

# **HANDBOOK**

**for the**

## **Church Financial Review Committee**

**Prepared by Foothills Presbytery**

**June 2009**

**Revised February 7, 2017**

## **DISCLAIMER**

Foothills Presbytery is not responsible for the conduct of local church audits, nor does the Presbytery provide legal or financial advice to local churches through this booklet. Local churches should seek assistance and advice from their local advisors when specific issues arise. This booklet is provided to you as a service.

## **Table of Contents**

The Financial Review Process.....	1 – 5
Some Common Definitions .....	5
Examples of Financial Reports.....	6
The Checklist.....	7 - 9

## **The Financial Review Process**

This document is provided courtesy of Foothills Presbytery to help the church with a required annual financial review of your church's financial records. It is intended only as a guide and can be modified to meet your own church's needs and/or requirements.

### **WHY SHOULD WE HAVE A FINANCIAL REVIEW?**

The Book of Order makes it mandatory that every church should provide "A full financial review of all financial books and records shall be conducted every year by a public accountant or a committee of members versed in accounting procedures." (G-3.0113)

### **WHAT IS A FINANCIAL REVIEW?**

A short written report that fairly represents the financial condition of a congregation.

### **WHAT IS THE PURPOSE OF THE FINANCIAL REVIEW**

A financial review should determine if internal controls of the church provide for reliable financial reporting, safeguards for church assets, and whether the Book of Order policies or procedures are complied with as they pertain to financial matters of the church.

### **WHO SHOULD DO OUR FINANCIAL REVIEW?**

Someone independent from those handling the church's financial records. "Independent" means someone not subject to control or influence by anyone responsible for the financial accounts and records of the local church. For example the Treasurer, her husband, her cousin, or her best friend should not conduct the financial review nor should the pastor.

People who know how to balance a check book, read a balance sheet or operating statement, and can use a calculator will have the skills necessary to do a financial review. The church finance committee and/or session should select the individuals who are versed in accounting procedures to conduct the church's financial review.

### **HOW BIG AN FINANCIAL REVIEW COMMITTEE?**

A team of two would suit quite well for most churches.

## **WHEN SHOULD THE CHURCH HIRE A PROFESSIONAL AUDITOR?**

This is highly dependent upon each church and their circumstances. As a general rule, we would suggest that churches with annual receipts in excess of about \$400,000 - \$500,000 should seriously consider hiring an outside firm to perform an audit. This is only a recommendation. Complexity in a church's financial statement may dictate considering a lower amount than suggested.

## **HOW DETAILED A FINANCIAL REVIEW?**

The *principal objectives* of the church Financial Review Committee must be:

1. Satisfied that all contributions received by the church have been recorded properly and deposited into a bank account where access is limited by tracking a representative sampling of contributions received.
2. Satisfied that all payments have been properly authorized by the appropriate body within the church, properly documented, and recorded.
3. Satisfied that all receipts and payments are correctly summarized and reported in the annual financial reports of the church, and that the information contained agrees with the underlying records of the church.
4. If the church has investments in securities such as stock and bonds, satisfied that any purchase or sale transactions during the year have been properly authorized and recorded, and that the list of investments in the year-end financial reports is complete and accurate.
5. In the payroll area, satisfy that all employees and staff are being paid at the rate approved by the church governing body.
6. Satisfied that the church has adequate insurance coverage for all of its property and potential liabilities.
7. The Financial Review Committee may want to conduct a periodic inventory of the church's property such as office equipment, audiovisual equipment, furniture, and similar items, comparing results with previous inventories to make certain that no assets have become missing.
8. Satisfied that all "restricted" funds of the church are so identified and are being restricted for only the purpose the donor intended their use.
9. Satisfied that the responsibilities of the following are fully understood and in writing:

### ***a. Treasurer***

The Treasurer has the most complete and diverse set of responsibilities. The treasurer is responsible for maintaining the church general ledger and the 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 normally 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 capital giving. Funds received for each of these purposes have to be credited to the proper accounts. It is also the Treasurer who should advise when it is time to disburse these funds.

**b. Financial Administrator/Secretary**

Some large 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 money counters that show what each person gave that day. The Financial Secretary then takes the date and enters the amounts into the person's individual giving record. That individual's giving record will show the total amount of money received, and may indicate 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.

**c. Counters** (those that actually count the money and make the deposit)

Those individuals so designated by the session to count, record, and deposit church collections. At least two counters should be present when counting church collections.

**WHAT KIND OF WRITTEN REPORT SHOULD I SUBMIT?**

*Example:*

Report of the Financial Review Committee

Date: \_\_\_\_\_

TO: The Session and Membership

We have conducted a financial review of the records and the financial reports of the \_\_\_\_\_ Church of \_\_\_\_\_, SC. While our review was limited to testing the transactions and balances and would not necessarily disclose all errors, we found no evidence of significant errors or omissions. In our opinion, the church's financial reports are fairly stated.

We wish to commend the treasurer and the financial secretary for their fine work during the year. On behalf of the congregation, we thank them for the gift of their time and talent.

\_\_\_\_\_  
John M. Smith, Financial Review Committee

\_\_\_\_\_  
Mary K. Jones, Financial Review Committee

## **WHAT KIND OF FINANCIAL REPORT SHOULD THE CHURCH HAVE PRESENTED EACH YEAR?**

Two examples can be found on page 6 which provide simple examples of financial report. The purpose of a financial report is to show how the gifts received by the church were used or are being used.

## **SHOULDN'T WE USE A CHECKLIST TO HELP WITH THE FINANCIAL REVIEW?**

Yes, a checklist is highly recommended. There is a suggested checklist of items on pages 7-9 for your consideration which should be a good starting point and fairly inclusive for most churches.

## **SOME COMMON DEFINITIONS**

*Note: The selected definitions below pertain to not-for-profit organizations and thus are defined for the church.*

*Financial Review*—A written report providing some assurance to the session and congregation as to the reliability of the church's financial data. The report should fairly represent the financial condition of a congregation.

*Audit*—A formal examination of an organization's accounts or financial situation normally conducted by a professional with a written, opinioned report.

*Restricted Funds*—Funds whose assets are limited to designated purposes as per the donor or grantor. These restricted funds and any further contributions to those funds are held "in trust" by the church for the specific purpose outlined by the donor or grantor.

*Unrestricted Funds*—Funds that are available for to use toward any church purpose.

*Designated Funds*—Funds with the stipulation (designated and/or action of setting funds aside) that are for a specified purpose, i.e., an approved project, program and/or ministry. The church may establish designated funds as well as grantor/donors. Restricted/designated contribution are held by the church "in trust" for the purpose outlined by the donor.

## Examples of a Church's Financial Report

### **Example 1: A Balance Sheet Approach**

\_\_\_\_\_ Presbyterian Church  
Financial Report for December 31, 20XX

<u>ASSET Funds</u>	<u>Current Year</u>	<u>Prior Year</u>
General Fund	\$32,000	\$12,000
Bank Savings Acct	\$10,000	\$ 5,000
Bank Checking Acct	\$ 8,000	\$ 7,200
ABC Stock	\$14,586	\$ 5,892
ABC Bond	\$25,500	\$15,000
XYZ Brokerage Acct	<u>\$58,999</u>	<u>\$40,256</u>
Totals	<u>\$149,085</u>	<u>\$85,348</u>

<u>Liabilities</u>		
Accounts Payable	\$ 5,060	\$ 3,225
Unrestricted Fund Balance	<u>\$144,025</u>	<u>\$82,225</u>
Total Liabilities & Fund Balance	<u>\$149,085</u>	<u>\$85,348</u>

<u>Outstanding Long Term Debts</u>		
Mortgage on Building	\$137,285	\$142,185

### **Example 2: A Statement of Income and Expenses Approach**

<u>INCOME</u>	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Pledges	\$265,000	\$285,500	\$20,500
Unpledged	\$ 65,000	\$ 55,000	(\$10,000)
Interest/Dividends	\$0	\$ 24,000	\$24,000
Sale of Stock	<u>\$0</u>	<u>\$ 2,300</u>	<u>\$ 2,300</u>
Total	330,000	\$366,800	\$36,800

<u>EXPENSES</u>			
Pastor	\$ 85,000	\$ 85,000	\$0
Secretary	\$ 18,000	\$ 18,000	\$0
Utils & Phone	\$ 21,650	\$ 21,350	(\$300)
Office	\$ 4,250	\$ 4,100	(\$150)
Bldg & Gnds	\$ 25,500	\$ 23,500	(\$2,000)
Stewardship	\$ 9,100	\$ 9,000	(\$100)
Worship	\$ 10,900	\$ 10,300	(\$600)
Outreach	\$ 10,500	\$ 10,350	(\$150)
Christian Ed	<u>\$ 15,000</u>	<u>\$ 15,200</u>	<u>\$200</u>
Total	\$199,900	\$196,800	(\$3,100)

CHURCH FINANCIAL REVIEW COMMITTEE

CHECKLIST/QUESTIONNAIRE

<u>QUESTIONS</u>	<u>YES</u>	<u>NO</u>	<u>NA/or COMMENTS</u>
1. Does the church have an up-to-date accounting procedures manual?	_____	_____	
2. Are collections locked up when not in use?	_____	_____	
3. Are the accounting records safeguarded at all times?	_____	_____	
4. Is an internal Financial Committee operational?	_____	_____	
5. Are accounting records & underlying internal controls reviewed annually by someone versed in accounting procedures? (Not the treasurer)	_____	_____	
6. Are members encourages to use offering envelopes?	_____	_____	
7. Are members encouraged to use checks in making their offerings (and other gifts)?	_____	_____	
8. Is the counting and recording of all offerings handled by at least two duly appointed persons or a fidelity bonded person?	_____	_____	
9. Do books and records reflect all financial transactions and open to inspection by authorized church officers at reasonable times?	_____	_____	
10. Are all account check signers authorized in writing by the church?	_____	_____	

<u>QUESTIONS</u>	<u>YES</u>	<u>NO</u>	<u>N/A or COMMENTS</u>
11. Is there periodic reporting of financial activities to the board or boards vested with financial oversight at least annually, preferably more often?	_____	_____	
12. Are the collections counted in a secure area?	_____	_____	
13. Are all checks received restrictively endorsed as soon as possible?	_____	_____	
14. Are all receipts deposited as soon as possible after receipt?	_____	_____	
15. Are collections safeguarded in a safe, lockbox, or protective container when at the church?	_____	_____	
16. Are collection reports given to the financial secretary or treasurer for entry into the accounting records?	_____	_____	
17. Are contributions records maintained for members?	_____	_____	
18. Are the contributions records reconciled to the total contributions in the accounting records?	_____	_____	
19. Are invoices for goods and services approved by a person in authority before payment is made?	_____	_____	
20. Are invoices checked for accuracy before being paid?	_____	_____	
21. Do check signers inspect the supporting documentation before signing?	_____	_____	
22. Are all voided checks so marked and retained?	_____	_____	

<u>QUESTIONS</u>	<u>YES</u>	<u>NO</u>	<u>N/A or COMMENTS</u>
23. Is preparing a check made payable to "Cash" prohibited?	_____	_____	
24. Are blank unused checks safeguarded at all times?	_____	_____	
25. Is a petty cash fund used for minor disbursements of cash?	_____	_____	
26. Are means established to record disbursement from petty cash?	_____	_____	
27. Are transfers between bank accounts always properly authorized?	_____	_____	
28. Are reconciliations of all bank account prepared monthly by an individual who is not involved in handling cash or writing checks?	_____	_____	
29. Are the account balances in the books reconciled with the amounts presented in the financial reports?	_____	_____	
30. Are valuables (securities, important documents, etc.) afforded protection in a safe place?	_____	_____	
31. Are two signatures required for access to the safety deposit box?	_____	_____	
32. Are regular reviews made to determine if insurance coverage is adequate?	_____	_____	
33. Is the budget approved by the session?	_____	_____	
34. Are all changes to the budget authorized by the church/ committee and recorded?	_____	_____	
35. Is there a periodic review of the budget?	_____	_____	