

## **2022 Financial Review Report to Grace United Church Council**

### **Conducted by:**

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**Date:** February 2023

### **Scope & Qualifiers**

- A financial review was conducted of the records for the calendar year 2022 for Grace United Church.
- The procedure used by the reviewers closely followed the Position Description (Constitution Appendix 2.2).
- The procedure followed was a review, not an “audit” and not an exhaustive check of every record and transaction. The purpose of the review was to assess the record keeping procedures and the handling of finances, and to also conduct a random sampling of some of the records. The intent of such a review is to provide an extra degree of assurance to Council and to the congregation that the financial affairs are managed and reported with integrity and with minimal risk of error or fraud.
- Certain funds are managed separately and are outside the scope of this review: for example: the AOTS account. The church account for the Lunches For Learning program exists to accept donations and to record contributions to the program, but the program’s operational expenses and revenue stream are managed as a separate business that is independent of the church and not included in this review. [Note: both the AOTS and L4L groups were idle in 2022 due to activity restrictions resulting from the pandemic ]
- Due to the confidential nature of individual members’ donations, there was no review conducted of charitable receipts issued against recorded donations.

### **Report Summary**

Many positive improvements were made in 2022 and these are mentioned in the “Changes” sections of this report. It is the opinion of the reviewers that the bookkeeping and other financial procedures carried out by the Financial Team at Grace United Church in 2022 were appropriate and were being complied with. It is our opinion that there are reasonable safeguards in place in order to minimize the risk of significant error or fraud. We commend the members of the Finance committee and Office Administrator who are directly involved with the routine activities and management of the system for their excellent work. To the best of our ability and understanding, we confirm the figures that were reported by the Finance Committee in their 2022 year end report to the congregation.

### **Details of the Financial Review**

#### **Overview of Procedures**

Following a string of closings and openings, since early 2020, the church remained “open” in 2022 as of the end of February.

The Finance committee continued to use a third-party accounting firm to handle the role of bookkeeping. The system is designed so that the principal activities of money receiving and the approval of money disbursement (e.g. cheque writing) are managed by separate individuals, or concurrently by more than one person. In 2022 a significant number of donations continued to be received by electronic transfer directly into the Grace bank account.

Electronic/direct deposits were reviewed by the Office Administrator, noting the appropriate accounts to credit according to the instructions in the record of deposit. This is a very secure way for the church to receive donations since there is no physical handling of the monies. Cheques were also received during the lockdown period and these were collected and deposited once a week by the Finance Committee. Sampling four random months of the year, *roughly one-third of the value of donations to Givings are received Sunday morning*, the majority is received electronically.

Cheques that are written to cover church expenses are not returned so it is not possible to verify that each one is signed twice or that the signatures are limited to those on the authorized list, but the bank would not honour cheques that were incomplete or improperly filled out.

The CRA allows 6 months for charities to report on their past year of operation. The CRA online statement for 2021 regarding Grace United's operation was reviewed briefly. The information recorded was not scrutinized as part of this review but the data appeared to be in order and up to date.

#### **Changes:**

The following change(s) to the financial procedures were adopted within the past 12 months.

The new Music Director was included in the ADP payroll system and now all payments to employees, including non-payroll employees, are recorded together, providing a complete picture of annual employee activity as well as improving Grace's ability to manage CRA reporting requirements.

An ad hoc committee was formed by Council to create and help to implement an Investment Policy, including an investment strategy for managing the funds entrusted to Grace.

Policy documents for the following Special Funds were added to Appendix 2 of the Constitution: Benevolent Fund, Youth Worship Fund, Inspiration Fund, Ken Plumley Memorial Fund, Inn of the Good Shepherd Fund, and Refugee Fund.

A preliminary draft of a Treasurer's Handbook was created and is awaiting feedback from the Finance Committee.

Both members of the Grace ministerial staff continued to participate in an ecumenical "Resonance Project". An account (3207) in the General Ledger and the Resonance Project Special Fund were established to handle grant support and expenses related to this study effort.

A second payroll administrator position was filled to serve as a backup.

The government extended the payback deadline for repayment of the \$40k CEBA (Canada Emergency Business Account) loan to the end of 2023. The Finance committee has been in contact with RBC about the repayment process.

## Document Review:

The following documentation was requested for the review – most of this information was made available electronically.

- |   |   |
|---|---|
| <input type="checkbox"/> Balance Sheet - Operating Fund   | <input type="checkbox"/> Cheque stubs   |
| <input type="checkbox"/> Balance sheet, or Statement of Financial Position (including Segregated Funds) | <input type="checkbox"/> Receipts for Deposits                                      |
| <input type="checkbox"/> Bank statements  | <input type="checkbox"/> Invoices & Authorizations for cheques issued               |
| <input type="checkbox"/> Year-end Investment Account statements   | <input type="checkbox"/> Acknowledgement of Donations from Grace to other charities |
| <input type="checkbox"/> General Ledger   | <input type="checkbox"/> (Grace United report on the CRA Website accessed online)   |

## Cash Receipts

For *in situ* worship the pandemic protocol has been to receive the Offering in the narthex, process it to the front of the church at the beginning of the service, and then members of the Finance committee have handled the count and bank deposit activity. Records were checked for March & October (randomly selected months). Generally speaking, paper work was filed correctly and was well supported by the electronic files (reports and spreadsheets). Nothing was discovered that affected the integrity of the financial processes being followed..

Grace hasn't returned yet to the procedure of having Sunday morning counters. Receipts generally fall into three categories: PAR contributions (automatic deposits); e-transfers; and cash/cheques which arrive on Sundays or are dropped off through the week. A monthly record of each receipt is maintained, providing: the date received; the category, or account into which the receipt is directed; a description, where further detail is required to describe *Other* receipts; and the amount. The review includes its own cross-check of these entries.

The General Ledger was reviewed to confirm that the distribution of donations is appropriately allocated to the various Grace accounts.

The total PAR amount is correctly allocated to the Givings account less the fee paid, which is allocated as an expense in the Finance Committee's account.

Grace continues to use a database application for managing Sunday offerings, which was adopted in 2012. It keeps track of the total amount donated as well as the breakdown and links this information to the individual donors' records.

In addition to the regular envelope accounting method, and because of the increased number of e-donations, the church office administrator uses a separate listing of transactions each month for cross-checking the emailed e-transfers with the records in the donations database.

The church office administrator supports the envelope steward by entering the Sunday offering information into the donations database.

Soup luncheon receipts and communion (benevolent) fund donations are also handled in this manner.

Interim reports of an individual's givings are available at any time upon request.

### **Deposits**

Similarly, March and October bank deposits were selected for review. Deposit slips and records were checked against the General Ledger entries and verified to be in order. A spreadsheet is maintained that categorizes the individual components (including the database account number) of each bank deposit.

### **Cash Disbursements**

[The same months] March and October payments were selected for review. Cheque stubs were reviewed as were all other records in these monthly folders. The disbursement details (invoices, payment authorizations) were in good order. Amounts were compared with the General Ledger and bank account statements to verify the values. The accounting system keeps track of the recoverable sales tax so that the proper refund can be claimed. This recoverable GST and PST is claimed and received on a semi-annual frequency (February and August in 2022).

All payments, including those done by credit card (VISA) are tracked in the monthly "Deposits, Cheques, Givings" spreadsheet.

The VISA bills are organized, each bill having the associated expense receipts attached. Often an item purchased in one month shows up on the next month's statement, just as cheques issued in one month may not clear the bank till the following month – but, it is easy to track and verify these transactions.

Online banking is only used to pay bills to *bona fide* organizations, such as the insurance and utility companies. Individuals being reimbursed continue to be paid by cheque instead of electronic deposit in order to include an additional person (co-signer) in the process. A review of random pulpit supply payments confirmed that an approved authorization expenditure form was completed.

### **General Insurance**

At the end of 2015 Grace switched insurance providers (to Ecclesiastical Insurance Co.). Previously Grace made a single annual payment in advance of the upcoming year. Currently, two monthly premium payments are paid through online banking in the first ten months of the year. In 2022 the Trustees elected to increase the deductible on the policy to \$10,000.

### **Payroll**

Payroll is the most significant expense item. The payroll administrator provided an M&P ledger (spreadsheet) that shows the description and amount for each full time and part time or casual employee, including pulpit supply and music supply. He also provided a copy of the Payroll and ADP Processes document which highlights any changes from previous years (see below), and includes a detailed chronological log of any payroll activities conducted during the past calendar year.

Since the arrival of the new music director (Marque Smith), his salary has been processed through ADP rather than by monthly check. The bookkeeper decided that the music salary contract should have its own account in the General Ledger. HST is paid monthly now instead of quarterly.

As of 2022, the ledger/spreadsheet also tracks payments to non-payroll people so Grace can readily issue T4A's per the CRA requirement. T4A's are issued for payments totalling more than \$500 in the year. ADP handles all necessary calculations, e.g. EII, CPP, taxes, etc. Any Government grants in support of student employment are credited to the Youth Initiatives fund. Credits received from government grants and special funds (e.g. Youth Initiative Fund) are made to the M&P account. There were none in 2022.

As previously mentioned, Laura Black was added as a Payroll Administrator in the ADP system as a back-up.

Each year M&P provide payroll details to the Treasurer. At the start of the year a member of Finance provides a pay slip to each staff member for their verification and records.

Using ADP is required by the UCC but it also serves to ensure that payments are proper and timely.

### **Special Funds**

In addition to the General Fund there were 16 special funds at the beginning of 2022.

As noted previously, the Resonance Project Special Fund was created bringing the total number of Special Funds to 17.

Policy documents were created for several Special Funds as described previously.

Several funds were inactive in 2022: Affirming, Canada Day Celebration, Inspiration, Leadership Development, and L4L Fund. This was partly due to the pandemic and the restrictions affecting group events.

Grace administers the finances associated with the sponsored refugee project on behalf of our partners within the former Lambton Presbytery. This account is with Scotiabank. Grace may receive contributions from the Antler River Watershed Region, other churches within Lambton County, and our congregation's own donations into this new account, and expenses incurred in supporting the ('second') refugee family are drawn from this account.

Some of the refugee account money was held as a Scotiabank GIC, but in 2022 this fund matured and was deposited into the bank account. As of November the term is over for our support commitment to the refugee family. The committee has a plan for providing support until the bank account is drawn down (expected to occur around the end of Q1 of 2023).

The year end Scotiabank statement balance was reconciled against the General Ledger's Refugee bank account (account 1050).

In 2014, Grace opened an account with the Sarnia Community Foundation. Each year an established percentage (now 5.5%) from this fund may be transferred to Grace for discretionary use under the terms of the individual accounts held in the SCF fund. In 2022 there was about \$8335 available to be granted and it was placed back into the endowment fund.

According to the SCF's April 5, 2022 statement, at the beginning of 2022 the donated, or book, value in Grace's SCF account was \$50,367.25. The market value was notated as being \$63,130.81, but this is an unverified figure. At the end of 2022 the amount in the SCF fund was reported by the Finance

committee to be approximately \$67,000 but the actual amount is unverified at this time. (Year-end statements are not received till around March of the following year.)

Council appointed an ad hoc investment committee to create an Investment Policy, part of which involved developing an investment strategy for Grace's cash assets. The committee effort included a review of the agreement between Grace and SCF (see above) as this fund is part of Grace's investment portfolio. SCF issues tax receipts for all charitable donations to the fund.

The "Scotiabank Cashable GIC" was converted in October into four different GIC funds: a cashable GIC at 3% due Oct 5, 2023; a 1-year NTC LT non-redeemable GIC at 4.5%; a 1-year MTCC LT non-redeemable GIC at 4.5%; and a 1-year SMC LT non-redeemable GIC at 4.5%.

The account balances in the year-end financial institution investment statements agree with the General Ledger amounts. The year-end values in the General Ledger for the individual bank accounts agreed with the values provided in the Grace United annual report. RBC's chequing account statement was reconciled with the records in the General Ledger at year end.

### **Annual Assessment, Mission and Service Fund Commitment, and Donations to Other Charities**

Grace paid its annual assessment to The Antler River Watershed Region in four equal payments (February, May, August & November).

Grace met its commitment of \$25.8k to UCC M&S with payments in April, July, October and December. Special holiday contributions and disaster relief donations are made on top of the budgeted commitment (see the 2022 AGM Outreach Report). The total submitted, per the General Ledger, agreed with the values recorded in the 2022 annual report.

Certain donations made by Grace to outside charities are acknowledged and receipted, and this documentation was maintained in 2022 in a separate folder with the other hard copies of financial records. Receipts were found for the Inn of the Good Shepherd, the Ukrainian Catholic Church, Diversity Ed, Community Living, and Lambton UC Centre.

### **General Ledger Transactions**

HST is managed with each relevant transaction such that there is a transparent and effective system for tracking the annual amount that can be claimed for refund. A number of diverse transactions were checked against the General Ledger entries. In 2022 about \$11k was recovered in the form of sales tax (PST & GST) rebates.

There are various anomalous scenarios: Hydro invoices include an Ontario Electricity rebate, so no PST rebate is claimed; Insurance premiums are considered a financial service so they are exempt from GST and pay only PST, hence only a PST rebate; and books are exempt from PST.

### **Financial Statements**

A Balance Sheet is prepared at the end of each month. The Finance committee periodically provides Council and the congregation with a year-to-date operating budget update, including a comparison with the previous year's data.

The end of year Balance Sheet and Income Statement for 2022 were verified as part of this Financial Review.

### **Charitable Tax Receipts**

For reasons of privacy/confidentiality, actual records of donations were not reviewed. The church office provides a breakdown of each individual's "Givings" (i.e. to the general operating budget, M&S, soup luncheons, etc.). The general givings and the M&S designated portion are properly recorded in the General Ledger. The weekly email "blast" to the congregation frequently reminded donors that they may request an interim report of their total givings.

### **Petty Cash**

Petty cash is handled primarily by the Office and is used for small collections and disbursements, e.g. sale of church directories, purchase of fuel for the lawnmower, etc. A spreadsheet ledger is maintained along with receipts. Each month, the bookkeeper updates the General Ledger with this information. The system is reasonable and well managed. Descriptions of each transaction are well documented in the spreadsheet and the items managed this way were appropriately of a "petty" nature. The office was closed in January and February so there were no petty cash transactions during that period.

### **Miscellaneous**

Once again, for this review a considerable amount of information was made available in electronic format. A memory stick with the 2022 information on it is included with the 2022 box of records for the archives. The paper records consist primarily of two folders with investment statements and the monthly file folders containing details of deposits made and expenses/invoices paid.

### **Recommendations**

Following up on last year's recommendation and motion by Council, a very preliminary draft of a Treasurer's Handbook (operating manual) was prepared in 2022 for the review of the Finance committee. This feedback is still outstanding.

End of Report – Refer to the "Report Summary"

Submitted by,

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Laura Black

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Gordon Walkling

Date: February 11, 2023

Original signed by Gordon Walkling, February 11, 2023