

Diocese of Ontario

ACCOUNTING & REPORTING SYSTEM**Introduction**

Financial management includes processes and procedures involving a church's cash and investments. To aid in financial management a church should have a formalized accounting system.

A church's accounting system should provide:

- Historical information classified to assist in planning the church's future programs;
- Current financial information presented in a manner that permits it to be compared with the planned program;
- A system of internal controls that provide assurance to members and contributors that all funds contributed to the church are:
 - Received; and,
 - Applied in the manner designated or approved by the membership;
- In the case of multi-point parishes, where administration of some of the parishes' common activities are centralized, an adequate means of segregating congregation-specific costs and revenues and allocating those that are common must be maintained.

The guidelines and models discussed here have been developed by the Diocesan Financial Office. Naturally, each church's accounting system must reflect its needs; however, the overall design should not vary greatly from the models set forth here.

Division of Funds

"Fund accounting" is a specialized accounting system designed to meet the unique needs of not-for-profit organizations like churches. Because churches often have one or more funding sources that place conditions or restrictions on the use of money or property received, fund accounting allows for proper classification and reporting of these resources into separate categories. Fund accounting tracks (in separate "funds" or compartments) the ways in which the resources themselves are held and applied for different activities, objectives and restrictions.

Accounting for Contributions

Contributions are a type of revenue unique to not-for-profit organizations. The main characteristic of a contribution that sets it apart from other types of revenue is that it is a non-reciprocal transfer – in other words, the contributor generally does not receive anything in exchange for the contribution.

The Canadian Institute of Chartered Accountants (CICA) recognizes basically two types of accounting for contributions – the deferral method and the restricted fund method. Because most churches have separate funds, the restricted fund method is more appropriate.

If a church accepts funds from members or other contributors that are designated for different purposes within the programs of the church, then such funds must be accounted for separately. There are three types of contributions:

1. **Restricted Contributions** – these are contributions where the donor imposes all restrictions. The restrictions may be explicit (for example, where the contributor specifically states that it is to be used for a specific purpose) or implicit (for example, if the church solicits contributions for specific purposes such as to purchase a new organ). Restricted contributions are recognized as revenue of the corresponding restricted fund when received.
2. **Endowment Contributions** – these are a special type of restricted contribution received by the churches that are restricted by the donor, who specifies that the capital must be held in perpetuity. Endowment contributions are recognized as revenue of the endowment fund. Endowment contributions are usually held as investments and the church may be allowed to change the individual investments held, but the principal amount must be maintained permanently.
3. **Unrestricted Contributions**– these are contributions recognized as revenue when received; such contributions go into the general fund. Contributions to the church programs generally are unrestricted as to their use. (However, even with unrestricted contributions, donations should be kept track of by type, for example, envelope contributions, Church School, etc.)

Because transfers of resources between funds do not result in changes to a church’s overall economic resources they should not be recognized as revenues and expenses. Inter-fund transfers should be recognized as changes in fund balances.

Each separate fund is based on a particular type of activity or purpose. Each fund has assets, liabilities and a fund balance, with its activities reported in the separate revenue and expense accounts for that fund. The purpose of each fund should be reported in the church’s financial statements. (CICA Handbook Section 4400.06-. 07)

While separate accounting is required, it is usually not necessary that the funds be physically separated into different bank accounts. Here is an example of various funds a church might set up under fund accounting:

- Fund 01: Unrestricted Fund (“Operating Budget”)
- Fund 02: General Capital Fund (Invested operating funds)
- Fund 03: Capital Asset Fund
- Fund 04: Restricted Fund
- Fund 05: Endowment Fund

There may in turn be a number of “funds” that make up each of the above funds. As an example, a number of individuals may have left endowments to the Church for various purposes. The Endowment Fund may be comprised of a Moore Fund, Thompson Fund, and Sherwin Fund.

While there is a need to keep track of each of these endowments separately, for reporting purposes it is sufficient to combine them under the Endowment Fund.

Incumbent's Discretionary Fund

Money from this discretionary fund is distributed by the incumbent to people he or she feels are in need of financial aid. These amounts are transferred each month into a separate bank account for which the incumbent alone has signing authority. The purpose of the separate account is to provide confidentiality to the individual receiving the assistance. The incumbent should maintain a personal ledger detailing disbursements, and the Canada Revenue Agency during the course of an audit could request this information.

Chart of Accounts

A chart of accounts can be thought of as a filing system used to assign the results of financial transactions over a period of time. Like any filing system, the more it reflects the priorities of its users, the more user-friendly it will be.

The purpose of a chart of accounts is to:

- Maintain uniformity of classification of transactions from year to year;
- Facilitate bookkeeping and preparation of financial statements,
- Aid in preparing the Diocesan Green Sheets or Annual Financial Returns.

In developing a chart of accounts, provision must be made for each fund that has its own assets, liabilities, fund balance, support and revenue and expense accounts. The chart of accounts must integrate these separate funds into an account structure facilitating bookkeeping and financial statement creation.

The Accounting System

The financial statements produced by a Church must consolidate all of the funds that the Church has. This means that the cemetery fund, building fund, altar guild fund, etc. should form part of the financial statement as these monies fall within the control of the corporation. It will be easier to do this if the accounting system integrates these funds in to a balance sheet, rather than having to "cut and paste" these amounts at the end of the year.

The accounting system should be able to generate separate financial reports for each Fund, as well as a combined (consolidated) report. Please refer to Section 6.9 – Sample Financial Statements in this Handbook for a suggested format. An electronic copy of this resource is also available from the Diocesan Financial Office so that individual congregations may adapt it to their use.

Internal Controls

There are a number of questions that must be answered when an accounting system is being set up for the first time, for example:

- What type of bookkeeping should be used?
- How many bank accounts are needed?
- Who should deposit the receipts in the bank, and how?

Many of these decisions can be made easily; others require some thought. The decisions that are made regarding the accounting system become the policies and procedures of the accounting system, which collectively become known as “internal controls”. Good internal controls will ease the job of the Treasurer and Churchwardens by providing greater assurance that transactions are recorded properly, resulting in more reliable records and protection of church assets, as well as compliance with applicable laws, Canons, and church policies.

For parishes that already have an accounting system in place, periodic review of the accounting policies and procedures should be made. To aid in this review, the Diocesan Financial Office has provided Section 6.10 – Internal Control Questionnaire in this manual, which can be used as a checklist for evaluation of an existing system.

Privacy Consideration: It is inappropriate for financial statements presented to the Vestry to show the details such as the incumbent’s pay. Where possible, these figures should be presented in such a way as to protect the privacy of the individual’s compensation.

Financial Statements

The Churchwardens are required to present a Financial Report to the Vestry annually. The financial statements normally include the following (which will be explained below):

- (a) Statement of Financial Position or Balance Sheet;
- (b) Statement of Operations or Income Statement;
- (c) Statement of Changes in Net Assets;
- (d) Statement of Cash Flows;
- (e) Supplementary schedules reporting the activities of restricted funds:

These schedules should report the activities in these funds during the reporting period, starting with an opening balance and reporting receipts and disbursements during the period and the closing balance at the end of the period. In addition, statistical information concerning things such as contributions per member, and receipts versus pledges (if applicable), would be useful to the Vestry, especially when considering future programming and budgeting.

(a) Statement of Financial Position

The Statement of Financial Position (also known as the Balance Sheet) sets out a church’s assets, liabilities and fund balances (for each fund) as at the reporting date. Assets and liabilities are classified as either current or non-current, to provide financial statement readers with information about liquidity.

(b) Statement of Operations and Changes in Fund Balances

The Statement of Operations (also known as the Statement of Revenues and Expenses) sets out the details of a church’s revenues and expenses for the period and provides information about changes in the church’s economic resources and obligations. Churches should report on at least the general fund, a restricted fund and an endowment fund in the Statement of Operations. The Statement should report the excess revenues over expenses for each fund.

(c) Statement of Cash Flows

The Statement of Cash Flows (also known as the Statement of Changes in Financial Position) provides information about the church's sources and uses of cash and cash equivalents in carrying out its activities for the period. This statement presents information that is either not provided in, or only indirectly provided in, the Statement of Financial Position, the Statement of Operations, and the Statement of Changes in Net Assets.

The following discussion relates to the presentation of financial statements in compliance with the six new Handbook sections on accounting and disclosure standards for not-for-profit organizations announced by the CICA in 1996. The sections are:

- Section 4400 Financial statement presentation
 - Section 4420 Contributions receivable
 - Section 4430 Capital assets held by non-profit organizations
 - Section 4440 Collections held by non-profit organizations
 - Section 4450 Reporting controlled and related entities by not-for-profit organizations
 - Section 4460 Disclosure of related party transactions by not-for-profit organizations
- In addition to the Handbook, there is another useful resource, which can be obtained directly from the Institute: (www.knotia.ca)*
- Not-for-profit Financial Reporting Guide Statements.

Controlled and Related Entities

For purposes of complying with the CICA Handbook, the diocese does not consider parishes to be controlled or related entities.

Diocesan 'Green Sheets' or Annual Financial Returns

Churchwardens are required to submit statistical returns to the Diocesan Executive Officer, and financial returns to the Diocesan Financial Officer by March 15th every year. The Diocesan Green Sheets or annual return is required so that the Diocese can maintain a diocesan-wide financial statistical summary on an annual basis. This information is submitted to our National Church office. These statistics are also used to accurately and fairly calculate assessable income for each parish, which is then used to determine each parish's fair share of diocesan ministry throughout the wider church.

The Diocesan Green Sheets are created by the Diocesan Financial Office and are revised from time to time in keeping with the decisions of Synod and Synod Council. An electronic workbook of the Diocesan Green Sheets, in MS Excel format, is available by download from the diocesan website at:

<http://www.ontario.anglican.ca/cgi-bin/newsscript.pl?record=1581>

Cash Management Practices

Sound cash management practices are vitally important to all parishes. For many parishes, significant portions of their donations are in cash. Two different and equally important topics are considered here:

- A. Handling Cash

B. Disbursing Church Funds

A. Handling cash

The implication of the Canons related to the Churchwarden's responsibilities regarding the parish's offerings is that whenever there is cash present that has been given to the parish there must be a minimum of two unrelated people present.

Suggested Collection Procedures

The following is a suggested method of carrying out collections. The actual may vary from this procedure a bit, but to ensure proper cash handling the basics outlined here should be followed:

- The Counters count the cash and record the amount on the forms provided and prepares a bank deposit slip. All people in the counting room are required to legibly sign a book recording the money received.
- The offering plates are returned to the Narthex table. A designated individual carries cash to the bank for deposit.
- Money should be deposited on Sunday and not held overnight.

B. Disbursing Church Funds

From time to time church funds are used to purchase goods or services for church use. For accounting purposes, the cost must always be charged to the appropriate budget item. Though it varies from church to church, in many cases different persons may have responsibility for different budget items. For example, if your church has a Youth Group Committee that oversees such activities, the Youth Group Committee Chair would likely be in charge of that budget item. Therefore, if a particular Youth Group activity needs to purchase something, the cost would come out of that budget line.

To have an invoice paid, a cheque requisition form should be completed and signed by the person responsible for the individual budget line that the funds would be coming from (in the example above it would be signed by the Youth Group Committee Chair). The cheque requisition form should indicate the nature of the expenditure, the amount, and the account that is to be charged for the expenditure.

Churches requiring template cheque requisitions or samples of other forms are welcome to phone the Diocesan Financial Office to obtain electronic or hard copies.

Cheque signing policy

All church cheques must be signed by both Churchwardens or by either of them and another person appointed by the Vestry for that purpose. If a Churchwarden is not reasonably available, two authorized signing officers may sign a cheque and later (within 60 days) have a warden review the documentation and initial on the cheque. A deputy Churchwarden if authorized by vestry may exercise the same level of authority as wardens in cheque signing. Cheques should never be signed in blank or

pre-signed. Similarly, the use of signature stamps should be prohibited.

This policy will minimize opportunities for fraudulent behavior but, of equal importance, it will remove the opportunity for a volunteer or employee to be placed in an environment of mistrust.

When a bank prints cheques they are sequentially numbered. Cheques should always be used in sequence so that they can be easily tracked. Also, all void cheques should be properly cancelled and retained. Unsigned cheques should be safely stored. Cheques should always be made payable to specific payees and not to cash (or in bearer form). Invoices paid by cheque should always be cancelled by stamping them as paid at the time of signature, to prevent duplicate payment of the invoice.

Petty Cash

Generally speaking, all disbursements should be made by cheque, except for very small ones, which can be made through petty cash. It is a good idea to set a pre-defined limit on the amount of disbursements that can be made through petty cash. The responsibility for petty cash should be assigned to just one person. To obtain funds from petty cash a voucher or some other document indicating the reason for the disbursement should be given to the person handling the petty cash. At the end of every month petty cash should be reconciled – at the end of the month the amount remaining plus the voucher totals should add up to the amount at the beginning of the month. Petty cash should be reimbursed as required. The actual petty cash should be kept in a secure place.