***TITLE IV. Canon 2.***

***Of Business Methods in Church Affairs***

***Sec. 1.*** *Every Parish, Aided Parish, Diocesan Organization, and Institution shall observe the standard business methods set forth in the applicable Canons of The Episcopal Church.*

***Sec. 2.*** *The Diocesan Council shall, from time to time, establish by resolution:*

*(a). supplementary* ***business practice*** *guidelines; and*

*(b). procedures for carrying into effect the Canons of The Episcopal Church relating to business methods in church affairs.*

*All such resolutions shall, upon adoption by the Diocesan Council, be deemed to be incorporated into this Canon.*

**Business Practices for Parishes**

***Revised and adopted by Diocesan Council 10/20/*2016 (Effective date: January 1, 2017)**

**Reporting Requirements**

It is the hope and expectation of Diocesan Council that all parishes, as individual members of the Body of Christ, accountable to and dependent on the Whole Body in which we are related one to another, will comply with all reporting deadlines.

**To be Filed with the Diocese**

All parishes are required to file with the Finance office copies of the following:

1. each deed to property held in the name of the parish
2. documents of incorporation and the most recent certificates of continuing existence filed
3. by-laws currently in effect (all amendments/revisions should be filed within thirty days of the date adopted)

**Parochial Reports**

All parishes are required to submit the Parochial Report with all information complete and accurate by March 1, as provided by The Constitution and Canons

of the Episcopal Church, Title 1: Of the Mode of Securing an Accurate View of the State of this Church Canon 6: Section 1. *“A report of every Parish and other Congregation of this Church shall be prepared annually for the year ending December 31st preceding, upon the blank form prepared by the Executive Council…”*

Each parish will submit a copy of an operating income statement (statement of revenues/receipts and expenses) with its completed parochial report. Credits will be issued by the Finance Office when the completed report is received.

The parochial report determines the final amount of assessment due for the calendar year. Any parish that does not file its report by the canonical deadline for delegate certificates is not in compliance with Canon 14. Of the Diocesan Fund, since it cannot be determined whether or not its prior year assessments have been paid.

# Audit Reports

Treasurers of all congregations, foundations, and shared ministries are required to submit an audit report of all accounts (operating, discretionary funds, restricted, endowments and property) prepared *by “an independent Certified Public Accountant,” “an independent licensed public accountant”* or by “such committee authorized by the Finance Committee…or other appropriate diocesan authority.”(ref. The Constitution and Canons of the Episcopal Church, Title 1: Of the Mode of Securing an Accurate View of the State of this Church Canon 7: Section 1(f)*. “All accounts of Parishes, missions or other institutions shall be audited annually…”)* [Note: The State of Ohio no longer licenses public accountants. The quote in this paragraph is from The Episcopal Church canons, and other states still license public accountants (LPAs) in addition to Certified Public Accountants (CPAs).]

The report of audit*, “including any memorandum issued by the auditors or audit committee regarding internal controls…together with a summary of action taken or proposed to be taken to correct deficiencies…”* must be submitted to the *Finance Office “not later than 30 days following the date of such report…”* and in no event shall Parish Committee Audits be submitted later than June 1st nor Audits by CPA or Audit Team later than July 15th, ”*covering the financial reports of the previous calendar year*.”

There are important advantages to having a complete audit by a Certified Public Accounting firm including: objectivity, technical knowledge, credibility and experience in confirming the accuracy of statements of financial position, and identifying areas for improvement in record keeping. While a full audit is clearly preferred for all parishes and shared ministries, recognizing the cost involved the following “minimum” guidelines have been established:

**Total *Expenses*-Line *G* Type of Audit Frequency**

**$600,000 or greater CPA Annually**

**$450,000 or greater, but CPA or Audit Team Annually**

**less than $600,000**

**$150,000 or greater, but CPA or Audit Team 1 of every 3 years**

**less than $450,000 Committee Audit 2 of every 3 years**

**Less than $150,000 CPA or Audit Team 1 of every 4 years**

**Committee Audit 3 of every 4 years**

* Effective with audit for the 2017 calendar year, a Financial Statement Audit by a CPA must be a full audit. “Neither a review nor a compilation is acceptable in place of an audit of a parish, mission, or other institution of the church” according to the *Manual of Business Methods in Church Affairs, Ch. VI-4*.

All Committee Audits must follow the procedures prescribed by the *Business Methods of the Episcopal Church.* Assistance implementing these requirements is available through the Finance Office.

Parishes which have an independent audit must report any change in CPA or CPA firm to the Finance office, along with an explanation for the change. The vestry of the parish must approve any change in CPA or CPA firm.

The Diocesan Audit Team consists of volunteers from parishes who are CPA’s or have strong financial backgrounds. They will perform an audit of parish financial reports and internal controls that meet Diocesan standards. Parishes who have worked with a member of the audit team cite the advantages of having an objective review from someone outside their own system.

Interested parishes should contact the Finance Office.

**Lay Pension Plans**

In compliance with The Constitution and Canons of the Diocese of Ohio, Title II, Canon 10, Of Lay Pensions “Every parish, Diocesan Organization and Institution shall make a report of compliance relative to Sec. 1 of this Canon…” using a “report form provided by the Finance Office…not later than October 1st of each year…” Parishes which do not fulfill the filing requirement are deemed not to have funded a lay pension as required by the Canon and will have seat and voice but not vote at the annual Diocesan Convention.

**Report of Endowment Funds and/or Foundations**

A report on parish endowment funds and/or separately incorporated foundations must be submitted on the form provided by the Finance Office by March 1st of each year.

**Certificate of Insurance**

Parishes not insured by Church Insurance (CPG) must submit a certificate of insurance to the ***Finance Office*** by March 1st, of each year showing evidence of the following coverages:

1. Property (as provided by The Constitution and Canons of the Episcopal Church, Title I, Canon 7 (6): “All buildings and their contents shall be kept adequately insured.”)
2. Liability including coverage for “sexual misconduct” minimum of $300,000 per occurrence and $300,000 total per year. It is strongly recommended that larger parishes with non-building assets greater than $300,000 maintain higher coverage limits.
3. Bonding for “dishonesty” minimum of $25,000 or 20% of parish annual revenue whichever is greater.

Parishes insured by Church Insurance (CPG) are exempt from the reporting requirements but must still meet the above minimums.

**Parish Support (Assessment)**

Provision for the calculation and payment of Parish Support for the work of the Diocese through the Diocesan Budget is provided in TITLE I. Canon 1.14 of the Diocesan Constitution and Canons. All calculations of parish support should be based on Normal Operating Expense (NOE) compiled from the line-by-line instructions in the most recently issued Parochial Report forms. Every parish must submit a copy of the operating budget approved at its Annual Meeting with the Calculation of Diocesan Support (an estimate of the assessment for the calendar year). This report needs to be submitted to the Finance Office by February 20th of each year, and calculates of average % of NOE which is applied to the parish's actual NOE each month during the year.

This expense is also reported on the Parochial Report by March 1. This detail is reviewed and the parish Treasurer and Rector notified of any discrepancies or assessment balance due requesting payment or other resolution by May 1st. After May 1st any balance still shown as outstanding will be added to the monthly bill and will stand until paid.

**ACCOUNTING RECORDS**

**Accounting Year – As provided in Canon 7 (j) of The Episcopal Church canons, “the fiscal year shall begin January 1.”**

**Record Storage—**All parish business and accounting records will be maintained and stored at the church in a safe and secure manner.

**Fund Accounting-—**To accurately complete the parochial report and to maintain the proper classification of special restricted funds, all parishes must maintain fund accounting records. Fund accounting maintains separate detail and balances for donor restricted funds, other endowment funds, operating funds and property funds.

**Deposits—**Appropriate safeguards will be maintained to secure collections and other receipts:

1. All receipts should be secure from the point of collection.
2. At least 2 persons will be responsible for counting and depositing, and those persons should be rotated on a periodic basis.
3. All receipts, including collections, will be deposited at least weekly.
4. The treasurer and/or other persons responsible for record keeping/accounting of receipts should not be involved in the counting or depositing functions.
5. The counters should have a standardized form for recording deposit information. The forms should be retained and reconciled with actual deposit information.
6. All pledge envelopes and other memoranda should be retained with counters’ forms.
7. All discrepancies should be investigated.

**Gifts/Contributions-—**All donations should be properly recorded and acknowledged:

1. Pledge statements will be issued at least quarterly throughout the year and at year-end.
2. Donors of record should be sent a timely acknowledgment in writing, stating amount and purpose of gift, and identifying what portion, if any, is tax deductible.
3. Contributions made to the church for the benefit of a named individual are not deductible contributions for income tax purposes.
4. When, as a fundraising activity, participants are charged an amount that is intended to be in part a donation and in part consideration for benefits received, it should be made clear that it is a solicitation of contributions. A determination of the actual fair market value of the benefits conferred should be made and clearly indicated on the tickets or receipts issued.

**Disbursements—**All payments should be properly approved, recorded, and supported by appropriate documentation:

1. All disbursements will be made by pre-numbered checks, used in sequence.
2. Before checks are issued, disbursements should be processed through a clearly defined approval system and be supported by original documentation.
3. All checks will be made payable to specified payees, not to “Cash” or “To Bearer”.
4. All voided checks will be properly canceled and retained.
5. No blank checks are to be signed nor signature stamps or pre-printed signatures be used. The original documentation should accompany checks presented for signatures. Disbursements requiring special approval of funding sources or special approval of the vestry should be properly documented.
6. All check signers should be authorized by the Vestry and at least two of those authorized should sign each check. The minutes should reflect the authorization by the Vestry.
7. Checks should be mailed or delivered, if possible, by someone other than the person who approved the request.

**Journal Entries—**As an avenue for making adjustments to accounting records, the general journal is as important a book of original entry as the receipts and disbursements journals:

1. Appropriate explanation should accompany, and adequate documentation maintained to support each journal entry.
2. All journal entries should be approved by a knowledgeable person of authority other than the person initiating the entry.

**Payroll—**The application of policies and procedures involving the employment of individuals assures compliance with payroll tax reporting:

1. Personnel files will be maintained and will include: employment application and/or letter of employment, authorizations for pay rates and effective dates, IRS Form W–4 and Dept. of Homeland Security Form I–9.
2. When applicable, a written record of hours worked and approval by a supervisor should be maintained.
3. Adequate records will be maintained to show computation of gross pay, account for all deductions from gross pay, and support payroll tax returns and Forms W–2.
4. All payroll tax returns will be filed, and all payroll tax deposits will be made on a timely basis.
5. All employees, clergy and lay, will receive a Form W–2.
6. All employees, clergy and lay, will be covered under Worker’s Compensation (Clergy must be identified specifically for proper coverage).
7. Forms 1099 will be provided for all individuals who are not employees and for all unincorporated entities paid $600 or more in a calendar year.
8. Form W–2 wages will be reconciled to the general ledger accounts and to the quarterly payroll tax returns.
9. Clergy housing allowances will be recorded in the minutes of the vestry no later than the first meeting of each year, unless a standing resolution is approved by the Vestry.

**Discretionary Funds—**see Chapter V of the Manual of Business Methods in Church Affairs for details regarding accountability uses and tax consequences.

* All checking accounts for clergy discretionary funds must be approved by the Vestry, and be opened using the congregation’s Federal Employer’s Identification Number.
* The bank accounts must be in the name of the congregation and not that of the individual member of the clergy. Example of name of account: Good Shepherd Episcopal Church Rector’s Discretionary Fund
* The discretionary funds are subject to audit and are included in financial reports following standard accounting procedures.
* Discretionary funds remain with the congregation when the clergy departs.
* Confidentiality can best be maintained by writing checks to for assistance to utilities, doctors or stores, etc. rather than to individuals.

There are two practices for the administration of discretionary funds.

* All income received is deposited in the general operating account of the congregation. Disbursements from the fund are by check drawn on the general operating account upon written request of the authorized member of the clergy or other appropriately authorized individual.
* Vestries may approve the use of a separate single signature checking account for the discretionary fund. Under these circumstances, all income from any source to the fund must be deposited to the congregation’s general operating account, recorded on the books of the congregation, and subsequently transferred by the treasurer to the separate checking account. No monies from any source are to be deposited directly into the separate checking account. The co-mingling of personal funds of any kind with discretionary funds is always improper.
* The model policy on parish use of discretionary funds is highly recommended.

**Accountable Reimbursement Plans**

* All parishes are strongly encouraged to adopt an accountable reimbursement plan.
* A model accountable reimbursement plan is available from the Finance office.

**Credit Cards**

* The Vestry must authorize the use of credit cards in the name of the parish, or in the name of individuals for parish business.
* This authorization should include, but not be limited to: credit limits, authorized users, daily spending limits, access to the card, authorized purposes, etc.
* Use of the model policy for parish credit cards is highly recommended.