



**Diocese of Toronto**  
Anglican Church of Canada

# *Parish Finance Manual*

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## Section 1: Canonical Responsibilities

This section gives an overview of the source for the rules governing parishes under the following headings:

1. Nature of the Canonical Responsibilities of Churches within the Diocese
2. Financial Responsibilities Under the Canons

### 1.1 Nature of the Canonical Responsibilities of Churches within the Diocese

A *synod* is simply a meeting or assembly of ecclesiastical persons concerning religion (Black's Law Dictionary, 5<sup>th</sup> Ed.). The Incorporated Synod of the Diocese of Toronto (the Synod) is a formal entity that is recognized under Ontario law (32 Victoria Cap 51, as amended by 62 Victoria Cap. III) as having legal status (which means that it has legally recognized rights and responsibilities).

#### Constitution and Canons

For an organization to be recognized as a legal entity it is necessary for it to have a formal structure and formally written rules by which it carries out its functions. In the case of a traditional corporation, for example, such rules would be the corporation's Articles of Incorporation and By-laws. In the case of the Synod, the structure of the Synod and the rules outlining how it carries out its functions are found in the Constitution and Canons. As an incorporated entity, the Synod must comply with the laws of the land (both Canada and the Province of Ontario) and with the rules set out in the Constitution and Canons.

In terms of structure, the Synod is headed by the Bishop of the Diocese. As well, the Synod has "members", including any Suffragan or Coadjutor Bishop of the Diocese, clergy of the Diocese and Lay Representatives of Parishes and Missions of the Diocese (Section 1 of the Constitution).

#### Parishes

Parishes are not legal entities *per se*. Parishes are essentially geographic areas within the Diocese (Canon 1, Section 1(10)). Each parish is comprised of at least one congregation (sometimes referred to in the discussion that follows as "church") that has a Vestry.

Each parish has an incumbent (Canon 1, Section 1 (10)).

Every parish has the right to elect members of the Synod (Canon 1, Section 1(10)).

#### Vestry

A church's Vestry is comprised of members of the congregation who are members of the Anglican Church of Canada and who make the Declaration in Canon 14, Section 1. The Vestry of a church is not a legal entity in itself – it is simply the forum through which members of the church make decisions affecting the church. The Vestry functions very much like the shareholders of a corporation in that the Vestry has power to make by-laws regulating the proceedings of the Vestry and regulating the management of the church (Canon 14, Section 9).

The Canons set out the rights and responsibilities of Vestries vis-à-vis:

- the Vestry's individual congregation and its members and Churchwardens; and
- the Synod.

The Church must hold an Annual Vestry Meeting (Canon 14, Section 10) at which certain business must be transacted, including adopting the church's budget for the coming year, the Churchwardens' financial report for the past year, appointing the Churchwardens (Canon 14, Section 10) and appointing the auditors for the coming year.

### **Churchwardens and Incorporation Status**

The Anglican Church of Canada is geographically divided into many dioceses, for administrative and organizational purposes. In the Toronto area, the governing diocese is the Diocese of Toronto. The Diocese of Toronto was incorporated by "*An Act to Incorporate the Synod of the Diocese of Toronto, and to Unite the Church Society of the Diocese of Toronto therewith*", an act of the Legislature of Ontario passed on January 23, 1869. The corporation created by this statute is "The Incorporated Synod of the Diocese of Toronto" - for your reference, a copy of a Certificate of Status for this corporation is included at Appendix A. No parish has a separate incorporation number.

Each parish church of the Anglican Church in the Province of Ontario is also a separate corporation. Pursuant to "*The Church Temporalities Act*", given Royal Assent on December 3, 1841, and as later enacted pursuant to "*An Act respecting Churchwardens in the Diocese of Toronto*", the Churchwardens (in essence, the administrative officers for each parish) are incorporated under the following provisions:

"The Churchwardens, for the time being of any Church in the Diocese of Toronto...shall...be a corporation with perpetual succession under the name of  
"The Churchwardens of the Church of \_\_\_\_\_ in the \_\_\_\_\_," to represent the interests of the Church of which they are so elected or appointed, and of the members thereof, and shall and may sue and be sued, answer and be answered unto, in all manner of suits, actions and proceedings whatsoever, for and in respect of such Churches and Churchyards, and all matters and things appertaining thereto."

The Canons set out the rights and responsibilities of the Churchwardens vis-à-vis:

- The incumbent
- The Vestry; and
- The Synod.

## **1.2. Financial Responsibilities under the Canons**

The following is a brief summary of some specific provisions in the Canons that govern a church's management of its financial affairs. The sections that follow discuss many of these provisions in detail.

## **Financial Year**

- The financial year for every Vestry is the calendar year (Canon 14, Section 18).

## **Financial Report**

- The Churchwardens must present a financial report to the Vestry, in accordance with Generally Accepted Accounting Principles (GAAP), at the Vestry Annual Meeting (Canon 15, Section 4(1)).
- At the Vestry Annual Meeting the Churchwardens' financial report is presented and adopted (Canon 14, Section 19(6)).
- The Churchwardens are required to forward to the Synod statistical and financial returns (hereto referred to as *Parochial Returns*) annually by March 15 (Canon 15, Section 4(9)).

## **Audit Report**

- The Vestry must require an annual audit of the Churchwardens' accounts (Canon 14, Section 14(1)).
- The nature of the audit is set out in Canon 14, Section 14(3).
- The Vestry must forward to the Diocesan Office a copy of the Churchwardens' accounts with the auditors' certificate, as well as a copy of the financial returns (Canon 14, Section 14(5)).

## **Budget**

- The Churchwardens must present at the Annual Vestry Meeting a proposed budget for the church (Canon 15, Section 4(3)).
- It is up to the Vestry to approve the budget, with or without amendment (Canon 15, Section 4(3) and Canon 14, Section 19(7)).
- The Vestry may vote to amend the annual budget during the year (Canon 15, Section 4(3)) at a Special Vestry Meeting, for which the members of the Church received due notice.

## **Handling money**

- The Churchwardens collect and count the offerings (Canon 15, Section 4(5)).
- The Churchwardens must deposit all monies coming into their possession for the church (Canon 15, Section 4(6)).
- All cheques must be signed by both Churchwardens or by either one of them and another person appointed by Vestry for that purpose. (Canon 15, Section 4(7)).

## **Loans to Churches**

- No parish may incur any financial obligation that extends beyond one year without consent of the Bishop and the Synod's Diocesan Council (Canon 6, Section 4).

### **Care of Church Assets**

- The Churchwardens are responsible for the care of the land, buildings, furnishing and effects of the church, including ensuring that the church has adequate insurance (Canon 15, Section 4(10)).

### **Incumbent's Stipend**

- The incumbent's stipend is determined by the Bishop and the parish at the time of appointment (Canon 11, Section 1). In addition, clergy are entitled to a travel allowance and their living accommodations are paid for (through the actual provision of housing or provision of a reasonable housing allowance) (Canon 11, Sections 5 and 6). An incumbent cannot be paid less than the minimum stipend for their years of service (the minimum stipend scale is approved each year by the Diocesan Council at its September or October meeting). A copy of the scale is available online in a document called Clergy Compensation.

### **Diocesan Allotment**

- The Diocesan Allotment is a definite obligation of each parish that is to be paid in 12 equal, monthly instalments (Canon 4, Section 2).

**NOTE:** The incumbent's stipend and Diocesan Allotment are invoiced monthly by the *Incorporated Synod of the Diocese of Toronto*. The invoice is due upon receipt.

## Section 2: Accounting and Reporting Systems

In this section, the basics about church accounting and reporting are discussed under the following headings:

1. Chart of Accounts
2. Division of Funds
3. Banking Arrangements
4. Cash Management Practices
5. Financial Statements
6. Churchwardens' Parochial Return

### Introduction

Financial management includes processes and procedures involving a church's cash and investments. To aid in financial management a church should have a formalized accounting system.

A church's accounting system should provide:

- historical information in a consistent format to assist in planning the church's future programs;
- current financial information presented in a manner that permits it to be compared with the planned program;
- a system of internal controls that would provide assurance to members and contributors that all funds contributed to the church are:
  - received, and
  - applied in the manner designated or approved by the membership;
- in the case of multi-point parishes, where administration of some of the parishes' common activities are centralized, an adequate means of segregating congregation-specific costs and revenues and allocating those that are common.

*The guidelines and models discussed here have been developed as an aid in reporting to the Diocese on the Churchwarden's Parochial Return. Naturally, each church's accounting system must reflect its needs; however, the overall design should not vary greatly from the models set forth here.*

### 2.1 Chart of Accounts

A chart of accounts can be thought of as a filing system used to assign the results of financial transactions over a period of time. Like any filing system, the more it reflects the priorities of its users, the more it will be user-responsive, rather than restrictive.



The purpose of a chart of accounts is to:

- Maintain uniformity of classification of transactions from year to year;
- Facilitate bookkeeping and preparation of financial statements,
- Aid in preparing the Churchwardens' Parochial Return.

In developing a chart of accounts, provision must be made for each fund that has its own assets, liabilities, fund balance, support and revenue and expense accounts. The chart of accounts must integrate these separate funds into an account structure facilitating bookkeeping and financial statement creation

## The Accounting System

*The financial statements produced by a Church must consolidate all of the funds that the Church has. This means that the cemetery fund, building fund, altar guild fund, etc. should form part of the financial statement as these monies fall within the control of the corporation. It will be easier to do this if the accounting system integrates these funds in to a balance sheet, rather than having to "cut and paste" these amounts at the end of the year.*

The accounting system should be able to generate separate financial reports for each Fund, as well as a combined (consolidated) report. To produce separate reports for each Fund, a comprehensive accounting identification system is used. The system identifies:

- The particular Fund – to identify the particular Fund two digits are used (for example, based on the previous list of funds, accounts beginning with "01" would all relate to the General Operating Fund)
- The type of account – to identify the type of account three digits can be used (after a dash) after the initial two digits representing the fund.
- The types of accounts are:
  - income (revenue)
  - expenditure (expense)
  - asset
  - liability
  - fund balance (surplus or deficit)
- Sub-accounts – to identify any sub-accounts a decimal system can be used (after a dash) after the three digits used to identify the type of account.

For example, suppose a church's Property Committee employs a contractor to replace all the lights in the church and to replace the electrical panel in the Rectory. The cost of the work is not part of a

Capital Campaign. The work costs a total of \$6,750, of which \$5,000 is for the work in the church and \$1,750 for the work in the Rectory.

Though the contractor would be given only one cheque for the \$6,750, for accounting purposes the amount should be allocated as follows: \$5,000 to the General Capital Fund (fund “03”) related to the Church Capital Expenditures (assume that is Account “008.1”) and the \$1,750 to the Operating Budget (Fund “01”) of the Rectory, Maintenance and Minor Repair Account (assume that is Account “420.3”). So, the total cost of \$6,750 would be allocated to the accounts as:

01-420.3 (Rectory, Maintenance and Minor Repair)	\$1,750
03-008.1 (Capital Expenditure – Church)	\$5,000

The following chart is a suggested accounting structure that has been successfully used for a number of years by a church in the Diocese. The numerical structure is a suggested guide for the organization of the accounts, rather than using an alphabetical structure alone. The accounts are shown under the heading of the type of financial statement on which they would appear.

<b>Suggested Chart of Accounts for Churches</b>	
Remember, each Fund would first be assigned a two-digit number and then each fund would sub-account numbers in the following categories:	
Statement of Financial Position	Statement of Operations
<b>Assets: 001-099</b> Cash & term deposits Accounts receivable Advances receivable Accrued income Grants receivable Investments Capital assets, net	<b>Revenues: 300-399</b> General envelope donations GST & RST expense rebate Investment income Open donations Fund-raising projects (net) Rental income Sundry income Transfers from designated funds
<b>Liabilities: 100-199</b> Accounts payable Accrued liabilities Deferred income Loans payable Mortgage payable	<b>Expenses: 400</b> <b>Personnel expenses:</b> <b>Clerical: 401-409</b> (using sub-accounts for each clergy person) Benefits Professional development Stipend Travel Housing allowance (where applicable) <b>Staff: 410-419</b> (using sub-accounts for each staff position) Benefits Other Expenses Salaries Travel
<b>Fund balances: 200-299</b> <b>Designated funds:</b> Internally restricted funds Externally restricted funds <b>Operating fund surplus (deficit)</b>	<b>Facilities: 420-449</b> (by structure, for example, church, rectory, office, etc.) General maintenance Grounds maintenance Insurance Municipal tax or levy Property improvements Security Supplies Utilities

Statement of Financial Position	Statement of Operations
	<b>Administration:</b> 450-469 Telephone Postage Supplies Equipment maintenance
	<b>Worship &amp; Christian Education:</b> 470-489 Adult education Choir & music Copyright license fees Fellowship Honoraria Organ & music equipment maintenance Organist relief Sunday school Worship supplies
	<b>Outreach:</b> 490-499 Diocesan assessment Missions Synod delegate expense

When creating a Chart of Accounts, remember leave plenty of room for future expansions and addition of new items when assigning account numbers. See *Appendix B: Sample Financial Statements* for an excerpt from a draft financial statement. Please note that distribution of detailed financial statements disclosing individual's salary is not appropriate. Only the Churchwardens should see detailed financials – the income statement and balance sheet are sufficient for members of the congregation.

## Internal Controls

There are a number of questions that must be answered when an accounting system is being set up for the first time, for example:

- What type of bookkeeping should be used?
- How many bank accounts are needed?
- Who should deposit the receipts in the bank, and how?

Many of these decisions can be made easily; others require some thought. The decisions that are made regarding the accounting system become the policies and procedures of the accounting system, which collectively become known as “internal controls”.

Good internal controls will ease the job of the Treasurer and Churchwardens by providing greater assurance that transactions are recorded properly, resulting in more reliable records and

protection of church assets, as well as compliance with applicable laws, Canons, and church policies. They can also reduce the time and therefore cost of the work of the Auditor.

For parishes that already have an accounting system in place, periodic review of the accounting policies and procedures should be made. To aid in this review, *Appendix C: Internal Control Questionnaire* contains a questionnaire pro-forma that can be used as a checklist for evaluation of an existing system.

***Privacy Consideration:*** *It is inappropriate for financial statements presented to the Advisory Board or Vestry to show the details such as the incumbent's pay. Where possible, these figures should be presented in such a way as to protect the privacy of the individual's compensation.*

## 2.2 Division of Funds

"Fund accounting" is a specialized accounting system designed to meet the unique needs of not-for-profit organizations like churches. Because churches often have one or more funding sources that place conditions or restrictions on the use of money or property received, fund accounting allows for proper classification and reporting of these resources into separate categories. Fund accounting tracks (in separate "funds" or compartments) the ways in which the resources themselves are held and applied for different activities, objectives and restrictions.

### Accounting for Contributions

Contributions are a type of revenue unique to not-for-profit organizations. The main characteristic of a contribution that sets it apart from other types of revenue is that it is a non-reciprocal transfer – in other words, the contributor generally does not receive anything in exchange for the contribution.

The Canadian Institute of Chartered Accountants (CICA) recognizes basically two types of accounting for contributions – the deferral method and the restricted fund method. Because most churches have separate funds, the restricted fund method is more appropriate.

If a church accepts funds from members or other contributors that are designated for different purposes within the programs of the church, then such funds must be accounted for separately. There are three types of contributions:

1. **Restricted Contributions** – these are contributions where the donor imposes all restrictions. The restrictions may be explicit (for example, where the contributor specifically states that it is to be used for a specific purpose) or implicit (for example, if the church solicits contributions for specific purposes such as to purchase a new organ). Restricted contributions are recognized as revenue of the corresponding restricted fund when received.
2. **Endowment Contributions** – these are a special type of restricted contribution received by the churches that are restricted by the donor, who specifies that the capital must be held in

perpetuity. Endowment contributions are recognized as revenue of the endowment fund when received. Endowment contributions are usually held as investments and the church may be allowed to change the individual investments held, but the principal amount must be maintained permanently.

3. **Unrestricted Contributions**– these are contributions recognized as revenue when received; such contributions go into the general fund. Contributions to the church programs generally are unrestricted as to their use. (However, even with unrestricted contributions, donations should be kept track of by type, for example, envelope contributions, Church School, etc.)

A church may find it helpful to have several unrestricted funds (for example, an operating fund, a fixed asset fund, an investment fund, etc.) For each fund, monthly statements should be prepared showing all receipts and disbursements related to that fund.

Under the restricted fund method of accounting for contributions, all restricted contributions are recognized as revenue (of the restricted fund) immediately – there are no deferred contributions to a restricted fund. A restricted fund balance represents the amount of the church's net assets that are restricted for purposes covered by the fund.

Pledges are promises or commitments to make donations. These are not recorded as donations until they are actually made in the form of cash, cheques, and direct debit or gifts-in-kind. (More information about accounting for gifts in kind can be found in **3. Financial Statements** below.)

A church must determine which of its contributions are restricted, endowment and unrestricted.

Contributions (restricted, endowment and unrestricted) may be classified as either:

- Internally designated funds – restrictions imposed by the Vestry, for example, a building fund, Christian education, liturgical books, Rector's discretionary fund, youth services, etc.; OR
- Externally designated funds – restrictions imposed by the donor, for example, General Missions (which may be administered by a missions committee), Bishop's Action Appeal, FaithWorks, Primate's World Relief, Missions to Seamen, etc.

### **Inter-fund transfers**

If, for example, at a Vestry meeting the church designates the establishment of a ministry fund (from undesignated bequest money) and stipulates that the money must be used for overseas mission work, this fund would not be considered a restricted fund for purposes of the financial statements. (In this case the Vestry has imposed the restriction, not by the donor.)

Because transfers of resources between funds do not result in changes to a church's overall economic resources they should not be recognized as revenues and expenses. Inter-fund transfers should be recognized as changes in fund balances. Transfers of internally restricted amounts to the restricted and endowment funds are reported as "inter-fund transfers" below the line "excess of revenues over expenses" on the Statement of Operations or Revenues and Expenses.

*Balances in the designated funds should be treated as a trust liability of the church until disbursed or, in the case of internally designated funds, until transferred into operations. Externally designated funds cannot be borrowed against for operating purposes. To borrow against externally designed funds is a violation of the Trustee Act and could result in disciplinary action by the office of the public trustee. FaithWorks funds are an example of an externally designated fund.*

Each separate fund is based on a particular type of activity or purpose. Each fund should report on the Statement of Financial Position assets, liabilities and a fund balance, and on the Statement of Operations revenue and expense accounts for that fund. The purpose of each fund should be reported in the church's financial statements. (CICA Handbook Section 4400.06-. 07)

While separate accounting is required, it is recommended but not necessary that the funds be physically separated into different bank accounts, as this could help to track the funds appropriately.

Here is an example of various funds a church might set up under fund accounting:

- Fund 01:       Unrestricted Fund ("Operating Budget")
- Fund 02:       General Capital Fund (Invested operating funds)
- Fund 03:       Capital Asset Fund
- Fund 04:       FaithWorks Fund
- Fund 05:       Restricted Fund
- Fund 06:       Endowment Fund

There may in turn be a number of "funds" that make up each of the above funds. As an example, a number of individuals may have left endowments to the Church for various purposes. The Endowment fund may be comprised of a Moore Fund, Thompson Fund, and Sherwin Fund. While there is a need to keep track of each of these endowments separately, for reporting purposes it is sufficient to combine them under the Endowment Fund.

### **Incumbent's Discretionary Fund**

Money from this discretionary fund is distributed by the incumbent to people he or she feels are in need of financial aid. These amounts are transferred each month into a separate bank account for which the incumbent alone has signing authority. The purpose of the separate account is to provide confidentiality to the individual receiving the assistance. The Incumbent should maintain a personal ledger detailing disbursements, as the Canada Revenue Agency, during the course of an audit, may request this information.

## **2.3 Banking Arrangements**

There are two aspects of banking arrangements discussed here:

- A. Bank accounts and borrowing; and
- B. Pre-Authorized Giving (PAG)

### **A. Bank accounts and borrowing**

Every church must have at least one bank account. The choice of bank is left to the parish's discretion. The CIBC has a special low fee arrangement for congregations.

Only the church should have bank account(s) – individual committees within the church should **not** have their own bank accounts.

Only the Churchwardens (or other persons specifically authorized by Vestry) have signing authority over the bank account(s) (Canon 15, Section 4(7)). Two signatures must always be required on all cheques and withdrawal slips.

Transfers of funds between the church's bank account(s) and any investment accounts should only be done by authorized bank account signatories (that is, the Churchwardens and those persons authorized by the Vestry).

#### **Church Borrowing**

When a church requires funds for certain purposes, for example, renovations, application should be made to the Diocesan Trusts Committee (Canon 5, Section 3). The Trusts Committee is made up of the Chancellor and other appointed members. The Trusts Committee assesses the church's financial situation, including its ability to repay the loan within a reasonable time, and if the church meets the criteria, the Trusts Committee will recommend to the Diocesan Council that the loan be approved.

The church must then provide a copy of the Diocesan Council approval to its local bank branch.

#### **CIBC Financial Services Program (the Program)**

The Program has been developed to establish uniformity in requests for financing and other related services.

### **B. Pre-Authorized Giving (PAG)**

A Pre-Authorized Giving (PAG) program can be implemented to allow individuals to offerings through a single, monthly electronic transfer of funds from their personal bank account to the church's bank account instead of through weekly envelopes.

Over the past few years, some congregations within the Diocese have found that implementing a PAG is quite beneficial for both the parish and the individual members. Because many churches face large fluctuations in revenues throughout the calendar year, institution of a PAG program may be a way to avoid problems that can be created by such fluctuations. (Large fluctuations sometimes cause churches to use overdraft provisions provided by their bank, often at a high interest rate or service charge.)



Participation in a PAG program is also useful to parishioners, allowing them to budget how much to give to the Church as part of their other regular monthly expenses (much like they would budget for things like music lessons, cable television, etc.)

## 2.4 Cash Management Practices

Sound cash management practices are vitally important to all parishes. For many parishes, significant portions of their donations are in cash. Two different and equally important topics are considered here:

- A. Handling Cash
- B. Disbursing Church Funds

*Clearly stated policies and procedures regarding the handling of cash and other receipts helps protect against loss.*

Churchwardens are ultimately responsible for collecting offerings at each church service (aided, if necessary, by the Sides-persons), as well as being responsible for counting and entering the initial amount of such offerings in the book provided for this purpose in the presence of the incumbent or some other witness (Canon 15, Section 4(5)). Churchwardens are also responsible for depositing all monies they receive for the church in the church's bank account(s) (Canon 15, Section 4(6)).

### A. Handling cash

The implication of the Canons related to the Churchwarden's responsibilities regarding the parish's offerings is that whenever there is cash present that has been given to the parish there must be a minimum of two people present. If a church has more than one service on a given day, all cash should be safely stored (preferably in a safe) between services.

*Whenever cash is being handled there should be two unrelated people present.*

### Sides-team Collection Procedures

The following is a suggested method of carrying out sides-team collection procedures. The actual may vary from this procedure a bit, but to ensure proper cash handling the basics outlined here should be followed.

The Counters count the cash and record the amount on the forms provided and prepares a bank deposit slip. All people in the counting room are required to legibly sign a book recording the money received.

The offering plates are returned to the Narthex table. A designated individual carries cash to the bank for deposit. Money should be deposited on Sunday and not held overnight.

### B. Disbursing Church Funds

From time to time church funds are used to purchase goods or services for church use. For accounting purposes, the cost must always be charged to the appropriate budget item. Though it

varies from church to church, in many cases different persons may have responsibility for different budget items. For example, if your church has a Youth Group Committee that oversees such activities, the Youth Group Committee Chair would likely be in charge of that budget item. Therefore, if a particular Youth Group activity needs to purchase something, the cost would come out of that budget line.

To have an invoice paid, a cheque requisition form should be completed

### **Cheque signing policy**

All church cheques must be signed by both Churchwardens or by either of them and another person appointed by the Vestry for that purpose (Canon 15, Section 4(7)). If a Warden is not reasonably available, two authorized signing officers may sign a cheque and later (within 60 days) have a warden review the documentation and initial on the cheque. A deputy Churchwarden if authorized by vestry may exercise the same level of authority as wardens in cheque signing.

Cheques should never be signed in blank or pre-signed. Similarly, the use of signature stamps should be prohibited.

*Though most people are trustworthy, fraud does happen. The purpose of having a stringent cheque writing policy is to ensure that a church is not put in a position of mistrusting anyone. By simply following the proper procedures the chances of anyone mishandling church funds will be greatly reduced.*

When a bank prints cheques they are sequentially numbered. Cheques should always be used in sequence so that they can be kept track of easily. Also, all voided cheques should be properly cancelled and retained. Unsigned cheques should be safely stored.

Cheques should always be made payable to specific payees and not to cash (or in bearer form).

Invoices paid by cheque should always be cancelled by stamping them as paid at the time of signature, to prevent duplicate payment of the invoice.

### **Petty Cash**

Generally speaking, all disbursements should be made by cheque, except for very small ones, which can be made through petty cash. It is a good idea to set a pre-defined limit on the amount of disbursements that can be made through petty cash.

The responsibility for petty cash should be assigned to just one person.

To obtain funds from petty cash a voucher or some other document indicating the reason for the disbursement should be given to the person handling the petty cash. At the end of every month petty cash should be reconciled – at the end of the month the amount remaining plus the voucher totals should add up to the amount at the beginning of the month. Petty cash should be reimbursed at least monthly.

The actual petty cash should be kept in a secure place.

## 2.5 Financial Statements

The Churchwardens are required to present a Financial Report to the Vestry annually (Canon 15, Section 4(1)). The Financial Report must be in a form in accordance with GAAP. The Financial Report must also be accompanied by an auditor's report.

The financial statements normally include the following (which will be explained below):

- a. Statement of Financial Position or Balance Sheet;
- b. Statement of Operations or Revenues & Expenses;
- c. Statement of Changes in Fund Balances;
- d. Statement of Cash Flows;
- e. Supplementary schedules reporting the activities of restricted funds:

These schedules should report the activities in these funds during the reporting period, starting with an opening balance and reporting receipts and disbursements during the period and the closing balance at the end of the period. (These balances would then be reported in the Statement of Financial Position as net liabilities in sum, restricted as to internal or external use.)

In addition, statistical information concerning things such as contributions per member, and receipts versus pledges (if applicable), would be useful to the Vestry, especially when considering future programming and budgeting.

### **a. Statement of Financial Position**

The Statement of Financial Position (also known as the Balance Sheet) sets out a church's assets, liabilities and fund balances (for each fund) as at the reporting date. Assets and liabilities are classified as either current or non-current, to provide financial statement readers with information about liquidity.

### **b. Statement of Operations and Changes in Fund Balances**

The Statement of Operations (also known as the Statement of Revenues and Expenses) sets out the details of a church's revenues and expenses for the period and provides information about changes in the church's economic resources and obligations. Churches should report on at least the general fund, a restricted fund and an endowment fund in the Statement of Operations. The Statement should report the excess revenues over expenses for each fund.

### **c. Statement of Cash Flows**

The Statement of Cash Flows (also known as the Statement of Changes in Financial Position) provides information about the church's sources and uses of cash and cash equivalents in carrying out its activities for the period. This statement presents information that is either not provided in, or only indirectly provided in, the Statement of Financial Position, the Statement of Operations, and the Statement of Changes in Fund Balances.

Sample financial statements derived from transactions over a year using the chart of accounts shown in Section 2 (above) can be found in *Appendix B: Sample Financial Statements*.

## **Financial Statement Format**

The following discussion relates to the presentation of financial statements in compliance with the six new Handbook sections on accounting and disclosure standards for not-for-profit organizations announced by the CICA in 1996. The sections are:

Section 4400 Financial statement presentation

Section 4420 Contributions receivable

Section 4431 Tangible capital assets held by non-profit organizations

Section 4440 Collections held by non-profit organizations

Section 4450 Reporting controlled and related entities by not-for-profit organizations

Section 4460 Disclosure of related party transactions by not-for-profit organizations

Section 4470 Disclosure of allocated expenses by not-for-profit organizations

*In addition to the Handbook, there is another useful resource, which can be obtained directly from the Canadian Institute of Chartered Accountants (CICA): <http://cica.ca/>*

## **Tangible Capital Assets**

Tangible capital assets must be reported by not-for-profit organizations in the assets section of the Statement of Financial Position. The practice of accounting for capital assets as assets is often referred to as “capitalizing” the capital asset. The amount at which a purchased capital asset is to be capitalized is its original, or historical, cost. The cost is the full cost of making the assets ready for the church’s use, so the cost should include the purchase price, installation costs, transportation costs, duties, and all direct construction or development costs for a constructed asset.

A capital asset that has been contributed to the church (a donation-in-kind) is capitalized for accounting purposes at its fair value at the date it was donated. The fair value should be estimated using market or appraisal values. If the fair value cannot be reasonably determined, a capital asset that has been contributed should be recorded at a nominal value. (Information about assets recognized at nominal value should be disclosed, such as the assets’ ages, locations, present or potential uses, etc.)

For each major category of capital assets the financial statements should show the following (or it should be disclosed in the Notes to the financial statements):

- the total cost of the capital assets in the major category;
- the total accumulated amortization;

- the amortization method used for the capital assets in the major category, including the amortization period or rate.

Capital assets that are not amortized (for example, land, works of art and historical treasures) must also be disclosed in the financial statements at their net carrying amount. Parishes should inventory their capital assets. To facilitate this process a church should determine a materiality standard (e.g., \$1,000) below which items will be considered non-capital (in other words, such items would be deductible in full as expenses in the current year). If the information about assets is not readily available, the information need not be listed on the financial statements, but the parish should disclose in the Notes to the financial statements a description of the assets, the insured value and other information suggested in the CICA Handbook.

### **Controlled and Related Entities**

For purposes of complying with the CICA Handbook, the Diocese does not consider parishes to be controlled or related entities.

## **2.6 Churchwardens' Parochial Return**

Churchwardens are required to submit statistical and financial returns and audited Financial Statements to the Director of Finance of the Diocese by **March 15th** every year (Canon 15, Section 4(9)). The annual Parochial Return is required so that the Diocese can accurately and fairly calculate the assessment (which is required under Canon 4) for each Parish.

A link to a copy of the current version of the Parochial Return can be found in *Appendix D: Churchwardens' Parochial Returns*.

## Section 3: Budgeting

This section discusses the basics of budgeting under the following headings:

1. Overall Principles
2. Priest Costs and Employees
3. Diocesan Allotment and the Parish Share

### Introduction

Budgeting is the allocation of the church's resources – in accordance with a plan – to achieve the church's objectives and goals.

*The church budget is one of the most effective tools available for proper stewardship of a church's assets and for accomplishment of the church's overall plans and goals*

The Vestry is ultimately charged with adopting the church's budget (Canon 14, Section 19 (7)).

The Churchwardens (often with the aid of the Treasurer) develop the church budget (Canon 15, Section 4 (3)).

Adoption of the budget essentially authorizes the Churchwardens to act within the budget (Canon 15, Section 4(3)). Once the Vestry has adopted the annual budget, changes may be required to reflect adjustments in estimated amounts and to provide for new or unexpected program expenditures. It is a good idea to provide the Vestry with periodic updates (for example, quarterly) of the church's financial statements during the year – these statements would provide a comparison with the budget and serve as a reminder to members to provide the funds necessary to carry out the church's programs. If there are substantial changes in the operating expenses, the Churchwardens should seek approval of the Vestry to change the budget (Canon 15, Section 4(3)).

Because the budget process can be time consuming and can involve input from many different sources, it is a good idea to create a time schedule so that the final budget is ready for the Annual Vestry Meeting. (Canon 14, Section 11(1)).

### 3.1 Overall Principles of Budgeting

The operating budget is intended to realistically anticipate the revenues and expenditures for the upcoming year. The operating budget should be developed as an integral part of the long-term mission plan and should support and aid in the accomplishment of the church's overall plan and goals.

The capital budget relates to the planning for acquiring, replacing or renovating long-lived assets (the church building, the rectory, etc.). The overall planning should reasonably anticipate all but unusual future needs.

## A. Operating Budget

In creating the operating budget, all line items within the operating fund should be reviewed. The nature and amounts that were charged to these accounts in prior years are valuable aids in estimating needs for the upcoming year. Realistic and achievable estimates of revenues and expenditures should be used when creating a budget.

Often, each line item in the budget is the responsibility of one designated individual or committee that has control over how and when amounts allocated to that line item are spent. That individual or committee is also responsible for the development of the request for funding for that item for the upcoming year. This allows for planning to take place within the group most directly involved with the execution of the budget.

The budgeting process is a time for reviewing all programs to determine (or re-determine) whether they fit within the goals of the church and its long-range plans. In this way, new programs may be added and programs no longer needed may be reduced or eliminated. The goal of the final budget should be to support the funding needs related to each program included in the budget to the fullest extent possible.

All normal operating income and expenses should be reflected in the operating budget. If funding for certain operating expenditures is provided for by restricted or designated funds, such funding should be included as a transfer to the operating fund.

## B. Capital Budget

Planning for the church's capital needs can often be done simply through the operating budget. However, if this is done, there is a tendency to only plan for the next year, rather than for a longer period of time. An alternative is to have a separate capital budget for long-range plans for capital replacement, maintenance and new expenditures. The most common items of a capital nature are mortgage or other long-term debt. Building funds can be funded from the operating budget. In this situation, the accounting would look something like this:

Operating Fund	<i>Debit</i>	Transfer to Property Fund
	<i>Credit</i>	Cash
Property Fund	<i>Debit</i>	Building fund cash
	<i>Credit</i>	Transfer from Operating Fund

## C. Cash-Flow Management

Just as it is important to budget monthly income and expenses, it is important to budget cash flow. Because most churches receive income in an uneven stream (for example, a slow-down during summer when more people are away at cottages, or perhaps during winter if many snowbirds go south), budgeting for periods of feast and famine is necessary so that the church can meet its obligations in a timely manner.

The amount of cash the Treasurer will want to keep in an account may depend on various factors, including:

- the timing of cash flow, pledge payments, investment or endowment income versus expenses, monthly bills and large expenditures;
- the available borrowing power of the church to meet emergencies;
- the maintenance of a good banking relationship and the minimum balance requirements on the bank accounts.

## **3.2 Remuneration**

### **Clergy**

The incumbent's stipend and housing is paid by the parish through the Diocese – in other words, the money is disbursed from, and the required paperwork is handled by, the Diocese but the Diocese charges the amount back to the parish.

For more information concerning matters relating to clergy remuneration, see the Parish Human Resources Manual.

### **Church Employees**

For employees it is necessary to budget for statutory obligations, such as Canada Pension Plan premiums and Employment Insurance premiums.

For information on how to make the determination of whether an individual is an employee or a contract worker, and the ramifications, see the Parish Human Resources Manual.

## **3.3 Diocesan Allotment and the Parish Share**

The Diocesan Allotment is each parish's share of the Diocesan budget (Canon 4, Section 1(1)). The allotment is calculated by using the formula outlined in Canon 4; the past three years of assessable base are multiplied by the allotment rate approved by Synod.

### **Assessable Base**

Generally speaking, the assessable base is the revenue designated for operating purposes excluding all outreach and capital income and minus eligible deductions such as clergy and lay pastoral staff personnel costs.

### **Assessment Rate**

The Assessment Rate in any year is the rate recommended by the Executive Board and approved or amended by Synod as being needed to raise the total budget requirements.



**Parish Share**

The parish share of the Diocesan Allotment is a definite obligation of each parish that is to be paid in 12 equal, monthly instalments (Canon 4, Sections 2(1) and 2(2)).

The Executive Board recommends the assessable rate and each parish is notified (by October 1<sup>st</sup>) by the Secretary of Synod of the amount of their allotment, based on that rate for the following year.

## Section 4 – Charitable Status and Charitable Receipting

In this section, basic background information about a church's charitable status is discussed under the following headings:

1. Charitable Status
2. Charity's Annual Information Return – Form T3010
3. Charitable Receipting

### 4.1 Charitable Status

For income tax purposes, the advancement of religion is considered a “charitable purpose” and so churches may register with the Canada Revenue Agency (CRA) as a Canadian Registered Charity. Churches in the Diocese are set up as individual corporations under the Constitution and Canons of the Incorporated Synod of the Diocese of Toronto, which means that each church separately registers with CRA and has its own charitable registration number. A church's charitable registration number is the same number as its “Business Number” (BN).

*Each church registers as a separate charity, which means that each church has its own charity number.*

A charity enjoys favourable treatment under the Income Tax Act (the Act), so long as the charity registers under the Act and maintains its status. (Charitable status can be revoked if a charity fails to file the annual Registered Charity Information Return – Form T3010-1.)

To qualify as a gift to a charity an amount must be given to the charity for use in pursuing its own charitable objectives.

### 4.2 Charity's Annual Information Return – Form T3010-1

Every year a charity must complete and file an annual information return within six months of the end of its taxation year. (Since churches in the Diocese are on a calendar year basis, they must file their Form T3010 by June 30<sup>th</sup> of the following year.) CRA has produced a useful Guide to assist charities in completing the information return and supporting schedules.

#### Step-by-step guide

The following is a step-by-step guide to filling in Form T3010-1:

#### Section A

- A1. Answer **YES**, The Diocese of Toronto, however, the separate legal status enjoyed by each parish means that parishes are not affiliated with the Incorporated Synod (BN 10750 5059 RR0001)
- A2. Answer generally **NO**.
- A3. Answer **NO**. Churches will be designated as a charitable organization.

## Section B

- B1. The Churchwardens are the officers or directors of the organization, and with respect to property, the incumbent is the trustee.

## Section C

- C1. Generally *YES*.
- C2. This response will be unique to each church, although obviously there will be common elements around the gathering of community for worship and study.
- C3. As a minimum, the Incorporated Synod of the Diocese of Toronto, for assessment and FaithWorks funds raised. (BN 10750 5059 RR0001)
- C4. Generally *NO*.
- C5. Generally *NO*.
- C6. Each individual church must check boxes that apply.
- C7. Depends on the individual church.
- C8. Technically the answer is *NO*. The priest was compensated in their role as priest, not as trustee.
- C9. *YES*. At minimum, the incumbent is an employee of the church.
- C10. Depends on the individual church.
- C11. Depends on the individual church.
- C12. See CRA guide, but generally *NO*.
- C13. See CRA guide, but generally *NO*.
- C14. Answer should be *NO*.

## Section D

Use this section if your revenues were less than \$100,000 for the year. Be sure to attach a copy of the parish financial statements in the return.

- D1. Should be accrual basis, but if you use cash basis then you need to indicate this.
- D2. Summary of financial position. The information for this should come from the financial statements Refer to CRA guide for explanations.
- D3. Revenue. The information for this should come from the financial statements Refer to CRA guide for explanations. Congregations do not earn rental income, except from rectories.

Instead, money received from groups using church premises should be recorded on line 4650 "Other Amounts".

- D4. Expenditures. The information for this should come from the financial statements. Refer to CRA guide for explanations. Under disbursements, the expenditures on charitable programs (line 5000) should include the costs associated with priests, program staff, but not usually secretarial support. Where a church secretary performs an active role in church programs, a portion of this cost may be allocated to line 5000.

## Section E

Self-explanatory – this return should be signed by one of the Churchwardens.

## Section F

Enter the relevant information.

## Checklist

Self-explanatory.

## Schedule 1

Not applicable – refers to Foundations.

## Schedule 2

Not applicable – refers to Activities outside Canada.

## Schedule 3

- 1a. For multipoint congregations this will likely be zero; for single point parishes in most cases there will be at least one individual (the priest).
- 1b. Only if you indicated a full time position in 1a, fill in the appropriate boxes. Compensation should be based on T4 income (e.g. stipend plus housing).
2. Depends on individual church, but for a congregation of a multipoint parish, you would likely have the parish priest as one person.
3. Depends on individual church, but for a congregation of a multipoint parish, your portion of the compensation paid for the parish priest should be entered.

## Schedule 4

1. Not applicable, unless answered 'Yes' to question C7.
2. Self-explanatory.

## Schedule 5

Self-explanatory.

## Schedule 6

Use this section if your revenues were more than \$100,000 for the year. Be sure to attach a copy of the parish financial statements to the return.

4020 Should be accrual basis, but if you use cash basis then you need to indicate this.

### Statement of Financial Position Section

The information for this should come from the financial statements. Line 4200 will not usually balance with line 4350. This is because accumulated surplus or deficit are not listed in the liability section. Refer to CRA Guide for explanations.

### Statement of Operations Section

The information for this should come from the financial statements. Refer to CRA Guide for explanations.

Under Expenditures, the expenditures on charitable programs (line 5000) should include the costs associated with priests, program staff, but not usually secretarial support. Where a church secretary performs an active role in church programs, a portion of this cost may be allocated to line 5000.

### Permission to Accumulate Property Section

Generally this is not the case. Sometimes when major capital programs are undertaken over a period of years, the money received may put the church offside with respect to their disbursement quota. In these circumstances, by writing to CRA, permission to accumulate property over a period of time may be received.

### Permission to Reduce Disbursement Quota Section

Depends on individual circumstances. Refer to CRA Guide for explanations.

### Property Not Used in Charitable Activities Section

Depends on individual circumstances. Property will include any real estate or investments not used directly in charitable activities or administration.

The value of the property is an average value based on a specified number of periods over a 24-month period. You can divide the 24-month period into 2-8 equal, consecutive periods. Refer to CRA Guide for explanations.

## 4.3 Charitable Receipting

Charitable receipts are available for “gifts” made to registered charities. A “gift” means a voluntary transfer of property for no consideration. (Consideration means a payment arising as a result of bargaining between two people to exchange one item for another. Consideration is money or something of value measured in terms of money.)

### What Canada Revenue Agency (CRA) Considers a “Gift”

CRA is of the view that for something to be a gift to the church (and therefore a gift for which the church could properly issue a charitable receipt), the following conditions must be met:

- there must be a donor who gives property to the church voluntarily;
- such property must be accepted by the church as a gift; and
- no right, privilege, material benefit or advantage may be conferred on the donor (or on someone the donor has designated to receive a benefit) as a consequence of making the gift.

*One of the most significant privileges a church has as a result of being categorized as a charity is the ability to provide official charitable receipts for gifts to the church. It is imperative that the receipting procedure be understood and used properly.*

### Gifts-in-kind

A “gift-in-kind” is simply a gift of something other than cash (or a cash equivalent). For example, a gift to a church of a piece of artwork would be a gift-in-kind. A gift of stocks in a publicly traded company would also be a gift-in-kind. As with any kind of gift, to qualify as a gift for which a charitable receipt can be given, gifts-in-kind must also satisfy the criteria listed earlier.

It is the church’s responsibility to establish the value of a gift-in-kind for receipting purposes. For shares on a publicly traded market the value would be the closing selling price on the day the church acquired the shares. For property where there is no public market, the person determining the value of the property must be independent, competent and qualified to establish the value – the name of the appraiser who established the value of the gift should be disclosed on the official receipt. [*Canadian Council of Christian Charities (CCCC) Handbook*. Section 2, Chapter 15]

Over the past few years, the government has changed the income tax laws such that a donation of capital property to a charity is treated more favourably than it used to be treated, so some churches are finding that donors are interested in donating capital property, such as marketable securities. For tax purposes, if the stocks (or other capital property) have appreciated in value during the time the donor owned the property the donor will be deemed to have a capital gain at the time of the gift (the capital gain will be the difference between the fair market value of the property on the date of the gift and donor’s original cost of the property.) Essentially, the Income Tax Act allows favourable treatment of these gift so that there should not be tax on any capital gain tax due.

### Payments not normally qualifying as donations

Certain types of payments made to charities do not normally qualify as donations, for example:

- Amounts received by loose collection (because with loose collections particular donors cannot be identified as having made a particular donation);
- Donations for services where the donor requests that instead of payment for his/her services, he/she be given a donation receipt for the value of the services (see below for more information on this);

- Donations of old clothes, furniture, home baking, hobby crafts, etc. (unless the articles are of unusually high value);
- Amounts paid for admission to concerts, dinners and similar fund-raising functions.

Official receipts should not be given for gifts that fall into one of the above categories.

### Common Problem Areas Related to Whether to Issue a Charitable Receipt

The question of when might a charitable receipt be issued comes up quite frequently. While it is impossible to explain all the possible situations that can arise, there are some common ones that give rise to a lot of questions, so it is worthwhile considering them here.

❖ *Can the church issue a charitable receipt to me for the value of services I donate to the church?*

The answer to this is *NO* (but keep reading...) – As noted above, if someone provides a service to the church that normally that person would charge for but instead of charging the church the person wants to treat those services as a “gift” to the charity in exchange for a charitable donation receipt, a receipt should not be given. The reason is simple: in such a case there has not been a transfer of property to the charity. (The same is true when a potential donor proposes giving the church a no-interest loan (in exchange for a charitable receipt for the amount of interest that otherwise would have been charged on such a loan). For income tax purposes the lender is not considered to have made a gift of the use of the loaned funds since there has not been a transfer of property to the church.) If, however, a person provides services to the church and wishes to make a donation to the church, the church can pay the person for the services and that person can then donate money to the church. When that person donates the money he/she will, of course, be entitled to a charitable receipt because there has been a transfer of property (money) to the church.

❖ *I have property (perhaps an art treasure) with a fair market value of \$xx,xxx. I would be willing to sell it to the church for a nominal amount (say \$100) if the church will give me a charitable receipt for the difference between the fair market value and the amount the church actually paid me (in this case \$xx,xxx-\$100). Can the church issue me a charitable receipt?*

The answer to this is *NO* – If someone transfers a property to the church and the church pays the donor for the property, the transferor has not made a gift of the property to the church, even if the value of the property transferred to the church significantly exceeded what the church paid for the property. Such a transfer is not a gift because it was not given for no consideration.

❖ *The church wants to hold a fundraising dinner. The catering cost per meal is \$20 and the church would like to charge \$50 per person for the dinner. Can the church issue a charitable receipt to persons buying tickets, and if so, for how much could each receipt be?*

In this case, the answer is *YES* – A charitable donation receipt could be issued to persons buying tickets, but only for the amount that exceeds the fair market value of the meal. (Since the meal is costing the church \$20 per person, assuming that is the fair market value of the meal, receipts can be issued for \$30.) Receipts are permitted so long as nothing of material value is retained by the

donor. In this case, essentially \$20 is consumed (not retained *per se*) and so the balance represents a charitable donation.

However, if the dinner was free but people attending the dinner came on the understanding that they would be expected to contribute \$50 (or any amount), no receipt may be given. One way of avoiding any linkage between a free dinner and the “offering” would be to request that all donations to the church be sent by mail. If this practice is adopted, to maximize the change of people responding, a return envelop could be provided at the dinner. [From *Canadian Council of Christian Charities (CCCC) Handbook*, Section 3, page 3]

❖ *If I attend organized religious instruction at the church that I pay a fee for, can I get a charitable donation for the amount paid?*

Yes – so long as the religious instruction is not provided at the post-secondary level (i.e., university level) a receipt can be given. Because religious knowledge is generally is not considered to have a commercial value (in other words, a value measurable in terms of money or money’s worth), where an amount is paid to a church for religious instruction the amount is considered to be a gift to the church unless the instruction is provided at a post-secondary level, in which case it is considered to be to enable the student to pursue a career as a minister, teach of religion, etc.

❖ *If I donate something to be auctioned off by the church, can I get a charitable receipt? And if so, for what amount?*

Yes, the church may issue a charitable donation receipt for items donated to the church for an auction. The receipt would be issued for the fair market value of the item donated. (It is worth noting that persons buying items at such an auction are not entitled to a charitable donation receipt for items purchased.) [*Canadian Council of Christian Charities (CCCC) Handbook*, Section 3, p. 3]

*Appendix E: Excerpts from CRA Website: Information for Charities, contains excerpts from Canada Revenue Agency’s website.*

### Some specifics about actually (physically) issuing receipts

Only those people who are responsible for knowing that the donations were received and that the tax laws allow a receipt to be issued may actually issue the receipt. Control of issuing charitable donation receipts is the ultimate responsibility of the Churchwardens. Failure to control the church’s issuance of charitable receipts can have serious consequences on the church – the church could lose its charitable status.

Receipts must be issued to the person making the donation – not to someone else, even at the request of the donor. (Let’s say, for example, that a church member donates \$100 to the church but asks the church to write the receipt to someone else; essentially, the donor wants to “benefit” someone else by giving them a tax credit. The church should not issue the receipt in anyone’s name but the donor’s.)



Receipts for donations received after the calendar year end may be issued for a donation mailed in the previous year only if the cheque was dated for the previous year.

Receipts must contain certain information, including the following (per Income Tax Regulation 3501):

- the church's name and address;
- the church's charitable registration number, which is the same number as it's "Business Number" for purposes of all correspondence with Revenue Canada (including filing Form T3010 and HST returns);
- place and locality where receipt was issued;
- the serial number of the receipt;
- the date of the donation;
- the name and address of the donor;
- the amount of the gift (in the case of a non-cash gift the amount is the fair market value of the property at the time the gift was made);
- the signature of a responsible individual (typically, one of the Churchwardens).
- The name and website of Canada Revenue Agency (CRA).

## Section 5 – Investing

In this section, investing is discussed under the following headings:

1. Church's Investment Policy
2. The Diocese's Consolidated Funds

### 5.1 Church's Investment Policy

Through the annual budgeting process, a church should have a good idea of the amount of money it will need (its expenses) to run all of its programs in a given year, as well as an idea of how much money it will receive (its revenues). If revenues exceed expenses, the church should consider what to do with that excess. The excess should be properly invested so that it grows and becomes a financial cushion for the church to fall back upon for use when:

- additional funds are needed, perhaps because in a particular year the forecasted expenditures exceed revenues or because the actual revenue came up short of the amount anticipated; or
- when the church wants to make a capital expenditure, for example, for when the church wants to buy a new organ, or add on to church buildings, etc.

These days, most bank accounts pay interest on the balance in the account, but that interest is quite low. Funds over and above those needed for the church's day-to-day activities should be invested to earn a higher rate of return than what the church earns on its normal bank account(s).

#### Short-term investing

The possible short-term needs of the church should be considered when determining the term for different investments. Typically, churches invest in instruments that offer fixed, guaranteed rates for fixed terms (for example, Guaranteed Investment Certificates (GICs), government bonds, etc). Such investments allow the church to try to minimize interest rate swings and allow for the church to stagger the maturity dates so that if a need for cash arises some instruments will be maturing soon, allowing them to be cashed without incurring a penalty.

#### Long-term investing

The goals with long-term investing are somewhat different – the aim of such investment is to have growth over a longer period of time. Often with long-term investing there are fees and costs, for example, broker's commissions, transactions fees, etc. As well, when making long-term investments it is often advisable to have professional investment advice, which can be costly. Some parishes may have members who are professional investment advisors who are willing to act as investment advisors for the church on a voluntary basis.

To help parishes that wish to invest but that do not feel they have the expertise to properly manage an investment portfolio, the Diocese has created Consolidated Trust Funds.

#### Transferring funds

When the church's investment account is opened a process must be established for transferring funds between the church's regular bank account(s) and the investment account. This process should be writing cheques from the Bank Account to the Investment Account, to ensure a proper audit trail. Just as with other financial matters, the two Churchwardens should be the persons authorized to make such transfers. (This could vary a bit from church to church. For example, in some churches either one of the two Churchwardens and a second person appointed by Vestry might authorize transfers between bank and investment accounts.)

### Treatment of marketable securities given to the church

If a church accepts contributions of marketable securities, the church should have a securities account into which the securities can be deposited. The Diocese also maintains an account to process donations of stock on behalf of the parish.

*The parish will need to get a "Letter of Direction" signed by the Donor (see Appendix F: Letter of Direction). The parish must also inform the Director of Finance prior to the transfer.*

## 5.2 The Diocese's Consolidated Funds

Over the course of time, a church may have funds that it wishes to invest. While all churches in the Diocese are free to set their own investment policies and make their own investment decisions, many churches feel they do not have the expertise to invest in anything more than guaranteed investment certificates and government bonds. Or, some churches may not feel that they have sufficient funds to invest in anything more complicated than GICs because of the transaction costs associated with buying, selling and managing a diversified portfolio.

To help parishes that wish to invest the Diocese has created the Consolidated Trust Fund that parishes may participate in at no cost. (Very much like a no-load mutual fund.)

The Funds managed by Foyston, Gordon and Payne; Letko Brosseau; and Mercer form pooled Funds. Churches wishing to participate buy units in the Fund. The Fund is managed based on investment principles and guidelines (the Investment Policy) established by the Investment Committee of the Diocese of Toronto (Canon 39).

*A link to the Investment Policy Statement of the Diocese's Consolidated Funds can be found in Appendix G: Statement of Investment Policies and Procedures.*

### "Investment Policy" of the Funds

It is important to note that the Diocese's Investment Committee is charged with establishing the Investment Policy of the Funds and with selecting the Fund managers, but the Investment Committee does not directly manage the Funds. The Investment Committee receives reports on the funds and meets to review the results on a quarterly basis. This separation of function allows for professional management of the portfolios, while at the same time ensuring only appropriate investments are made.

### **Cemetery Fund:**

A consolidated Cemetery Fund is managed by Scotia Asset Management which invests, on behalf of parishes with cemeteries, their care & maintenance funds, monument funds and pre-need funds. The Cemetery Act requires these funds to be held and managed by a trustee. Scotia Trust is the trustee.

### **Common Misconceptions about the Consolidated Trust Fund**

Churches may be hesitant to invest in the Fund because they fear that by doing so they lose control of the money. Money in the Fund is held in trust by the Synod (Canon 39, Section 3) and churches are free to withdraw it from the Fund at any time. **Because the fund is unitized on a quarterly basis, investments should be made just prior to March 31, June 30, September 30, and December 31.** A summary of historical returns can be found in **Appendix J.**

*Churches wishing to invest in the Fund are free to move money out of the Fund at any time.*

## Section 6 – Sales Tax Issues

In this section, information about sales tax is discussed under the following headings:

1. Harmonized Sales Tax (HST)
2. HST Issues Relating to Multi-point Parishes.

### 6.1 Harmonized Sales Tax (HST)

To fully understand how the HST impacts on congregations, it is useful to understand a bit about how the HST works. The HST is collected by “registrants”. Registrants are entitled to an input tax credit (ITC) for HST they paid on their purchases.

Generally, only persons and organizations engaged in commercial activities are required to register and collect the 13% HST on “taxable supplies” (a defined term). Understanding the concept of a supply is central to understanding the HST. In many cases, “supply” is synonymous with sale, but it can also include any transfer, lease or disposition of property, any provision of a service and any agreement to provide any property or a service. Some activities carried on by congregations constitute supplies for which HST should be collected. [*Canadian Council of Christian Charities (CCCC) Handbook*, Section V, Chapter 30]

There are three categories of supplies under the HST:

1. Supplies taxable at the 13% rate;
2. Supplies taxable at a zero rate (for example, basic groceries and prescription drugs); and
3. Exempt supplies (for example, educational services, financial services, certain child care services).

Input tax credits are available on taxable and zero rated supplies.

When charities supply goods and services they are not subject to HST. There is no specific provision that would exempt a charity from paying HST on supplies of goods or services that it purchases. Accordingly, the general rules under the HST determine whether goods or services purchased by a charity are taxable at 13%, 0% or exempt. However, charities are entitled to a percentage rebate for the HST included in most purchased supplies, even those supplies that are not eligible for an input tax credit. This is the *Public Service Bodies Rebate*.

#### Who must register

A congregation does not need to register to collect HST in the following circumstances:

- if its gross revenue in either of the two preceding years is under \$250,000; OR
- if its purchases of taxable supplies do not exceed \$50,000 in the four immediately preceding calendar quarters (most parishes would fit this criteria).

Most parishes are not registered to collect HST; however, they are still able to claim a rebate for HST paid, through the Public Service Bodies Rebate.

If a congregation does not register because it meets one of the above criteria then any taxable supplies that it sells or purchases will be treated as exempt supplies. [*Canadian Council of Christian Charities (CCCC) Handbook*, Section V, Chapter 30]

### **Taxable supplies by congregations**

The following are examples of supplies that are taxable supplies (which means they are taxable at the 13% rate):

- The sale of new (not used) purchased or manufactured goods (not donated) and ancillary services, such as a retail store or mail order operation or door-to-door sales.
- Admissions charge for performances (including artistic, literary, theatrical or musical), unless 90% of the performers do not receive remuneration for performing.
- Admission in respect of a seminar, conference or similar event.

### **Input Tax Credits**

If a congregation is an HST registrant it is entitled to input tax credits (ITCs) for HST included in the cost of goods and services that it uses to sell taxable supplies. Charities which are HST registered may elect to use the *Special Net Tax Calculation* method on their HST returns. Under this method, 60% of the HST collected is remitted to the Government. The Input Tax Credits cannot be deducted or claimed as a rebate.

### **Percentage Rebates**

Congregations are entitled to HST relief through percentage rebates. Such rebates are intended to ensure that HST paid by congregations does not exceed the tax that would have been paid under the former sales tax system.

Generally speaking, the percentage rebate for congregations is 50% of the Federal portion of HST (5%) and 82% of the Provincial portion of HST (8%) on all purchases of goods and services in the reporting period, regardless of whether the congregation is a registrant. (If the congregation is a registrant then the percentage rebate is 50% and 82% on purchases of goods and services that are not otherwise eligible for a full input tax credit.) To claim the percentage rebate, the congregation must consider each expenditure it makes to determine whether it has a HST component. This can be done by noting if HST is charged on the purchase invoice. Remember that certain expenditures for services are exempt (such as services provided by small suppliers) and other goods and services are zero-rated.

### **Filing Requirements for Registrants**

If a congregation is a registrant it must file a return for each reporting period (Form GST34 *Goods and Services Tax/Harmonized Sales Tax Return for Registrants*). The congregation would also file a claim for rebates (Form GST 66 *Application for GST/HST Public Service Bodies Rebate* and RC7066

*Provincial Schedule HST Public Service Bodies' Rebate*). The total rebate claimed in Form GST 66 would be shown on line 111 of Form GST 34 if a congregation is a registrant.

The reporting period will depend on the volume of the congregation's taxable supplies. In most cases congregations will have a quarterly reporting period, though they can elect to file annually (so long as their taxable supplies in the previous fiscal year are under \$500,000). However, even registrants that elect to file annually must make quarterly instalment payments, unless their instalment base for reporting purpose is less than \$1,000. The instalment base is the lesser of the estimated HST payable less estimated ITCs and rebates for the current fiscal year, and the HST payable less ITCs and rebates in all reporting periods that ended in the 12 months immediately preceding the current reporting period. The amount of each instalment is one-fourth of the instalment base. Penalties and interest are charged for late or deficient instalments.

### **Filing Requirements for Rebate**

Congregations that do not register for HST do not need to file a HST return. However, to claim the Percentage Rebates the congregation should file Form HST 284. [*Canadian Council of Christian Charities (CCCC) Handbook*, Section VII, page 11, para. 07.164.]

## **6.2 HST Issues Relating to Multi-point Parishes**

Parishes are essentially geographic areas within the Diocese (Canon 1, Section 1(11)). Some parishes within the Diocese are multi-point parishes. Multi-point parishes have special HST considerations.

With respect to HST registration, each congregation may register for HST purposes (the parish is not a legal entity, and therefore cannot be a registrant). Because in a multi-point parish it is likely that there will be more than one HST registrant, if the parish (as opposed to a single congregation within the parish) pays for a particular good or service that might be subject to HST, care must be taken in determining how a rebate should be filed. The parish cannot claim for the refund as it is not a registrant – one of the congregations must file.

### **Relevant CRA Web Pages:**

GST/HST Returns - [www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/bspsbch/rtrns/menu-eng.html](http://www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/bspsbch/rtrns/menu-eng.html)

GST66 Application for GST/HST Public Service Bodies' Rebate and GST Self-government Refund - [www.cra-arc.gc.ca/E/pbg/gf/gst66/README.html](http://www.cra-arc.gc.ca/E/pbg/gf/gst66/README.html)

RC7066-SCH Provincial Schedule - GST/HST Public Service Bodies' Rebate - [www.cra-arc.gc.ca/E/pbg/tf/rc7066-sch/README.html](http://www.cra-arc.gc.ca/E/pbg/tf/rc7066-sch/README.html) (forms) and [www.cra-arc.gc.ca/E/pub/gp/rc4034/rc4034-11-10e.pdf](http://www.cra-arc.gc.ca/E/pub/gp/rc4034/rc4034-11-10e.pdf) (guide)

## Section 7 – Insurance

In this section, the requirements for insurance are discussed and relevant contacts provided.

As of January 1, 2010, all parishes and congregations in the Diocese are required to purchase minimum insurance from the broker designated by the Diocese. Effective September 19, 2017 this Broker is AON Reed Stenhouse Inc.

Churchwardens are responsible for the care of the land and buildings, furnishings and effects belonging to the church, and for keeping them adequately insured against loss by fire and for maintaining insurance against any other insurable hazard to the church, to its property, to the Incumbents and to the Churchwardens (Canon 15, Section 4 (11)).

### **Contacting AON Reed Stenhouse Inc.**

If you need to speak to someone regarding an insurance matter, including Allsport Insurance Marketing Limited Policy for third parties, please contact:

#### **Dennis Fitzgerald, Account Executive**

Telephone: 416-868-5705

Email: [dennis.fitzgerald@aon.ca](mailto:dennis.fitzgerald@aon.ca)

Fax: 416-868-5580

#### **Dennis Hinh, Account Coordinator**

Telephone: 416-868-5705

Email: [dennis.fitzgerald@aon.ca](mailto:dennis.fitzgerald@aon.ca)

Fax: 416-868-5580

#### **If you need to report a claim:**

##### **During Business hours:**

Nick Brigis, Ecclesiastical Claims Representative

Telephone: 416-484-3970

Fax: 416-484-6352

Email: [nbrigis@eccles-ins.com](mailto:nbrigis@eccles-ins.com) (with copy to Tanya Ketterer – [tanya.ketterer@aon.ca](mailto:tanya.ketterer@aon.ca))

##### **After Business hours:**

Telephone: 1-888-693-2253

Fax: 416-484-6352



## Section 8 – Audit

In this section, the parishes' annual audit is discussed under the following headings:

1. What Is an Audit?
2. Who Can Perform an Audit?
3. Audit Requirement
4. Audit Procedures

### 8.1 What Is an Audit?

An audit is the highest form verification of a company's accounts. An audit requires the auditor to determine if the financial statements presented are free from material misstatement.

There are three levels to accounting verification

- *Notice to Reader* – the lowest level of verification. There is very little verification of the accounts, but the statements cannot be knowingly wrong when prepared by a licensed accountant. This form of verification does not necessarily need to be independent.
- *Review Engagement* – the second level of verification. This verification involves comparisons and discussions with management. The financial statements will be in accordance with GAAP (Generally Accepted Accounting Principles).
- *Audit* – the highest level of verification. It involves testing and reviewing the accounting systems and confirmations. It ensures that the financial statements are in accordance with GAAP. Audits will also produce management letters. The auditor must be independent. (If the auditor is a parishioner, they cannot hold a decision making position within the church.)

Audit is the level of verification that is required under Canon 14, section 14(5).

### 8.2 Who Can Perform an Audit?

The Public Accounting Act of Ontario (2004) sets out who is eligible to perform an audit. If anyone else carries out an audit, they are acting outside the law and take a risk of being charged by the Regulator. Audits must be performed by a licensed accountant under the Public Accounting Act of Ontario and the auditor must have professional insurance. The majority of licensed accountants are Chartered Accountants (CA), with some Certified General Accountants (CGA).

If the church has a volunteer who is willing to provide the audit for no fee, the auditor is exempt from the requirement of being licensed under the Public Accounting Act of Ontario but must be a member of a professional accounting body either a CA, CGA or Certified Management Accountant (CMA). The auditor is still required to have professional insurance, but if the gross revenues of the church are less than \$100,000, they may be eligible to obtain insurance through their designated accounting body.

## 8.3 Audit Requirement

Churchwardens' accounts must be audited annually and presented to the Vestry at the Annual Vestry Meeting (Canon 15, Section 4(1) and Canon 14, Section 14(1)). The auditors are to examine the system concerning receipts and payments to determine whether adequate controls exist (Canon 14, Section 14(2)).

A copy of the Churchwardens' accounts with the auditors' certificate must be forwarded to the Diocesan Office with a copy of the church's financial returns by March 15<sup>th</sup> each year (Canon 14, Section 14(5) and Canon 15, Section 4(9)).

Annual audits are important to protect church assets and to protect those handling money or investments of the church against suspicion of mishandling them. As well, confirmation to the Vestry that an audit has been completed and that all monies and investments are properly accounted for will have a positive impact on stewardship.

Auditors are appointed and elected by the Vestry at the Annual Meeting (Canon 14, Section 14(1)).

A time schedule for the audit should be put in place to ensure that the audit report will be ready in time for the Annual Vestry Meeting, which is supposed to be held on the last Monday in January and no later than the end of February. (Canon 14, Section 11).

## 8.4 Audit Procedures

All of the church's accounts should be audited, which means the operating accounts and all of the funds, whether restricted, endowment or unrestricted. The objectives of the audit are to ascertain the following:

- that the various transactions during the year are proper and are documented appropriately (in other words, authorized, complete and accurate);
- that the various transactions during the year are recorded in the proper amounts and in the proper accounts;
- that the assets, liabilities, income and expenses that should be in the financial records are so shown, in the proper amounts and in the proper accounts;
- that adequate internal control procedures were and continue to be in effect (to the extent feasible);
- that the financial statements for the year were prepared from the financial records and that they fairly present the financial position of the church.

*Keeping good records and preparing as much as possible ahead of time will help save time on the audit (and will reduce fees, to the extent that the auditor's fees are based on time charges).*

If, at any time during the audit, the records reveal a situation that suggests something is seriously wrong, the matter should be brought to the attention of the Churchwardens and the Diocese's

Director of Finance immediately. Failure to resolve problems immediately can create unforeseen problems, for example, unreported cases of mishandled funds might void insurance coverage, etc.

*(Additional information added October 2011)*

## Section 9 – Record Retention

In this section, record retention is discussed regarding Financial/Accounting and Payroll.

### 9.1 Financial Accounting Record Retention

Parishes, as registered charities, are required by Canada Revenue Agency to keep adequate books and records. This is so CRA can verify donation receipts issued, as well as revenues and expenditures. Parishes must keep source documents (invoices, cheque stubs or copies of cheques, donation envelopes etc.) that support the information in the records. Charities are also required to keep additional information that can be used to verify that their activities continue to be charitable, for example minutes of meetings.

As a charity, the books and records are required to be kept at the Canadian address that is on file with CRA. If the parish's books and records are considered inadequate by CRA, they may:

- issue a requirement that adequate records be provided;
- suspend the charity's tax-receipting privileges; and/or,
- revoke charitable registration.

The following table is an overview of the general requirements about length of retention for certain types of records.

Type of Record	Examples of record	Retention Period
Records concerning gifts	Duplicate donation receipts and supporting documents	Current year plus 2 additional years
Accounting General Ledger	General Ledger printout	Permanent
	Supporting documentation (invoices, cheque stubs, deposit books/slips, etc)	Current year plus 6 additional years
	Financial Statements	Current year plus 6 additional years
Governing documents	Minutes, by-laws, CRA correspondence	Permanent
Government Filings	Annual Charity Information Return, Sales Tax returns	Current year plus 6 additional years

Type of Record	Examples of record	Retention Period
Payroll	Payroll registers, WSIB, EHT, other benefit filings	Current year plus 6 additional years
	T4 Back up	Permanent

## Appendix A: Certificate of Status

Request ID: 013735528  
Demande n° :  
Transaction ID: 46048904  
Transaction n° :  
Category ID: CT  
Catégorie :

Province of Ontario  
Province de l'Ontario  
Ministry of Government Services  
Ministère des Services gouvernementaux

Date Report Produced: 2011/11/23  
Document produit le :  
Time Report Produced: 16:13:54  
Imprimé à :

### CERTIFICATE OF STATUS ATTESTATION DU STATUT JURIDIQUE

This is to certify that according to the records of the Ministry of Government Services

D'après les dossiers du Ministère des Services gouvernementaux, nous attestons que la société

#### THE INCORPORATED SYNOD OF THE DIOCESE OF TORONTO

Ontario Corporation Number

Numéro matricule de la société (Ontario)

0 0 0 6 7 0 9 5 5

is a corporation incorporated, amalgamated or continued under the laws of the Province of Ontario.

est une société constituée, prorogée ou née d'une fusion aux termes des lois de la Province de l'Ontario.

The corporation came into existence on

La société a été fondée le

JANUARY 23 JANVIER, 1869

and has not been dissolved.

et n'est pas dissoute.

Dated

Fait le

NOVEMBER 23 NOVEMBRE, 2011



Director  
Directrice

The issuance of this certificate in electronic form is authorized by the Ministry of Government Services.  
La délivrance du présent certificat sous forme électronique est autorisée par le Ministère des Services gouvernementaux.

## Appendix B: Sample Financial Statements

This appendix contains:

- St. Swithan's Anglican Church Sample Statement of Operations

It is possible for most congregations to have similar looking statements, and yet have a diverse range of accounts by establishing a number of sub-ledgers for areas such as personnel costs and property costs. The following sample set-up shows how some of these ledgers might be comprised in a format that is consistent with how parishes are invoiced for costs, and how they must report these costs on the parochial return.

**Note:** The level of detail presented here represents how accounts should be set up. It is not appropriate to present details of individuals pay for privacy reasons. Please be sensitive to this issue. The sub-ledger containing the details of clergy and non-clergy pay should not be distributed, and for presentation purposes, salary costs should be merged into one line.

## Sample

### St. Swithan's Anglican Church Statement of Operations

Results for month ended January 31, 20xx

#### INCOME

Envelopes	14,887
Open offering	<u>349</u>
	15,236
Use of facilities	3,840
York Rectors Trust	370
Interest Income	2,214

Parish organizations	225
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Miscellaneous	<u>470</u>
---------------	------------

<b>TOTAL OPERATING INCOME</b>	<b>22,355</b>
-------------------------------	---------------

#### EXPENDITURES

##### PERSONNEL

Personnel costs – clergy	5,280
Personnel costs – non-clergy	<u>2,850</u>
<b>TOTAL PERSONNEL</b>	<b>8,130</b>

##### PROPERTY COSTS

Church	9,452
Rectory	0
Other	<u>0</u>
<b>TOTAL PROPERTY COSTS</b>	<b>9,452</b>

CHURCH ADMINISTRATION	1,311
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WORSHIP AND CHRISTIAN EDUCATION	247
---------------------------------	-----

OUTREACH	286
----------	-----

DIOCESAN ALLOTMENT	2,298
--------------------	-------

<b>TOTAL EXPENDITURES</b>	<b><u>23,724</u></b>
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<b>FUND SURPLUS\ (DEFICIT)</b>	<b><u>(630)</u></b>
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### St. Swithan's Anglican Church Statement of Financial Position

As at January 31, 20xx

#### CASH & SHORT TERM DEPOSITS

PETTY CASH	100
BANK - CURRENT ACCOUNT	27,941
BANK - SAVINGS MEMORIAL	22,595
BANK - FAITHWORKS	<u>1,566</u>
<b>TOTAL CASH</b>	<b>52,202</b>

PREPAID EXPENSES	310
------------------	-----

ACCOUNTS RECEIVABLE	<u>2,044</u>
---------------------	--------------

<b>TOTAL CURRENT ASSETS</b>	<b>54,556</b>
-----------------------------	---------------

INVESTMENTS IN CONSOLIDATED TRUST FUND	426,601
--	---------

BONDS	72,765
-------	--------

TERM DEPOSITS	354,106
---------------	---------

CAPITAL ASSET FUND	<u>381,663</u>
--------------------	----------------

<b>TOTAL ASSETS</b>	<b><u>1,289,691</u></b>
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#### LIABILITIES, FUNDS & SURPLUS

ACCOUNTS PAYABLE	160
OPERATING FUND SURPLUS \ (DEF)	68,400

##### FUNDS:

CAPITAL	457,708
---------	---------

BEQUEST	367,618
---------	---------

RECTORY	394,249
---------	---------

FAITHWORKS	<u>1,566</u>
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<b>TOTAL</b>	<b><u>1,289,691</u></b>
--------------	-------------------------



# Sample

## CLERGY COSTS - sub-ledger

### Incumbent Costs

Stipend	3,000
Housing	1,500
Pension	450
Benefits	292
Professional development	38
Total Incumbent	5,280

### Associate Priest 1

Stipend	0
Housing	0
Pension	0
Benefits	0
Professional development	0
Total Associate Priest 1	0

### Clergy Supply

Travel Reimbursements	0
-----------------------	---

## TOTAL CLERGY PERSONNEL COSTS

(line 3A parochial return)

## NON CLERGY PERSONNEL COSTS

### Secretarial

Salary	800
Benefits	50
Total Secretarial	850

### Music Direction

Salary	
Benefits	2,000
Total Music Direction	0
	2,000

### Youth Leader

Salary	0
Benefits	0
Total Youth Leader	0

## TOTAL NON CLERGY PERSONNEL COSTS

(line 3A parochial return)

## PROPERTY COSTS – sub-ledger

### CHURCH

Insurance	519
Janitorial	1,798
Property Maintenance	3,784
Utilities:	
Electricity	0
Telephone	200
Water	484
Gas	2,666
Total Property Costs - Church	9,452

(line 3B parochial return)

### RECTORY

Insurance	0
Property Maintenance	0
Utilities:	
Electricity	0
Telephone	0
Water	0
Gas	0
Total Property Costs - Rectory	0

(line 3B parochial return)

### OTHER BUILDINGS

Insurance	0
Janitorial	0
Property Maintenance	0
Utilities:	
Electricity	0
Telephone	0
Water	0
Gas	0
Total Property Costs - Other	0

(line 3B parochial return)

# Sample

## St. Swithan's Anglican Church Sample Statement of Operations As at December 31, 2008

	Operating Fund	Capital	Bequest	Rectory	FaithWorks	Total
Balance as at December 31, 2008	59,789	460,708	360,118	394,249	1,133	1,275,997
Income	174,890	0	7,500	0	14,000	196,390
Depreciation		(1,000)				(1,000)
Expenditures	(158,409)	(8,500)	0	0	(13,567)	(180,476)
Balance, before inter-fund transfers	76,270	451,208	367,618	394,249	1,566	1,290,911
Inter-fund Transfers	(8,500)	8,500	0	0	0	0
Balance, December 31, 2009	67,770	459,708	367,618	394,249	1,566	1,290,911

## Appendix C: Internal Control Questionnaire

For churches that already have an accounting system in place, periodic review of the accounting policies and procedures should be made. The Internal Control Questionnaire set out here can be used as a checklist for periodic review and evaluation of an existing system.

Some questions clearly will not be applicable to every church, but consideration of them and whether they are, in fact, applicable to your church is a useful exercise.

Question	Yes	No	N/A
<b>I. General</b>			
0. Are prior internal control questionnaires available?			
1. Have recommendations of prior reports on internal controls been implemented?			
2. Is a complete and current chart of accounts available? (listing all accounts and their respective account numbers)			
3. Is the accounting system using a double-entry bookkeeping method?			
<b>II. Budget</b>			
1. Is the budget approved by Vestry?			
2. Are all changes to the budget authorized by Vestry and recorded in the minutes of the meetings?			
<b>III. Reporting</b>			
1. Is a regular (for example, quarterly) report submitted to the Advisory Board concerning the church's financial accounts?			
2. Is the Treasurer's report in sufficient detail to inform the reader as to the nature of various items of income and disbursements?			
3. Does the report present the current actual financial data compared with the approved budget?			
4. Is there periodic reporting, at least quarterly, of all other funds and activities, including designated or restricted funds?			
<b>IV. Cash Receipts</b>			
1. Are there safeguards to protect the collections from theft or misplacement from the time of receipt to the time the funds are counted and deposited?			
2. Are the collection receipts counted and deposited so that the deposit equals the entire amount of receipts on a timely basis, i.e., at least weekly?			
3. Are there at least two unrelated persons responsible for the counting and depositing of the collections?			

	Yes	No	N/A
<b>IV. Cash Receipts (continued)</b>			
4. Are the persons responsible for counting receipts rotated on a periodic basis?			
5. Do the counters have a standardized form for recording the deposit information?			
6. Are the counters' sheets retained and reconciled with actual deposits, and are all discrepancies investigated?			
7. Are third-party cheques returned to donors?			
8. Are all pledge envelopes retained and reconciled to the recorded amounts?			
9. Are cheques photocopied before being deposited?			
10. Are all other cash receipts recorded and deposited on a timely basis?			
11. Are all cheques received endorsed "for deposit only" immediately on receipt?			
12. Are there procedures that will highlight, or bring to someone's attention, the fact that all receipts or income have not been received or recorded?			
13. Are periodic statements provided to donors, i.e., at least quarterly?			
<b>V. Cash disbursements</b>			
1. Are all disbursements made by cheque, except for small expenditures made through petty cash?			
2. Are all cheques pre-numbered and used in sequence?			
3. Is there a clearly defined approval process for all disbursements?			
4. Are all voided cheques properly cancelled and retained?			
5. Are all cheques made payable to specified payees and not cash or bearer?			
6. Are all disbursements supported by original documentation?			
7. Is the original vendor's invoice or other documentation marked 'paid' at the time of signature to prevent duplicate payment?			
<b>VI. Cheque signing</b>			
1. Is the signing of blank cheques prohibited?			
2. Is the use of a signature stamp or pre-printed signatures prohibited?			
3. Does all supporting documentation accompany cheques presented for signature?			
4. Are all account signers authorized by Vestry?			
5. Is more than one signature required for any cheque?			

	Yes	No	N/A
<b>VI. Cheque signing (continued)</b>			
6. If not, do cheques for more than \$500 require more than one signature?			
7. If signature imprint machines are used, are the keys kept under lock and key except when in use?			
<b>VII. Journal entries</b>			
1. Is there an appropriate explanation accompanying each journal entry?			
2. Are all journal entries approved by a knowledgeable person of authority other than the person initiating the entry?			
3. Is adequate documentation maintained to support each journal entry?			
<b>VIII. Bank account reconciliation</b>			
1. Are all bank accounts reconciled within 10 days of receipt of statement?			
2. Are the tasks of opening and reconciling the bank statement performed by two different people?			
3. Are bank account reconciliations completed by someone other than the person who participates in the receipt or disbursement of cash?			
4. Are all journal entries for bank charges and bank account interest recorded routinely?			
<b>IX. Petty cash</b>			
1. Is the responsibility for the petty cash fund assigned to only one person?			
2. Are all petty cash funds maintained on an imprest basis, in other words, the total amount of vouchers paid or disbursed, plus cash will always equal the amount of the fund?			
3. Is there adequate review of documentation before the fund is reimbursed?			
4. Is the petty cash fund reimbursed at least monthly?			
5. Is the actual petty cash protected from theft or misplacement?			
<b>X. Investments</b>			
1. Are all investment instruments held in the name of the church only?			
2. Is authorization for the sale and/or purchase of investments provided for by Vestry?			
3. Are all investment instruments adequately protected from fire, theft, or misplacement?			
4. Are the dividends/interest recorded?			

	Yes	No	N/A
<b>XI. Property and equipment</b>			
1. Is formal approval of Vestry required for all property and equipment additions and dispositions?			
2. Is a detailed inventory of all property, furniture, fixtures and equipment maintained, showing: date acquired, detailed description, cost or fair value at time of donations and any funding source restrictions?			
3. Is a periodic review conducted to compare actual property, furniture and fixtures and equipment to the recorded inventory listing?			
4. Is a periodic review conducted to ensure adequacy of the insurance coverage?			
<b>XII. Liabilities and other debt</b>			
1. Is all borrowing or indebtedness authorized by Vestry and the appropriate Diocesan committee?			
2. Are all liabilities noted on Financial Statements and reports to Vestry?			
<b>XIII. Restricted gifts and income</b>			
1. Are records maintained of all bequests, memorials, endowments or other restricted gifts to include: date, amount and donor of gift and any restrictions or limitations?			
2. Are the income and other transactions periodically reported to Vestry?			
<b>XIV. Payroll</b>			
1. Are personnel files maintained to include: employment application and/or letter of employment? Authorizations of pay rates and effective dates? Necessary Canada Revenue Agency (CRA) filings?			
2. Are there adequate records to: show computation of gross pay? to account for all deductions from gross pay, to support payroll tax returns?			
3. Are payroll withholdings remitted on a timely basis?			
4. Are payroll tax returns filed on a timely basis?			
<b>XV. Computer systems</b>			
1. Are current or duplicate copies of the operating system and programs maintained off premises?			
2. Are the files backed-up at least weekly and the backups maintained off premises?			
3. Is a printed copy retained of all journals, general ledger, financial statements and any other computerized records?			

## Appendix D: Churchwardens' Parochial Returns

Copies of the *Churchwardens' Parochial Return Form* and *Churchwardens' Parochial Return Handbook* can be found on the Diocese's website in the *Finance* section at:

[www.toronto.anglican.ca/parish-administration/finance/annual-returns/](http://www.toronto.anglican.ca/parish-administration/finance/annual-returns/)

## Appendix E: Excerpts from CRA Website: Information for Charities

These are excerpts from the *Receiving Gifts* and *Issuing Receipts* of the *Operating a Registered Charity* section of the CRA website.

### What is a gift?

For a registered charity to determine whether or not a gift has been made, it must consider the following:

#### Was the gift made voluntarily?

The donation must be given freely. If a donation is made as a result of a contractual or other obligation (for example, a court order), it is not eligible for a receipt.

#### Was there a transfer of property?

- Only gifts of property are eligible for official donation receipts (for example, cash, computers, equipment).
- Gifts of service, and promises of service, are not gifts of property, and are not eligible for an official donation receipt.
- Gift certificates donated by the issuer do not constitute property and are not eligible for official donation receipts. However, a gift certificate purchased and then donated does constitute property, and may be receipted at its fair market value.
- Pledges do not constitute a transfer of property until they are fulfilled and, as such, are not eligible for an official donation receipt.

#### Did the donor receive an advantage?

Where a donor receives an advantage or consideration for a donation, part or all of the donation may no longer qualify as a gift.

Examples of advantages might include:

- a ticket to an event;
- use of property; or
- a dinner and/or performance at a fundraising event.

#### Was the gift directed to a specific person, family, or other non-qualified donee?

- Donors cannot choose the beneficiaries of their donations. A charity must have full discretion in deciding how to allocate its funds. A donor may request that a gift be directed towards a person, family, or other non-qualified donee if they have been identified beforehand by the charity as a recipient of its charitable program. However, the charity must be able to re-allocate all donated funds to other charitable programs or activities when it deems appropriate.
- A donation subject to a general direction from the donor that the gift be used in a particular program operated by the charity is acceptable, provided that no benefit accrues to the donor or anyone not at arm's length to the donor.
- When a charity does not have ultimate control over donated funds, or when a benefit accrues to the donor from donated funds, these funds do not constitute a gift and are not eligible for an official donation receipt.

### **What types of transactions generally do not qualify as gifts?**

- a court ordered transfer of property to a charity;
- the payment of a basic fee for admission to an event or to a program;
- the payment of membership fees that convey the right to attend events, receive literature, receive services, or be eligible for entitlements of any material value that exceeds 80% of the value of the payment;
- a payment for a lottery ticket or other chance to win a prize;
- the purchase of goods or services from a charity;
- a donation for which the fair market value of the advantage or consideration provided to the donor exceeds 80% of the value of the donation;
- a gift in kind for which the fair market value cannot be determined;
- donations provided in exchange for advertising/sponsorship;
- gifts of services (for example, donated time, labour);
- gifts of promises (for example, gift certificates donated by the issuer, hotel accommodation);
- pledges;
- loans of property;
- use of a timeshare; and
- the lease of premises.

[[www.cra-arc.gc.ca/chrts-gvng/chrts/prtng/gfts/whts-eng.html](http://www.cra-arc.gc.ca/chrts-gvng/chrts/prtng/gfts/whts-eng.html) ]



## What you need to know to issue an official donation receipt

### Is the donation a gift?

To issue an official donation receipt, a registered charity must determine whether or not the donation constitutes a gift (see What is a gift?, page 55).

### Who is the donor?

A registered charity can only issue an official donation receipt to the individual or organization that made the gift, and the name and address of the donor must appear on the receipt. A charity cannot issue an official donation receipt in the name of anyone but the true donor.

### What is the eligible amount of the gift for receipting purposes?

Once a registered charity has determined that a gift has been made, it must determine the eligible amount of that gift for receipting purposes in order to issue an official donation receipt.

To determine the eligible amount of a gift, a charity must know:

- The fair market value of the donated property; and
- The fair market value of any advantage provided to the donor.

Before the charity can issue an official donation receipt, any advantage must normally be deducted from the fair market value of the donation.

[[www.cra-arc.gc.ca/chrts-gvng/chrts/prtng/rcpts/whtknw-eng.html](http://www.cra-arc.gc.ca/chrts-gvng/chrts/prtng/rcpts/whtknw-eng.html)]

## Consequences of improper receipting

### What are the consequences for charities that issue receipts with incorrect or false information?

- A registered charity that issues an official donation receipt that includes **incorrect** or **incomplete** information is liable to a penalty equal to 5% of the eligible amount stated on the receipt. This penalty increases to 10% for a repeat offence within five years.
- A registered charity that issues an official donation receipt that includes **deliberately false** information is liable to a penalty equal to 125% of the eligible amount stated on the receipt.
  - If the charity is liable for penalties in excess of \$25,000 for issuing false receipts, that charity is also liable to one year's suspension of its charitable status.
- A registered charity that contravenes or continues to contravene the receipting requirements of the *Income Tax Act* could also have its registration revoked.

## Appendix F: Letter of Direction

You can find the *Letter of Direction* under *Additional Resources* on the *FaithWorks* page of the Diocese's website at:

<http://toronto.anglican.ca/about-the-diocese/annual-and-legacy-giving/faithworks/>

## Appendix G: Statement of Investment Policies and Procedures

A copy of the *Statement of Investment Policies and Procedures* can be found on the *Investments* page in the *Finance* section of the Diocese's website at:

<http://toronto.anglican.ca/parish-administration/finance/investments/>

## Appendix H: Summary of Historical Returns

You will find the most recent *Summary of Historical Returns* (Investment Report) currently available on the *Investments* page in the *Finance* section of the Diocese's website at:

<http://toronto.anglican.ca/parish-administration/finance/investments/>