct or control the way the work is done – as long as the employer has the right to direct and control the work. For example:

Instructions – if you receive extensive instructions on how work is to be done, this suggests that you are an employee. Instructions can cover a wide range of topics, for example:

- how, when, or where to do the work
- what tools or equipment to use
- what assistants to hire to help with the work
- where to purchase supplies and services

If you receive less extensive instructions about what should be done, but not how it should be done, you may be an independent contractor. For instance, instructions about time and place may be less important than directions on how the work is performed.

Training – if the business provides you with training about required procedures and methods, this indicates that the business wants the work done in a certain way, and this suggests that you may be an employee.

Financial Control

These facts show whether there is a right to direct or control the business part of the work. For example:

Significant Investment – if you have a significant investment in your work, you may be an independent contractor. While there is no precise dollar test, the investment must have substance. However, a significant investment is not necessary to be an independent contractor.

Expenses – if you are not reimbursed for some or all business expenses, then you may be an independent contractor, especially if your unreimbursed business expenses are high.

Opportunity for Profit or Loss – if you can realize a profit or incur a loss, this suggests that you are in business for yourself and that you may be an independent contractor.

Relationship of the Parties

These are facts that illustrate how the business and the worker perceive their relationship. For example:

Employee Benefits – if you receive benefits, such as insurance, pension, or paid leave, this is an indication that you may be an employee. If you do not receive benefits, however, you could be either an employee or an independent contractor.

Written Contracts – a written contract may show what both you and the business intend. This may be very significant if it is difficult, if not impossible, to determine status based on other facts.

When You Are an Employee...

- Your employer must withhold income tax and your portion of social security and Medicare taxes. Also, your employer is responsible for paying social security, Medicare, and unemployment (FUTA) taxes on your wages. Your employer must give you a Form W-2, Wage and Tax Statement, showing the amount of taxes withheld from your pay.
- You may deduct unreimbursed employee business expenses on Schedule A of your income tax return, but only if you itemize deductions and they total more than two percent of your adjusted gross income.

When You Are an Independent Contractor...

- The business may be required to give you Form 1099-MISC, Miscellaneous Income, to report what it has paid to you.
- You are responsible for paying your own income tax and self-employment tax (Self-Employment Contributions Act – SECA). The business does not withhold taxes from your pay. You may need to make estimated tax payments during the year to cover your tax liabilities.
- You may deduct business expenses on Schedule C of your income tax return.

SAMPLE RESOLUTION AND LETTER FOR HOUSING ALLOWANCE

(Parish does not provide a residence for clergy)

Sample resolution

The vestry on the 20th day of December, 2019, after discussing the amount to be paid to the Rev. John Smith as a parsonage allowance, on motion duly made and seconded, adopted the following resolution:

Whereas the Rev. John Smith is employed as a minister of the Gospel of St. Swithin's Church, Atlanta, Georgia, which does not provide a residence for him, the vestry resolves that of the total compensation of $56,000 to be paid to the Rev. John Smith during 2020, that $25,000 be designated as parsonage allowance within the meaning of that term as used in Section 107 of the IRS Code of 1986.

Sample letter to cleric

This is to advise that at a meeting of the vestry held on the 20th day of December, 2019, your parsonage allowance for the year 2020 was officially designated and fixed as follows:

The vestry resolves that of the total compensation of $56,000 to be paid to you during 2020, that $25,000 be designated as parsonage allowance within the meaning of that term as used in Section 107 of the IRS Code of 1986.

Under Section 107 of the Internal Revenue Codes, an ordained minister of the gospel is allowed to exclude from gross income the parsonage allowance paid to him (her) as part of his (her) compensation to the extent used by him (her) to provide a home.

The amount of money excluded from federal income tax is the lowest of the following amounts:

1. Fair rental value of the house, furnished, plus utilities.
2. Actual cash spent.
3. Amount specified in the vestry minutes before the money is paid.

You should keep an accurate record of your expenditures to rent or provide a home to be able to substantiate any amounts excluded from gross income in filing your federal income tax return.

Sample letter from realtor

I have visited the house at 123 Main Street, Atlanta, Georgia, on December 1, 2019, and believe that the fair rental value of the house furnished as it has been furnished by the Rev. John Smith is about $25,000 per year.

(Signed) Jane Doe, Realtor

SAMPLE RESOLUTION AND LETTER FOR HOUSING ALLOWANCE (PARISH PROVIDES A RESIDENCE FOR CLERGY)

Sample resolution

The vestry on the 20th day of December, 2019, after discussing the amount to be paid to the Rev. Jane Smith as a parsonage allowance, on motion duly made and seconded, adopted the following resolution:

Whereas the Rev. Jane Smith is employed as a minister of the Gospel of St. Swithin's Church, Atlanta, Georgia, which although providing a residence for her does not provide the full cost of maintaining and furnishing such a residence, the vestry resolves that of the total compensation of $56,000 to be paid to the Rev. Jane Smith during 2020, that $10,000 be designated as parsonage allowance within the meaning of that term as used in Section 107 of the IRS Code of 1986.

Sample letter to cleric

This is to advise that at a meeting of the vestry held on the 20th day of December, 2019, your parsonage allowance for the year 2020 was officially designated and fixed as follows:

Although it provides the rent-free use of a home to you, the parish does not provide the full cost of maintaining and furnishing such a residence; therefore the vestry resolves that of the total compensation of $56,000 to be paid to you during 2020, that $10,000 be designated as parsonage allowance within the meaning of that term as used in Section 107 of the IRS Code of 1986.

Under Section 107 of the Internal Revenue Codes, an ordained minister of the gospel is allowed to exclude from gross income the parsonage allowance paid to him (her) as part of his (her) compensation to the extent used by him (her) to provide a home.

The amount of money excluded from federal income tax is the lowest of the following amounts:

1. The fair rental value of the house, furnished, plus utilities, less the fair rental value of the house, unfurnished, without utilities provided.
2. Actual cash spent.
3. Amount specified in the vestry minutes before the money is paid.

You should keep an accurate record of your expenditures to rent or provide a home to be able to substantiate any amounts excluded from gross income in filing your federal income tax return.

Sample letter from realtor

I have visited the house owned by St. Swithin's Church at 123 Main Street, Atlanta, Georgia, on December 1, 2019, and believe that the fair rental value and utilities provided by the church is $14,000 per year, and that the furnishings increase the fair rental value by $3,000.
(Signed) Jane Doe, Realtor

HOUSING ALLOWANCE ESTIMATION WORKSHEET

The following amounts are estimates of costs I expect to pay during (year) to provide a home for myself (and family):

Signed Date

Clergy who own their home	
Category of expense	**Est. amount (year)**
Down payment on a home	
Mortgage payments on a loan to purchase or improve a home (include both principal and interest)	
Real estate taxes	
Property insurance	
Utilities (electricity, gas, water, trash pickup, local phone charges)	
Furnishings and appliances (purchase and repair)	
Structural repairs and remodeling	
Yard maintenance and improvements	
Maintenance items (household cleansers, light bulbs, pest control, etc.)	
Homeowner‘s association dues	
Miscellaneous	
Total estimated expenses for (year)	

Clergy who rent their home	
Category of expense	**Est. amount (year)**
Rental payments	
Property insurance	
Utilities (electricity, gas, water, trash pickup, local phone charges)	
Furnishings and appliances (purchase and repair)	
Structural repairs and remodeling	
Yard maintenance and improvements	
Maintenance items (household cleansers, light bulbs, pest control, etc.)	
Miscellaneous	
Total estimated expenses for (year)	

Clergy who live in a church-owned parsonage	
Category of expense	**Est. amount (year)**
Property insurance	
Utilities (electricity, gas, water, trash pickup, local phone charges)	
Furnishings and appliances (purchase and repair)	
Structural repairs and remodeling	
Yard maintenance and improvements	
Maintenance items (household cleansers, light bulbs, pest control, etc.)	
Miscellaneous	
Total estimated expenses for (year)	

APPENDIX B: GLOSSARY

Accrual basis of accounting	The method of accounting which recognizes and records income when it is earned and recognizes and records expenses when they are incurred.
Accrued expenses	Expenses for the current period that have been incurred but are unpaid
Auditor's report	Medium used by auditors to express or disclaim their opinion regarding the fairness, consistency, and conformity with accepted accounting principles of financial statements prepared by a diocese, congregation, or institution of the Church.
Agency funds	See *Custodian funds*
American Institute of Certified Public Accountants (AICPA)	The professional association of certified public accountants which establishes standards for conduct and is the authoritative body for standards of performance of compilations, reviews and audits. The organization provides guidance on the application of generally accepted accounting principles.
Annuity	A contract that provides an income for a specified period of time, such as a number of years or for life.
Assets	The accounts on an organization's Statement of Financial Position that represents the economic resources owned.
Audit	An examination of the financial statements of an organization by an independent auditor, the purpose of which is to express an opinion on whether the statements as a whole have been properly prepared within a framework of recognized accounting policies and that they present fairly the financial position and results of operations for the period then ended. See *Compilation* and *Review*.
Blanket insurance coverage	Used to designate insurance that extends to more than one location, or one class of property or to one employee.
Bond	Insurance where a third party guarantees the performance of an agreement.
Capitalization of assets	Recognition of the cost or appraised value of certain assets, e.g., real estate, buildings, historical treasured, and art collections, as assets on the balance sheet.
Chart of accounts	A listing of all of the accounts with a number attached to each one, which is clearly defined as to the type of account; asset, liability, revenue, expense or fund balance. The accounts are used to record transactions in the ledger.
Coinsurance	A provision in an insurance policy requiring a specified amount of coverage or a certain minimum percentage of the value of the property to be the insured value.

Compilation	A technical term used by Certified Public Accountants to express an opinion of no assurance on the financial statements of an organization. It is limited to presenting in the form of financial statements information that is the representation of the organization and no audit or review procedures have been accomplished. See *Audit* and *Review*.
Comprehensive general liability	A business liability insurance policy that covers a variety of exposures in a single contract or policy.
Custodian funds	Funds received and held by an organization as fiscal agent for others.
Deductible	A provision in an insurance policy whereby the insured may be required to pay a portion of the loss, with the insurance covering the amount in excess of that portion.
Deferred income	A liability resulting when cash or pledges are received prior to the period when they will be earned.
Defined benefit plan	A retirement plan in which benefit is defined and the cost of the plan is determined as an amount necessary to provide the stated benefits.
Defined contribution plan	A retirement plan in which the contribution or cost is stated and the benefits to be paid are determined by how much the contributions and earnings have accumulated.
Designated funds	Unrestricted funds set aside for specific purposes by action of the governing board. Such action may be reversed or modified at any time. See *Unrestricted assets*.
Double entry accounting	A method of recording a transaction by using two offsetting entries. These offsetting entries are called a debit and a credit. At all times the total amount of debits must equal the total amount of credits. Thus, the books are said to be in balance.
Endorsement	A written agreement effecting the terms and/or coverage of the insurance policy.
Endowment fund	A fund in which it is stipulated that the principal of the funs is to be maintained inviolate, in perpetuity, and only the income from the investment of the funds may be expended. The income may or may not be restricted as to its use.
Expendable funds	Funds that are available to finance an organization's program and supporting services, including both unrestricted and restricted amounts.
Extended coverage insurance	Coverage against loss or damage from windstorm, hail, smoke, explosion, civil commotion, vehicle, or aircraft that is provided in conjunction with a fire insurance policy.
Fidelity bond	Insurance protecting against a loss from the dishonesty or negligence of employees.

Financial Accounting Standards Board (FASB)	The authoritative body charged with the promulgation of accounting principles and standards.
Fund	An accounting entity established in order to account for the resources used for specific activities or objectives in accordance with special regulations, restrictions, or limitations.
General ledger	Ledger providing for the classification and summarization of data according to account groups, assets, liabilities, fund balance, revenues, and expenses.
General liability insurance	Coverage for a liability to the public other than from automobiles or injuries to employees.
Generally accepted accounting principles (GAAP)	A collection of numerous rules, conventions, and doctrines having substantial authoritative support from the American Institute of Certified Public Accountants.
Generally accepted auditing standards (GAAS)	A group of comprehensive authoritative statements on auditing procedures and standards adopted by the membership of the American Institute of Certified Public Accountants.
Imprest fund	A fund that maintains a stated balance and is periodically reimbursed for any expenditure made from that fund e.g., a petty cash fund.
Independent auditor	A certified Public Account from outside the organization who examines the financial statements with the intention of expressing an opinion on them> A properly constituted and independent audit committee as authorized by the Canons of the Church may fulfill this function.
Internal controls	The accounting and administrative policies and procedures designed to safeguard assets, promote operational efficiency, encourage adherence to the organizational policies and ensure accurate and reliable accounting records.
Liabilities	The accounts on an organization's Statement of Financial Position which represent obligations to outsiders.
Limits	The value or amount of an insurance policy. The greatest amount that can be collected under the policy.
Net Assets	Assets minus liabilities. The Net Assets are increased by revenues and decreased by expenses. Transfers into a fund will increase the fund balance, transfers out of a fund will decrease it. The Net Assets are equivalent to the retained earnings accounts for a commercial company.
No fault insurance	Usually in reference to automobile insurance where the injured party must collect from his/her own insurance company.
Operating budget	The organization's plan for the receipt of funds and how those funds are to be expended, usually for a period of one fiscal year.
Operating funds	Those funds designated by the organization to carry out the budgeted operations.

Petty cash	A small cash fund for the payment of incidental expenses, maintained on an imprest, or fixed balance, and is replenished when depleted.
Qualified opinion	A modification of the auditor's standard report which becomes necessary because of limitations in scope (if the auditor has been unable to perform all necessary auditing procedures required for a qualified opinion), or departures from generally accepted accounting procedures (GAAP) leading to material inconsistencies. In either situation, an explanatory paragraph describing the scope limitation or departure from GAAP must precede the opinion paragraph. See *Unqualified opinion*.
Restricted Assets	Funds whose use of the principal or investment income is restricted by outside agencies or persons as contrasted with funds over which the organization has complete control and discretion.
Revenues	Inflow of assets from three basic types of activities including (1) public support, i.e., contributions, (2) revenue from sale of goods and services, including membership, and (3) investments.
Review	A review is a technical term used by Certified Public Accountants to express an opinion on the financial statements with a lower level of assurance than an audit. It consists principally of inquiries of personnel and analytical procedures applied to the financial data. See *Audit* and *Compilation*.
Rider	See *Endorsement*.
Special purpose fund	See *Designated funds*.
Statement of Activities	Financial statement that presents the results of operations of the organization by summarizing the revenues and expenses. Previously referred to as the "Income Statement".
Statement of Cash Flow	Financial statement that reports cash flows from operating, investing, and financing activities. Articulates the change in Cash and Cash Equivalents to the Statement of Financial Position.
Statement of Financial Position	Financial statement that summarizes the organization's assets, liabilities, and net assets. Previously referred to as the "Balance Sheet."
Tax exempt status	The provisions of the Internal Revenue Code provide for certain types of organizations whose income received is exempt from taxation. An organization may be "tax exempt" and have income subject to taxes if the income is not related to the exempt purpose of the organization.
Tax sheltered annuity	A retirement plan provided for in the Internal Revenue Code, Section 403(b), whereby the cost of an annuity is funded through a salary reduction agreement and not subject to income taxation until the funds are distributed.

Temporary Assets	Assets that have all the characteristics of a restricted asset, except that at some future date or on the occurrence of an event it will no longer be required to be maintained as a restricted net asset.
Transfer	Moving of assets from one fund to another, usually as a result of an intended change in the use of assets.
Trial balance	Listing of all accounts in the general ledger and their respective account balances.
Umbrella liability insurance	An insurance policy that will protect corporations and individuals against claims in excess of the limits of their primary insurance policies or for claims not covered under their insurance program.
Unqualified opinion	The opinion expressed by the independent certified public accountant subsequent to the audit examination, indicating that the financial position, as stated, is fairly stated in conformity with generally accepted accounting principles applied on a basis consistent with the preceding year. See *Qualified opinion*.
Unrestricted assets	Funds that have no external restriction on their use or purpose. These funds can be used for any purpose designated by the governing board as distinguished from funds restricted externally for specific purposes.
Unrelated business income	The gross income derived by a tax-exempt organization from any trade or business the conduct of which is not substantially related to the exercise or performance by such an organization of its charitable purpose or function constituting the basis for its tax exemption.
Workers compensation	Insurance coverage for the cost of medical care and other payments to injured employees. Workers compensation insurance is mandatory in most states.

The Domestic and Foreign Missionary Society ("DFMS")
Conflict of Interest Policy Statement and Disclosure Form

<u>In accordance with the provisions of a resolution</u> adopted by Executive Council on June 12 2014:

I. Purpose

The purpose of this Policy is to protect the interests of the DFMS and to provide guidelines for handling perceived, potential or actual conflicts of interest.

II. Definitions

A. Affiliate or Affiliated Organization is any entity controlled by, in control of, or under common control with DFMS. (References to DFMS herein are intended to also include its affiliates and affiliated organizations.)

B. **Conflict of Interest** is any circumstance described in Section IV of this Policy.

C. Contract or Transaction is any agreement or relationship involving the sale or purchase of goods, services, or rights of any kind, the providing or receipt of a loan or grant, the establishment of any other type of pecuniary relationship, or review of a charitable organization by DFMS. The making of a gift to DFMS is not a Contract or Transaction.

D. **Covered Individual** includes the following:

- All members of Executive Council, including its Committees and Task Forces
- All members of Committees, Commissions, Agencies, Boards and Task Forces of General Convention
- All officers and employees of DFMS, including Consultants and Contracted Staff Persons.

E **Related Party** means any Covered Individual, any Affiliate, any relative of a Covered Individual, or any entity in which a Covered Individual, Affiliate or relative of a Covered Individual has a 35% or greater ownership or beneficial interest or, in the case of a partnership or professional corporation, a direct or indirect ownership interest in excess of 5%.

F. **Related Party Transaction** means any transaction, agreement or any other arrangement in which a related party has a financial interest and in which DFMS or any affiliate of DFMS is a participant.

G. Relative means a Covered Individual's spouse, ancestors, brothers and sisters (whole or half-blood), children (natural or adopted), grandchildren, great-grandchildren, and spouses of brothers, sisters, children, grandchildren and great-grandchildren or a domestic partner.

III. Responsibility of Covered Individuals

Covered Individuals shall:

- Rather than promoting the personal or pecuniary interest of themselves, or of someone else or such interests of another entity, promote the best interests of DFMS and its affiliated organizations at all times;
- Conduct their activities in such a way to avoid any appearance of, or actual, loss or embarrassment to DFMS and its affiliated organizations that might arise from improper influence on business decisions of DFMS;
- Avoid disclosure or private use of information regarding the business affairs or plans of DFMS;
- Be aware of and guided by the policy of DFMS with regard to conflicts of interest.

IV. Conflicts of Interest Defined

For purposes of this policy, the following circumstances shall be deemed to create Conflicts of Interest.

A. Accept or undertake to accept an emolument or gift, a loan (except from an established financial institution at standard, commercial rates available to the general public), entertainment, favors, or similar benefits of more than a nominal value ($100 per incident or $200 accumulated annually from the same service provider or grantee) from any person or organization seeking to do business with, doing business with, under contract to, or having done business with or been under contract to DFMS;
B. Serve as a director, officer or key employee in a position to exercise substantial influence over the affairs of any outside entity (e.g., corporation, unincorporated business, limited partnership) that is or has been under contract to, or is seeking to do, is doing, or has done business with DFMS.
C. Fail to disclose in good faith the material facts concerning a Related Party Transaction;
D. Act as an agent for or a representative of an entity or person that is in negotiations with DFMS for the services of that entity or person;
E. Furnish investment or managerial advice or services to DFMS if his/her principal outside occupation is the investment and/or management of funds or property, except as a member of the Investment Committee of The Executive Council of The DFMS;
F. Knowingly act as a fiduciary, whether executor, trustee, guardian, conservator, committee member, or custodian of any fund, trust, or estate, in which DFMS has a beneficial interest;
G. Fail to disclose actual knowledge of a relative's conflict or potential conflict as defined herein.
H. Disclose any confidential information about DFMS, not required by the nature of the services provided, to any outside entity or person, for personal profit, advantage, or any other reason.

V. Disclosure Procedure

A. All Covered Individuals are to read, acknowledge receipt of and acquiesce to the terms of the foregoing Policy and make a full and prompt disclosure of any and all instances of potential conflict of interest, as defined herein, to the Joint Audit Committee of the Executive Council/DFMS ("Audit Committee"). Such disclosure shall be made by the submission of a Conflict of Interest Report ("Report') (see attached form) to the Audit Committee 1) within thirty (30) days of the Covered Individual coming under the scope of the Policy ; 2) for all Covered Individuals except for DFMS employees, prior to the first meeting of each year thereafter; 3) for all DFMS employees, annually; 4) not less than fifteen (15) days after he/she has reason to believe that a) a particular situation or circumstance heretofore unreported might be construed as a conflict of interest or b) a particular situation or circumstance heretofore reported, but not at that time determined to be a conflict of interest, might now be so construed; 5) as soon as a new affiliation with DFMS begins; and 6) upon revisions of this Policy.

B. The Audit Committee shall a) examine all disclosures, b) determine whether a conflict did, does or will exist, and c) propose remedial action. In its review of a potential conflict, the Audit Committee shall document the existence and resolution of the conflict in its minutes of any meeting at which the conflict was discussed and voted upon. The Audit Committee shall make reasonable efforts to resolve in a timely manner any conflict that it determines does exist and shall provide in a timely manner a report to the Executive Council which shall summarize all reported conflicts and the final resolution, if any, of such conflicts. The Executive Council shall be responsible for determining the final disposition of all matters contained in the report of the Audit Committee.

If a conflict of interest is established, the covered individual with the conflict of interest shall not be allowed to be present or participate in the Executive Council/DFMS deliberation or vote on the matter giving rise to such conflict and shall be prohibited from improperly influencing the deliberation or voting on the matter giving rise to such conflict.

C. All information disclosed by a Covered Individual pursuant to the provisions of this Policy shall be treated as confidential, except for situations and circumstances in which the Audit Committee or DFMS may be compelled to reveal all or part of that information in order to protect its interests. In such situations or circumstances, the Covered Individual who disclosed the information shall be given prior notice.

VI. Policy Statement

Any separately incorporated affiliated organization which administers its own Conflict of Interest Policy is not covered by this policy.

The Domestic and Foreign Missionary Society ("DFMS")
Conflict of Interest Policy Statement and Disclosure Form

Conflicts of Interest Disclosure Form

TO: Joint Audit Committee of the Executive Council/DFMS

FROM:

TITLE:

AFFILIATIONS(S): ____

DATE:
==

Reporting no Conflicts of Interest: I acknowledge receipt of, have read and acquiesce to the terms of the *Conflict of Interest Policy Statement* of DFMS and acknowledge my fiduciary duty to DFMS. To the best of my belief and knowledge, neither I nor any relative is pursuing any interest, has any connection, or within the past year engaged in any activity that conflicts with the interests of DFMS as they are defined in the Policy Statement. I do so now stipulate without exception or qualification:

____
(Signed)

Members of the Committee on Investments: Reporting no Conflicts of Interest: Because my principal occupation is the management of investments and/or real property, I have been appointed to the Committee on Investments. To the best of my belief and knowledge I have not in the past year influenced or attempted to influence the selection of brokerage firms or influenced the purchase or sale of securities in the investment portfolios of DFMS. I do so now stipulate without exception or qualification:

____
(Signed)

____
(Print name of employer)

Reporting Potential Conflicts of Interest: I have read the *Conflict of Interest Policy Statement* of DFMS and acknowledge my fiduciary duty to it. Based on my understanding of this document I am now reporting the following potential conflict(s) of interest. On the attached sheet(s) I am setting forth the details for your information and review.

____
(Signed)