

Annual Review of Church Financial Statement Guideline for Review by Committee of the Church

Book of Order G-3.0113 Finances provides “a full financial review of all financial books and records shall be conducted every year by a public accountant or committee of members versed in accounting procedures. “

The following is meant to be a general guideline for approaching the annual financial review if it is to be conducted by members of the church and not outside public accountants. Since this is a general guideline, it is not meant to cover every possible financial situation in every church. Further the following assumes a church is on the cash (or semi-cash) basis of accounting and not the accrual basis. This also assumes fixed assets are not recorded on the balance sheet and depreciation is not recorded on the profit and loss.

For churches that have not recently done a financial review, do not be overwhelmed by the breadth of this process. This outline will help you identify areas where the church may need to improve or where the audit committee may need outside support from the Presbytery or an accountant.

As to the balance sheet, the following accounts could be expected to exist:

- Cash
- Certificates of deposit
- Investments
- Pre-paid pledges
- Mortgages or loans
- Designated funds
- Unrestricted funds
- Restricted funds – either temporary or permanent
- Retained Earnings (churches might use the term balance of assets)

As to the profit and loss statement, the following accounts could be expected to exist:

- Revenue or income
 - Member giving
 - Open plate
 - Sunday school
 - Special campaigns or mission giving
 - Rental income
 - Investment or interest income
- Expenses
 - Payroll and benefits
 - Administration
 - Committee expenses
 - Missions
 - Plant (or building) operations a maintenance
 - General
- Non-operating income and expense
 - Pass through situations
 - Unusual events not in the normal functioning of the church
 - Investment gains or losses
 - Capital campaigns

The essential first step is to receive the final financial statements, both balance sheet and profit and loss, for the year. No review work should start unless these statements are in-hand.

Cash

- Either receive or prepare account reconciliations for every bank account. Such a reconciliation compares the book balance with the bank balance and accounts for all differences.
- Reconciliations should be reviewed for year end and at least one other month during the year.
- Obtain the original bank statements for the periods selected.
- Compare the balances to the books and bank statement.
- Review the reconciling items for reasonableness considering your church.
- Ensure the reconciling items clear with the books or bank in the following months.
- Review the transactions on the bank statements for unusual items, such as unreconciled deposits, old uncashed checks, miscellaneous charges, or transfers.

Certificates of deposit

- Compare the year-end balance to a bank prepared statement.
- Look at prior year-end balance sheet to determine if any certificates were cashed in. Verify the cash was deposited in the church account.

Investments

- Obtain year end statements from all investment agencies.
- Compare statement balances with financial statements. Determine the church's method of accounting for gain or loss in market value of investments.
- Look at prior year balance sheet to determine if investments or agencies have changed.
- If investment income was moved out of the investment account, verify where it was deposited. If investment(s) have restrictions, verify that was used (or was marked to be used) appropriately.

Pre-paid Pledges

- If your church recognizes prepaid pledges, ask your "giving coordinator" who the members are that have prepaid? Individual giving is a sensitive issue and should be approached with discretion. This normally occurs at year end when members are trying to increase their charitable deductions and the amount is intended for the following year. Such amount should not be reflected in the current year income.

Mortgages or Loans

- Compare the book balance to the statement from the lending institution.
- Look at prior year to determine all mortgages or loans are included.

- Trace any interest for the year to the profit and loss.
- Determine if there are any restrictions imposed by the indebtedness.

Designated Funds

- These might include cash received from short term events that are intended to be disbursed in the short term. They could be items like yard sales, baking events, flower programs, bar-b-ques, etc.
- Since these would normally be cash events, it may be difficult to determine the balance of the item. Use the knowledge of your church to determine reasonableness. Talk to members involved with the event to gain knowledge.

Unrestricted Funds

- These would be funds given to the church with no designated use requirements. An example of this can be gifts received in memory of deceased members that are to be used for the general benefit of the church.
- Generally, there would be a list of the gifts and who they were made in memory of.
- Some churches may choose to record such donations directly into income. Determine what your church practice is.
- At some point unrestricted donations need to be closed out. That means they should be used as directed by policy or Session or taken to income.
- Track the balance and activity for the year.
- Determine if any disbursements have been made.
- Review the propriety and support for the disbursement.
- Review the policy for control and use of such funds.
- Review the reasonableness of new funds.

Restricted Funds – Temporary

- In general, this category would include funds that were donated for specific purposes and have a limited life span. There should be a specific covenant for each fund detailing why it was established and how the funds are to be used.
- Review the list of restricted funds.
- Compare with prior year
- Obtain the covenant for each fund. Determine how the funds can be used and their timeframes.
- Review the activity in each fund for reasonableness and compliance with the covenant.

Restricted Funds – Permanent (including endowments)

- In general, this category would include funds donated for specific purposes and to have an unlimited life span. There should be a specific covenant for each fund detailing why it was established and how the funds are to be used. Normally the use of funds is limited to any interest or investment gain, with the principle not eligible for use.

- Review the list of restricted funds.
- Compare with prior year
- Obtain the covenant for each fund. Determine how the funds can be used and their timeframes.
- Review the activity in each fund for reasonableness and compliance with the covenant.

Retained Earnings

- This is the difference between the total assets and total liabilities. It can be rolled forward from the prior year using the profit or loss.

Revenue – Member Giving

- This category includes several areas of giving. In general, this is difficult to review. You will need to be creative in this area.
- The policy and procedures for counting giving on Sundays should be reviewed. Does the procedure include control issues such as two people counting, timing (hopefully within several days) deposit, matching of deposit slips to counting sheets, separate people recording and tracking individual member giving?
- Test the counting procedure. Look for weekly deposits on the bank statements. If your church uses some sort of counting sheets, review some for compliance with your procedure and signatures. Trace the amounts to the appropriate accounts on the financial records.
- Determine your policy for handling contributions made using bank checks or online giving. Trace such giving to deposits.

Revenue – Rentals

- Obtain a breakdown of the rental income by person or organization.
- Review the rental policy of your church. Does your policy include agreements to be used?
- Compare rental income to the agreements. If there are no agreements, then determine the basis for the rental and document that.
- If the rented does not provide insurance coverage information, then the church would be liable in case of a claim. Determine if insurance coverage was provided.

Revenue – Interest or Investment

Does your church receive interest or dividend income? If so:

- Trace the item to a statement from the investing agency.
- Compare the amounts with the financial records.
- Look at prior year to determine if there were other investments that need to be considered.
- Determine your church policy on whether it recognizes the gain or loss in an investment's value due to change in market value.
- See the change in value is booked in accordance with that policy.

Payroll and Employee Benefits

- This is generally the largest expense category.
- Compare the expense for the year to the approved budget.
- Account for any differences.
- Compare individual amounts to W-2's. (some guidance may be necessary to understand W-2's for pastoral staff)
- Were all expense accounts paid out as reimbursement? Otherwise they should be included on the W-2
- Are there unused reimbursements that are entitled to be escrowed for another year? Amount should be noted.
- Did your church pay independent contractors (musicians, members, etc.) over \$600 that would require a 1099 or W-9?
- The IRS requires quarterly payroll submittals. If possible, see they were filed on a timely basis.

Expense Categories

- Administration
- Missions
- Committee
- Plant operations and maintenance

General

- Review your church's disbursement policy. Look for requirements for support, standard submittal forms to be used, and approvals.
- Break down expenses by group.
- Determine the largest groups to review.
- Select a sample of individual items within each group for testing.
- Obtain the support for the selected items and determine if that support is adequate and in compliance with your policy.
- If concerns are noted, expand the amount of testing.

Non-operating Income and Expense

- Each church will be different when it comes to this category. There is no way to list all the potential items that can be included. This area is meant to include all transactions that do not directly affect the day-to-day operation of the church.
- Examples of events that would fall under this category are, bake sales. Barbeques, fund raisers, book sales.
- The items included should be reviewed for appropriateness for inclusion in this category.
- With your knowledge of the church, review each item for reasonableness.
- Testing of transactions would be determined on a case-by-case basis.

There are other areas in the church operations that a review committee may want to look at.

- Credit cards
 - Does your church have a credit card?
 - Who physically has the card(s)?
 - What is the purpose for use of the card?
 - Who reviews the charges on the card?
- Annual Budgets
 - Does the Session approve the yearly budget?
 - Must the Session approve any over budget spending?
- Bank Signatories
 - Who are the authorized signatories on the bank accounts, both checking and savings?
 - If there are investment accounts, who is authorized to transact business in those accounts?

Conclusion

In your function as a financial review committee, your church is looking to you to be able to express an opinion on the financial reports being issued. While the wording of your report is entirely up to you, the following is a guideline to consider.

To the Session of _____

The financial review committee of _____ Presbyterian Church has reviewed the financial statements for the year ended _____.

Our reviewed included:

- Reviewing the accounting records
- Reviewing policy and procedures
- Verifying asset or liability balances with outside agencies whenever possible
- Rolling forward fund balances
- Testing reasonableness of income and expenses

Based on our review, we have concluded the financial statements presented are reasonable and fairly represent the financial condition and results for the year ended _____.

The members of the financial review committee were: _____.

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