

## Finances: What You Need to Know



*"The Sermon on the Amount"*

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*Finances: What You Need to Know - 1*

Fresh Start

### Talking Points

Taking a look at a parish's finances can be one of the quickest ways to see where your congregation's commitments and struggles have been over recent years. One of the roles of both ordained and lay leaders in a congregation is to see the "big picture". How monies are spent and taken in is an integral part of that picture. Facilitating faithful stewardship is part of ministry – stewardship of all the parish's gifts, including money.

"Money talk" is still often difficult in the church, whether it is financial stewardship, fundraising, diocesan ministry support, or financial administration. This module will provide some initial questions that can lead to a quick assessment of the financial situation of the congregation.

## A good, quick look

One of the ***fastest*** ways to find out where your parish's recent priorities have been is to look at the finances.



**“For where your treasure is,  
there your heart will be also.”**

(Luke 12:34; see also Matthew 6:21)



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### Talking Points

Similar to households, finances reflect the priorities and health of a congregation. Where and how money is spent and managed says volumes about a congregation's approach to mission.

Imagine this example: the congregation has said it has a strong commitment to outreach. You are excited about this emphasis, and then find that the budget allocations do not match the stated intentions. Here is an opportunity for clarification, for growth in understanding and for possibly impacting the mission of the congregation. You have quickly uncovered an area for further conversation.

## Why do YOU need to know?

- “The Vestry is given charge of the ‘temporal affairs’ of the parish; why should clergy have to think about such things?”
- “I trust the Treasurer; I don’t want her/him to think that I don’t.”
- “There are more pressing concerns at the beginning of my time here.”
- “I just don’t know how to talk about money.”

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### Talking Points

When there is a change in leadership in a congregation, it is easy to get swept up in new responsibilities and neglect looking at finances. General discomfort within our culture with “money talk” also contributes to the tendency to let finances go on “autopilot”.

Some of the most common excuses are listed here. Can you think of others that you have heard? Or have said yourself?

### ***Facilitate a large group discussion.***

While these comments are understandable, these reservations can also be overcome. Becoming familiar with financial terms, being gently assertive about financial questions, being genuinely curious and positively inquisitive can lead to parish leaders and staff appreciating your immediate interest.

## What Do You Need to Know?

Tools for discovering and summarizing financial information



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### Talking Points

Finances do not have to be complicated. The checklists that follow are simple tools for understanding a congregation's financial picture. Remember, this is to help you get to know a congregation, its priorities and its recent history.

Most staff and congregational leaders are pleased when clergy or new lay leaders ask about this often neglected area. Sometimes, however, you may encounter some resistance. Pay attention to the power dynamics at work, but do not be deterred. Your leadership is needed in all areas of the parish, including financial administration.

The next slides will help you frame questions about monies received and spent by the congregation.

## Congregational Accounts



What/where are all the financial accounts?

- Checking / savings
- Investment(s)
- Other?

Who has signatory authority over each account?

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### Talking Points

#### ***Distribute Handout 1***

The first order of business is to get a complete listing of all congregational checking and saving accounts. Here is a worksheet that may help you. You may wish to have your treasurer fill it out, or work with him/her to do so together. Make sure to have EVERY account listed. It is a good idea to ask several times, “Are there any other accounts related to the congregation, even small ones? How about the Altar Guild or ECW or Men’s Group?”

Which groups have “their own” accounts? Be aware and careful in these situations. While specific ministries may have appropriate spending responsibilities, every account should be shown in all financial reports. There should be no “offline” accounts, **ever**.

You also need to know *who* has authority to sign for expenditures against each account. Who has signature authority and what is the limit of that authority? Who has passwords for any bookkeeping software? Where are printed records kept? Is there an offsite backup in case of disaster?

We’ll come back to investments later, but do you have any questions? What do you already know about financial accounts in your congregation?

***Facilitate a general discussion. If lay leaders are present you may want to have congregational teams engage in a conversation about the information requested and even take a few minutes to see how much of the form they could fill out. If you do this, follow up with a general discussion so that the teams can share what they learned with each other.***

## Checklist: Income



What are **all** the sources of income?

- Pledges/gifts
- Endowments/investments/grants
- Other

Are there **affiliated** organizations?

- School, day care, bookstore, other?

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### Talking Points

Knowing about all your congregation's sources of income can help you have a clear picture of some of the relationships the congregation has. As mentioned earlier, "where your treasure is, there your heart will be also" – where the congregation's "treasure" comes from will tell you something about who has what kind of relationship. Of course, this is not the entire picture, simply a helpful snapshot of one aspect of the congregation's whole life.

Regarding pledges, there are differing opinions about whether clergy should know how much each household pledges. Many clergy find that it is helpful to know this, as a indicator of relationship. Additionally, if a giving pattern changes substantially, up or down, this can be an pastoral cue for further discussion with that household. Other clergy, however, prefer not to know fearing it will influence their attitude toward parishioners. However, as one clergyperson pointed out, "I already know who the big givers are without even looking at the books, but it doesn't affect my pastoral response to whomever needs my care."

What percentage of the congregation's income comes from pledge and plate?

How "affiliated organizations" -- schools, bookstores, day care centers or other non-profit organizations -- relate to the congregation varies considerably from one situation to another. Be aware of these relationships, how the financial arrangements work, and the role of the clergy and the Vestry vis-à-vis these organizations. Seek the help of your diocesan treasurer or chancellor, where appropriate.

How many of you have an affiliated organization? What is the relationship to your congregation? How are the boards of the organization and the Vestry related? What do you know about the organization's finances?

**Facilitate a general discussion if a number of participants have affiliated organizations.**

## Checklist: Expenses



What monies go out on a regular basis?

- Bills
- Outreach support (do you tithe as a parish?)
- Taxes (*be especially careful about payroll taxes*)
- Other

Diocesan ministry support

- An indication of relationship, not just money

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### Talking Points

Becoming familiar with all a congregation's expenses sheds yet more light on a congregation's life. In looking at expenses, ask:

- How much is allocated to outreach ministries?
- Does the congregation pay its part of diocesan ministry support on time and in the full amount? (This support may be called an assessment or apportionment.)
- How much does it take to maintain the building?
- Are all the congregation's service contracts with one company?

Payroll taxes are important to have reviewed and verified by a qualified individual, usually a CPA. Contact your diocesan treasurer or comptroller to make sure you are in compliance with federal, state and local tax rules.

## Checklist: Budget Categories



- How is your Chart of Accounts structured?
  - What are your controls?
- 
- Do expense categories reflect the way the congregation's life is structured?
  - How easy is it to get summary information?
  - How many years back do accessible records go?
  - Who can access the information?
  - How often is financial information reviewed by the Vestry?

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### Talking Points

Continuing with expenses, all the information in the world is not helpful if it can't be summarized in ways that reflect how the congregation lives out its mission.

A "Chart of Accounts" is a way to group income and expenses into helpful categories. Think of different aisles in a grocery store: the aisles help you find what you're looking for, and keep similar items together.

Many times, categories have not been reviewed for years. You know the phrase, "That's the way we've *always* done it!" Don't hesitate to explore reworking your budget categories to fit the way the congregation functions *now*.

### Distribute Handout 2

Here's a simple example of basic categories. With clear and relevant budget categories, expenses and income can be summarized so informed decisions can be supported.

How often does the Vestry review financial information and status? At a *minimum*, this should be done quarterly; it is better if there is at least a summary review at each meeting.

**Ask participants to pull the sample budgets they brought from their parishes and facilitate a discussion in large or small groups about what they have and how well it reflects the life of the parish. Capture good examples in a large group discussion to share.**



## Checklist: Investments/Endowments



- What are the legal restrictions on each fund?
- Where are the original documents kept?
- Who provides legal / financial counsel?
- In what increments are payments made?
- Who has oversight / monitoring?
- Does the parish have a published investment policy?



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### Talking Points

If your congregation is fortunate enough to have investments or endowments, it is important to know how these sources of income function.

The questions listed on the slide should be able to be answered quickly and easily by your investment advisor, broker or chairperson of the finance committee. As with checking and savings accounts, pay attention to *who* has authority in what areas.

It is a good idea for the parish finance committee, with oversight from the Vestry, to develop a published investment policy, if one does not already exist. This assists in making sure that any financial holdings are consistent with the mission and values of the parish. The policy should be reviewed annually and updated when needed.

The membership network of the Consortium of Endowed Episcopal Parishes offers training, other resources, and support for endowed parishes. Dues vary depending on the size of the endowment. If you are interested in finding out more, go on-line to [www.endowedparishes.org](http://www.endowedparishes.org).

## Checklist – Discretionary Account

- In parish's name – (e.g. "St. Luke's Rector's Discretionary) – **never** in the clergy's personal name
- Audited with all other accounts
- Handled confidentially, but with controls



### Talking Points

Discretionary accounts should always be in the name of the congregation, never of an individual. This keeps the purpose of the discretionary account clear as it relates to the congregation's mission, prevents the amount in the discretionary account from being misconstrued for tax purposes as income for the clergyperson, and makes clear that it is to be reviewed as a regular parish account.

Confidentiality is one of the key concerns for discretionary accounts. One way to address this concern is to have the treasurer review expenditures in detail by check number, amount and purpose, with a summary to the Vestry. The parish auditor should review the account in full each year.

Are there any questions about discretionary accounts?

## Checklist - Audits



### Look at the two most recent audits:

- What were the findings? (look in the management letter for a summary)
- Were previous findings addressed quickly?
- What specific actions were taken?
- What are diocesan policies?



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### Talking Points

Parishes are required by canon to have an annual audit. An audit is a formal review of the practices and records of the parish's finances.

***Ask participants to pull out the two most recent audits that they brought with them.***

Look at the two (2) most recent audits you brought with you. The management letter should be at the front of the audit report and summarize key findings. How recent are these audits? Do you know if the findings were addressed promptly? The answer to that question says a lot about how the congregation deals with constructive criticism and proper accountability. What questions do the audits raise for you?

***Facilitate a general sharing of questions and observations or have teams of clergy and lay leaders review the audits for their congregation and then share their observations with the whole group.***

Audits are helpful in many ways. You can find out how to improve your financial practices and learn from current "best practices." Because congregational leaders – clergy, lay leaders (including the Vestry), staff – may be liable for improper losses, audits also help protect you. So take audit findings seriously. Vestries need to review and act on audit findings. Many parishes find that the "transparency" that an audit provides assists them with stewardship.

Each diocese has specific requirements and procedures for audits. Contact your diocesan treasurer or comptroller to become familiar with specifics. Many dioceses do not allow you to vote at diocesan convention if your audit is not complete. What if there hasn't been an audit recently? Get one, now!

## Resource: *Manual of Business Methods in Church Affairs*



Download PDF file at [www.episcopalchurch.org/finance](http://www.episcopalchurch.org/finance)

For Spanish language version – use same URL, click on title of manual, then on “Español” or go to [www.episcopalchurch.org/es/page/manual-de-métodos-administrativos](http://www.episcopalchurch.org/es/page/manual-de-métodos-administrativos)

### Talking Points

The “Manual of Business Methods in Church Affairs” is your best guide when you have questions. This helpful manual outlines proper practices for Episcopal parishes and institutions. It may seem a little overwhelming at first, but you can familiarize yourself with the contents a little at a time. Each chapter has a good introduction to get you acquainted with the topic and purpose.

The Manual, which is up-dated on a regular basis, comes as a PDF file which may be downloaded for free from the Finance Office at 815 in both English and Spanish versions.

***(Note: the Spanish language version can be found most easily by clicking on Español under the title of the manual on the English language website or by typing the name of the manual into the search box.)***

## **Chapters in *Manual of Business Methods in Church Affairs***

1. Financial Management
2. Internal Controls
3. Bookkeeping
4. Taxes and the Episcopal Church
5. Clergy Discretionary Funds
6. Audit Guidelines for Congregations
7. Insurance
8. Parochial Reports
9. Records Management
10. Principles of Computerization



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### **Talking Points**

You can see that many of the topics discussed earlier are found in detail in the “Manual.” Your Vestry should be aware of this manual and what the topics are.

## Vestry Financial Reports

- Should aid, not hinder ministry
- Be clear and easily understood
- Be regularly reviewed by vestry



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### Talking Points

The Vestry has care of the “temporal affairs” of the parish, and, as such, should regularly review its financial position. Reports for the Vestry should be clear and easily understood. While this may seem obvious, many reports are too detailed, and do not convey information in such a way as to facilitate informed decision-making.

Some important areas to be reviewed regularly would include:

- substantial variances from budget in income or expense
- pledges received vs. amount pledged
- overall spending in each budget category

An end of year summary can show how your expenses and income were allocated across categories. Clergy can help ensure the Vestry receives accurate and understandable reports.

***Distribute Handout 3 and ask participants to pull out their sample financial reports.***

Here is an example of a year summary. How does it compare with your congregation’s reports? What ideas do you have for improving reports to the Vestry? How do the reporting categories track with the way in which the congregation functions?

***Facilitate small or large group discussion, capturing any “best practices” on the flip chart.***

## Discussion

- What areas are you familiar with?
- What questions do you have?
- Are there areas where you can serve as a resource for colleagues?

### Talking Points

Clergy are not often trained specifically in financial management practices – and many Vestry members are not as well. Do any of you who have experience in this area?

What questions do you still have about finances in your congregation?

***Facilitate a large group discussion, identifying diocesan resources to assist. If there are participants with expertise, ask them if they would be willing to serve as a resource for others.***

## Summary

- **What** accounts?
- **How much** in? Out?
- **Who** has access?
- Relationships? Do our finances reflect the parish's **mission**?



### Talking Points

In summary, finding out about the finances of a congregation can help you locate its “heart.” Some basic questions will help you quickly gain an understanding of the parish’s health and financial priorities. You can discover if these priorities match other stated goals, and how prior financial management practices have affected the life of your parish. You can find out about important relationships within and related to the parish.

The worksheets and samples handed out to you will assist you in your discoveries.