

★ The Episcopal Diocese of Texas

Beginning Well

FUNDAMENTALS OF PARISH FINANCES

Today's Agenda

- ★ Section 1: Resources, Roles, and Responsibilities
- ★ Section 2: Budget, Forecast and Audits
- ★ Section 3: Fund Restrictions & Things to Watch Out For
- ★ Section 4: Debt Levels
- ★ Section 5: Insurance
- ★ Q&A



Section 1: Resources, Roles, and Responsibilities

Finance and Accounting Resources

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Financial Services

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Financial Services

Welcome to the Office of Financial Services. Here you will find information about compensation and reimbursement guidelines, rules and regulations of Church governance regarding financial matters, audit guidelines, property insurance information and many other important resources.

Best Financial Practices for Worshipping Communities - workshop slides

- [Canons 22: Incorporation](#)
- [*Diocesan Guidelines for Incorporation and Bylaws](#) (Templates for these documents can be obtained by emailing registrar@epicenter.org)*
- [Special Offerings](#)
- [Church Corporation Participating Fund](#)
- [Tax Guide for Episcopal Ministers & Churches](#)
- [The Church Pension Fund/A Guide to Your Benefits](#)

Helpful Online Resources:

- ★ Manual of Business Methods in Church Affairs:
 - ★ English and Spanish can be found on our website
 - ★ <https://www.episcopalchurch.org/finance-office/manual-of-business-methods/>
- ★ Clergy Manual
 - ★ <https://www.epicenter.org/clergymanual/>
- ★ Epicenter.org Financial Services Page
 - ★ <https://www.epicenter.org/diocese/the-office-of-financial-services/>
 - ★ Info on Special Offerings, Participating Fund, Parish Inventory, Parochial Report, Audit Procedures and more

Reference Guides

- ★ Tax Guide for Nonprofits (3rd Edition) by Stephen Fishman
- ★ Nonprofit Law for Religious Organizations – Essential Questions & Answers by Bruce R. Hopkins & David O. Middlebrook
- ★ Zondervan 2019 Church and Nonprofit Tax & Financial Guide by Dan Busby & Michael Martin
- ★ Good Governance for Nonprofits by Fredric L. Laughlin & Robert C. Andringa

Basic Responsibilities of Vestry

The vestry is responsible for overseeing --

- ★ Major programs, example worship services, Sunday school & other education activities
- ★ Physical assets
- ★ Finances

Responsibilities should be split among vestry members according to the structure of the parish programs and facilities, and their oversight needs

Financial Role of Vestry

- ★ Assure adequate Financial Controls
- ★ Appoint Key Finance Positions
- ★ Assign responsibility for the Stewardship of programs, ministries, facilities, and property of the church
- ★ Appoint the Finance Committee
- ★ Establish and approve annual *Revenue Forecast*
- ★ Annual Stewardship Campaign
- ★ Direct development of, and approve annual Budget (and any changes thereto)
- ★ Appoint the Annual Audit Committee

Separation of Functions: Positions



Basic Controls & Segregation of Duties

- ★ Controls around counting offerings and event income
- ★ Background checks on Sunday counters
- ★ Deposits
- ★ Disbursements
- ★ Payroll
- ★ Opening mail
- ★ Bank reconciliations
- ★ Records security
- ★ Roles of Accountant vs. Treasurer vs. Office Manager
- ★ Finance Committee
- ★ Outside audit

General Functions: Positions

- ★ Treasurer
 - Oversees of financial functions

- ★ Bookkeeper
 - Prepares checks
 - Maintains financial records

- ★ Finance Committee (or designated persons)
 - Signs checks and disburses funds

- ★ Rector/Vicar
 - Does not have financial duties, including check signing

Assuring adequate financial controls reduces risk of Fraud

★ **Fraud can be perpetrated by:**

- Outright theft
- Not recording transactions in the books
- Falsely recording transactions in the books
- Lack of control of the offering receipts & disbursements





The Episcopal Diocese of Texas
CHECK REQUEST
 (Please print legibly in all cells)

DATE PREPARED:
DISPOSITION OF CHECK
<input type="checkbox"/> U.S. MAIL - Must include mailing address in "Make Payable To" Section
<input type="checkbox"/> Electronic Funds Transfer
<input type="checkbox"/> Return to Requester or: _____
<input type="checkbox"/> Attachments:

ENTITY (check one):	
<input type="checkbox"/> EDOT (Episcopal Diocese of Texas)	
<input type="checkbox"/> EHF (Episcopal Health Foundation)	
<input type="checkbox"/> EHC (Episcopal Health Charities)	
<input type="checkbox"/> GCF (Great Commission Foundation)	
<input type="checkbox"/> QUIN (Bishop Quin Foundation)	
<input type="checkbox"/> EFT (Episcopal Foundation of Texas)	
<input type="checkbox"/> PECC (Church Corporation)	
<input type="checkbox"/> EDOT FSC (EDOT Financial Services Corporation)	

MAKE PAYABLE TO:	Name		AMOUNT OF CHECK	\$	
	Address				
	TO:		DATE PREPARED		
	Include Mailing Address		DATE DUE		

DESCRIPTION OF EXPENDITURE/PURPOSE:	

CHARGE TO: (Account numbers)	

REQUESTED BY:		ON BEHALF OF:	
APPROVED BY:	DATE	APPROVED BY:	DATE

Cash Counting Worksheet

Date _____

Event _____

Coins

Pennies	_____	@ \$0.01	\$	-
Nickels	_____	@ \$0.05	\$	-
Dimes	_____	@ \$0.10	\$	-
Quarters	_____	@ \$0.25	\$	-
\$.5 Piece	_____	@ \$0.50	\$	-
\$1.00 Piece	_____	@ \$1.00	\$	-

Total Coin

Currency

Ones	_____	@ \$1.00	\$	-
Twos	_____	@ \$2.00	\$	-
Fives	_____	@ \$5.00	\$	-
Tens	_____	@ \$10.00	\$	-
Twenties	_____	@ \$20.00	\$	-
Fifties	_____	@ \$50.00	\$	-
Hundreds	_____	@ \$100.00	\$	-

Total Currency \$

Counter #1	<p style="text-align: center;">_____</p> <p style="text-align: center;">Print Name</p> <p style="text-align: center;">_____</p> <p style="text-align: center;">Signature</p>
Counter #2	<p style="text-align: center;">_____</p> <p style="text-align: center;">Print Name</p> <p style="text-align: center;">_____</p> <p style="text-align: center;">Signature</p>

Total Checks

Total Deposit \$

Internal Controls: Best Practices

- ★ Written Policies and Procedures
- ★ Levels for Authorizations
- ★ Segregation of duties
- ★ Dual controls
- ★ Contemporaneous recordkeeping
- ★ Monitoring

Section 2: Budget, Forecast and Audits

Budget

★ **Developing Budget:**

- Linked to Mission and Vision
- Reconciles available resources to ministry requests
- Vehicle for funding ministry and programs
- Builds on Revenue Forecast
- Vestry adopts the Annual Budget and shares it with Congregation

The Mechanics Behind Budgeting

- ★ Budgeting for coming year should begin in the fall
- ★ Balancing a budget
- ★ Biggest expense should be salaries & related expense for a small to medium-sized church
- ★ How do you arrive at projections?
- ★ Timing of income coming in may not match expenditures going out
- ★ If you have a deficit budget, you **MUST** have a plan

Expense Budget

Similarly, the budget should include expected expenses:

- ★ Classified by categories
- ★ Organized in a way that allows comparing actual expenses from period to period and against the budgeted amount
- ★ Where available actual amounts should be used to all the known expenses
- ★ Past expenses can be used as guidelines
- ★ Every dollar should have a name
- ★ Balanced and realistic
- ★ Reserves

Revenue Forecast

- ★ Specific Components:
 - Pledges
 - “Identified Givers”
 - Loose Plate
 - Special Events
 - Capital Fund Drives
 - Use Fees from outside groups
 - Investment Income (e.g. special funds, endowment)

- ★ Cash Flow – the timing of the receipts

The Audit

- ★ What is an audit?
- ★ Why do we need one?
- ★ Internal review.
- ★ Audit Committee.
- ★ Audit process.

Title I, Canon 4, Section 4.5, Annual Audits

The Audit Committee

- ★ Have not less than 3 members
- ★ Be appointed by the Vestry
- ★ Not include members who have responsibility for the records to be reviewed
- ★ May, but need not, include Vestry members

Audit Program Summary

- ★ Review prior year audit
- ★ Documentation
- ★ Audit receipts
- ★ Review Disbursements
- ★ Bank Statements and Reconciliation
- ★ Payroll and Taxes
- ★ Budget Variances
- ★ Report

Section 3: Fund Restrictions & Things to Watch Out For

Designated vs. Undesignated Contributions

- ★ What is a general, undesignated contribution to a church?
- ★ A contribution is generally considered to be 100% tax-deductible
- ★ What is a designated contribution?
- ★ Are churches allowed to take in contributions for an outside charitable organization?
- ★ Can the priest designate loose plate offerings during a service?
- ★ Board-designated funds

Things to watch for

- ★ Sales tax for items church sells
- ★ Alcohol permits for paid events
- ★ Contract employees
- ★ Unrelated business income tax
- ★ Outside groups renting church space
- ★ Related-party contracts & possible conflict of interest
- ★ Volunteers are not employees and do not pose a tax issue for the church



More things to watch for

- ★ Employment law applies to churches!
- ★ Annual audit
- ★ Records retention
- ★ Preparation plan for catastrophic event
- ★ Money safe
- ★ Petty cash

Section 4: Debt Levels

Debt Service

Debt Load Guidelines and Limits:

- ★ Up to 10% = Acceptable debt level. Should be manageable without significant strain on ministries and programs.
- ★ 10% - 15% = Heavier debt load. Should be manageable but with **careful** planning.
- ★ 16% - 19% = Risky debt load. Staffing, programming, and maintenance needs will compete with and often concede priority to debt service in budget decisions and can often negatively impact congregational vitality and growth.
- ★ 20% = Absolute upper limit. Negatively impacts staffing, programming and other ministries.
- ★ An alternative to the 20% maximum debt load is: Debt \leq \$10,000 per pledging unit.

Debt Service

- ★ The calculation for Annual Debt Service (total principal and interest payments) ÷ Annual Operating Budget
- ★ Example: A church has existing debt and pays \$3,350 per month in principal and interest payments. The Church's annual Operating Budget is \$425,000. $\$3,350 \times 12 \text{ months} = \$40,200 \div \$425,000 = .0946$ or 9.5% of the Operating Budget.



Crump Fund

- ★ Joe and Jessie Crump Fund was established in the 1960's for cultural research and low interest rate loans to Episcopal Churches in Texas.
- ★ Requirements:
 - ★ Must be for new construction.
 - ★ The loan amount is not to exceed \$500,000.00.
 - ★ The duration of the loan is determined by the amount of money borrowed but is not to exceed 20 years.
 - ★ Interest rate on the loan will be 2%.
 - ★ Stated principal plus interest payment is required annually.
 - ★ The Joe & Jessie Crump Fund must have First Lien position on title.

Section 5: Insurance

Insurance

- ★ Title I, Canon 7 (6), states – “All buildings and their contents shall be kept adequately insured.”
- ★ In addition to insurance coverage for the physical property, each Diocesan entity, as defined in Title II.5 shall be required to have:
- ★ General liability insurance coverage of at least one million dollars (\$1,000,000.00),
- ★ Liability insurance coverage against sexual misconduct which is at least equal to the lesser of (i) the maximum coverage and limits available from the Church Insurance Corporation, or (ii) the coverage and limits required by the Executive Board.



General Liability Insurance

- ★ Purpose: To protect and organization and its agents against civil liability for bodily injury, property damage, or personal injury to others.
- ★ Most general liability for not-for-profits protect the following:
 - ★ The corporate entity (the “Named Insured”);
 - ★ Its subsidiaries and affiliates;
 - ★ Their executive officers;
 - ★ Their employees; and
 - ★ Their volunteers

....for their actions on the organization’s behalf. Church-related policies may be even more specific in designating ordained clergy, wardens, and vestry members as additional types of Insureds.

Directors' & Officers (D&O) Insurance

- ★ Purpose: To protect and organization and its agents against “wrongful acts.”
- ★ Most D&O for not-for-profits protect the following:
 - ★ The entity, both in its own right and when it indemnifies Directors & Offices pursuant to its by-laws; and
 - ★ Its Directors & Officers (as defined in the policy)
- ★ Many D&O policies are underwritten on a “Claims-Made” basis
- ★ Within the context of a D&O policy, a **Wrongful Act** is usually defined as:
 - ★ An act committed or wrongfully attempted
 - ★ An error
 - ★ An omission
 - ★ A misstatement
 - ★ A misleading statement
 - ★ Neglect
 - ★ A breach of duty

Q&A