



PRESBYTERY OF STOCKTON
Finance Committee

FINANCIAL
INTERNAL CONTROL
PROCEDURES

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INTRODUCTION

Internal controls are essential for the proper operation of any organization and the accounting of the resources entrusted to it. Central to the concept of internal controls is the creation of procedures which provide direction and guidance in each step of the bookkeeping and accounting process. Another essential concept is the segregation of responsibilities and duties among the various people who are involved with the financial aspects of the Presbytery. The purpose of this Financial Internal Controls Procedure is to provide direction and guidance for all of the bookkeeping entries and reporting required for the proper accounting of the Presbytery's resources.

GENERAL CONTROLS

Some general principles of internal control include:

- Make certain that no one person is involved with all steps of the process
- Use only pre-numbered checks
- Secure all unissued check blanks
- Make certain that there is an accounting for all checks, issued, voided, or cleared
- Pay only from original invoices; do not pay from vendor statements
- Mark paid invoices to avoid duplicate payments
- The person drafting the check is not permitted to sign the check

CHART OF ACCOUNTS

A chart of accounts is the framework on which the annual budget is developed and is essential in tracking the income and expenses during the course of the year. By reviewing entries posted to any code in the chart of accounts, and comparing them to the budget, the status and cost trend of that item can be monitored throughout the year.

The use of subaccounts allows the flexibility to present information in sufficient detail that a clear understanding of the financial condition can be determined, yet it permits "collapsing" into a summary level to allow an overview presentation. The chart of accounts will follow the general categories listed below, subject to approval by the Finance Committee:

1. Assets

- 1000 Cash
- 1100 Accounts Receivable
- 1200 Contributions Receivable
- 1300 Other Receivables
- 1400 Other Assets
- 1500 Investments
- 1600 Fixed Assets
- 1700 Accumulated Depreciation

2. Liabilities

- 2000 Accounts Payable

3. Equity

- 3000 Unrestricted Net Assets
- 3100 Temporarily Restricted Net Assets
- 3200 Permanently Restricted Net Assets

4. Income

- 4100 Income from the Synod of the Pacific
- 4200 Income from *Per Capita*
- 4300 Income from Other Sources
- 4400 Income from Grants
- 4500 Other Income

5. Expenses

- 5100 Salary and Related Expenses, Executive Presbyter
- 5200 Salary and Related Expenses, Stated Clerk

- 5300 Salary and Related Expenses, Treasurer
- 5400 Mission Advocate Expenses
- 5500 General Assembly Expenses
- 5600 *Per Capita* Expenses

6. Office and Related Expenses

- 6100 Office Rental Expenses
- 6200 Office Expenses
- 6300 Insurance Expense

7. Committee Expenses

- 7100 Committee on the Preparation for Ministry
- 7200 Committee on Ministry
- 7300 Mission Committee
- 7400 Healthy Congregations Committee
- 7500 Nominations / C.O.R. Committee
- 7600 Presbytery Permanent Judiciary Committee
- 7700 Personnel Committee
- 7800 Finance and Administration Committee

BUDGET

The Treasurer and the Finance Committee jointly will create a annual budget for approval by the Presbytery. Using the chart of accounts format, the budget will show the actual balance carried forward from the previous year; the anticipated income from all sources, separated by category; and anticipated expenses, separated by category.

JOURNAL ENTRIES

An entry in the journal is required for every financial transaction. The journal entry creates the record of each and every transaction and serves as the basis for all

subsequent records. Typically the accounting software will generate this entry automatically, but if not, a manual entry must be made. Examples of journal entries that will be made manually are reclassification of previous postings, reconciling items from the bank statement, and allocations. New journal entries should be made to correct or reclassify a posting; never change an existing transaction. Corrections and/or reclassification of previous posting are necessary to create an audit trail; all of the transactions can be traced back to the original documentation. All such corrections and/or reclassifications must be checked, verified, and approved by an authorized person other than the one making the entry.

GENERAL LEDGER

The general ledger is the record where all transactions are posted and balances are maintained. The account numbers noted in the chart of accounts are the basis of sorting the information in the general ledger.

INVOICES

In the normal flow of business of the Presbytery invoices will only occasionally be issued. When the need arises to issue an invoice, they should be prepared in duplicate. The original invoice, along with supporting documents, will be mailed to the entity to be billed. The duplicate invoice, with supporting documents, will be filed in an accounts receivable file. The account(s) numbers affected shall be shown on the face of the invoice. At the time the invoice is issued, an entry will be made in the journal and general ledger, with a debit to accounts receivable and a credit to income. When payment is received, accounts receivable is reduced and cash is increased by the amount of the payment.

An accounts receivable aging report should be maintained showing the time that has elapsed since issuing the invoice. The accounts receivable aging report should show 0 to 30 days, 31 to 60 days, 61 to 90 days, 90 to 120 days, and greater than 120 days. As accounts receivable move from one aging period into the next, increasingly urgent collection efforts shall be initiated.

If it is determined that an account receivable is uncollectable, the Treasurer shall bring this matter to the attention of the Finance Committee. For accounts receivable not exceeding \$100, the Finance Committee will decide to allow additional time for payment to be made, to utilize the services of an outside collection agency, or to write off the account receivable as uncollectable. The Finance Committee will report any action

taken to Presbytery Council. In the case of accounts receivable greater than \$100, the Finance Committee will bring their recommendation to Presbytery Council for decision.

A filing system that provides for all invoices from a vendor which submits invoices on a regular basis to be filed together, rather than grouping together all invoices that are processed during a given time period. In addition to these “vendor files” the filing system will provide an alphabetical file in which to organize single or occasional invoices.

DEPOSITS

All checks payable to the Presbytery will be received by the Treasurer, or a person designated by the Treasurer, and stamped, “For Deposit Only.” If information regarding the accounting of the deposit is not transmitted with the deposit, the Treasurer, or a person designated by the Treasurer, will contact the organization submitting the deposit for instructions.

A bank deposit slip will be prepared, listing each check separately with check number and face amount. A deposit summary showing the check number, date of check, drafter of the check, and face amount of the check will be prepared as an internal control record. Photocopies of each check shall be made and attached to the deposit summary. With each deposit, review the bank deposit slip with the internally generated deposit summary to make certain that no discrepancies exist. If the two records do not indicate the same amount, the difference must be immediately reconciled. The increase in cash will be posted to the general ledger.

If any donor attaches restrictions on the use of donated funds, separate accounts will be created in order to track income and expenditures of these restricted use funds. A record will be made of the details of the restrictions.

EXPENSES

Expenses must be tracked by category; such as salaries, payroll taxes, rent, professional fees, and supplies; and function; such as programs, general and administrative expenses. Each program needs to be given a unique account number so that all expenses chargeable to that program can be posted and tracked.

As a matter of policy the Presbytery will reimburse the expense of travel associated with official Presbytery-related business. Such reimbursement will be determined by multiplying the round trip mileage required to attend the Presbytery activity by the

Internal Revenue Service published rate in effect at the time of travel. Eligibility for reimbursement of travel expenses will be limited to persons required or expected to participate in the Presbytery activity. Persons who choose to attend a Presbytery activity, but are not required to be present, will not be reimbursed for travel expenses.

In order that expense reimbursement commitments can be properly managed, unless extraordinary circumstances prevent it, requests for reimbursement are expected to be submitted within 30 days of the reimbursable expense being incurred.

When an invoice is received a transaction memo will be attached. This transaction memo will provide space for several cost accounts to allow the invoice to be coded to several accounts, if appropriate. The Treasurer, or a designated person, will code the transaction memo to show each account number, and amount, to be charged. If an invoice provides for a discount for payment by a specific date, this fact should be highlighted and processing of the invoice expedited. The completed transaction memo shall be reviewed for accuracy and proper coding by a person authorized by the Presbytery, who shall signify approval by signing the document. Where payments are made by others, such as the Synod, on behalf of the Presbytery from funds designated for the use of the Presbytery, a transaction memo with account coding and approval for payment, signed by an authorized representative of the Presbytery, will be completed by the Presbytery prior to the release of funds. After payment of the invoice has been authorized, the Treasurer, or a designated person, will issue a check for the approved amount and record the transaction in the general ledger as accounts payable and expenses.

Due to the physical separation of the parties involved in the approval and processing of an invoice, two protocols need to be put in place. For invoices that are of a routine nature, and are received on a recurring schedule, for example utility bills, a protocol for the Treasurer and persons authorized to approve payments and sign checks to meet on a regular basis should be established.

A second protocol should be established to deal with situations that must be dealt with outside of the normal check approval and signing routine. In cases that require a check be issued on a more urgent basis, an invoice and supporting documents, along with the transaction memo, can be scanned and e-mailed by the Treasurer to persons authorized to approve payments. After reviewing and approving the amount of the invoice, and the coding, the signed transaction memo will be scanned and e-mailed back to the Treasurer. It is essential that a written audit trail be created, and under no circumstances will oral approvals be acceptable. When an expenditure is approved by Presbytery Council, a transaction memo shall be completed, signed by an authorized officer, and provided to the Treasurer during the same meeting at which the expenditure was approved.

CHECKS

In order to provide for the orderly and timely issuance of checks, the Treasurer, or designated person, will normally prepare a check so that as invoices and coding are reviewed and approved, the check can be signed. After being signed by two separate authorized signers, the Treasurer, or designated person, shall mail the check. The face of the original invoice will be stamped as having been paid, and the date on which payment was made will be noted. A copy of the check shall be attached to the transaction memo and original invoice.

BANK RECONCILIATION

The bank statement must be reconciled to the general ledger. The Treasurer, or designated person, will review the bank statement, normally within ten (10) days of its receipt, and note any questions or exceptions. The reviewer shall indicate agreement with the statement as presented by the bank by initialing and dating the front page of the bank statement, and attaching the reconciliation report to the bank statement. Any issues arising from this review must be resolved immediately through consultation with the bank.

RESTRICTED FUNDS

Certain funds were given to the Presbytery with conditions and restrictions on how they be spent; it is essential that any such conditions and restrictions be honored. In order to assure that any use of restricted funds is in compliance with all applicable conditions, separate accounts will be established for each restricted fund. If a simple account title is sufficient to describe the restriction, this may be done. In other cases it may be necessary to provide a more detailed explanation of the restriction. Funds that have restrictions on their use, and details of these restrictions, are listed in Appendix A.

FIXED ASSETS

Fixed assets acquired by the Presbytery with a value less than \$1,000 shall be expensed at the time of purchase, while fixed assets of greater value shall be capitalized. For fixed assets with a useful life, this life will be determined and a depreciation schedule will be established. The annual depreciation of the fixed asset will be expensed over its useful life into an account entitled, "accumulated depreciation." The book value of the fixed asset will be determined by deducting the accumulated

depreciation from the original value. After disposal of the fixed asset, the gain or loss will be determined by deducting the book value at the time of sale from the sale price.

FINANCIAL REPORTING

Each month the Treasurer shall provide the Finance Committee with reports showing the financial position and results of operation of the Presbytery. As a minimum a balance sheet and an income and expense statement will be provided. If there are any entries on an accounts receivable aging report, this will be provided as well.

It is the policy of the Presbytery that on interest-bearing accounts, the interest earned will be retained in the account and permitted to accrue.

SAMPLE FINANCIAL FORMS

A sample transaction memo is attached for information.

Presbytery of Stockton 275 N. Main Street Manteca, CA 95336	<h2 style="margin: 0;">TRANSACTION MEMO</h2>	<input type="checkbox"/> DEPOSIT MEMO <input type="checkbox"/> REQUEST FOR FUNDS <input type="checkbox"/> GENERAL JOURNAL ENTRY
INVOICE FROM _____ ADDRESS _____ CITY _____ INVOICE NUMBER _____ INVOICE AMOUNT _____ INVOICE DATE _____ INVOICE DUE DATE _____		
ACCOUNT NUMBER	ACCOUNT DESCRIPTION	ALLOCATION AMOUNT
<small>THE CHARITABLE STANDARD MILEAGE REIMBURSEMENT RATE FOR RENDERING GRATUITOUS SERVICES IS \$0.14 PER MILE.</small>		ALLOCATION TOTAL _____
REQUESTED BY _____		DATE _____
COMMITTEE CHAIR APPROVAL _____		DATE _____
APPROVED BY _____		DATE _____
DATE CHECK ISSUED _____		CHECK NUMBER _____

PRESBYTERY GRANTS

Several standing committees of the Presbytery have accounts funded by the annual budget from which grants may be distributed. The detailed procedure for the application and evaluation of the grant request is within the purview of the appropriate Presbytery committee, however in order to provide for financial internal control of the process, certain procedures must be followed.

Application A tabulation of the items for which the grant funds will be used, along with an estimated cost of each item, will be submitted to support the grant request.

Accounting In the case of a specific event for which a grant has been approved, within 30 days of the completion of the event the grantee shall submit a report to both the committee approving the grant request and the Presbytery Finance Committee showing the estimated cost of each item in the grant application and the actual cost, along with receipts supporting the reported actual costs. If the actual cost supported by receipts is less than the amount of the grant, the difference will be rebated to the Presbytery Treasurer, who will deposit the funds and credit the account from which the funds for the grant were originally drawn.

In the case of a grant to an individual, for example grants to support a candidate for the ministry, student loan assistance, housing assistance, or pastor benevolence, within 30 days of the expenditure of the grant funds the grantee shall submit a report to both the committee approving the grant request and the Presbytery Finance Committee showing the estimated cost of each item in the grant application and the actual cost, along with receipts supporting the reported actual costs. If the actual cost supported by receipts is less than the amount of the grant, the difference will be rebated to the Presbytery Treasurer, who will deposit the funds and credit the account from which the funds for the grant were originally drawn.

APPENDIX A RESTRICTED FUNDS

All Presbytery restricted are held by the Synod of the Pacific in separate interest-bearing demand accounts.

- NCD CAPITAL FUND

The funds are restricted to use for new church development capital expenses

- CANDIDATES ASSISTANCE FUND

The funds are restricted to the support of candidates for the ministry

- CMHE, HILLIS WILL

The funds are designated for work connected with university students in the State of California, but they are not intended to be used for scholarships. The principal amount of \$17,758.36 is to be maintained and only earnings derived from the principal are to be distributed.

- ETHNIC CONCERNS FUND

The funds are restricted to the support of the Presbytery's ethnic concerns ministry

- COR CONFERENCE

The funds are to be used to pay expenses associated with attending Committee on Representation conferences.

- PEACEMAKING FUND

The funds are derived from the Presbytery's portion of the Peacemaking Offering, and is to be used as directed by the Presbytery Mission Committee.

- MISSION ADVOCATE FUND

The funds are restricted to the support of the programs administered by the Presbytery Mission Advocate

- V.E.O. FUND

The funds are restricted to the support of the Vietnamese Evangelical Outreach program of the Presbytery

- JOSEPH H. BARR MEMORIAL FUND

- The principal of this memorial fund is deposited in an irrevocable trust with the Presbyterian Foundation, which distributes earnings from the fund on a quarterly basis.

As stated in the fund document, earnings from this memorial fund must be used “For the purpose of aiding worthy men and women of high Christian character and intellectual ability through scholarships in studying the Christian ministry or other Christian vocations within the United Presbyterian Church in the USA. In the event there are no students available to receive said aid in any given period, the earned income is to be reinvested by the Foundation and added to the principal of said memorial fund.”

For the purpose of administrating the Joseph H. Barr Memorial Fund, any monies not committed as stipulated by the terms of the fund within one (1) calendar year of its receipt by the Presbytery will be returned to the Presbyterian Foundation with instructions to reinvest them in the Joseph H. Barr Memorial Fund, account 1021001045.

- DAVID J. LEMMEL MEMORIAL FUND

The principal of this memorial fund is deposited in an irrevocable trust with the Presbyterian Foundation, which distributes earnings from the fund on a quarterly basis.

As stated in the fund document, earnings from this memorial fund are to be used “To further the mission of the church.”

- G. PAULINE JONES MEMORIAL FUND

The principal of this memorial fund is deposited in an irrevocable trust with the Presbyterian Foundation, which distributes earnings from the fund on a quarterly basis.

As stated in the fund document, earnings from this memorial fund are to be used “For the general mission of the Presbyterian Church as carried out by the Sierra Mission Area of the Synod of the Pacific.

- **STUDENT LOAN DEBT ASSISTANCE FUND**

In order to assist congregations in retaining first call pastors with student loan debts, the Presbytery of Stockton has established a Student Loan Debt Assistance Fund, with an initial amount of \$100,000.00. Upon approval by the Presbytery of a congregation’s application for a Student Loan Debt Assistance grant on behalf of its first call installed pastor, funds will be distributed to the congregation for payment to the installed pastor in the following manner:

- A grant of \$1,000.00 will be distributed upon the completion of the installed pastor’s first year of service with the congregation.
- A grant of \$2,000.00 will be distributed upon the completion of the installed pastor’s second year of service with the congregation.
- A grant of \$3,000.00 will be distributed upon the completion of the installed pastor’s third year of service with the congregation.
- A grant of \$4,000.00 will be distributed upon the completion of the installed pastor’s fourth year of service with the congregation.
- A grant of \$10,000.00 will be distributed upon the completion of the installed pastor’s fifth year of service with the congregation.
- The funds distributed through this program will be treated as taxable income by the installed pastors receiving these grants.
- All funds received through this program must be used solely for the purpose of paying student loan debts incurred by the installed pastors receiving these grants.
- The Student Loan Debt Assistance Fund is administered by the Committee on Ministry of the Presbytery of Stockton, who shall establish and promulgate the eligibility requirements for this program.

- HOUSING ASSISTANCE FUND

The Presbytery of Stockton has established a fund enabling congregations to obtain a loan to be used to assist their installed pastor serving in a first call to purchase a residence. A Housing Assistance Restricted Fund in the amount of \$100,000.00 has been established at the Synod of the Pacific. Conditions attached to this restricted fund are:

- Congregations may apply for a Housing Assistance Loan in an amount not to exceed \$50,000.00
- The Housing Assistance Loan must be used for the exclusive purpose of assisting the congregation's installed pastor serving a first call in making a down payment on the purchase of a residence within a reasonable proximity of the community in which the congregation's church is located.
- The congregation obtaining the Housing Assistance Loan will enter into a shared equity or other agreement with its installed pastor. The form of agreement must be submitted for ratification by the Presbytery.
- While not a condition precedent, congregations applying for a Housing Assistance Loan will be encouraged to assist their installed pastor by the contribution of funding from the congregation's resources.
- In order to be eligible to receive a Housing Assistance Loan, the congregation must employ their installed pastor on at least a half-time basis, and pay the Presbytery minimum compensation in effect at the time of application for the Housing Assistance Loan.
- In order for a Housing Assistance Loan application to be considered, the congregation must be current on payments for their *per capita* apportionment and mission support pledge.
- The Housing Assistance Loan is a non-interest bearing loan.
- During the term of the Housing Assistance Loan, periodic payments are not required, but the full amount of the loan will become payable upon the dissolution of the pastoral relationship between the congregation and the Installed pastor, or the agreement is terminated.

- The agreement between the congregation and its installed pastor shall contain provisions under which the loan to the installed pastor will become payable.
- When the loan is repaid to the congregation, the full amount of the Presbytery's original Housing Assistance Loan to the congregation shall be repaid to the Presbytery. These funds shall be returned to the Housing Assistance Loan Fund account at the Synod of the Pacific and become available for other housing assistance loans.
- If, as a result of the terms of the agreement between the congregation and the installed pastor, funds in excess of the amount of the Housing Assistance Loan are paid to the congregation, these excess earnings shall be retained by the congregation, but may be used only for the purpose of assisting subsequently installed pastors of the congregation in the purchase of a residence.
- If, as a result of the terms of the agreement between the congregation and the installed pastor, the amount repaid to the congregation is insufficient to repay the original Housing Assistance Loan to the Presbytery, the congregation may apply for a non-interest bearing loan from the Presbytery. Any funds approved by the Presbytery for this purpose would be withdrawn from the Presbytery's General Funds. The Presbytery's approval of a loan from the General Fund would be independent of a Housing Assistance Loan.
- The congregation's retention of earnings in excess of the amount of the original Housing Assistance Loan would not preclude them from applying for a subsequent Presbytery Housing Assistance Loan.
- The Presbytery Finance and Administration Committee will report to the Presbytery annually at its February meeting on any outstanding Housing Assistance Loans and the funds available to be lent.