

PRESBYTERY DE CRISTO

FINANCIAL REVIEW GUIDELINES

INTRODUCTION

A financial review is a requirement of the Book of Order. The Session Records Review Committee discovered in 2004 that almost one third of our Churches had either not performed, or had not reported having performed, an audit or financial review of their financial statements. This deficiency was reported at the next Presbytery Meeting. The Finance Committee undertook to find the extent of the problem and to encourage compliance with our governing rules. After several letters from the Finance Committee, a few Churches either started, or completed their required audits or financial reviews. However, there is still not complete compliance with this requirement of the Book of Order.

BOOK OF ORDER REQUIREMENTS

The Book of Order, Chapter X, The Session, includes Section G-10.0400, Church Finances. This Section starts by stating a Treasurer shall be elected annually by the Session and his or her work shall be supervised by the Session. It goes on to say those in charge of the various funds in the church shall report at least annually to the Session. Additionally, it lists the minimum standards of financial procedures to be followed.

The following is quoted from the Book of Order, Section G-10.0400, Church Finances: (underlining added by RWP)

- a. The counting and recording of all offerings by at least two duly appointed persons, or a fidelity bonded person;
- b. The keeping of adequate books and records to reflect all financial transactions, open to inspection by authorized church officers at reasonable times;
- c. Periodic reporting of the financial activities to the board or boards vested with the financial oversight at least annually, preferably more often;
- d. A full financial review of all books and records relating to finances once each year by a public accountant, a public accounting firm or a committee of members versed in accounting procedures. Such auditors should not be related to the treasurer (or treasurers). Terminology in this section is meant to provide general guidance and is not intended to require or not require specific audit procedures or practices as understood within the professional accounting community.

The Presbytery De Cristo Finance Committee recommends additional financial reviews, or at least a cash audit, be considered whenever there are personnel changes involving the people who manage church funds. For example, when a new Treasurer takes over, an additional review may be advisable.

A financial report should be presented at all regular Session meetings and included in the church Annual Report.

PURPOSE OF AN AUDIT OR REVIEW

A review of the church financial records each year is necessary to assure the members that the financial data presented is accurate. As stated in the Book of Order, a financial review should be performed by someone outside the normal control of the funds and the recording of transactions.

TYPES OF AUDITS/REVIEWS

The Book of Order does not require that the financial review be performed by a certified public accountant. Larger churches may want to engage the services of a certified public accountant in order to achieve a higher level of assurance of the accuracy of the financial information. Other churches may be required by lending institutions to use certified public accountants.

The three levels of engagements performed by certified public accountants are: compilation, review, and audit. These three levels of engagements are listed in increasing order of scope of work, assurance provided, and cost. Although the Book of Order uses the term “financial review”, nothing in these Guidelines is intended to imply a review by a certified public accountant is necessary.

Many churches will choose to use a member, or committee of members, to perform the annual financial review. These Guidelines are provided only as suggestions for procedures to be followed by the internal financial review committee. The individuals performing the internal financial review should be knowledgeable of accounting procedures in general.

PREPARING FOR A FINANCIAL REVIEW

A financial review may be done at any time, but at least one should be done at the end of the fiscal/calendar year, as appropriate. The first step is to pick a person(s) to do the review, and to agree on a price, if there is a charge. All the financial records need to be complete for the time period being reviewed, and available, along with the person, or persons, who prepared the records. The reviewer will want to look at the entire process, the bank statements, church ledgers, check books, and all supporting data.

PERFORMING A FINANCIAL REVIEW

This document will follow the normal course of receiving funds and the spending of money. We will first describe what each person does along the way and then suggest what a reviewer would look for in the records as we proceed. These are only suggestions from the Presbytery Finance Committee. Actual procedures will depend on the situation at each church. We will start with the counting process, then ‘follow the money’.

THE COUNTERS AND THE PROCESS

The offerings should never be left unattended, from the time the plates are passed until counting begins. The Book of Order requires that two people count the offerings. The counters should have a process of checks and balances to be sure all receipts are accounted for accurately. There should be forms supplied to the counters so that each person's offering is recorded properly to their account. After the counting is completed, and the deposit slips prepared, it is recommended the deposit be made that day, if at all possible, preferably by one of the counters. The Presbytery Finance Committee also recommends different counters be used on a rotating basis, if possible, to maintain some privacy for the givers.

FINANCIAL REVIEW ITEMS: A financial reviewer should review the counting process. The reviewer should make spot checks of what was reported as received and if it was credited to the proper person. The reviewer should verify that the deposit was for the correct amount of funds received and deposited in a timely manner.

FINANCIAL SECRETARY

Some larger churches have a person designated as the Financial Secretary. This person works with the Treasurer, but is usually only responsible for keeping a record of the offerings received from each giver. This person will receive the forms from the counters that show what each person gave that day. The Financial Secretary then takes the data and enters the amounts into that person's individual giving record. That individual's giving record will show the total amount of money received, and if they are ahead or behind in their pledge. Periodically the Financial Secretary will give the Treasurer an accounting of pledges received. The Financial Secretary should send the individuals a final Giving Summary Statement for the year so they can file their income tax returns. It is not uncommon to send out statements quarterly. Usually, it is the Financial Secretary who would provide acknowledgement to the individual for larger gifts, and to satisfy Internal Revenue Service requirements.

FINANCIAL REVIEW ITEMS: The reviewer will have checked the source records generated by the counters. The reviewer must now check and verify that the data provided in the counting process is properly recorded. Again, some sampling may be employed to make these checks of the process.

THE TREASURER

The Treasurer has the most complete and diverse set of responsibilities. The Treasurer is responsible for maintaining the church general ledger, and the cash receipts and disbursement journals. A church bookkeeper may assist the Treasurer with his/her duties. Although someone else will have prepared the annual budget, it is the Treasurer who has to make sure it is being followed and the income and expense projections are within reason. The Treasurer will be the person in contact with the bank or brokerage house and needs to keep abreast of those account balances. The Treasurer has the

responsibility for payment of salaries and to make sure the payroll withholdings are properly made and payroll tax reports are timely and accurately filed.

In addition, the Treasurer keeps track of all the special offerings, such as One Great Hour, local Mission projects, etc, and the Per Capita Giving. Funds received for each of these purposes has to be credited to the proper accounts. It is also the Treasurer who should advise when it is time to disburse these funds.

The Treasurer will have a copy of the approved annual budget, and it is his/her job to track income and expenses according to the form of the budget. He/she would be responsible for generating financial statements each month for the Session.

The financial statements should consist of at least a Statement of Assets, Liabilities, and Fund Balances (a balance sheet) and a Statement of Income and Expenses. Samples of each are attached at the end of this document. Most church financial software will generate statements similar to, or with more data than shown here.

FINANCIAL REVIEW ITEMS: After reviewing the entire process, as a starting point the reviewer should make a check of how the financial reports generated by the church compare with the statements of the various institutions holding the funds.

The next area to review is the actual and budgeted amounts for income and expenses to see how they compare. If there are any material differences in either the totals or line items, these should each be examined and explained.

The reviewer should also review the church check books and compare some entries with the bank/brokerage statements. While checking individual checks, the reviewer should also look for data to support each payment. Each check written for services or materials should have an authorized church request for the item, a bill attached from the vendor, and a note stating it had been received and paid. Finally, there should be an appropriate entry in the cash disbursement journal and the general ledger for the expense, charged against the proper account.

Since most of the church income comes from offerings, the reviewer must check that the data collected by the Financial Secretary, if there is one, has been properly entered into the cash disbursement journal and the general ledger. This may be done by reviewing copies of the weekly deposit slips prepared by the counters.

The reviewer should check the documentation for salaries and benefits to be sure they comply with the contracts and budgets. He/she must also check that the deductions are proper and documented for the various agencies and that the church is in compliance with all payroll tax reporting and payment requirements.

The reviewer should also check adjusting journal entries to see that they are appropriate and have complete explanations.

SUMMARY OF FINANCIAL REVIEW PROCESS

Money Counters (page 6)

1. Review the counting process
 - a. Are there two counters?
 - b. Are the counting forms adequate?
 - c. Are all gifts properly credited?
2. Are accurate and timely deposits made?

Financial Secretary (page 7)

1. Verify Counter forms are properly credited.
2. Check how this information gets to the Treasurer.
3. Compare offering records to the statements sent out.
4. Check if large gift givers received a letter for tax use.

Treasurer (page 9)

1. Compare bank/brokerage statements with financials.
2. Review budgeting results.
3. Verify checks for services or materials are supported.
4. Verify income and expenses are properly recorded.
5. Check offering deposits with bank statements.
6. Verify if salary checks are correct.
7. Check accuracy of deductions.
8. Verify the withheld funds are transferred.
9. Verify the W-2s, etc., are filed.
10. Review overall records for revisions or corrections.

EXAMPLE OF A BALANCE SHEET

Sunshine Glory PC Balance Sheet for Dec. 31, 20XX

ASSETS	Current YR	Prior YR
Doofus Bank Savings	\$ 7,000.00	2,000.00
Doofus Bank Checking	2,000.00	1,000.00
Office Petty Cash	100.00	100.00
Fannie Mae Stock	1,000.00	900.00
XY Brokerage Acct	10,000.00	8,000.00
PILP	<u>50,000.00</u>	<u>35,000.00</u>
Total Assets	\$70,100.00	\$47,000.00

LIABILITIES AND FUND BALANCES

Liabilities

FICA payable	\$10.00	0.00
AZ W/H payable	<u>340.00</u>	<u>150.00</u>
Total Liabilities	\$350.00	\$150.00

Fund Balances

Mortgage Fund	25,000.00	15,000.00
General Fund	16,000.00	12,000.00
Camp Fund	1,500.00	1,200.00
Choir Robe Fund	100.00	100.00
Pastor Discretionary Fd.	500.00	700.00
Memorial Fund (Restr. Fd.)	2,000.00	2,000.00
Music Fund (Restr. Fd.)	<u>1,000.00</u>	<u>1,000.00</u>
Total Fund Balance	\$46,100.00	\$32,000.00

Un-obligated Funds\$	23,650.00	\$14,850.00
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TOTAL LIABILITY & FUND BALANCES

	\$70,100.00	\$47,000.00
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EXAMPLE OF A STATEMENT OF INCOME AND EXPENSES

**Sunshine Glory PC
Profit/Loss for 20XX**

INCOME	Budget	Actual	\$ Diff.	%Var.	
Pledges	98,000.	102,000.	+4,000.		-4.08
Unpledged	62,000.	4,000.	- 8,000.		-12.90
Per Capita	2,500.	2,400.	-100.		-4.00.
Interest	100.	100	-100.		0.
Other	1,000.	4,000.	+3,000.		+300.00
TOTAL INC.	<u>163,600.</u>	162,500.	-1,100.		-0.67.

EXPENSES

Pastor	75,000.	75,000.	0.	0.
Admin Asst	16,000.	16,000.	0.	0.
Bldgs & Grnds	11,500.	9,500.	-2,000.	-17.39
Utils & Phone	10,000.	10,500.	+500.	+5.00
Office Exp.	1,000.	6,000.	+1,000.	+20.00
Stewardship	250.	300.	+50.	+20.00
Wrshp/Music	12,000.	11,500.	-500.	-4.17
Outreach	21,000.	21,500.	+500.	+2.38
Chr. Ed.	<u>10,000.</u>	<u>9,000.</u>	<u>-1,000.</u>	<u>-10.00</u>
TOTAL EXP	160,750.	59,300.	-1,450.	-0.90

EXCESS INCOME OVER EXPENSES = \$3,200

CONCLUSION

These Guidelines will provide a basis for starting a financial review by people versed in accounting. While not all of the items are essential for every review, those listed herein will serve as a basis for making a reasonably accurate review.

When the Financial Review team has completed their work and if their questions have been satisfactorily answered, their final report should be sent to the Session. Words similar to the following statement may be included in the report sent to the Session:

“We, the undersigned, have reviewed the financial records of this church. Based on the information we were furnished to make this review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to accurately reflect the financial position of this church as of _____, and the income and expenses for the year ended.”

The report should also include copies of the financial statements that were reviewed, and signed by the person(s) who performed the financial review.

These Guidelines were approved by the Presbytery De Cristo Finance Committee, on June 7, 2005.