CHAPTER III: BOOKKEEPING

CHAPTER CONTENTS

Introduction

The accounting year for all Episcopal congregations and dioceses is January 1 through December 31, according to the Canons of the Episcopal Church, Title I, Canon 7, Section 1(i), found in the Introduction of this manual.

Section A. General Information

1. A double entry bookkeeping system should be used, a method whereby at least two offsetting entries must be made to record a transaction. As a point of reference, these offsetting entries are referred to as a debit and a credit.

2. The double entry bookkeeping system is based on the concept of assets, liabilities, and net assets. Assets are holdings of value, such as cash and investments. Liabilities are claims against holdings of value, such as unpaid bills, outstanding loans, and mortgages on property. Net assets are the difference between the assets and liabilities and represent the net worth. Net assets are increased by income and decreased by expenses.

   Assets are normally posted as debits, liabilities as credits, income as credits, and expenses as debits. A positive balance in the net assets would be a credit.

3. Under ideal circumstances, the books are posted and balanced monthly. A Statement of Financial Position and Statement of Activities should be prepared every month as well. However, in most circumstances a monthly statement of cash receipts and disbursements (with the budget as a comparison) is sufficient for parishes operating on a cash basis, with formal statements created only at year end.

   Note: Cash vs. Accrual Accounting
   With the cash method, income is recorded when payment is received and the cash is in hand. Similarly, expenses are recorded when a check is written and the cash leaves the bank account.

   With the accrual method, income and expenses are recorded when they are obligated to be paid. In other words, if a sale is made, it is recorded as income on the date of the sale, not when payment is in hand. And an expense is recorded the day it is incurred, even if it is not paid until a later date.

   Accounting standards outlined by the Generally Accepted Accounting Principles (GAAP) stipulate the use of accrual accounting for financial reporting, as it provides a clearer picture of a company's overall finances.

4. These accounts may be kept manually (materials may be purchased at any office supply store), or by using a computerized bookkeeping program. Many small and medium-sized parishes use Church Windows or QuickBooks management software.

	Debit	Credit
Assets	xxxx	
Liabilities		xx
Net Assets		xxx
	xxxx	xxxx
Income		x
Expenses	x	

Section B. Basic Record Keeping

1. Bookkeeping for Cash Receipts Journal: The cash receipts journal is used to record cash and checks received, securities, and earned income. Deposits should be made promptly into a general operating checking account, with all checks properly endorsed.

   a. Cash and checks are recorded to the cash receipts journal from a deposit slip, which should be attached to the counting form. The counting form or deposit slip should have the allocation of the deposit noted.

      Debit the cash account and credit the specific income account(s), such as pledges or loose offerings. It is recommended that quarterly statements be furnished to regular contributors.

   b. Earned income, such as interest earned on a checking or savings account, may be recorded in the cash receipts journal. If this is done when statements are received the bank reconciliation may be done without adjustments, provided there are no other errors. This method helps to prevent omitting interest accidentally. A debit to the checking account cash and a corresponding credit to interest income will be all that is necessary to record checking account interest. If the interest is earned on a savings account, a certificate of deposit, or other account, a debit needs to be made in a miscellaneous column noting the particular asset account, and a credit to the corresponding income account. The income account to be posted would comply with the restrictions of the fund. Therefore, if interest were earned on an account restricted for capital expansion, the income would be recorded as income to that account.

   c. Gifts may be offered where the donor has imposed constraints or conditions on the use or purpose of the money. Once the contribution is accepted, there is a legal obligation to honor the donor‘s restrictions. It is important that the congregation maintains a record of each restricted gift that includes:

      1) Date of gift
      2) Exact description and amount of the gift
      3) Nature of restrictions on the use(s) of the gift

      The Vestry should approve the acceptance of any restricted gift and, if it is other than cash, determine the disposition of the gift. Restrictions are legally binding. Donor or court approval is required in order to use the restricted funds for any purpose other than that imposed by the donor at the time of the gift.

Spending restrictions can be avoided at the time of the gift if the donor is made aware of potential problems and reasonable provisions included with the gift that provide for more liberal use. Gift receipt policies should be established in writing by the Vestry and made available to members of the congregation. The current Gift Acceptance Policy adopted by the Society is attached as Appendix 1 to this chapter. Note: As of July 2019, the Society has not taken a position regarding the Acceptance of cryptocurrencies like Bitcoin. The U.S. Department of Treasury has issued guidance on Bitcoin since 2013. The Treasury has defined Bitcoin not as currency, but as a money services business (MSB). No traditional commercial banks in the U.S. currently accept Bitcoins; they trade/transact in government-backed fiat currencies only.

Restricted funds should be segregated in the accounting records so that information is available to demonstrate that fund expenditures have been made in conformity with the restrictions imposed by the donor. All receipts of restricted gifts may be deposited into the general operating bank account and then be recorded in the appropriate sub-account. For gifts having time or purpose restrictions, the gift income plus subsequent earnings less transfers to make expenditures is recorded as net assets with restrictions (see more discussion of net assets in items 1 and 2 of section C).

An Endowment Fund is created when a donor‘s conditions allow only the earnings from his/her gift to be expended. Such a gift restricts the gift itself (often referred to as the principal) to be held either in perpetuity or for a specified term.

If the principal is restricted, either in perpetuity or for a specified term, the gift income is recorded as Net assets with donor restrictions. (See more discussion of net assets in items 1 and 2 of section C). If the donor imposes no restrictions on the earnings from the gift, then the income generated by the gift less transfers to make expenditures is recorded as Net assets without donor restrictions. If the donor imposes time or purpose restrictions on the endowment earnings, then the income generated by the gift less transfers to make expenditures is recorded as Net assets with donor restrictions.

d. Donated securities are recorded at fair market value at the date of receipt. When received, a letter or receipt must be given to the donor noting the date received, a description of the securities, and the number of shares. If the shares are regularly traded on a national exchange, the securities value may be include. It is recommended that securities be sold immediately upon receipt unless the congregation has in place an investment advisory committee to make those decisions. If the latter is provided, a congregation must follow Title I, Canon 7, Section 1(b). Refer to this Canon which is reproduced in its entirety in the Introduction to this manual.

At month end total all columns and cross check for accuracy. The journal may be used as a general ledger by adding month-end totals together cumulatively. This may be desirable for efficiency in small congregations. The General Ledger is described in paragraph 5 of this Section.

2. Bookkeeping for Cash Disbursements Journal: The cash disbursements journal is used to record all checks. Checks should be pre-numbered and signed only after being properly completed. Checks should be listed in the journal numerically, noting the date and payee of the check. Voided checks should be recorded in the order of the number pre-assigned to the check, noting the check as "VOIDED". Voided checks should be retained for audit verification and kept with the cancelled checks for the time period indicated in the records retention schedule (see Chapter IX [Records Management], Section D). The signature section may be cut out of the check so that it cannot be used or, alternatively, the check should be manually (or with a stamp) marked "VOID".

   a. Consider using electronic funds transfer (EFT) or wire transfer for all disbursements except for very small expenditures made from petty cash.
   b. Pay only from original invoices or requisitions with appropriate documentation attached, which have been approved by proper authority and checked for accuracy. If the disbursement is for services, obtain a Federal Employer's Identification Number or social security number prior to disbursing the check. Chapter IV (Taxes) describes who should receive Form 1099.
   c. Record the payment in the journal by crediting the checking account cash column and distributing the amount by debit(s) to the proper account(s).
   d. Notations of date paid and check number should be indicated on the original documents or a copy of the check may be attached.

Controls for EFT Payments

More organizations are using EFT payments as part of the accounts payable process. Strong controls are needed to secure sensitive data and to prevent fraudulent transactions.

Vendors

Vendors may shy away from receiving ACH payments with concerns about revealing their bank information. The increased volume of EFT transactions has led to increased data breaches. To prevent data breaches, nonprofit organizations should ensure that their hardware and software have the proper security controls, including:

- Creating and maintaining a secure computer environment
- Reviewing and understanding any software limitations
- Requiring multiple layers of password security
- Controlling the number of authorized users
- Limiting the use of online banking transactions to specific computers
- Encrypting changes to EFT data

Controls Over Processing

Typically, when processing paper checks, there is some type of control in place such that someone outside of accounting approves transactions and someone other than the person directly involved in the accounts payable process reviews the bank statement before it is given to accounting for reconciliation. This process cannot be used for EFT payments. Instead, the following controls are recommended:

- Pre-approved listing of vendors and banking information
- Development of user profiles, which enforce separation of duties
- Multiple approvals should occur before disbursement of funds
- Dollar limitations
- Timely review of exceptions
- Frequent monitoring of cleared banking transactions to catch unauthorized transactions

3. Bookkeeping for Payroll: Bookkeeping for payroll should be done in a separate payroll journal. It is important both that this journal records the proper expenses and liabilities, and that it ties into the quarterly Form 941 and end-of-year Form W-2. When set up properly, it will make the job of reporting much easier.

   a. Columns which should be set up for recording payroll are:

      1) Taxable portion of gross salary (debit to salary expense)

      2) Housing and utility allowance (debit to housing & utility allowance expense)

      3) Social Security and Medicare withholding for lay employees (credit liability)

      4) Federal income tax withholding (credit liability)

      5) State income tax withholding (credit liability), if applicable.

      6) Net check amount (credit to checking account)

      Note: There may be a need for other columns if the employee has tax deferred annuities, loans, or other deductions, or if travel allowance is paid without a reimbursable plan, or if there are other taxable benefits.

   b. A column may be set up to record the congregation's portion of Social Security and Medicare as expenses, or the expenses may be recorded when tax payments are made, which include Social Security and Medicare.

   c. Individual payroll records should be maintained for each employee. These should be checked periodically by month and quarter and annually to make sure they agree with the payroll journal.

   Note: Payroll tax reporting instructions and examples are found in Chapter IV (Taxes). Alternatively, payroll functions can easily be outsourced; many dioceses offer the service to their parishes.

4. Miscellaneous Journal Entries: A general journal is used to enter any other entry that is not accommodated by one of the above journals. These may include adjustments to accounts, depreciation if used, recording the closing entries at year end, and interest, if it is not recorded through the receipts journal.

   a. A columnar form may be used with space for the date and description, account numbers, a debit and credit column and entry number. Record the date of each entry in the first column. In the description space, write the name of the account, which will be debited first. On the next line, indent slightly and record the name of the credit account. Then indent on the next line and write a clear, concise statement explaining why the journal entry is made. These entries are recorded individually.

b. Post each individual entry to the general ledger in the month that is selected in the date column. It is helpful to place a small check mark against each entry when it is posted from the general journal to the general ledger.
c. A general journal file should be maintained containing supporting documentation for each entry.

An example of a general journal entry is:

Entry	Date	Description	Account	Dr	Cr
J/E 1	12/01/xx	Operating Cash Account	1001	$ 12.01	
		Interest Income	4001		$ 12.01
To record earned checking account interest.					

5. The General Ledger: The General Ledger is a summary account book of all the accounts set up individually. It is divided into five sections: Assets, Liabilities, Net Assets, Income and Expenses.
   a. At the end of each month the totals in each journal are posted to the various accounts in the general ledger.
   b. At year end the revenue and expenditures are "closed" to the Net Assets. Revenue is posted as a debit in each revenue account and as a credit in the appropriate Net Asset account. Expenses are posted as a credit in each expense account and as a debit to the appropriate Net Asset account. Year-end closing will leave all revenue and expense accounts with a zero balance. The Net Assets are adjusted to reflect the new financial position at year end.

6. Bookkeeping for Petty Cash: Establish a fixed or imprest amount sufficient to meet necessary minor expenses such as freight delivered COD, postage, etc. for a period of not more than thirty days.
   a. Cash and receipts for expenditures should always equal the total amount of the petty cash fund.
   b. Replenish the fund by check for expenditures.
   c. Allocate the check in the disbursement journal based on the use of the funds (e.g., natural classification such as postage, supplies, etc.).
   d. The petty cash fund should not be used for cashing checks.
   e. Advances or borrowing should never be done through the petty cash fund.
   f. The petty cash fund should be replenished at least monthly. This will help establish how much cash should be held on hand.
   g. The money should be kept in a locked cabinet or safe, and a sole custodian for the fund should be appointed.

7. Transfer of Funds: It is necessary at times to transfer sums from the general operating checking account to special accounts. All money, as it is received, should be deposited in the general operating checking account. If it is appropriate to transfer the funds to a special account, a check should be written (or an EFT authorized) and the funds transferred from the general operating checking account to the proper checking or investment account. These may include savings accounts, payroll accounts, special designated or restricted accounts, and trust or endowment accounts.
   a. Interfund transfers: Generally, interfund transfers are used to fund expenditures by transferring cash from one fund to another. For example, money collected for the discretionary fund and deposited in the general operating checking account is transferred to the discretionary account. Transfers such as this appear on the Statement of Activities as interfund transfers.
   b. Interfund loans: Funds may be transferred to another fund in the form of a loan. One example might be temporarily loaning operating income to a building fund during the period that building fund pledges are being collected, while the construction is in progress and invoices must be paid timely. Borrowing from restricted funds must be done with extreme caution so that all restrictions are observed. These transfers appear on the Statement of Financial Position as interfund receivables and interfund payables.
8. Subsidiary Ledgers: Subsidiary ledgers are individual records which maintain details that are necessary to segregate receivables and payables or to help the treasurer clarify the details of restricted funds. An example of a subsidiary ledger is one in which memorial gifts may be recorded. Record these transactions as follows:
   a. Record the receipt of the funds, noting the date received, by whom, in memory of whom, and the amount received.
   b. When the funds are used, note the date used, check number, and which restricted fund was spent.
   c. The total of subsidiary accounts should equal the total of the specific fund in the general ledger account.
9. Bookkeeping for Investments: Proper investment and accounting of funds is important in the management of all funds.
   a. Savings and certificates of deposit should be reported as a separate line item in the asset section of the Statement of Financial Position, usually as cash, or short-term assets, depending on the original maturity date.
   b. Account numbers of each savings account and the balances should be maintained on the books.
   c. Certificate of deposit account numbers, rates of interest, and renewal date information should be maintained for each certificate of deposit.
   d. Investments in securities should be recorded at cost when purchased or at market value on date of receipt, if donated. Adjustments to market value should be made at least annually, recording a gain or loss in the general journal.
   e. Securities should be deposited with a custodian bank or broker or kept in a safe deposit box, and a notation of the date received, number of shares, cost value, and description of the security should be maintained in a subsidiary ledger.

10. Loans (Receivable and Payable): It is necessary at times for congregations to loan or borrow money. This should be done only with full knowledge of the effects on cash flow, interest costs (long and short-range), and a total plan for collection or repayment. All loans should be evidenced by a written note and approved by the Vestry and recorded in the Vestry minutes.
    a. Funds loaned are set up as a note receivable and should be reported as a separate line item under assets on the Statement of Financial Position. If a loan is made, it should be made only by check, never from loose offerings or from the petty cash fund. (Research state laws before making any loan to an employee or an officer of the congregation, as it may be prohibited or limited.) Any advances are considered loans until repaid or supported by proper documentation. If an employee receives a "no-interest" loan, federal tax law requires that interest be imputed (calculated), the interest be included as income to the employee and reported to the Internal Revenue Service. Check state laws regarding the method of reporting this income to a specific state.
    b. Funds borrowed are set up as a note or mortgage payable and should be reported as a separate line item under liabilities on the Statement of Financial Position. The note should be recorded at the date of receipt of the funds. Interest paid on all loans is considered an expense and the principal portion reduces the liability. Before any property is encumbered, permission must be obtained from the Standing Committee and the Bishop of the Diocese. Please consult Diocesan Canons and State Law in this regard.
11. Discretionary Funds: Refer to Chapter V (Discretionary Funds).

12. Furniture, Fixtures and Equipment: Normally, small purchase items of furniture, fixtures, and equipment are expensed. Purchases of items for an amount, such as $1,500 or more, should be recorded as an asset if the item has a lifetime expectancy of three or more years. A separate subsidiary ledger should be maintained as a property inventory file, and a physical inventory should be taken yearly and differences reconciled. If an item is removed or loses its use or value, it should be removed from the inventory and the asset account should be reduced. The net asset value reduction would be recorded as a debit to an expense account. This should be done through the general journal.

13. Land and Buildings:
    a. Land is recorded at cost, plus all expenses included in the closing costs. Any major improvements, such as ditching, emplacement of sewer lines, etc., should be recorded as a land expense.
    b. Buildings are recorded at cost plus all expenses adhering to them, such as construction interest and closing costs.
    c. Major improvements to land or buildings may be added to the original cost, or a separate account may be set up called "major improvements to land or buildings."
    d. If land or buildings are donated, the amount recorded is the fair market value at date of receipt of the property.

14. Depreciation: US Generally Accepted Accounting Principles requires an organization to record depreciation expense. If depreciation is not recorded, the Certified Public Accountant will assess the impact on the financial statements and appropriately modify their opinion.

When depreciation is used by a congregation, two accounts should be established as follows:

Account Title	Type of Account	Explanation
Accumulated Depreciation	Statement of Financial Position	Credited for each year's depreciation. Accumulated depreciation recorded over the years on assets still owned.
Depreciation Expense	Statement of Activity	Debited for current year's depreciation expense.

The straight-line depreciation method is recommended. Under this method the annual depreciation expense for a particular asset is determined by dividing the cost of the asset by the estimated useful life of the asset. For example:

Asset:	Computer
Cost:	$7,500
Useful Life:	5 years
Annual Depreciation Expense	$1,500

It is also recommended that the Vestry establish an asset capitalization and depreciation policy. It is important that the Vestry establish designated funds set aside for major future repairs and replacement needs for all capital items.

15. Conditional/Unconditional Pledges (Promises to give): The Statement of Financial Accounting Standards (SFAS) Numbers 116 and 117 relate how non-governmental nonprofits account for contributions and how they present their financial statements. SFAS 117 sets requirements on reporting pledges based on Conditional Pledges and Unconditional Pledges. Following SFAS 117 requires major changes in the present church reporting standards. The changes might, in all probability, cause confusion and would not add any significant benefit to the financial statements. This Manual recommends that churches report pledge receipts as received and adjust the year-end books to reflect a receivable for any pledges expected to be received in the forthcoming year. In the case of Capital Fund Receipts from a large fund-raising campaign, it may be preferable and important to follow the guidelines for Unconditional Pledges.

    Individual promises should be evaluated based on the ability and likelihood of the donor to honor the promise. High-volume pledges generated through a broad-based appeal may be evaluated as a whole based on historical or statistical data. Multiple year pledges should be recognized in the year the pledge is made and valued at the present value of the estimated future cash flows.

    The following are brief definitions of Conditional and Unconditional Pledges for information purposes.

    a. Conditional Pledges depend on the occurrence of some specified uncertain event, such as a matching requirement. Conditions refer to events that must occur before a pledge becomes binding on the one making the pledge. Conditional pledges are not recorded until the condition is substantially met, at which time they become unconditional.
    b. Unconditional Pledges are considered contributions, provided sufficient evidence exists that a promise was made and received. Unconditional pledges must be recorded in the

period when verifiable evidence exists that the promise was made and received. It further suggests that these pledges be discounted to present value, less an allowance for uncollectible amounts.

16. Month-End Closing:
    a. Total all journals.
    b. Total individual payroll records and check that they all total to the payroll journal totals.
    c. Reconcile the checking account(s). The best way to do this is to follow the instructions on the back of any bank statement. To check off current month checks and deposits, check against the receipts and disbursements journal. This will catch any posting errors that may have occurred between the check register and the journals. Any corrections may be done directly to the journals or through the general journal. Any outstanding check (a check written and disbursed but has not cleared the bank) of over three months should be investigated. Any check outstanding for six months or more should be voided.
    d. If a general ledger is used, verify that the balances in all accounts (checking, savings, investment), receivables, and payables correspond to the reconciled checking account and the detailed listings of outstanding receivables and payables.

17. End of Quarter: Total monthly payroll for the current quarterly reports. Complete quarterly payroll reports, comparing amounts with journals and individual ledgers to verify accuracy. File quarterly reports with appropriate taxing authorities.

18. Year End:
    a. Total the quarterly payroll totals. Complete Forms W-2 and W-3. Verify that all amounts on the individual ledgers and payroll journals correspond to the Form W-3. File year-end reports with appropriate taxing authorities.
    b. Total all cumulative totals in journals if the journals are used as the general ledger.
    c. If a general ledger is used, close out all revenue and expense accounts to appropriate Net Asset account. This will leave zero balances in the income and expense accounts. Verify that all checking, savings, investment accounts, receivables, and payables correspond to the actual balances in the subsidiary accounts and outstanding invoices uncollected or unpaid at the year end.

19. Financial Statements: Financial statements consist of the Statement of Financial Position, Statement of Activities, Statement of Functional Expenses, and the Statement of Cash Flows. At a minimum, a Statement of Financial Position and a Statement of Activities should be prepared monthly.
    a. The Statement of Financial Position should be a comparative statement. The comparison is with the same date of the prior year. The statement consists of assets (current and long-term), liabilities (current and long-term), and Net Assets with restrictions and Net Assets without restrictions. Net Assets are Assets less Liabilities.
    b. The Statement of Activities should show, at a minimum, a comparison of budget to actual activity to date. It is recommended that at year end the statement should report on actual activity for the current year compared with the budget and with the actual activity for the prior year.
    c. The Statement of Cash Flows should be prepared at least once per year, at year end.

d. The financial statement should include notes. Short, clear, and concise notes should be used to clarify information contained in the financial statements.
e. Statements should be provided, presented, and explained at all Vestry meetings.
f. Full disclosure of all funds of the organization is a must. This includes other organizations operating under the congregation's authority, such as discretionary funds and the Episcopal Church Women.

20. Acceptable Accounting Methods for Congregations:
    a. Cash Accounting: Revenue is reported when it is received and expenses are reported when paid. In this method, for example, pledge income would be recorded on the books when each pledge payment is made.
    b. Accrual Accounting: Revenue is reported when earned and expenses are reported in the period for which they are incurred (e.g., a telephone invoice is received in December for November expenses, thus the expense would be reported in November). In this method, the full amount of a parishioner's annual pledge would be recorded at the beginning of the year, with the offsetting entry to Accounts Receivable. As payments come in on a weekly or monthly basis, the pledge's receivable balance would be lowered as cash is applied.
    c. Modified Accrual Accounting: Revenue and expenses are reported either using the cash method or the accrual method. However, expenses are reported frequently using the accrual method and income is reported using the cash method. It is recommended that, for churches using the cash method during the year, the financial statement be adjusted to accrual or modified accrual at yearend.

Section C. Net Asset Reporting

Net Assets are reported in two specific categories: net assets without donor restrictions and net assets with donor restrictions. There may be sub-categories under each of these items to clarify the statements.

Net assets with restrictions include:
1. Funds restricted by the donor in perpetuity, which cannot be altered by the congregation. These would commonly be endowment funds; and
2. Funds that contain donor-imposed restrictions that are satisfied by time or some action of the congregation, which might include:
    a. Income earned on permanently restricted endowments;
    b. Donations given for a certain purpose, such as donations solicited to pay for a youth group mission trip; and
    c. Term endowments, which may be expended at such time as a specific event takes place, such as the construction of a chapel funded from a donated endowment with the restriction that the funds be expended for the construction of a chapel.

Net Assets without restrictions are by definition any net assets which do not contain permanent or temporary restrictions. They may be categorized on the statements for clarification as follows:
1. Undesignated Funds consist of funds that are fully expendable and have no donor-imposed constraints regarding their use or purpose. However, they may have administratively imposed constraints.

2. Designated Funds consist of funds upon which a Vestry or other governing board has imposed constraints regarding their use or purpose. Since a Vestry or other governing board may, at its discretion, modify or remove the constraints, these funds are not legally restricted. A common example would be a reserve for major repairs.
   a. Furniture, Equipment, Land, and Buildings are usually Net assets without restrictions. However, to avoid confusion and to clarify the statements, they may be listed as a separate category under Net assets without restrictions.

1. Basic Bookkeeping for Restricted Net Assets:

   To record the receipt of restricted funds:

   - In Operating Fund: **Debit** Operating Cash Account
     Credit Due to Restricted Fund

   - In Restricted Fund: **Debit** Due from Operating Fund
     Credit Contributions Received

   To record the transfer from operating fund to restricted funds:

   - In Operating Fund: **Debit** Due to Restricted Fund
     Credit Operating Cash Account

   - In Restricted Fund: **Debit** Restricted Cash Account
     Credit Due from Operating Fund

   The principal amounts may be placed in a common or pooled investment account with other restricted funds. If the funds are pooled, the income should be allocated to each of the separate funds to assure compliance with all restrictions. If the funds are relatively large, separate bank accounts for each fund may provide easier accounting. All investment income should be recorded to the appropriate net asset.

   To record investment income:

   - In Restricted Fund: **Debit** Cash Account
     Credit Investment Income

   If the principal or income from restricted or designated funds is used for expenditures that would otherwise be considered operating expenses, the expense should be included in the operating budget and the funding should be shown as a transfer to the operating fund from the restricted or designated fund.

2. Reporting in Financial Statements: Restricted gifts may be combined for presentation purposes in the financial statements under a separate Restricted Fund caption.

   If the financial statements are presented in a combined format in a single statement, the restricted balances and accounts should be clearly segregated and identified as restricted. They should not be combined with other funds, accounts or balances.

Section D. Financial Report Examples

SAMPLE MONTHLY REPORT
REVENUE AND EXPENSES
FOR THE FIVE MONTHS ENDING MAY 31, [CURRENT YEAR]

Accounts	Annual Budget	Budget To Date	Actual To Date	Over/ Under
Revenue:				
Operating Income:				
Plate offering	$17,640	$8,820	$6,879	$(1,941)
Pledge receipts	151,368	75,684	79,312	3,628
Investment income	460	230	275	45
Other income	6,420	3,210	4,018	808
Diocesan assistance	-0-	-0-	-0-	-0-
Undesignated gifts and bequests	1,200	600	55	545)
Total Operating Income	$177088	$88,544	$90,539	$1,995
Non-Operating Revenue:				
Net realized gains on investments	$1,290	$645	$933	$288
Restricted gifts not for operations	2,810	1,405	864	(541)
Capital fund receipts	50,000	25,000	24,300	(700)
Total Non-Operating Revenue	$54,100	$27,050	$26,097	$953)
Total Revenue	$231,188	$115,594	$116,636	$1,042
Expenses:				
Operating Expenses:				
Clergy salaries	$55,000	$27,500	$27,500	-0-
Clergy housing allowance	14,000	7,000	7,000	-0-
Lay employee salaries	43,000	21,500	19,842	$1,658
Payroll tax expense	3,156	1,578	1,496	82
Benefits (pension, health ins., etc.)	11,244	5,622	6,018	(396)
Diocesan apportionment	18,536	9,268	9,268	-0-
Utilities	26,690	13,345	15,637	(2,292)
Office supplies	5,242	2,621	1,116	1,505
Program costs:				
– Outreach	2,400	1,200	793	407
– Christian Education	3,800	1,900	2,205	(125)
– Preschool	2,300	1,150	933	217
Total Operating Expenses	$185,369	$92,684	$91,628	$1,056
Net Operating Totals *(operating income in excess of operating expenses)*	$ (8,280)	$ -0-	$(1,089)	$ 939
Non-Operating Expenses:				
Capital purchases	$48,100	-0-	$8,436	(8,436)
Depreciation expense	6,000	-0-	-0-	-0-
Total Non-Operating Expenses	$54,100	-0-	$8,436	$(8,436)
Total Expenses	$239,468	$92,684	$100,064	$(7,380)
Net Totals	$ (8,280)	$22,910	$ 16,572	$ (6,338)

Sample Year End Format
Statement of Financial Position
as of December 31, [Current Year and Prior Year]

		Prior Year
Assets:		
Cash and cash equivalents	$ 7,500	$ 4,600
Accounts and interest receivable	2,130	1,670
Prepaid expenses	610	1,000
Contributions receivable	30,250	27,000
Short-term investments	14,000	10,000
Assets held for restricted purposes	52,100	45,600
Land, buildings, and equipment	617,000	635,900
Long-term investments	218,070	203,500
Total Assets	$ 941,660	$ 929,270
Liabilities and net assets:		
Liabilities:		
Accounts payable	$ 2,570	$ 10,500
Refundable advance	0	650
Grants payable	875	1,300
Notes payable	1,685	2,840
Long-term debt	55,000	64,640
Total Liabilities	$ 60,130	$ 79,930
Net Assets:		
Net assets without donor restrictions	$715,138	$686,870
Net assets with donor restrictions	166,392	162,470
Total Net Assets	$881,530	$849,340
Total Liabilities and Net Assets	$941,660	$929,270

SAMPLE YEAR END FORMAT
A STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, [CURRENT YEAR]

Changes in net assets without restrictions:	
Revenues and gains:	
Contributions	$ 116,070
Rental income	5,400
Income on long term investments	5,600
Other investment income	850
Net realized and unrealized gains on long term investments	8,228
Other	150
Total unrestricted revenues and gains without restrictions	$ 136,298
Net assets released from restrictions:	
Satisfaction of program restrictions	$ 13,490
Expiration of time restrictions	1,250
Total net assets released from restrictions	$ 14,740
Total revenues, gains and other support without restrictions	$151,038
Expenses and losses:	
Program A: Outreach	$ 13,100
Program B: Christian Education	8,540
Program C: Preschool	5,760
Management and general	92,420
Fund raising	2,150
Total expenses	$121,970
Fire loss	800
Total expenses and losses	$122,770
Increase in Net Assets without restrictions	$ 28,268
Changes in temporarily restricted net assets:	
Contributions	$ 8,110
Income on long term investments	2,580
Net unrealized and realized gains on long term investments	2,952
Net assets released from restrictions	(14,740)
Decrease in temporarily restricted assets	$ (1,098)
Changes in permanently restricted net assets:	
Contributions	$ 280
Income on long term investments	120
Net realized and unrealized gains on long term investments	4,620
Increase in Net assets with restrictions	$ 5,020
Increase in net assets	$ 32,190
Net assets at beginning of year	849,340
Net assets at end of year	$ 881,530

Sample Year End Format B
Statement of Activities
For the Year Ended December 31, [Current Year]

	Net Assets without Restrictions	Net Assets with Restrictions	Total
Revenues, gains, and other support:			
Contributions	$ 116,070	$ 8,390	$124,460
Rental income	5,400	-	5,400
Income on long-term investments	5,600	2,700	8,300
Other investment income	850	-	850
Net unrealized and realized gains on		-	
long-term investments	8,228	7,572	15,800
Other	150	-	150
Net assets released from restrictions:		-	
Satisfaction of program restrictions	13,490	(13,490)	0
Expiration of time restrictions	1,250	(1,250)	0
Total revenues, gains, and other support	$ 151,038	$ 3,922	$154,960
Expenses and losses:			
Program A – Outreach	$ 13,100	$ -	$13,100
Program B – Christian Education	8,540	-	8,540
Program C – Preschool	5,760	-	5,760
Management and general	92,420	-	92,420
Fund raising	2,150	-	2,150
Total expenses	$ 121,970	$ -	$121,970
		-	
Fire loss	800	-	800
Total expenses and losses	$ 122,770	$ -	$122,770
Change in net assets	28,268	3,922	32,190
Net assets at beginning of year	686,870	162,470	849,340
Net assets at end of year	$ 715,138	$ 166,392	$881,530

Sample Year End Format
Statement of Cash Flows
for Year Ended December 31, [current year]

Cash flows from operating activities:		
Change in net assets		$32,190
Adjustments to reconcile change in net assets		
To net cash provided by operating activities:		
Depreciation		$3,200
Fire loss		800
Increase in accounts and interest receivable		(460)
Decrease is prepaid expenses		390
Increase in contributions receivable		(3,250)
Decrease in accounts payable		(7,930)
Decrease in refundable advance		(650)
Decrease in grants payable		(425)
Contributions restricted for long-term investment		(2,740)
Interest and dividends restricted for long-term investment		(300)
Net unrealized and realized gains on long-term investments		(15,800)
Net cash used by operating activities		$ 5,025
Cash flows from investing activities:		
Insurance proceeds from fire loss on building		$7,550
Purchase of equipment		(1,500)
Proceeds from sale of investments		76,100
Purchase of investments		(74,900)
Net cash provided by investing activities		$7,250
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment		$ 200
Investment in term endowment		70
Investment in plant		1,210
Net cash provided by restricted contributions		$ 1,480
Other financing activities:		
Interest and dividends restricted for reinvestment		$ 300
Payments on notes payable		(1,155)
Payments on long-term debt		(10,000)
Net cash used by other financial activities		(10,855)
Net cash used by financing activities		$(9,375)
Net increase in cash and cash equivalents		$ 2,900
Cash and cash equivalents at beginning of year		4,600
Cash and cash equivalent at end of year		$ 7,500
Supplemental data:		
Noncash investing and financing and financing activities:		
Gifts of equipment	$140	
Gift of paid-up life insurance, cash surrender value	80	
Interest paid	382	

Section E. The Chart of Accounts

In developing a chart of accounts, provision must be made for each fund that has its own assets, liabilities, net assets, support and revenue and expense accounts. The chart of accounts must integrate these separate funds into an account structure that facilitates bookkeeping procedures and preparation of financial statements and the Parochial Report.

Congregations with an existing, working chart of accounts do not need to change their system if it serves the church's purposes.

Some dioceses may mandate a specific chart of accounts. Each congregation should take into account the information that will be needed to file the annual financial statements and the Parochial Report. The following chart of accounts will help in accumulating those data.

The Chart of Accounts is designed to:

- Maintain uniformity of classification of transactions from year to year and from congregation to congregation;
- Facilitate the preparation of the financial statements on a uniform basis; and
- Provide a tie-in between the accounting records and the Parochial Report.

The chart of accounts is also a useful tool in the budget process. An example for a numbering scheme follows.

Digits denoting major categories might be:

1	Assets
2	Liabilities
3	Net Assets
4	Income or Revenue Accounts
5	Expense Accounts

The next step would add subcategories. Usually asset and liability accounts are ordered according to liquidity. An example would be as follows:

Assets (1)

Petty Cash	101
Checking Account	102
Savings Account	103
Accounts Receivable	104
Short Term Investments	105
Long Term Investments	110
Furniture	120
Equipment	121
Building	125
Accumulated Depreciation	126
Land	130

Liabilities (2)

Accounts Payable	201
Payroll Taxes Payable	202
Current Notes Payable	205
Long Term Notes Payable	210

Net Assets would use the numbering as set up for presentation in the financial statement. Using the examples previously shown for this manual would follow:

Net Assets (3)

Without restrictions	
Undesignated	301
Designated	305
Furniture, Land, Buildings	310
With restrictions	320

Income should be set up in as much detail as needed. Remember, by grouping breakdowns based on the financial reports and Parochial Reports, reporting will be made easier.

Revenue and Gains (4)

Operating Income	
Loose Plate Offering	401
Pledge Payments on Written Pledges	402
Other Pledge Payments	403
Interest and Dividends	404
Other Operating Income	405
Diocesan Assistance	410
Undesignated Gifts	415
Non-operating Income	
Net Realized Gains on Investments	425
Restricted Gifts not for Operations	430
Capital Fund Raising	435

Expenses (5)

Operating Expenses	
Clergy Taxable Salaries	501
Clergy Housing Allowance	502
Lay Employee Salaries	503
Payroll Tax Expense	504
Benefits (Pension, Health, etc.)	505
Utilities	510
Office Supplies	515
Program Costs	520

Non-operating Expenses:

Capital Purchases	530
Depreciation Expense	535

The income and expenses can be broken up into as much detail as needed. Simply add two or more numbers following the major category number.

By adding a number in front of the main categories, the chart of accounts can be set up for separate funds (using Cash as an example):

	Operations	*Custodian Funds*	*Conference Center*	*Book Store*
Petty Cash	1101	2101	3101	4101
Checking	1102	2102	3102	4102
Savings	1103	2103	3103	4103

It is important to remember that these are just examples. The chart of accounts should be a useful tool that is designed to enhance the bookkeeping function and make the work of coding and categorizing easier. It should be developed to work with computer programs. Beware of making so many categories that the general ledger printout carries more detail than is necessary.

Special Notes

Manual Systems: In manual systems, simplicity is usually best. The more complicated the chart of accounts, the greater the chance of error and more time will be required to post and prepare reports.

Computer Systems: Take the time to develop a good chart of accounts. Read the manual carefully to understand how the account structure works. Review the section of the manual on printing reports to understand how the chart of accounts design will enhance or limit your reporting capability.

Create a chart of accounts first by listing each account by name and then assigning account numbers leaving plenty of room for future expansion. Instead of 420, 421, 422, …, use 420, 425, 440. This will make 5 to 10 account numbers available between each number currently in use.

Pre-designed chart of accounts: Many computer software packages come with a pre-designed chart of accounts. Often these will suffice for a congregation, especially if one operating account and few special items are used. If a congregation‘s financial situation is more complex, it will usually be better served over the long term by developing a chart of accounts specific to its needs.

Changing the chart of accounts: Many computer systems will allow comparisons between current year data with previous year(s) actual history. Most software packages lose this capability when chart of accounts numbers are changed. Carefully weigh the advantages of changing account numbers against the disadvantages of not having the prior history easily available when changing the chart of accounts.

Creative reporting: Some churches report to vestries based on the operational structure of the church. For example, if the church is operating on a Ministry System or Program System, you may want to design your chart of accounts differently from the example shown above to allow the Vestry or program groups to receive reports that fit their needs. Please allow for the eventual reporting required on the Parochial Report. This is important to both the diocese and churchwide.

Appendix 1

Domestic & Foreign Missionary Society
Gift Acceptance Policies

The Domestic & Foreign Missionary Society (the "Society"), a not for profit organized under the laws of the State of New York, encourages the solicitation and acceptance of gifts for purposes that will help to further and fulfill its mission. The following policies and guidelines govern acceptance of gifts made to the Society for the benefit of any of its programs.

I. Purpose of Policies and Guidelines

The Executive Council of the Society and its staff solicit current and deferred gifts from individuals, corporations, and foundations to secure the future growth and mission of the Society. These policies and guidelines govern the acceptance of such gifts and provide guidance to prospective donors and their advisors when making gifts to the Society. The provisions of these policies shall apply to all gifts received for any of the programs or services. The Chief Operating Officer, in consultation with the Treasurer, will update these policies and present them to the Executive Council for final approval.

II. Use of Legal Counsel

The Society shall seek the advice of legal counsel in matters relating to acceptance of gifts when appropriate. Review by counsel is recommended for:

a) Closely held stock transfers that are subject to restrictions or buy-sell agreements
b) Documents naming the Society as Trustee
c) Gifts involving contracts, such as bargain sales or other documents requiring the Society to assume an obligation
d) Transactions with potential conflict of interest that may invoke IRS sanctions
e) Other instances in which use of counsel is deemed appropriate

The Society will urge all prospective donors to seek the assistance of personal, legal and financial advisors in matters relating to their gifts and the resulting tax and estate planning consequences. The Society cannot and will not render any legal advice concerning tax liability and/or estate planning matters. Legal fees incurred by the donor in the completion of a gift are the responsibility of the donor.

III. Restrictions on Gifts

The Society may accept gifts without restrictions, and gifts for specific programs and purposes, provided such gifts are not inconsistent with its stated mission, purposes, and priorities. The Society will not accept gifts that are overly restrictive in purpose. Gifts that are overly restrictive are those that violate the terms of the Society's charter, gifts that are too difficult to administer, or gifts that are for purposes outside the mission of the Society. The Chief Operating Officer, in conjunction with legal counsel, is responsible for implementing these policies. The Society will review its Gift Acceptance Policy annually.

IV. Types of Gifts

A. The following gifts are acceptable:

1. Cash
2. Securities
3. Tangible Personal Property
4. Real Estate
5. Planned Gifts
    a. Bequests
    b. Charitable Gift Annuities
    c. Pooled Income Funds
    d. Charitable Remainder Trusts
    e. Charitable Lead Trusts
    f. Life Insurance

The Society will consult with real estate appraisers, environmental analysts, property brokers and specialized legal counsel to ensure that it has the expertise available to analyze a proposed gift appropriately.

B. The following criteria govern the acceptance of each gift form:

1. **Cash**: Cash is acceptable in any form. Checks shall be made payable to the Domestic & Foreign Missionary Society and shall be delivered to P.O. Box 12074, Newark, NJ 07101.

2. **Securities**: The Society can accept both publicly traded securities and closely held securities.

    Publicly Traded Securities: Appreciated marketable publicly-traded securities will be accepted and sold upon receipt unless otherwise directed by the Chief Operating Officer in consultation with the Treasurer. Donors should not sell the stock; they should contact the Society for instructions on how to transfer their stocks to the Society's broker.

    Closely Held Securities: Closely held securities, which include not only debt and equity positions in non-publicly traded companies but also interests in LLPs and LLCs or other ownership forms, can be accepted subject to the approval of the Chief Operating Officer in consultation with the Treasurer. However, gifts must be reviewed prior to acceptance to determine that:

    - there are no restrictions on the security that would prevent the Society from ultimately converting those assets to cash,
    - the security is marketable, and
    - the security will not generate any undesirable tax consequences for the Society.

    If potential problems arise on initial review of the security, further review and recommendation by an outside professional may be sought before making a final decision on acceptance of the gift. The final determination on the acceptance of closely held securities shall be made by the Chief Operating Officer in consultation with the Treasurer and legal counsel when necessary. Every effort will be made to sell non-marketable securities as quickly as possible.

3. **Tangible Personal Property**: These gifts include artwork, jewelry, cars, boats, and any other personal property item owned by a donor. These gifts will rarely be accepted and, if they are ever considered for acceptance by the Society, they shall be examined in light of the following criteria:

    - Does the property fulfill the mission of the Society?
    - Is the property marketable?
    - Are there any undue restrictions on the use, display, or sale of the property?
    - Are there any carrying costs for the property?

    The final determination on the acceptance of other tangible property gifts shall be made by the Chief Operating Officer in consultation with the Treasurer and legal counsel.

4. **Real Estate**: Gifts of real estate rarely will be accepted. These types of gifts may include developed property, undeveloped property, or gifts subject to a prior life interest. In the event that one of these gifts is being considered for acceptance, the Society shall require an initial environmental review of the property to ensure that it has no environmental damage. If the initial inspection reveals a potential problem, the Society shall retain a qualified inspection firm to conduct an environmental audit. The cost of the environmental audit shall be an expense of the donor.

    When appropriate, a title binder shall be obtained by the Society prior to the acceptance of the real property gift. The cost of this title binder shall be an expense of the donor.

    Prior to acceptance of the real property, the gift shall be approved by the Chief Operating Officer in consultation with the Treasurer and legal counsel. Criteria for acceptance of the property shall include:

    - Is the property useful for the purposes of The Society?
    - Is the property marketable?
    - Are there any restrictions, reservations, easements, or other limitations associated with the property?
    - Are there carrying costs, which may include insurance, property taxes, mortgages, or notes, etc., associated with the property?
    - Does the environmental audit reflect that the property is not damaged?

    If the estimated value of tangible personal property or real estate is greater than $500, the donor will be directed to the U. S. Internal Revenue Service requirements regarding the substantiation of charitable contributions. Should the donor wish to reflect the contribution in his/her income tax return, the donor should obtain a qualified appraisal of the equipment from an independent appraiser, complete IRS Form 8283 and provide a copy to the Society.

5. **Planned Gifts**. The Society may accept the following planned gifts:

    Bequests: Donors and supporters of the Society will be encouraged to make bequests to the Society under their wills and trusts. Such bequests will not be recorded as gifts to the Society until such time as the gift is irrevocable.

    Charitable Gift Annuities: The Society may accept charitable gift annuities. The minimum gift for funding is $5,000. The minimum age for life income beneficiaries of a gift annuity shall be 55. For a deferred gift annuity the minimum age for life income beneficiaries shall be 45. No more than two life income beneficiaries will be permitted for any gift annuity. Annuity payments may be made on a quarterly, semi-annual, or annual schedule.

Pooled Income Funds: The ***pooled income fund*** is a gift plan, similar to a mutual fund, which is actually a trust fund for donors who wish to receive an income that has the possibility of growth through the years. A particularly appealing feature of the plan is that it does not require gifts in the substantially larger amounts that are generally necessary for separate trusts.

Individual gifts of cash and other property are combined or "pooled" and collectively invested by a trustee to produce income that is shared by the contributors. Additional donations may be added to the fund at any time.

Charitable Remainder Trusts: The Society may accept a designation as remainder beneficiary of a charitable remainder trust with the approval of the Chief Operating Officer in consultation with the Treasurer and legal counsel. The Society will not accept appointment as Trustee of a charitable remainder trust. The minimum gift for a Charitable Remainder Trust will be $100,000.

Charitable Lead Trusts: The Society may accept a designation as income beneficiary of a charitable lead trust. The Executive Council of the Society will not accept an appointment as Trustee of a Charitable Lead Trust.

Retirement Plan Beneficiary Designations: Donors and supporters of The Society will be encouraged to name the Society as beneficiary of their retirement plans. Such designations will not be recorded as gifts to the Society until such time as the gift is irrevocable. When the gift is irrevocable, but is not due until a future date, the present value of that gift may be recorded at the time the gift becomes irrevocable.

Life Insurance: The Society must be named as both beneficiary and irrevocable owner of an insurance policy before a life insurance policy can be recorded as a gift. The gift is valued at its cash surrender value upon receipt. If the donor contributes future premium payments, the Society will include the entire amount of the additional premium payment as a gift in the year that it is made.

If the donor does not elect to continue to make gifts to cover premium payments on the life insurance policy, the Society may:

- continue to pay the premiums,
- convert the policy to paid up insurance, or surrender the policy for its current cash value.

Life Insurance Beneficiary Designations: Donors and supporters of The Society will be encouraged to name the Society as beneficiary or contingent beneficiary of their life insurance policies. Such designations shall not be recorded as gifts to the Society until such time as the gift is irrevocable. Where the gift is irrevocable, but is not due until a future date, the present value of that gift may be recorded at the time the gift becomes irrevocable.

V. Changes to Gift Acceptance Policies

The Society will review its Gift Acceptance Policy annually. The Executive Council of the Society must approve any future changes to or deviations from these policies.