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# North American Division

L o c a l C h u r c h  
A n d S c h o o l  
A c c o u n t i n g M a n u a l

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## Part One

### EXCERPTS FROM THE *CHURCH MANUAL*

#### Section 101 Church Officers and Their Duties

Choosing officers for the church or conference is an important matter. The prosperity of the work depends largely upon its leadership. The greatest care should be exercised in calling men and women into positions of sacred responsibility. The following qualifications should be earnestly sought in those who are nominated for church office.

##### 101.01 Their Qualifications

###### *Moral Fitness*

“Moreover thou shalt provide out of all the people able men, such as fear God, men of truth, hating covetousness; and place such over them, to be rulers of thousands, and rulers of hundreds, rulers of fifties, and rulers of tens” (Ex. 18:21).

“Wherefore, brethren, look ye out among you seven men of honest report, full of the Holy Ghost and wisdom, whom we may appoint over this business” (Acts 6:3).

“Moreover he must have a good report of them which are without; lest he fall into reproach and the snare of the devil” (1 Tim. 3:7).

“The things that thou has heard of me among many witnesses, the same commit thou to faithful men, who shall be able to teach others also” (2 Tim. 2:2).

###### *Religious Fitness*

“This is a true saying, If a man desire the office of a bishop, he desireth a good work. A bishop (elder) then must be blameless, the husband of one wife, vigilant, sober, or good behaviour, given to hospitality, apt to teach; not given to wine, no striker, not greedy of filthy lucre; but patient, not a brawler, not covetous; one that ruleth well his own house, having his children in subjection with all gravity; (for if a man know not

how to rule his own house, how shall he take care of the church of God?) Not a novice, lest being lifted up with pride he fall into the condemnation of the devil. Moreover he must have a good report of them which are without; lest he fall into reproach and the snare of the devil. Likewise must the deacons be grave, not doubletongued, not given to much wine, not greedy of filthy lucre; holding the mystery of the faith in a pure conscience. And let these also first be proved; then let them use the office of a deacon, being found blameless. Let the deacons be husbands of one wife, ruling their children and their own houses well. For they that have used the office of a deacon well purchase to themselves a good degree, and great boldness in the faith which is in Christ Jesus” (1 Tim. 3:1-13).

“Let no man despise thy youth; but be thou an example of the believers, in word, in conversation, in charity, in spirit, in faith in purity. Till I come, give attendance to reading, to exhortation, to doctrine . . . Take heed unto thyself, and unto the doctrine; continue in them: for in doing this thou shalt both save thyself, and them that hear thee” (1 Tim. 4:12-16).

“For this cause left I thee in Crete, that thou shouldest set in order the things that are wanting, and ordain elders in every city, as I had appointed thee: if any be blameless, the husband of one wife, having faithful children not accused of riot or unruly. For a bishop must be blameless, as the steward of God; not self-willed, not soon angry, not given to wine, no striker, not given to filthy lucre; but a lover of hospitality, a lover of good men, sober, just, holy, temperate; holding fast the faithful word as he hath been taught, that he may be able by sound doctrine both to exhort and to convince the gainsayers. For there are many unruly and vain talkers and deceivers, specially they of the circumcision: whose mouths must be stopped, who subvert whole houses, teaching things which they ought not, for filthy lucre’s sake” (Titus 1:5-11).

Many do not realize the sacredness of church relationship and are loath to submit to restraint and discipline. Their course of action shows that they exalt their own judgment above that of the united church, and they are not careful to guard themselves lest they encourage a spirit of opposition to its voice. Those who hold responsible positions in the church may have faults in common with other people and may err in their decisions; but notwithstanding this, the church of Christ on earth has

given to them an authority that cannot be lightly esteemed  
(*Testimonies*, vol. 4, p. 17).

## **Section 102 The Church Treasurer**

### **102.01 A Sacred Work**

The treasurer is called to an important task and is elected, as are other officers, for the period of one year. In large churches, it may be deemed advisable to elect also an assistant treasurer.

The treasurer can greatly encourage faithfulness in the payment of tithe and deepen the spirit of liberality on the part of the church members. A word of counsel given in the spirit of the Master will help the brother or sister to render faithfully to God His own in tithes and offerings, even in a time of financial stringency.

### **102.02 Church Treasurer the Custodian of All Church Funds**

The church treasurer is the custodian of all church funds. These funds are (1) conference funds, (2) local church funds, and (3) funds belonging to the auxiliary organizations of the local church.

The treasurer deposits all funds (conference, local church, and local church auxiliary) in one bank checking account in the name of the church. This is a separate bank account that is not to be combined with any personal account. In rural areas a postal account is more convenient. Surplus church funds may be deposited in savings accounts upon authorization of the church board. Where large balances are carried for building or special projects, the church board may authorize separate bank accounts. The treasurer, however, shall operate such accounts.

### **102.03 Conference Funds**

Conference funds, which include tithe, all regular mission funds, and all funds for special conference projects and institutions, are trust funds. At the close of each month at the time of mailing the monthly report to the conference, the church treasurer sends to the conference

treasurer the entire amount of conference funds received during that month. The church may not borrow, use, or withhold such conference funds for any purpose.

#### 102.04 Sabbath School Funds

All Sabbath school offerings for missions are to be passed over to the church treasurer by the Sabbath school secretary-treasurer weekly, the church treasurer keeping a careful record of all such offerings. Such mission funds are transmitted to the conference office as outlined (in paragraph 102-12 of this manual). Sabbath school expense funds are to be passed over to the church treasurer weekly to be held in trust subject to the orders of the Sabbath School Council to meet the routine expenses of the Sabbath school.

#### 102.05 Adventist Youth Society Funds

Adventist Youth Society funds have to do with both the AY and the AJY Society, and the funds of each society shall be kept separately on the church treasurer's books. Society offerings to missions and general church work or to conference enterprises shall be handed to the church treasurer as soon as possible after they are received, and are forwarded by him to the conference treasurer. All funds contributed to society expense shall be given promptly to the church treasurer, to be held in trust for the society.

The church treasurer on the order of the society executive committee, sometimes called the AYS Council shall disburse the expense funds of the AY Society. Expense funds of the AJY Society shall be disbursed on the order of the AJY Society superintendent.

#### 102.06 Local Church Funds

Local church funds include such funds as church expense, church building and repair funds, and the church fund for the needy. These funds belong to the local church and are disbursed by the treasurer only by authorization of the church board or church business meetings. However, the church treasurer shall pay from the church expense funds all bills for local church expense authorized by the church board, such as rentals, janitor, water, light, fuel, insurance, paving assessments, etc. The treasurer should be careful to secure receipts for all bills paid.

## 102.07 Funds of Auxiliary Organizations

Auxiliary organization funds include such funds as church missionary, welfare, AYS, Pathfinder Club, Community Services, Sabbath school expense, and that portion of the temperance funds belonging to the church, and may include church school funds. All moneys received by and for these organizations are turned over promptly to the church treasurer by the secretary of the organization, or by the deacons. These funds belong to the auxiliary organizations of the church. They may be disbursed only by order of the auxiliary organization to which they belong. The Adventist Community Services (ACS) fund, for example, is held in trust for ACS and is to be drawn upon only for ACS work by order of the ACS committee. The Sabbath School Council authorizes the disbursement of the Sabbath school expense fund, and the church school board authorizes the disbursement of the church school fund.

The treasurer shall give receipts for all funds received including those deposited with him/her by any of the subsidiary organizations of the church. On receiving moneys from the church treasurer, the secretary of such organization shall sign a proper receipt for the treasurer.

## 102.08 Safeguarding the Purpose of Funds

When an offering is taken for worldwide missions or for any general or local enterprise, all moneys placed in the offering plate (unless otherwise indicated by the donor) shall be counted as part of that particular offering. It is of the utmost importance that all offerings and gifts contributed by individuals to the church for a specific fund or purpose are used for that purpose. Neither the church treasurer nor the church board has the authority to divert any funds from the objective for which they were given.

The funds of auxiliary organizations, a considerable proportion of which often represents donations given for specific purposes, are raised for that special part of the church's work for which the auxiliary organization is established. Such funds are held in trust by the church treasurer and may not be borrowed or in any way diverted by the treasurer or the church board from the objective for which they were raised.

When an auxiliary organization is discontinued, the church in regular business session may take action indicating the disposition of any

remaining balance of funds in the account of such auxiliary organization.

#### 102.09 Money for Personal Literature Orders

Moneys for personal orders of literature, books, pamphlets, magazines, and subscriptions for periodicals should be placed in an envelope, with the order properly filled out, and handed to the personal ministries secretary. He then remits both order and payment for all such literature to the Adventist Book Center or, where there is not an Adventist Book Center, to the publishing house. At the close of each quarter the personal ministries secretary will make a report to the church at its quarterly business meeting of the standing of its account with the Adventist Book Center and shall provide a copy for the church treasurer.

#### 102.10 Proper Method for Payment of Money by Members

The treasurer should urge that all money paid in by church members other than the regular church collection be placed in the tithe and offering envelopes, instructing each member to list the various items and amounts on the envelope as indicated, and to make sure that the money enclosed equals the total shown. The member should sign his name and give his address and place the envelope in the offering plate or hand it to the treasurer, who should preserve such envelopes to serve as vouchers until his accounts are checked by the conference auditor.

The members who pay their tithes and offerings by check or postal notes should, wherever legally possible, make such checks or notes payable to the church, rather than to any individual.

#### 102.11 Receipts to Church Members

Receipts should be issued promptly for all moneys received, no matter how small the amount, and the church treasurer should keep a strict account of all receipts and payments. The treasurer in the presence of another church officer should count all general offerings not in the envelopes, preferably a deacon, and a receipt given to such officer.

### 102.12 Proper Method of Remitting Funds to the Conference

In sending remittances to the conference or local field treasurer, all checks, bank drafts, or money orders should be made payable to the organization wherever legally possible and not to any individual. The duplicate sheet from the church treasurer's book should be enclosed with the remittance. Remittance blanks are furnished by the conference (see also paragraph 106.06).

### 102.13 Preserving Vouchers

Vouchers or receipted bills should be secured for all moneys disbursed. A serviceable way of preserving such vouchers is to paste them on the back of the original sheet in the treasurer's book, opposite the page on which the entry is made. For example, if the entry is made on page 16, paste the voucher on the back of page 15. There will usually be ample space for these vouchers if they are lapped one over the other. This method is safer and more convenient for the auditor than keeping them on a spike file, in a pigeonhole, in a desk, or in an envelope, even though properly marked.

### 102.14 Books Should Be Audited

The conference or local field treasurer or some other individual appointed by the conference or local field committee audits the church financial records, usually each year. The church treasurer's books and other financial records relating to the work of the church treasurer, the church school treasurer, and the treasurer of any other organization may be called for and inspected at any time by the conference auditor or by the pastor, district leader, leading church elder, or by any others authorized by the church board, but should not be made available to unauthorized persons (see also paragraph 106.07).

Reports of all funds received and disbursed should be presented at the regular business meetings of the church. A copy of these reports should be given to the leading church officers.

When the number of tithe payers in the church is reported, the spouse and minor children who are non-wage earners but are members of the church should be counted as tithe payers, in addition to the head of the family when they are known to be faithful in this respect.

## 102.15 Relations with Members Confidential

The treasurer should always remember that his/her relations with individual members are strictly confidential. The treasurer should be careful never to comment on the tithe paid by any member or upon his income or anything concerning it, except to those who share the responsibility of the work with him/her. Great harm may be caused by failure to observe this rule.

### **Section 103 Gospel Finance**

The gospel plan for the support of the work of God in preaching the everlasting gospel among men is by the tithes and offerings of His people. The Seventh-day Adventist Church has followed this plan from its earliest days.

The biblical basis for the paying of tithes and offerings will be found in the following references: Leviticus 27:30; Malachi 3:8-12; Matthew 23:23; 1 Corinthians 9:9-14; 2 Corinthians 9:6-15. Observe also the following from the Spirit of Prophecy:

The tithe is sacred, reserved by God for Himself. It is to be brought into His treasury to be used to sustain the gospel laborers in their work (*Testimonies*, vol. 9, p. 24).

That which has been set apart according to the Scriptures as belonging to the Lord constitutes the revenue of the gospel and is no longer ours. It is no better than sacrilege for a man to take from God's treasury in order to serve himself or to serve others in their secular business (*Ibid.*, pp. 246, 247).

Every church member should be taught to be faithful in paying an honest tithe (*Ibid.*, p. 251).

This is not a request of man; it is one of God's ordinances, whereby His work may be sustained and carried on in the world . . . No one can excuse himself from paying his tithes and offerings to the Lord (*Testimonies to Ministers*, p. 307).

God has made the proclamation of the gospel dependent upon the labors and the gifts of His people. Voluntary offerings and the tithe

constitute the revenue of the Lord's work. Of the means entrusted to man, God claims a certain portion: the tenth. He leaves all free to say whether or not they will give more than this (*The Acts of the Apostles*, p. 74).

#### 103.01 Stewardship

Christians are God's stewards, entrusted with His goods, and the divine counsel is that "it is required in stewards, that a man be found faithful" (1 Cor. 4:2). The question of stewardship in its fullest form covers many aspects of Christian life and experience, such as our time, our influence, our service, but there is no doubt that the stewardship of our means is a vitally important phase of this question. It is one that concerns every member of the church. It involves our recognition of the sovereignty of God, of His ownership of all things, and of the bestowal of His grace upon our hearts. As we grow in the understanding of these principles, we shall be led into a fuller appreciation of the way God's love operates in our lives.

While this aspect of Christian stewardship concerns our material possessions, it is nevertheless, something that reacts very definitely upon our Christian experience. The Lord requires certain things of us. Our yielding obedience to what our heavenly Father requires places this phase of stewardship upon a high spiritual plane. Our God is not exacting. He does not arbitrarily demand either that we serve Him or that we recognize Him with our gifts. But He has so arranged that when we work in harmony with Him in these things there will flow to our hearts great spiritual blessings. If, on the other hand, we fail to cooperate with him in carrying out his plans, we deprive ourselves of His richest blessings when we need them most.

God desires all his stewards to be exact in following divine arrangements. They are not to offset the Lord's plans by performing some deed of charity or giving some gift or some offering when or how they, the human agents, shall see fit. It is a very poor policy for men to seek to improve on God's plan, and invent a makeshift, averaging up their good impulses on this and that occasion, and offsetting them against God's requirements. God calls upon all to give their influence to His own arrangement. He has made His plan known, and all who would cooperate with him must carry out this plan instead of daring to attempt as improvement on it (*Testimonies*, vol. 9, p. 248).

## **Section 104    The Tithe**

In recognition of the Bible plan and the solemn obligation that rests upon church members as children of God and members of His body, the church, all are encouraged to pay a faithful tithe (one tenth of all their increase) into the denomination's treasury.

Policies have been developed for the gathering and disbursing of funds in the entire world and for the conducting of business affairs of the cause. The financial and business side of our denominational work is of great importance. It cannot be separated from the proclamation of the message of salvation; it is indeed an integral part of it.

The tithe is not used or disbursed by the local church but is passed on to the conference treasurer. Thus the tithe from all the churches flows into the conference treasury, which in turn passes on to the General Conference one tenth of its total tithe income. Thus the local conference, the union, and the General Conference are provided with funds with which to support the laborers employed and to meet the expense of conducting the work of God in their respective spheres of responsibility and activity.

It should be mentioned that many of our local conferences, in addition to paying to the union one tenth of their tithe income, pay also to the General Conference through the union an agreed percentage of their tithe for world mission work.

### **104.01 Systematic Benevolence and Unity**

The financial plan of the denomination serves a larger purpose than appears in our financial and statistical reports. The arrangement is more than a means of gathering and distributing funds. It is, under God, one of the great unifying factors of the Advent Movement. God's people are a united people. There is a remarkable unity of belief and purpose among the Advent people in the entire world. We seek to conduct a worldwide work under unified administration. Our system of dividing the tithes between the conference and the union and between the union and the General Conference and of sharing the funds with the world fields has served a wonderful purpose in unifying the work throughout the world.

#### 104.02 How the Tithe Is to Be Used

The tithe is to be held sacred for the work of the ministry and for Bible teaching, also for the carrying forward of conference administration in the care of the churches and of field missionary operations. The tithe is not to be spent on other work, on paying church or institutional debts, or on building operations.

A very plain, definite message has been given to me for our people. I am bidden to tell them that they are making a mistake in applying the tithe to various objects that, though good in themselves, are not the object to which the Lord has said that the tithe should be applied. Those who make this use of the tithe are departing from the Lord's arrangement. God will judge for these things.

One reason that the tithe may be applied to school purposes. Still others reason that canvassers and colporteurs should be supported from the tithe. But a great mistake is made when the tithe is drawn from the object for which it is to be used—the support of the ministers. There should be today in the field one hundred well-qualified laborers where now there is but one (*Testimonies*, vol. 9, pp. 248, 249).

#### 104.03 How the Tithe Is Paid

The practice of the denomination is that the tithe be paid into the local church in which membership is held. Any deviation from this practice should be only by special arrangement effected by the conference or field concerned, and based on circumstances and conditions which would make such deviation from the general practice advisable.

#### 104.04 Conference workers and Church Officers to Set Example in Tithe Paying

Conference workers and church elders and other officers and institutional leaders are to recognize it as a principle of leadership in God's work that a good example be set in the matter of tithe paying. No one is to continue as either a church officer or conference worker who does not conform to this standard of leadership.

## 104.05 Tithe Paying a Scriptural Obligation

Although tithe paying is not held as a test of fellowship, it is recognized as a scriptural obligation that every believer owes to God, and as one of the spiritual exercises in which he should have part in claiming by faith the fullness of blessing in Christian life and experience.

“Bring ye all the tithes into the storehouse, that there may be meat in mine house, and prove me now herewith, saith the Lord of hosts, if I will not open you the windows of heaven, and pour you out a blessing, that there shall not be room enough to receive it” (Malachi 3:10).

### **Section 105 Offerings**

In addition to the tithe the Scriptures emphasize our obligation to bring offerings to the Lord. The withholding of offerings is classed with the withholding of tithe and is called robbery (Malachi 3:8). The Seventh-day Adventist Church has from its early days followed the practice of giving liberal offerings to the cause of God. Great prosperity and blessing have attended the work as a result. Men of wealth, professional men with larger incomes, farmers, laborers, ministers, and workers, including the converts in other lands where wages are small, have all united in generously supporting the cause by giving offerings in proportion to their incomes.

#### 105.01 Sabbath School Offerings

Our most widely used method of regular systematic giving is through our Sabbath schools. The Sabbath school offerings are devoted to our world mission work. Sabbath-by-Sabbath large sums come in through this channel.

#### 105.02 Other Offerings

Other offerings are taken from time to time for world mission work and for general and local enterprises. When any offering is taken for world mission work or for general or local enterprise, all moneys placed in the offering plate, unless otherwise indicated by the donor, shall be counted as part of that particular offering.

### 105.03 Special Gifts to Fields

The financial support of the worldwide work of the church is based on the budget system. Appropriations are made to the various fields on the basis of budgeted needs. This is a fair and equitable method of distributing the funds. It ensures that every field receives a just share. Where special gifts outside the regular budget plan are made to a particular field, a disparity is created to the disadvantage of all the other fields. If such gifts were given for the purpose of starting new work, the work thus started would languish when the special gift was used up, or it would have to be included in the budget for its future support. Thus other fields, with perhaps greater needs but without the opportunity of making them known, would be deprived of their equitable part of general funds, which would be diverted to care for work started by special gifts. The entire history of this cause has proved over and over the wisdom of having our members generously and loyally give their offerings and gifts through the accepted channels, with the satisfaction of knowing that every field shares in the benefits of such giving.

### 105.04 Assisting the Needy

Offerings for the poor and needy are taken to assist the members of the church who may require help. As far as possible a reserve should be kept in this fund for emergency cases. However, the church should take a benevolent attitude toward all in need, and the church board may make appropriations from the church fund for the needy to assist the health and welfare work carried on by the church for families in the community.

### 105.05 Church Budget for Local Expenses

The most satisfactory method of providing for local church expenses is the budget plan. Before the beginning of the new year, the church board should prepare a carefully drawn up budget of expenses for the maintenance of church activities through the next annual period. This budget should make provision for all repairs, heat, light, janitor service (if paid for), church school expense and teachers salaries, fund for the needy, etc. The budget should be presented to the church for its study and adoption, and for plans to assure that funds shall be provided to balance the budget during the coming year. Funds to meet the church expense budget may be raised by offerings and subscriptions. Every

member in proportion to his financial circumstances should have a part in supporting the local church as well as the cause in general.

#### 105.06 Sample Budget

The following budget will serve as an example. It can be adapted to meet the needs of a church of any size.

##### **Estimated Receipts**

Church Expense Collections	\$ 215
Church Fund for the Needy	375
Pledges on Church Expense	3,300
Church School Tuition	500
Welfare Fund	<u>300</u>
	<u>\$4,690</u>

##### **Estimated Expenses**

Repairs and Painting Church Building	\$ 625
Fuel	350
Janitor and Supplies	525
Insurance on Building and Furnishings	250
Church Fund for the Needy	500
Sabbath School Supplies	250
Emergency Expense	330
Light	225
Water	60
Gas	45
Stationery and Supplies	50
Laundry	36
Church School Expense	1,144
Welfare Expense	<u>300</u>
	<u>\$4,690</u>

Provision should be made in each church budget for all receipts and expenses, including those relating to the various departments.

## **Section 106    General Counsel**

### **106.01 Solicitation of Funds**

The matter of soliciting funds is covered in the following regulations:

- ☞ No conference, church, or institution, without special counsel and arrangement, shall plan work requiring solicitation of funds from outside its own territory. Any solicitation within its own territory shall be in harmony with local, union, and General Conference policies.
- ☞ For the protection of churches from unauthorized and fraudulent and undenominational solicitation, the following principles and methods are recognized:
  - ☞ Ministers and church officers shall not grant the privilege of the pulpit to persons for the raising of funds who have not recognition or recommendation from the conference authorities.
  - ☞ No permission shall be granted to solicit funds either publicly or privately without such recognition.
  - ☞ Literature approved for solicitation purposes shall be provided only to responsible persons.
  - ☞ All funds contributed by our people for any cause in response to appeals shall be passed through the regular channels of the church.
  - ☞ No authority is granted denominational workers representing special interests in one part of the field to solicit help for that work in any other part of the field or in any other conference without arrangement with and written authorization from the conference officers.
  - ☞ Conference and church officers shall take such steps as may be necessary to prevent unauthorized or illegal public solicitation.
  - ☞ No campaign other than the Hope for Humanity (Ingathering), which involves using Hope for Humanity literature and containers with proper labels, shall be conducted for the solicitation of money for either home or overseas mission work. Union and local

conferences should take such steps as may be necessary to prevent any violations of this regulation.

- ☞ Overseas workers visiting the home churches or in touch with the home base by correspondence are asked to solicit funds only for enterprises included in the budget of appropriations, working in cooperation with churches and conferences to raise the funds required to meet the appropriations on which our world mission work depends. All such funds shall be passed through the regular channels.

#### 106.02 Questionable Methods for Raising Church Funds

Seventh-day Adventists have always taken a strong stand against any and all methods of a questionable nature for raising money for local or general work.

When money is raised for religious purposes, to what means do many churches resort? To bazaars, suppers, fancy fairs, even to lotteries and like devices. Often the place set apart for God's worship is desecrated by feasting and drinking, buying, selling, and merrymaking. Respect for the house of God and reverence for His worship are lessened in the minds of the youth. The barriers of self-restraint are weakened. Selfishness, appetite, the love of display, are appealed to, and they strengthen as they are indulged (*Testimonies*, vol. 9, p. 91).

As God's work extends, calls for help will come more and more frequently. That these calls may be answered, Christians should heed the command, "Bring ye all the tithes into the storehouse, that there may be meat in Mine house." If professing Christians would faithfully bring to God their tithes and offerings, His treasury would be full. There would then be no occasion to resort to fairs, lotteries, or parties of pleasure to secure funds for the support of the gospel (*The Acts of the Apostles*, p. 338).

#### 106.03 Tithes and Offerings Not a Personal Trust Fund

Tithes and offerings paid to the church do not create a trust fund for the future benefit of the givers. These funds shall be used for the current purposes for which they are given.

#### 106.04 Avoiding Debt

A church board should always counsel with its conference offices before incurring debt of any kind. Financial embarrassment has come to many churches through premature or improperly laid plans for the erection or purchase of church or school buildings. This may be avoided if a church seeks counsel before launching such an enterprise, and adheres to the denominational policy for the financing of such undertakings.

#### 106.05 Financing Church Buildings

Churches contemplating either the purchase or erection of church buildings are cautioned against undertaking financial obligations which would be likely to embarrass the membership; and concerning such undertaking, local and union committees shall give careful counsel in each case, taking into consideration the size of the congregation, its financial strength, and the location of the building.

In the purchase or building of church properties, in no case shall commitments be made or building operations be begun until approval has been given by the local and union conferences, after these have assured themselves that the financial arrangements are in line with established policies.

#### 106.06 Handling and Accounting for Funds

The gathering and handling of funds for the Lord's work is a sacred responsibility. The proper channel through which these funds flow is first from the individual member to the local church. The church treasurer receives these funds (see also paragraph 102.02, 102.07). The funds intended for local church purposes the treasurer disburses. Those intended for conference use or general purposes the church treasurer passes on to the conference treasurer. The conference treasurer in turn disburses the funds of the conference, but passes on to the union conference treasurer the funds intended for union conference use or for general purposes. The union conference treasurer disburses the funds intended for union conference use, but passes on to either the division or the General Conference treasurer all funds given for general purposes. All these treasurers, from the local church to the General Conference, work under the direction of either the church board or

conference committees. They do not disburse funds independently of specific action by responsible committees.

#### 106.07 Church School Accounting

Where a single church operates a school, the work of the treasurer is usually carried by the church treasurer or an assistant church treasurer who receives tuition and other moneys; pays out money on the order of the secretary, countersigned by the chairman; keeps a careful account of all money passing through his hands, making a permanent record of the same in a suitable record book; and at each monthly meeting renders a detailed report to the board. In a union board, where two or more churches are involved, a treasurer is appointed by the board to do this work.

#### 106.08 Auditing

Every set of books, from those of the local church treasurer and the personal ministries secretary to those of the General Conference treasurer, are subject to audit by auditors appointed for the purpose. This rule of auditing is also applied to the books of every denominationally operated institution. It provides the maximum of safety in the handling of funds (see also paragraph 102.14).

### **Section 107 North American Supplement**

#### 107.01 Care of Legal Documents

All legal documents, including insurance policies, church property deeds, abstracts, and trust agreements, should be filed for safekeeping in the office of the corporate organization.

#### 107.02 Church Repairs and Upkeep

The church, its related buildings, and their furnishings should always be kept in representative condition. Funds for this purpose should come from the church-expense budget or from special contributions. Under the direction of the church board, the deacons generally supervise this work.

106.07

### 107.03 Insurance Policies

The church board, through the church treasurer, is under obligation to see that the properties of the denomination, such as the church building, school buildings, and equipment, are kept adequately covered by insurance. Provision for this expense should be made in the church budget. The following procedures are recommended:

- ☞ The local church board, through the treasurer, and in consultation with the treasurer of the conference or corporation, shall be responsible for adequate insurance coverage of assets, including fire, theft, boiler, public liability, and workman's compensation insurance, in harmony with denominational policy.
- ☞ All denominational assets shall be insured with companies of sound financial standing and A-grade general policyholders' rating. Reciprocal and assessable companies are not recommended. Whenever possible, insurance should be purchased through Gencon Risk Management Services.
- ☞ The conference or corporation treasurer shall be responsible for holding and keeping a complete record of the insurance policies covering the property and assets in the conference and its churches.
- ☞ This record shall include the name and description of the property, the amount of insurance carried, the name of the company with which it is insured, the expiration date of the insurance policy, and other relevant details.
- ☞ Negotiations for the renewal of insurance policies should begin at least 60 days before the expiration date, to avoid unintentional lapse of coverage.
- ☞ It shall be the duty of the conference auditor to review the church, school, or other church property insurance program and report to the governing board or committee any inadequacies in insurance coverage not in harmony with *North American Division Working Policy* recommendations.

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## Part Two

### THE CHURCH TREASURER

#### Section 201 Introduction

##### 201.01 *The Church Manual*

The first section of this accounting manual for local church and church school treasurers presents quotations from the latest edition of the *Church Manual* as they relate to the work of these important officers of the church and the school. As we begin a detailed consideration of the work of the church treasurer in Part Two, it is important that the user of this manual read all of the *Church Manual* quotations and become familiar with the counsel contained in them. These statements, many of them from the pen of inspiration, are the foundation upon which all of the detailed guidelines are built. The church treasurer needs to know not only *how* the work is to be done, but also *why* it is done in just that way. A careful study of the material from the *Church Manual* will answer the “Why?” It is the objective of this part to answer the other question, “How?”

##### 201.02 How Big Is Your Church?

The most perplexing problem which faced the compilers of this accounting manual is centered in the great differences in size of Seventh-day churches around the world. The 2000 statistical report published by the General Conference shows a total church membership of 11,687,229 in the entire world, organized in 48,987 church congregations. This works out to an average membership for each church of 239. If it were possible to write this manual to take care of the needs in custody of funds, in accounting, and in reporting for a church of 239 members, the task would be simple. But memberships of 40, 50, or 100 are not uncommon. On the other side of the problem, we must remember that some of our churches have memberships of several hundred. Churches with over a thousand members are, while not typical, certainly not exceptional. And it is a part of the problem that while the basic needs of all our churches are identical, the larger memberships and the increasing complexity of the larger churches present needs which cannot be met in a system which is completely satisfactory for the church of one hundred or two hundred members.

### 201.03 Solving the Problem

In order to cope with the differences which arise out of varying memberships, varying levels of complexity and activity in the churches, and varying availability of people who are both dedicated to service and possessed of the potential for learning the technical aspects of the treasurer's duties, it has been necessary to present through this manual

- ☞ The basic requirements and the basic system which applies to all churches, regardless of size;
- ☞ Modifications of these basic procedures to meet the needs of churches with larger memberships, more activities, and access to more sophisticated methods of handling their business and keeping their records.

All treasurers should be interested not only in the basic system and procedures, but in the possibilities opened up in the application of more advanced methods. Even though a particular church now has a membership of only 200 or so, under the blessing of the Lord that membership will grow; and as it grows, more advanced methods should be used in the treasurer's work. So, the treasurer should grow with the church. "The time demands greater efficiency and deeper consecration" (*Gospel Workers*, p. 114). The matter of deeper consecration must rest between the treasurer and the Master. The presentation of various methods of custody and accounting in this manual will, we believe, lead to greater efficiency.

## **Section 202    Qualifications of the Church Treasurer**

### 202.01 What Makes a Good Treasurer?

A list of the qualifications desirable in a church treasurer might be extended to include a great many traits and capabilities. They can be condensed to a very short list, though. In this section we shall discuss first of all dedication to service, without which the other talents or abilities cannot be blessed by God. Following that one basic requirement, we shall consider good judgment, good personal relationships, good mental attitude, and willingness to learn.

## 202.02 Dedication

We each, on the occasion of surrendering the heart to God, have dedicated ourselves with all our talents and aptitudes to the service of God and His church. But when the church board invites the individual to assume the duties of treasurer, a call comes to a very specific field of service. The dedication in general terms now becomes a demand for a very definite work—painstaking, demanding, sometimes highly inconvenient, and carrying with it a type of temptation which, in the absence of the help of God’s Holy Spirit, can become well-nigh overpowering. The treasurer must recognize that the money given through the church is sacred money and is to be used only as the giver, the church board, and God Himself intend. The treasurer is faced with continuing time restraints; the work *must* be done regularly, promptly, painstakingly, and many times it must be done when there are other duties, other responsibilities, other desires, which will seem more pressing or more attractive. And the treasurer does most of the work in private with relatively rare opportunity to stand before the congregation and receive recognition for the work accomplished. Dedication of heart, mind, and hand—all are basic to the calling of the church treasurer.

## 202.03 Good Judgment

“The treasurer should always remember that relations with individual members are strictly confidential” (*Church Manual*, 1990, p. 70). Good judgment on the part of the treasurer will lead to respect for this confidential relationship, to the point where never will a word, a raised eyebrow, or a wise smile divulge any of the personal information regarding church members that may come to light. Good judgment will be exercised, too, in counseling the church board and the directors of various church activities as to the wise use of funds. While the church treasurer is not the “last word” on how and when funds should be spent, the treasurer’s counsel should be highly regarded by the church board as it makes its decisions in financial matters.

## 202.04 Good Personal Relationships

“No man is an island,” the poet has said; this must be kept in mind as the responsibilities of the church treasurer are prayerfully discharged. While not having the power of decision as to the expenditure of funds, the treasurer can, by establishing close and friendly relationships with

the church pastor, the elders and deacons, and the directors of the various services in the church, encourage sound, conservative stewardship of the entrusted funds. Going beyond the immediate relationships within the local church, the treasurer will gain a great deal of strength and guidance by developing a close working relationship with the officers of the local conference, especially with the conference treasurer and the conference auditor. These individuals, with their breadth of experience and training, can be an important source of assistance, guidance, and counsel to the local church treasurer. And perhaps of the greatest importance, the church treasurer should realize that, in exhibiting a quiet spirit of dedication and good judgment before the church membership, a feeling of confidence and trust in the hearts of the individual members is being fostered as no other church officer can do. Such a feeling will probably do more to tap the fountains of generosity and sacrifice in the members than will the vigorous promotion of tithes and offerings from the pulpit on Sabbath morning.

#### 202.05 Good Mental Attitude

Perhaps this should have been discussed along with “good personal relationships,” for it is inevitable that “as a man [woman] thinketh in his heart, so is he [she].” Unless there is in the heart of the treasurer—or of any other Christian—a feeling of brotherhood, of mutual striving for a desired end, of total dedication to a cause, the lack of this attitude will show up in the personal relationships and the day-to-day demeanor of the individual. In spite of what the psychologists and think-right experts have to tell us, a good mental attitude is developed, first of all, in solitude with God. The treasurer’s calling is an exalted one; the work cannot be done to its fullest effectiveness unless there is a daily, hourly pleading for the Holy Spirit to come in and control every aspect of life.

#### 202.06 Willingness to Learn

No assignment should ever be considered a dead-end street; that attitude leads to boredom, carelessness, and inefficiency. The treasurer, whether involved with a small or a large church, should take every opportunity to learn to do the job more efficiently. This will involve study—study of this manual, first of all, supplemented by conversations with the conference treasurer and especially with the conference auditor, both of whom are ready to help the open-minded, interested church treasurer. Most conferences schedule training

sessions at least annually for church officers. The church treasurer should seek every opportunity of attending such meetings to exchange experiences and discuss mutual problems with other treasurers, to receive the instruction and the stimulus of association with others, which these meetings afford. The North American Division and Adventist Risk Management have produced a video/DVD/guidebook program, *Trustees of the Lord's Finances*, which discusses the fundamentals of church and school treasurer responsibilities. Contact AdventSource (800-328-0525) to order this valuable training tool.

#### 202.07 Office Operation

The church treasurer should realize that this work is an important office procedure, even though the work is done at home in a den, living room, or on the dining-room table. It cannot be expected to do this work without having reasonable facilities available: an adding machine, printing calculator, or computer program; a supply of pencils and a good pencil sharpener, paper clips, rubber bands; a stapler and staples; a stamp pad and the necessary stamps (a check endorsement stamp, a date stamp, and a stamp with the church name and mailing address). Some church treasurers use a stamp with the treasurer's signature for signing receipts to contributors. This may be permissible so long as the stamp is kept under lock and key at all times when not in actual use, and is used only for such things as church receipts—never, of course, for disbursement checks. The treasurer should be particularly careful, too, that the records produced are neat and legible and are properly filed upon completion so that they can be located when it is necessary to refer to them. Fresh—not worn-out—carbon paper should be used, and a fine-point ballpoint pen. Corrections in the records should be made by drawing a *single* line through the wrong data and writing the correct data immediately above, not by “scratching out” or writing over the wrong data. In all activities, the church treasurer should keep in mind that records are produced, not solely for personal use, but for later reference and examination by other individuals—a successor, the local conference auditor, authorized members of the church board.

#### 202.08 Local Church Internal Auditor

Some larger churches have, through the church board or the nominating committee, designated a qualified member of the church to conduct a continuing audit of the church financial operations. We favor this trend, if a person with the proper qualifications is available. The

internal auditor in such cases should develop a program in counsel with the local conference auditor and with the approval of the church board or its finance committee.

## **Section 203    Receiving and Receipting Funds**

### **203.01    Sabbath Church Offering**

The treasurer's first contact with church funds comes when the Sabbath church offering is received. Typically the offering is taken by the deacons or ushers, and is carried by them to a specified private location away from the sanctuary. The church treasurer should be waiting at that location to take over the offering—loose cash and envelopes—from the deacons. At this time it is necessary that the loose offering be counted by the deacons and the church treasurer jointly. It is not appropriate that the church treasurer count the offering alone, while the deacons stand idly by, nor is it permissible that the church treasurer takes control without the loose offering being counted. When the counting process is complete, the church treasurer should write a temporary receipt for the total of the loose offering, have it initialed by one or more of the deacons, and turned over by the deacons to the church pastor or head elder for later comparison with the church treasurer's formal record by the conference auditor.

### **203.02    An Alternative Procedure**

It is sometimes felt to be inconvenient to count the loose offering immediately as described above. If the counting is to be delayed until after the Sabbath, it is acceptable to use a bag with *two* locks, both of which must be unlocked to secure access to the contents. The church treasurer holds the key to only one of these locks; the other key is in the hands of whatever individual is designated to assist the treasurer in the count of the loose offering and the processing of envelopes and their contents. The entire offering—loose cash and envelopes—is placed in this bag; both locks are locked, and the bag is left in the custody of the church treasurer until the agreed time for processing the offering.

### 203.03 Dual Custody

The procedures discussed above and in the following paragraphs may seem awkward or inconvenient, especially in the smaller churches, and should not be imposed arbitrarily or injudiciously. A gradual transition to this plan may be implemented over a period of time. The church treasurer should be particularly interested in seeing that they are faithfully followed, for they are for his/her protection. An immediate record of the cash received is witnessed by an individual other than the church treasurer, and when the formal receipt is written for the loose offering, it can be checked against the temporary receipt mentioned in paragraph 203.01 to establish that all funds received have been properly receipted. This principle of *dual custody* should be followed in the handling of all loose offerings and continue up to the time when a formal receipt is written by the church treasurer.

### 203.04 Sabbath School Offerings

The same plan is advisable in the handling of Sabbath school mission and expense offerings. Usually these offerings are picked up from the various classes by a Sabbath school officer and turned over to the church treasurer. It is recommended that *two* individuals pick up these offerings from the classes and that together they turn over the money immediately to the church treasurer. Either of the two procedures described can be followed:

- ☞ A count of the money is made, and the church treasurer writes a temporary receipt to the Sabbath school officer;
- ☞ Or the money is placed in a double-locked bag and is counted and receipted at the same time the church offering is processed.

The objective is the same: protection for the church treasurer. It establishes the fact that all cash received is finally accounted for in a formal receipt written by the treasurer. It establishes the fact that all cash received is finally accounted for in a formal receipt written by the treasurer.

### 203.05 Other Offerings

The plan outlined in the previous paragraphs should apply in the same way to other offerings taken by various organizations of the church—

youth gatherings, prayer meeting, and all other programs. The *Church Manual* is quite clear in stating that “the church treasurer is the custodian of all church funds.” None of the auxiliary organizations should feel that they are authorized to retain custody of the funds that their organizations receive from church members or others. In every case, such offerings must be turned over without delay to the church treasurer to be receipted and accounted for.

#### 203.06 Offerings for Outside Groups

Occasionally a program is put on in the local church by an invited outside group with the advance agreement that all or a part of the offering taken will be handed over to that group. Such offerings should be handled just as other church offerings: the church treasurer should record the total amount of the offering after observing the safeguards of “dual custody” discussed in previous paragraphs. The church treasurer should then write a check to the treasurer or designated person of the outside group for the portion of the offering to which the group is entitled. In no case should the actual cash offering be split up with a portion handed directly to the group with no accounting record being made.

#### 203.07 Foreign Currency

From time to time foreign currency of various nations will be turned in as a part of the offering. In the United States, the kind of currency varies with the section of the country. In the southwest, Mexican pesos may be found in the offering; in the southeast, currencies of various Caribbean nations must be handled; and along the northern tier of states, Canadian coins and currency are turned in. Foreign currencies should *not* be receipted immediately; it is necessary for the treasurer to find out from the local bank the rate of exchange on the particular currency, and the actual value which the bank will credit in U. S. dollars. When that is determined, a deposit ticket can be prepared in the usual way for the foreign currency, and a receipt written in U. S. dollars for the amount that the bank is prepared to credit the account.

#### 203.08 Bank Deposits

It is a basic requirement that all funds received by the church treasurer be deposited promptly and in full in a bank account in the name of the church. This means that the church treasurer should process the

203.06

church, Sabbath school, and other offerings as soon after the Sabbath as possible, and should deposit all the funds, checks and cash, as soon as they have been processed. The amount of the deposit will in all cases agree exactly with the total of the receipts written. The deposit ticket should be prepared in duplicate; when the money is deposited in the bank, the carbon copy of the deposit ticket should be stamped by the bank teller as proof that the funds were accepted for credit to the church bank account. This validated copy should be retained in the church treasurer's files.

### 203.09 Petty Cash Requirements

Although it is desirable that all disbursements of church funds be made by check, occasionally there is a need for the church treasurer to have on hand a small amount of cash to use in making payment for small disbursements which cannot conveniently be handled by check. It is permissible to have such a petty cash fund, under proper control; it is *not* acceptable simply to hold a small amount for such use out of a week's receipted funds. We repeat:

☞ All receipted funds should be deposited.

If a petty cash fund is required, a check should be drawn on the bank payable to the church treasurer (not to Cash) and cashed by the treasurer. This should be a fixed amount--\$20, \$50, or whatever is considered necessary. A "Paid Out" ticket should be written for each disbursement from this fund. Periodically (not less often than once each month) all the receipts for small sums expended from the petty cash should be totaled and a check written, again payable to the church treasurer, for the amount of those expenditures. This check should be cashed and the proceeds replaced in the petty cash fund. In this way the petty cash fund will always contain the fixed amount of money, either in actual cash or in receipts for expenditures.

### 203.10 Receipting Church Funds

We have mentioned several times in the above discussion the church treasurer's duty in the receipting of all funds received. The actual receipting process varies in churches of varying size. The basic plan is to write an individual receipt for each envelope turned in either with the weekly offerings or (as sometimes happens) by mail. The total of these receipts to individuals, plus the receipt for the loose church offering, for

Sabbath school mission and expense offerings, and for offerings from other organizations or other church gatherings, will be exactly equal to the total of the weekly deposit. Besides the individual church receipts, it is necessary that the treasurer prepare a *journal* which lists the receipts by number, name of contributor, and in columns provided, the distribution of the individual contribution to tithe, various offerings for missions, specified General Conference offerings, contributions for union or local conference projects, and local church funds (church budget, Sabbath school expense, and various other departments or projects). The various methods by which this journal is produced are discussed in Section 206 of this manual.

### 203.11 Receipting by Conference

Some conferences have taken over from the local churches the task of preparing receipts for church offerings. In those cases the church treasurer, after totaling all envelopes and other documents evidencing the receipt of funds and assuring that this total is in agreement with the weekly bank deposit, transmits all the envelopes to the local conference. There the necessary journal record is produced—usually on the conference accounting machine or computer equipment—and a detailed listing of all such receipts is returned to the church treasurer. At this point it is essential that the church treasurer be satisfied that the total receipts recorded by the conference agree with the predetermined total and with the weekly bank deposit. Again, more will be said of this plan in Section 206.

### 203.12 Detailed Receipting Procedures

The church treasurer should adopt a uniform procedure for processing the funds and recording them in preparation for making up the weekly deposit to the bank. The following step-by-step sequence includes the necessary safeguards against the making of errors (or for the early detection of errors), and church treasurers are urged to follow this plan.

- ▶ Prepare a tithe envelope for all moneys turned in, where the donor has not already written one to accompany the offering. This means that a separate tithe envelope will be prepared for the loose church offering, another for the Sabbath school offerings (missions and expense), and other envelopes for offerings turned in from other auxiliary departments of the church.

- ▶ Put the tithe envelopes in alphabetical order, with those for such offerings as mentioned above at the end of the list. Date stamp each envelope with the date of the Sabbath you are processing. (If you do not have a date stamp, buy one [see paragraph 202.07]).
- ▶ Open *one envelope at a time*, count the money in the envelope to see that it agrees with the total on the envelope (or check the amount of the enclosed check to see that it agrees with the envelope total). Check the addition on the envelope to see that the total of individual items agrees with the total of the envelope.
- ▶ If the items listed do not agree with the total, and the difference is small, make the necessary adjustment so that the tithe envelope agrees with the amount of cash or check enclosed. (Use a distinctive color pen to make this correction so that it is plain that *you* have made the correction). If the amount is large, it is probably well that you get in touch with the donor and explain the situation, securing authorization to make whatever change is authorized.
- ▶ Arrange the contents of the envelope with checks in one pile, bills of each denomination in separate piles, and coins separated as to denominations. Checks, currency, and coins should be far enough away from your working space to allow you to process envelopes without interfering with the stacks of checks and money already processed. After completing the first envelope, go on to the next, and so on through all of them.
- ▶ Count all currency and coins, making a written record as you go: 15 - \$20 = \$300.00; 27 - \$10 = \$270.00; and so on. Make an adding machine tape of all checks, and include this total with the listing of currency and coins. Add all items to determine the grand total of all money in hand.
- ▶ Make an adding machine tape of all envelopes you have processed. Of course, this total should agree with the total of your checks and cash as determined in the paragraph above.
- ▶ Use the adding machine tape (actual cash and checks) to prepare your bank deposit. Some banks will accept a deposit ticket with only the currency and coins itemized, and an adding machine tape of the checks attached to the deposit ticket. In other cases the bank

requires that each check be listed on the deposit ticket by bank number and amount. Of course you will prepare the deposit ticket to meet your bank's requirements.

- ▶ Write receipts—a separate receipt for each tithe envelope. Prepare an adding machine tape of receipts written, which will agree with totals determined in the paragraphs above.
- ▶ Date stamp the adding machine tape from the total of all envelopes and attach it securely to the pack of envelopes (a stout rubber band is usually used to hold envelopes and tape together). Retain each week's pack of envelopes with its accompanying tape until the local conference auditor has examined your records for the year.
- ▶ Make doubly sure that the total of cash and checks agrees with the total of envelopes, that this same figure is the total of the bank deposit, that the bank validates a carbon copy of the deposit ticket for your files, and that the same total is credited on your monthly statement from the bank. This total, too, will be checked against the cash receipts journal produced for the week. The Cash Receipts Journal will be discussed in detail in Section 206.

### 203.13 Alternative Receipting Procedures

The basic requirement calls for a receipt to be written for each contribution each week, and many, particularly of the smaller churches, continue to follow that plan. Certainly there is no objection to it. Some conferences have developed other arrangements for receipting funds. This paragraph will deal with one plan that provides for a summary of weekly receipts for a full three-month period, all on one form. We are indebted to the Florida Conference for this receipt form, which is shown as Exhibit 2-1. Note that provision is made for three months' receipts, with a separate column for each of five weeks in each month. In other words, the equivalent of a total of fifteen offering slots are available (although no more than thirteen will be used) in any one quarter. The receipting process in its essentials is not changed. The data from the tithe envelopes for a given week is posted to the proper section and columns of the receipt form that is kept in duplicate. Each week's total on the individual receipt will agree with the tithe envelope in that week's pack (see paragraph 203.12). At the close of each month (do not wait to the end of the quarter!) each line of the receipt form for

that month is added across and the total entered in the “Monthly Totals” column.

- ☞ Be sure that the totals entered each week on all the receipt forms agree with the total of the pack of envelopes for that week.

An additional check of accuracy is provided at the end of the month as the total of all “Monthly Totals” on all the individual receipts must agree with the total of the four (or five) packs of envelopes processed during that month.

#### 203.14 Distribution of Receipts

In bygone days it was customary for the church treasurer to hand out personally or to mail the receipts to contributors each week. With the growth of membership in the churches, the increase in mailing costs, and more streamlined and sophisticated methods of receipting, some church treasurers now accumulate these receipts and distribute or mail them monthly, or even, as in the example given above, on a quarterly basis. In the case of conference receipting, the amounts recorded each week are frequently combined, and a quarterly receipt is mailed to the donors reflecting the total received, sometimes without any breakdown showing the amounts brought in each week. This means the use of a simpler form, but the donor is not able to determine whether credit has been given each week for the amount turned in that week. Regardless of the system used or the interval at which receipts are distributed it is necessary that each donor be given a formal receipt which details the amounts he has contributed, and the various funds to which they are credited.

Please reread the last sentence of the previous paragraph. The church treasurer is required to record a receipt—whether it is on a weekly, monthly, or quarterly basis—for all funds received, and to hand or otherwise deliver that receipt to the donor. By doing this the treasurer says, “I have received this amount of money from you, and have applied it as you directed.” The receipt is issued not only for the convenience of the donor, to be given as requested, but as a certification by the church treasurer that the contribution was received.

#### 203.15 No Bank Account

In some rare cases it is impossible or highly inconvenient to maintain a church bank account. This may happen where the church is far

removed from a town or village with a bank, or in some fields where the banking system is not so highly developed. We repeat: This situation is only rarely encountered, and every reasonable effort must be made to handle all church business through a church bank account. If the church board feels that this cannot be done, an additional burden falls on the church treasurer. The treasurer must see to it that facilities are

provided—a locked strongbox or a safe is preferable—in which the church moneys can be properly safeguarded. In no case should the church treasurer combine church funds with personal funds; they must at all times be kept entirely separate. The church treasurer should count the church cash on hand each month, without fail, to determine that the amount on hand agrees with the accounting record which shows the unexpended balance, and should make a written record of this cash proof. It is advisable that the church treasurer have this balance of cash on hand verified by another church officer (preferably the pastor or the head elder). When that individual verifies the balance, his or her signature is placed on the cash proof sheet as written evidence of the fact that the balance on hand has been verified.

### 203.16 Non-Cash Donations

From time to time members of the church make donations in forms other than cash—a piece of usable equipment, perhaps, or furniture for use in one of the church offices or departments. The church treasurer's accounting records are designed to record only the receipt of cash, not the value of such non-cash donations. If the donor wishes a receipt to be used to support a deduction on his or her income tax return, it is suggested that the church pastor write a letter to the donor, countersigned by the church treasurer, itemizing and describing the item donated. No accounting record need be made of such transactions.

### 203.17 Building Campaigns

Previous paragraphs have mentioned several times that all financial transactions of the church should pass through the hands of the church treasurer. Sometimes an exception to this rule becomes necessary. If the church embarks on an extensive fund-raising campaign for a building project or some other major development, and the church board, with member approval, elects a separate individual to take charge of this program, the regularly appointed church treasurer is relieved of responsibility. In such cases the local conference should be notified of the action and of the name of the building fund treasurer.

203.16

Money received and disbursed from this fund should be banked and recorded entirely separately from those of the church treasurer. If funds raised in this way are turned over to the church treasurer, and if the treasurer remains responsible for their custody and disbursement, they should be receipted and disbursed exactly the same as other church funds.

#### 203.18 Numbered Receipts

In all cases where the receipts, either weekly or quarterly, are written by the local church treasurer, the forms should be provided by the local conference and will bear printed numbers. The conference will make a record of the block of numbers issued to the individual church, and all these numbers must be accounted for. The receipts journal includes a column where each receipt number is entered, and in the case of weekly receipts, these numbers should be consecutive. If a receipt is unuseable or must be canceled for any reason, it should be listed and all copies of the receipt should be filed with the tithe envelopes for the week being processed. It is not proper to throw away a unuseable receipt.

### **Section 204 Disbursing Funds**

#### 204.01 Disbursements by Check

All disbursements of church funds should be made by check on the church bank account. (We are assuming the existence of a bank account. The rare exception is discussed in paragraph 203.15.) This rule applies in all cases, even when a small petty cash fund is entrusted to the church treasurer, as outlined in paragraph 203.09. The formal record of the expenditure is made when a check is written for an accumulation of small disbursements to replace the money in the petty cash fund. The details of the operation of the bank account are discussed in Section 205. At this point we are considering only the actual drawing of the check and the records that must be made of that action.

#### 204.02 Supporting Documents

If the volume of business warrants it, the use of a “voucher check” is recommended. This type of check is of double size. The top half is the check itself, and a detachable bottom half is provided for writing in the

details of what the check covers. Along with the original, which goes to the individual or firm to whom the check is written, a carbon copy is produced. In this way the church treasurer has in the records a copy of all details of the disbursement. The invoice or request for the funds should be attached to this carbon copy and should originate with someone other than the church treasurer. Some church treasurers find it helpful to attach these supporting documents to a “voucher jacket” form that becomes the master record for the disbursement. This form is particularly helpful in those cases where a voucher check, such as described, is not in use. A sample form is shown as Exhibit 2-2.

### 204.03 Filing Documents

Paragraph 102.13, quoting the *Church Manual*, suggests that disbursement vouchers be pasted in the Disbursements Journal. This plan may be acceptable for the very small church, with only a few vouchers each month. A more practical plan for a church with an active program involves the use of a cardboard file case that provides for the filing of the vouchers on a metal arch. A generally available product of this sort is known as Columbia Binding Case No. 50.

### 204.04 Authorization

The church treasurer must keep constantly in mind the fact that he or she is accountable for the funds in his or her custody; they are not personal funds to be expended, as he or she deems appropriate. Many church boards are willing to grant the church treasurer blanket authorization to pay routine and recurring bills for which provision is made in the church budget, such as utility bills, routine maintenance charges, etc. Even in these cases the treasurer may wish to have an additional safeguard in asking the church pastor or head elder to initial such bills as evidence of approval. A responsible member of the church board (the pastor, the head elder, or the chair of the Finance Committee) should authorize all expenditures other than those that are strictly routine. Payments of accounts that are to be charged against the funds of one of the auxiliary organizations always should be approved and authorized by a designated officer of that organization. This will apply to payments to the Adventist Book Center for Sabbath school quarterlies and other Sabbath school publications, literature for the Personal Ministries Department, expenditures for welfare or Adventist Community Services purposes, and any other disbursements which will be charged to any account other than the Church Budget.

204.03

#### 204.05 Conference Remittance

Each month the church treasurer will draw a check payable to the local conference to cover all funds received during the month for any purpose other than those of the local church. The conference provides a form for summarizing the various funds that are to be remitted in this way. Commonly this form is prepared in triplicate, with the original and one copy being forwarded to the conference with the check, and the third copy retained by the church treasurer and attached to the carbon copy of the check as supporting evidence. When the check and report are received by the conference, they retain the original and return the properly receipted duplicate copy to the church treasurer. This duplicate copy can then be used to replace the triplicate copy that is discarded. A sample of the conference remittance report is shown in Exhibit 2-3.

#### 204.06 Local Church Payroll

When employing individuals at the local church, an initial determination should be made as to exempt (salaried) or non-exempt (hourly) employee status for remuneration. In many local churches the treasurer, certain custodial and maintenance personnel, and/or secretarial workers and others, may receive payment for their services. The plan for compensation of local church employees varies from conference to conference. In some instances the employees are on the payroll of the conference, while in other cases the local church makes the payment direct to the employee. It must be recognized that these individuals are, for purpose of federal and state tax laws and regulations, *employees*, and thus are subject to all the requirements for withholding of income tax, payment of social security contributions, and any other federal or state taxes related to their employment. The conference, of course, handles the tax obligations for all individuals on its payroll. When the local church makes the remuneration payments direct to its employees, it is, as a subsidiary organization of the conference, obligated to pay the social security tax on behalf of the employees, and to comply with all federal and state laws as to income tax withholding. The local church is also responsible for submitting to the employee the appropriate annual reports of federal and state income tax withheld, and social security contributions deducted from employee's earnings. The church treasurer is urged to counsel with the conference treasury staff to make sure that the procedures fit in with the conference program, and that all legal requirements as to social security

and all other payroll taxes and withholdings, both federal and state, are met.

#### 204.07 Fund Overdrafts

If the church treasurer is not watchful, departments may authorize expenditures of money in excess of what that department has available. In other words, the balance for that activity is overdrawn. It must be emphasized that such overdrafts should not be permitted. The church treasurer is warranted in refusing to make disbursements of funds if no funds are available. The funds of each auxiliary organization belong to that organization and cannot be transferred, even by the church board. It is permissible, however, for the church board to take action to transfer funds from the local church budget to an auxiliary organization. When such a measure is necessary, the church treasurer should be sure that a formal action has been taken by the church board authorizing the transfer and specifying the amount, and that such action is included in the minutes of the church board.

#### 204.08 Donor Checks Returned by Bank

Occasionally the bank will refuse a check received from a donor because of insufficient funds or for some other irregularity. Most banks put such checks through a second time before returning them to the depositor. When they are returned, they have been charged back to your account by the bank and must be handled in exactly the same way as a check that you have drawn against your account. In other words, you will prepare a voucher form and will enter the returned check as a withdrawal against your bank account. It is important that you secure from the original donor the receipt that you wrote when the check was received. This original receipt can be used as support for the entry charging the check back against your account. Details of the entry of such transactions will be covered in the discussion in Section 206.

#### 204.09 Redeposit of Returned Checks

If the donor requests that you put the check through again, with the assurance that funds are now in the account to cover it, this may be done. If so, it should be treated as an entirely new transaction. The processing of the returned check should be handled as described in paragraph 204.08. The check for redeposit can then be recorded just as though it was a new contribution.

204.07

## **Section 205    Bank Accounts and Investments**

### **205.01 Authorization**

No bank account should be opened, closed, or changed without formal acting by the church board, evidenced by written minutes. This applies not only to your church checking account, but also to any savings accounts or investment accounts that are established. The authorization should include specifically the names of individuals authorized to sign checks and whether one or two signatures are required. Whenever any of those authorized to sign checks leaves the position or authorization is removed for any other reason, the church board must take an action recording the removal of the authorization and the replacement with another. When any bank or investment accounts are closed out or discontinued, the church board again should take action authorizing the closing of the account.

### **205.02 Church School Bank Accounts**

Where a single church operates a church school, the church treasurer or an assistant maintains the accounting records (see paragraph 106.07). It is important that even though the same person handles the business of both the church and the school, a separate bank account should be maintained for the school funds. All of the procedures outlined in both paragraph 205.01 and in the following paragraphs of this section should be applied to the school bank account, as well as to that of the church. Separate records, separate files, and separate reports are to be maintained. Where a church school or junior academy is operated by two or more churches, the church school board will designate a treasurer for the school who may or may not be the treasurer of one of the local churches. In any case, the funds of the school should not be commingled with those of any of the churches.

### **205.03 Two-Signature Accounts**

All too frequently when two signatures are required on a check, the treasurer signs the checks at the time they are drawn, and the second party either signs a group of checks in advance, or signs them without really scrutinizing them. Either process does away with any intended control of the disbursements. While the church treasurer will know the details of each disbursement, the second party should review the authorization and reasonableness of the disbursement. It follows that

neither party should sign blank checks and turn them over to any other party to be completed. Another practice to be discouraged is that of the pastor or other individuals taking blank checks on an absence from the office and writing them away from the church office. The general rule should be that the treasurer, who bears the responsibility for custody of the funds, should be responsible for all banking business under the authorization of the church board or the officers of the various departments.

#### 205.04 Savings Accounts

Frequently a church is accumulating funds for a major building or renewal project. Such surplus funds should be kept in a savings account or some other insured bank deposit or other approved investment in order to take advantage of the possibility of earning interest on the money. As stated above, such accounts or investments must be authorized specifically by the church board. Withdrawals from these accounts should be only for the purpose of transfer of the funds to the checking account. No expenditures should be made directly from the savings account. No investment of church funds should be made without specific authorization of the church board. Any investment in other than insured bank or savings and loan accounts—Treasury bills, money market funds, etc.—should be entered into only after counseling with the conference treasurer. It goes without saying that no loans of church funds should be made to any private party at any time for any purpose.

#### 205.05 Maximizing Interest Return

The local church treasurer deposits weekly all funds received, as explained in previous sections. Remittances of most of this money to the conference are made at the end of the month. Obviously, the church bank account is accumulating an increasing balance of money during the month until this month-end remittance is made, money that is earning no return in a checking account. Many banks provide for such funds to be placed temporarily in a savings account, where the funds will earn a reasonable rate of interest and will be available for immediate transfer back to the checking account when the monthly remittance must be made. The church treasurer should explore this possibility, as well as other arrangements whereby this monthly accumulation can earn interest that becomes income to the local church. Most conference treasurers have arranged for such procedures on the

part of their local church treasurers. You should discuss this possibility with your conference treasurer to make sure that you are taking advantage of every possibility to earn a return on temporarily-held funds or on funds being accumulated for major church projects.

#### 205.06 Reporting Savings and Investments

Section 210 of this manual discusses in detail the form of monthly reports to be rendered by the church treasurer. At this point it should be emphasized that these reports should cover transactions relating to savings accounts and other investments, as well as the balance in the church's checking account.

#### 205.07 Bank Reconciliations

Immediately upon receipt of the monthly bank statement, it is essential that the church treasurer prepare a monthly reconciliation that shows the difference between the balance shown on the bank statement and the balance according to the treasurer's records. These two amounts are seldom in agreement. It may be that the very last deposit of the month by the treasurer has not yet been credited to the account on the bank's records. Always there will be some checks written by the treasurer that have not yet been presented to the bank for payment. All of these differences must be identified so that the difference between the bank records and the treasurer's records are fully explained. A specific step-by-step procedure must be followed if the reconciliation is to be prepared properly and with a minimum of difficulty. The steps involved are as follows:

- ▶ Starting with the final balance shown by the bank statement, *add* any deposits not credited by the bank (usually the only one will be for a deposit made on the last day of the month, after the bank has closed its records for that day). *Deduct* all checks outstanding (written and recorded by the church treasurer but not cleared by the bank). First, check off on the previous month's reconciliation all checks outstanding at that time, but included in this month's bank statement. Any checks not cleared this month are still outstanding and will be listed as "Outstanding Checks." Complete the list by checking off on this month's record of disbursements all checks written that are included in this month's bank statements. The remaining checks written, those that do not appear on the bank statement, will be added to the list of "Outstanding Checks."

- ▶ Combining (1) the balance per the bank statement plus (2) deposits not entered by the bank minus (3) outstanding checks equals the *adjusted bank balance*.
- ▶ Starting with the final bank balance according to your own records, *add* any credits to your account by the bank that you have not entered (these should be very rare), and *deduct* any charges made to your account by the bank which you have not entered. (These typically might include bank service charges or the bank has refused checks that you have deposited.) Combining (1) the bank balance per your records plus (2) any unrecorded credits entered by the bank minus (3) any unrecorded charges entered by the bank equals the *adjusted record balance* per your records.
- ▶ The adjusted bank balance and the adjusted record balance should now agree and represent the amount of money actually available in the bank account at the end of the month.
- ▶ As a final step, be sure to enter in your own records any credits or charges shown on the bank statement that you do not have on your records.
- ▶ If the bank business is purely routine, and limited in volume, it is permissible to use the reconciliation form printed on the back of the bank statement.

#### 205.08 Approval of Bank Reconciliations

The bank reconciliation, as stated previously, should be prepared each month. It is advisable, immediately upon completion of the reconciliation, to present it to the church pastor, the head elder, or chair of the Finance Committee for examination and approval. Initialing or signing the report should show the approval.

#### 205.09 Sample Bank Reconciliation

A sample bank reconciliation form is shown in Exhibit 2-4.

#### 205.10 Change of Church Treasurers

Under normal circumstances, all funds belonging to the church will be on deposit in bank accounts, or evidenced by bank savings instruments.

When, by vote of the church membership, the treasurer is relieved of treasury responsibilities and another treasurer is named to the office, the church board (as mentioned in paragraph 205.01) will arrange for discontinuance of the signature of the outgoing treasurer on all such accounts, and for authorization of the signature of the incoming treasurer. The outgoing treasurer should prepare a bank reconciliation up to the date of his/her relief from duties (see paragraph 205.07) and make a list of all other bank accounts or savings instruments belonging to the church, including bank account numbers and amount on deposit in each account or instrument. The incoming treasurer should satisfy himself/herself that the bank reconciliation and the listing of other investments are correct and complete and should sign a copy of the reconciliation and the list to acknowledge acceptance of the funds. This signed copy should be given to the outgoing treasurer. It would be appropriate to request an audit by the conference that everything is in order.

## **Section 206 The Accounting System**

### **206.01 Nature of Funds**

All funds received by the church treasurer fall into one or the other of two categories: conference trust funds or church trust funds. *Conference trust funds* are at no time the property of the local church, and must under no circumstances be expended by the local church. They are entrusted to the local church treasurer as a trustee and must be passed on intact to the local conference each month according to methods that will be described later in this section of the manual. *Church funds*, on the other hand, are those that properly belong to the local church and are expended for various local church projects or departments.

### **206.02 Conference Trust Funds**

Following is a partial list of conference trust funds. Some of these classifications are held in the local conference and administered by the local conference executive committee. Others are remitted by the local conference to the union conference, and most of them are in turn passed on by the union conference to the General Conference or division headquarters.

Adventist TV Ministries  
Adventist World Radio  
Andrews University  
Annual Sacrifice  
Camp Meeting  
Christian Record Services  
Conference Evangelism  
Disaster/Famine Relief  
Faith For Today  
Ingathering (member donated)  
Ingathering (non-member donated)  
Inner City  
It Is Written  
Loma Linda University  
Missions Extension  
Multi-Lingual Ministries  
Oakwood College  
Religious Liberty  
Sabbath School Birthday/Thank Offering  
Sabbath School Investment  
Sabbath School Missions  
Adventist Chaplaincy Ministries  
Temperance  
Thirteenth Sabbath  
Tithe  
Voice of Prophecy  
Week of Sacrifice  
World Missions

#### 206.03 Local Church Funds

The following are some of the local church funds:

Adventist Youth Society  
Building Fund  
Church Budget  
Church Expense  
Community Services  
Home and School  
Ingathering Reversion  
Personal Ministries  
Local Evangelism

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Pathfinders  
Poor Fund  
Sabbath School Expense  
Worthy Student Fund

#### 206.04 Unified Church Budget

Listed in the local church funds above is one with the title “Church Budget.” The preparation of the church budget will be discussed in Section 210. It should be explained now that the terminology “Church Budget” means different things in different churches. Some churches follow the practice of including in a single budget the requirements of various departments of the church: Community Services, Personal Ministries, Adventist Youth, and so on. As funds are received from members for this unified church budget, they are distributed to the various departments on an agreed percentage basis. In such cases the actual operation of the church plant itself, including such expenses as utilities, telephone, insurance, grounds and building maintenance, and so on, are considered “Church Expense,” which is only a part of the unified church budget. In other cases, each department stands more or less on its own, and the church budget is prepared and intended only for what has been known in past years as church expense. This difference should be kept in mind as we consider the accounting for separate local church funds.

#### 206.05 The Receipts Journal

The matter of preparation of receipts to cover all offerings, week by week, has already been discussed. A record must be made of all receipts written, breaking down into the various types of conference and local church funds the amount of money on each receipt. This is done by use of a *columnar* form, a sheet having a separate column at the left for the name of each contributor, a column for the receipt number, and a series of columns for amounts contributed. These amount columns include a column for the total amount of the receipt and a series of columns for conference funds (tithe, Sabbath school, 13<sup>th</sup> Sabbath, Investment, Ingathering—Donated, Ingathering—Solicited, etc.). Not every conference fund listed in paragraph 206.02 has a column provided for it (see paragraph 206.06). A final group of columns is provided for various types of local church funds. After the receipts are written, they are listed (in alphabetical order, as the tithe envelopes were put in alphabetical order before the receipting operation

was begun) separately in the Receipts Journal: name, receipt number, total amount of receipt, amounts for each type of local church funds contributed. Of course the entries on each line will “balance.” The total of all the separate entries in the various columns for individual funds will equal the total of the receipt. This must be the case, because the treasurer has already verified that the total on each envelope agrees with all the individual items listed on that envelope, and the record in the Receipts Journal is simply a repetition of that information.

#### 206.06 Miscellaneous Offerings

Referring to the detailed list of conference offerings, it is evident that some of these are called for only once a year. It would make the Receipts Journal form unnecessarily long and complicated if a separate column was provided for offerings of that sort. Providing one or two columns for “Other Offerings” in the Receipts Journal solves this problem. Separate columns are provided for Tithe, for Sabbath school mission offerings, and for a number of others that are used regularly throughout the year. Other offerings of an occasional or special nature are entered in the “Other Offerings” columns, and a letter identifies each type of offering. The same plan is used in the section of the journal for local church funds. Different churches set up different funds for special projects within that church. Being entered in a separate column and the name of the particular fund stated can identify these.

#### 206.07 Sample Receipts Journal

With the large number of columns necessary to identify various types of conference and local church funds, it is obvious that the Receipts Journal is a large sheet of paper. It is usually produced in duplicate, one copy going to the local conference each month with the remittance of conference funds, and the carbon copy being retained by the local church treasurer. A sample form as used by one of the local conferences is shown in reduced size as Exhibit 2-5. The actual form used in this case measures 12 by 20 inches.

#### 206.08 The Pegboard System

We are still discussing the preparation of an individual weekly receipt and the production of a Receipts Journal listing all such receipts each week. It is obvious that there is duplication of effort in writing all the necessary information for each donor on a receipt form and then

206.06

copying all that information over in a journal. Every copying operation affords a chance of errors, and the work is almost doubled. To solve this waste of effort, a system has been devised which would produce the receipt and the journal at the same time. In this system, the journal form is anchored to a plastic or metal backing by means of a series of pegs on the left-hand edge of the backing, with holes in the journal so that it can be placed on these pegs. The receipt form is a narrow strip of paper that overlies the journal, and all the information is entered on the top edge of the receipt form with a carbon impression going through to a single line of the journal. Thus each receipt has all the necessary information as to breakdown of the amount contributed, and the journal must have exactly the same information for all receipts written since it is a carbon copy of all the individual receipts.

#### 206.09 Receipts Journal—Other Applications

The method described in the several paragraphs above is designed for the preparation of individual weekly receipts. What do we do if a quarterly receipt form, such as that illustrated in Exhibit 2-1, is used, and there is no individual receipt? Or what do we do if the conference records all receipts and simply sends the local church treasurer a summary of each week's offerings? A quick answer is available for each situation. If the local church maintains quarterly rather than weekly receipts, it is necessary to transcribe to a Receipts Journal, such as illustrated in Exhibit 2-5, all the totals, either by individual weeks or by monthly totals. If the conference processes the envelopes and returns to the local church treasurer a summary of all receipts recorded, follow this procedure:

- ▶ Make sure that the total recorded by the conference agrees with your total as shown in the adding machine tape of the envelopes sent to the conference and the total of the bank deposit.
- ▶ Enter in the Cash Receipts Journal a single line for the week's summary, using "Total Receipts, \_\_\_\_\_, 20\_\_" instead of the name and detailing in the proper columns the amounts shown on the summary.

We must remark again that the procedures developed in the various conferences vary widely. If your conference treasurer has developed a method of recording that varies from that outlined in this manual, you will follow his/her instructions.

## 206.10 The Disbursements Journal

The form for the *Disbursements Journal* resembles very closely that already illustrated for the Receipts Journal, with a few important modifications. A sample form of Disbursements Journal is shown (reduced in size) as Exhibit 2-6. All checks written are recorded, month by month, in the Disbursements Journal. Columns are provided for the amount of the check, the name of the payee, the check number, and columns for each type of fund involved, exactly as in the Receipts Journal. A disbursement for cleaning supplies for the church in the amount of \$20.85 would be entered in the "Amount of Check" column and in the Church Expense column. *Each check* must be entered in its total amount in the "Amount of Check" column, and entries must be made in the appropriate columns to indicate which funds are decreased by the disbursement. Sometimes a single check represents withdrawals of two or more funds. A check to the Adventist Book Center, for example, may involve a charge against Sabbath School Expense for Sabbath school quarterlies or periodicals and against Personal Ministries for literature purchased for missionary distribution. Note that each entry of a check must be a "balance" entry. The sum of the amounts entered in the distribution columns must always equal the amount of the check.

## 206.11 Remittance to Conference

At the close of the month, when receipts have been written for the last Sabbath of the month, you will know from the Receipts Journal the total of all conference funds received and their identification as tithe, Sabbath School Missions, thirteenth Sabbath, and so on. A check is drawn for the total of conference funds, payable to "\_\_\_\_ Conference of SDA" and is entered as described in paragraph 206.10. The total of the check is entered in the "Amount of Check" column, and the amounts for tithe and other offerings in the various columns in the section "Conference Funds." You will mail the original of all Receipts Journal forms for the month, all Disbursements Journal forms (usually there will be only one page of disbursements), and a summary report of all funds received and disbursed along with the conference check. The actual form varies with the individual conference. A sample of the form used by one local conference is shown in Exhibit 2-7. At this point we are interested only in the top half of this form, which summarizes all conference funds received during the month and covered in the monthly remittance check. As described in paragraph

204.04, this summary form is prepared in triplicate—two copies are sent to the conference with the check and copies of the journals, the third copy becomes the temporary supporting document to be attached to your carbon copy of the check. When the conference treasurer receives the remittance, he/she will fill in the blanks on the form to acknowledge receipt of the money and will return the second copy of the form to you. You will then discard the third copy and replace it with the second copy bearing the conference treasurer's receipt.

#### 206.12 Completing the Disbursements Journal

The difference between the Receipts Journal and the Disbursements Journal is found in the five lines at the bottom of the Disbursements Journal form (see Exhibit 2-6):

Balance First of Month  
Add Receipts During Month  
TOTALS  
Disbursements During Month  
BALANCE Close of Month

At the end of the month, you will enter on the first of these lines the balances shown on the *last* line of the previous month. (These balances will be only in the Local Church Funds section of the form. Because you have remitted to the conference the total of conference funds at the end of the previous month, there will be no balances of these funds to be brought forward.) Next, from the Receipts Journal enter the total for the month of all funds received including each of the conference funds and each of the local church funds. This line will equal the total receipts written during the month and the total deposits to the bank. *Add* the beginning balance and the receipts in each column and bring the totals down to the third line. Then, from the Disbursements Journal itself, enter the total of each column in the fourth line. This represents the total amount of money paid out of the checking account during the month. Again, as to Conference Funds, the total disbursed (your month-end remittance to the conference treasurer) will be in exact agreement with the total received. All columns in the Conference Funds section will, therefore, show a zero balance—you have paid out the exact amount that you received. In the Local Church Funds section you will deduct the amount entered on line 4 (total disbursements) from that on line 3 (beginning balance plus funds received) and bring down

the balance remaining in each fund. This completes the Disbursements Journal for the month.

### 206.13 Line Proof

The Receipts Journal and the Disbursements Journal combined represent a record of all transactions with the bank: Total receipts equals total deposits in the bank; total disbursements equals total withdrawals by check. Each line in this section of the Disbursements Journal must “cross-add.” That is, the total of Balance, Beginning of Month, will agree with your bank balance at the beginning of the month, and the entries in the various local church funds columns represent the activities or departments to which this total belongs. Line 2, Receipts During the Month, must agree with your total deposits in the bank. Line 3, Totals, will also balance with the total of beginning balances in the individual columns plus deposits. In the same way, Line 4 across adds the individual fund columns to equal total checks written. Line 5, which now shows *only* balances in local church funds, equals the balance in the bank. It is absolutely necessary that the total of the column entries of these lines prove out to the total for that line.

### 206.14 Savings Accounts

Up to this point, our discussion has assumed that all funds are carried in the bank checking account. If your church carries a savings account or has money invested in savings instruments, the total of funds on hand (the individual Local Church Funds columns) will represent not only the checking account balance, but the amount in savings accounts and savings instruments as well. If funds are transferred from the checking to the savings accounts, it is *not* correct to show such a transfer (which will usually be made by check) as a deduction from the balances in the local church funds. Those balances must always represent the total of checking and savings accounts. A simple way to handle this situation is as follows:

- ▶ Provide in the Disbursements Journal, preferably at the extreme right-hand end of the form, a column headed “Savings Account(s).”
- ▶ As a transfer is made from checking to savings, enter the amount of the check in the usual way and enter the same amount in the Savings Account column. This will have the affect of deducting

the amount from the checking account and adding it to the savings account without affecting the balance of any of the funds.

When money is withdrawn from the savings account and deposited in the checking account, enter this transaction also in the Disbursements Journal:

- ▶ In the “Amount of Check” column, enter the amount transferred in *parentheses*, and in the Savings Account column, also in parentheses.

Using parentheses around these amounts indicates that an entry that is normally an addition becomes a deduction, and vice versa. The total check written will be *decreased* by the amount of the transfer to the checking account, and the total of the savings account will also be decreased.

#### 206.15 Interest on Bank Accounts

We recommend the entry of interest credited to your accounts by the bank in the Disbursements Journal, even though these credits are actually the receipt of funds. The reason for this is that they do not become a part of your weekly deposits, and it is desirable that the Receipts Journal shows only funds deposited by you in the bank checking account. In every case, the interest earned on these accounts becomes a part of local church funds—usually added to the Church Expense or Church Budget fund. Handle these entries as follows:

- ▶ Interest on Savings Accounts: In the disbursements Journal enter the amount of the interest credited by the bank in *parentheses* in the Church Expense column and the same amount without parentheses in the Savings Account column. This adds the credit to the savings account balance and also adds it (or decreases the deduction for checks written) to the church expense fund.
- ▶ Interest on Checking Accounts: In the Disbursements Journal enter the amount in the Church Expense column in parentheses as described above. Enter the same amount in *parentheses* in the “Amount of Check” column. This decreases the total amount of checks written during the month and adds the credit to the Church Expense fund. In many cases, no interest is paid by the bank on

regular checking accounts, so this situation will not occur frequently.

Of course it is possible to record interest earned in the Receipts Journal rather than in the Disbursements Journal. If your conference treasurer and auditor prefer that plan, they will explain the method to you.

#### 206.16 Transfers Between Funds

It sometimes happens that a particular department or activity is in need of funds other than those coming in through offerings, and the church board authorizes the transfer of a stated amount from the Church Expense fund to the department. This transfer can be entered in the Disbursements Journal by entering in the Church Expense fund the amount of the transfer and entering the same amount in parentheses in the column of the fund to which the transfer is made. This adds the amount to the balance of the receiving fund and deducts it from the Church Expense fund just as though it was a check. An important caution: Funds identified for a particular department or activity must not be transferred out of that fund to another fund, even by action of the church board. These departmental or activity funds have ordinarily come in from donors identified specifically for the particular use of that activity. It would be a violation of trust responsibility to the donor to use them for any other purpose.

#### 206.17 Accounting Is the Basis for Reporting

The treasurer must remember that all of the above accounting procedures—preparation of the Receipts and Disbursements Journals and calculation of balances remaining in the various bank accounts and funds for conference and the local church—are simply intermediate steps in the preparation of monthly reports for the conference and for the church board. The treasurer is accountable for all funds that pass through his/her hands and transactions affecting individual funds and their month-end status must be reported to both the conference and the church board. Preparation of the remittance report to the conference treasurer has already been discussed in paragraph 206.11. The preparation of the complete monthly report will be explained in Section 210.

## Section 207 Double-Entry System

### 207.01 Columnar Journal-Ledger

It will be evident to those who have some knowledge of bookkeeping that the columnar records described in the previous sections are actually a combination of journal and ledger, with debits to a cash or bank account and credits to various conference and church funds for all receipts written, and with credits to bank account and debits to the various fund accounts for disbursements. As computed in the final five lines of the Disbursements Journal, the column balances are in effect individual ledger accounts showing total debits and credits arising from receipts and disbursements.

### 207.02 Expanding the System

While the columnar record is completely adequate for an uncomplicated system, especially in the smaller churches, added activities in the way of investment of funds, accounting for unpaid expenses or for borrowed funds, and other transactions affecting fund balances and commitments tend to make the use of the columnar journal-ledger somewhat cumbersome. If you understand thoroughly the handling of columns for both assets and liabilities, there is no objection to continuing the use of the columnar form. However, with multiplying activities and complications, it may be more desirable to go to a more conventional, if more involved, *double-entry system* in which the columnar journals, supplemented by journal vouchers, cover non-cash transactions, and a formal general ledger in which all transactions for all the various accounts can be summarized. While a double-entry system is not a requirement in this manual, it is ordinarily preferable for larger churches, for those which carry investments and long-term liabilities, and for those which have available an individual as church treasurer who has some basic accounting training.

### 207.03 Chart of Accounts

The first requirement in setting up such a system is the development of a chart of accounts listing all accounts to be carried in the ledger. It is difficult to identify the debit and credit postings and to locate them in the general ledger without an advance definition of just what accounts are available. A Chart of Accounts that should be adequate for churches of all sizes is shown as Exhibit 2-8. Note that the accounts

are shown in conventional balance sheet order: assets (petty cash, bank accounts, other investment accounts), current and long-term liabilities, trust funds for all conference-owned offerings, and the various local church funds, which are in effect net worth or fund balance accounts, showing all incomes and expenses of these accounts, and unexpended balances.

#### 207.04 Posting the Columnar Journals

The journals for receipts and disbursements described in previous sections of this manual may not need to be modified for use in a double-entry system. For purposes of reporting to the conference the status of all funds, the Disbursements Journal should be completed as described in paragraph 206.12. Upon completion of these records, postings of all columnar totals should be made to the appropriate general ledger accounts as follows:

##### Cash Receipts Journal

Debit	Cash in Bank with total of receipts for the month.
Credit	Individual conference trust fund accounts with totals of conference fund columns. Individual local church fund accounts with totals of local church fund columns.

##### Cash Disbursements Journal

Debit	Conference trust fund clearing account with total disbursements for individual conference funds. As the remittance to the conference covers all conference funds received during the month, these trust fund accounts will balance with the clearing account each month. Local church fund accounts with total disbursements from each fund.
Credit	Cash in bank with total of checks written.

If the line proof operation outlined in paragraph 206.13 has been followed, each of the above journal entries will balance: Total cash received equals total funds received; total cash disbursed equals total charges to trust fund clearing and local church fund accounts. Later paragraphs of this section will describe modifications that may be necessary to the Disbursements Journal.

## 207.05 General Journal Entries

Entries for transfers of credits from Church Expense to other funds need not be shown in the Disbursements Journal under this system. Rather, they can be handled by the use of a general journal voucher, which is posted directly to the accounts involved. Assume that the church board has authorized the transfer of \$150 from Church Expense to the Personal Ministries account. A voucher is prepared showing the journal entry as follows:

Debit	Church Expense	150	
Credit	Personal Ministries		150

Transfer of funds as authorized by church board; see board minutes of \_\_\_\_\_, 20\_\_.

It is essential that the journal voucher bear an explanation such as shown above, giving the specific authorization for the transaction.

## 207.06 Modifications of Disbursements Journal

In a relatively uncomplicated operation, as stated in paragraph 207.04, both the Receipts and Disbursements Journals may be used without modification, postings being made to the general ledger as previously outlined. Several applications of a more sophisticated business operation, though, may require that a Disbursements Journal with different columnar headings be used. Some of the conditions under which this is desirable are:

- ▶ Breakdown of Church Expense disbursements into component parts to correspond with a detailed budget of church expense.
- ▶ Payrolls with various deductions from employee gross pay.
- ▶ Purchases made on open account, with payment made in a month subsequent to the purchase.
- ▶ Expenditures for a major building project from building funds accumulated by the church or borrowed from the Revolving Fund or from another lender.

A suggested Disbursements Journal columnar arrangement to be used in connection with a double-entry system is shown in Exhibit 2-9. This

is shown as a double-page form; however, the entire arrangement of columns will go on a 20-inch sheet, the same size as the basic Disbursements Journal illustrated in Exhibit 2-6. Bear in mind that this form is only a suggestion. It may be changed to meet local requirements, or your local conference treasurer may have other suggestions as to columnar arrangement. The following paragraphs covering the four situations mentioned above describe the handling of transactions based on this suggested form of journal.

#### 207.07 Analysis of Church Expense

In an active church with a large membership and a busy program, the church budget usually breaks the total church expense requirements down into separate headings for telephone, maintenance, office stationery, printing, and other subdivisions. It is helpful to have the same separation of expenses carried through to the accounting records. In order to accomplish this with the modified Disbursements Journal and the Chart of Accounts, account 501 Church Expense can be expanded by using the decimal system and calling each subdivision by decimal number: 5 01.01, 501.02, and so on. The decimal portion is entered in the "Code" column along with each disbursement for church expense categories. These individual entries can be posted to the related accounts in the general ledger, or a separate summary of them can be made at the end of the month and the total of each decimal classification entered in its ledger account.

#### 207.08 Handling Payroll Entries

In paragraph 204.05, mention was made of the circumstances under which the local church and its employees may be subject to payment of Social Security taxes. This liability, and similar obligations as to the payment of other payroll-related taxes, has its impact on the accounting requirements. Of the total amount earned by a given employee, the employee is paid only a net sum. The church must remit the amounts deducted from the employee's pay to the Internal Revenue Service or to the appropriate state agency at a later date. In addition, the employer (in this case, the church) is also liable for a contribution from its own funds to the Social Security fund for an amount equivalent to that withheld from the employee's pay. With a double-entry system, the smoothest way to handle the complications of a payroll is as follows:

207.07

- ▶ Prepare a *payroll summary* showing for each employee the gross pay, the amount of each deduction, and the net amount of the paycheck.
- ▶ Using the payroll summary as a basis, prepare a *general journal entry* to record all aspects of the payroll, including the amount of Social Security tax that the church must contribute. Following is a sample of such an entry:

<u>Debit</u>	501.01	Custodial Expense	(salary of church custodian)
	501.04	Secretarial Expense	(salary of pastor's secretary)
	501.xx	Social Security Expense	(church's portion of SS tax)

<u>Credit</u>	211	Federal Income Tax Withheld	(total withheld)
	213	SS Tax Payable	(employee and employer tax)
	221	Payroll Clearing	(net cash due employees)

- ▶ Write the checks to the individual employees for the net amount due each, and record the checks in the Disbursements Journal, entering the amount in the Payroll Clearing column. Total of this column is posted to the debit of 221 payroll Clearing, where it balances the credit posted from the above journal entry.
- ▶ When the monthly or quarterly report is due to the IRS or to the state entity, write the check as required and enter it in the Disbursements Journal in the column "Other Liabilities." Debit postings from the entries in this column will balance credit postings from the journal entry as noted above.

#### 207.09 Purchases on Open Account

Most churches operate strictly on a cash, pay-as-you-go basis. On occasion, however, the church will make a purchase of supplies or services that is not paid for until the following month. Sometimes, in the case of a major purchase, arrangements may be made to pay the bill over a period of two or three months. It is important that such purchases be recorded in the month in which the purchase is made, not as the money is paid out. Assuming that such transactions are not numerous, it is recommended that the vendor's invoice be attached to a general journal voucher and entered as an expense and a liability in the month of purchase. In the case of a purchase of custodial supplies, the entry from the general journal voucher would be:

Debit	501.01	Custodial Expense	(amount)
Credit	201	Trade Accounts Payable	(amount)

When the payment is made, the entry in the Disbursements Journal will be to the Accounts Payable column. *Do not* record the item as an expense when the bill is paid. This has already been done in the general journal entry when the purchase was made.

## **Section 208    Accounting for Building Projects**

### **208.01    The Basic Problem**

From time to time the local church will undertake, with proper authorization, a major remodeling or construction project in connection with their existing church. Sometimes this will be financed entirely from funds on hand. On occasion, the conference will make an appropriation of a part of the cost. And sometimes the local church, again with conference authorization, will borrow money from the Revolving Fund or from another lender. It must be understood that, while all the funds will originally pass through the records of the local church, the completed project will not remain as an asset on the church books but will be transferred to the conference association which is charged with the responsibility of holding title to all church properties and accounting for their value. This means that the local church, in borrowing money for a portion of the cost, is in effect passing on to the conference a value for which it is still in debt. This point should be kept in mind as we go through the various steps in the accounting process.

### **208.02    Data for the Project**

For purposes of this illustration, we will assume that the Hypothetical SDA Church undertakes the construction of a wing to accommodate Sabbath school classrooms and rooms for Community Services and youth activities. Other assumptions:

- ▶ The total cost of the project is estimated at \$25,000.
- ▶ The church has on hand \$15,000 in its own Building Fund.
- ▶ The church has authorization to borrow from the Union Revolving Fund the remaining \$10,000.
- ▶ The loan will be repaid at \$1,000 per year.

Section 208

- ▶ The interest on the unpaid balance is 7.5 percent per year.
- ▶ The total value of the project is to be reported through to the conference association immediately upon completion of the addition.

### 208.03 Revolving Fund Loan

The church treasurer receives a check from the revolving fund for \$10,000. The amount is set up in a separate bank account as authorized by the church board. The entry:

Entry #1

111 Building Fund Bank Account	10,000	
251 Revolving Fund Notes Payable		10,000

To record receipt of proceeds of promissory note to Revolving Fund, payable in annual installments of \$1,000 plus 7.5 percent interest on unpaid balance.

At the same time the \$15,000 balance in the Building Fund on the regular church books is transferred to the Building Fund account:

Entry #2

111 Building Fund Bank Account	15,000	
110 Bank Checking Account		15,000

### 208.04 Disbursements for the Projects

During the course of the project, the church treasurer makes disbursements for materials, labor, etc., all on invoices or other vouchers properly authorized by the Building Committee, in the amount of \$23,875. The estimated cost was \$25,000, so the actual expenditures fall within the estimate. Separate entries will be made for each disbursement. The total of the entries will be:

Entry #3

401 Building Project	23,875	
111 Building Fund Bank Account		23,875

(Each disbursement will have a properly approved voucher attached.)

## 208.05 Closing Out Building Fund Bank Account

When the project is completed, it is evident that there will be a balance in the building fund bank account of \$1,125 (\$10,000 + \$15,000 - \$23,875 = \$1,125). This balance should now be transferred back to the regular checking account, and the building fund account, with church board authorization, should be closed out. The entry:

### Entry #4

110 Bank Checking Account	1,125	
111 Building Fund Bank Account		1,125

To close out Building fund bank account on completion of building project, as authorized in church board minutes \_\_\_\_\_, 20\_\_.

## 208.06 Reporting to Conference Association

We are now in a position to report the total value of the improvement project to the conference association and to reflect the transaction on the books of the church as well. This will require two entries:

### Entry #5

499 Projects Cleared to Association	23,875	
401 Building Project		23,875

To close out building project and transfer total value to conference.

### Entry #6

507 Church Building Fund	13,875	
5xx Appropriations to Conference	10,000	
499 Projects Cleared to Association		23,875

To record amount spent from church building fund and remainder carried as loan; all transferred to conference.

It is necessary to look at the second of these entries. The project has been cleared, and the Building Project account has been balanced out in the first entry. The second entry records the fact that \$13,875 has been furnished from church funds on hand, and the remaining \$10,000 represents an amount for which the church has gone into debt. In other words, the church has *overdrawn* its own funds by the amount of the loan. The overdraft will only be eliminated over a period of time as the church board makes budgetary provision for the \$1,000 per year that must be paid on the loan. We shall see in the following section how

this long-term overdraft of church funds is reported to the church membership.

#### 208.07 Payments on Revolving Fund Note

Entries and discussion in the earlier paragraphs of this section deal with the handling of the building project while it is in progress and with the closeout of the various accounts involved in the project itself. These entries leave us with two accounts related to the project that are not in balance. The Revolving Fund Notes Payable account has a credit balance of \$10,000 that will be paid off over a ten-year period in installments of \$1,000 per year, plus interest. There is also an account in the Church Funds section of the ledger, account 5xx Appropriations to Conference, which represents the overdraft of church funds, which was necessary to finance the project. Each year both of these accounts will be adjusted as the loan is paid off. The entries for the first year's payment will be:

Entry #7

251	Revolving Fund Notes Payable	1,000	
501.08	Interest on Loans	750	
	110 Bank Checking Account		1,750

To record payment of annual installment on revolving fund note, plus interest.

At the same time, the church board will have authorized the allocation of church expense funds for the payment of the principal on the loan and will have made provision in the budget for the payment of interest. The interest is already recorded as an expense in the above entry. Allocation of funds for the payment on the loan represents simply a transfer from other church expense funds as follows:

Entry #8

501	Church Expense	1,000	
	5xx Appropriations to Conference		1,000

To record allocation of funds for retirement of revolving fund loan.

As the second entry is made year-by-year, it is evident that the overdraft of church funds represented by Appropriations to Conference account will be written off to zero at the same time the revolving fund note is paid in full.

## 208.08 The General Ledger

The procedures outlined in these paragraphs may appear to be somewhat confusing at first reading. Exhibit 2-10 shows ledger T-accounts reflecting all these entries, each posting being numbered to correspond with the numbers of the entries shown in these paragraphs. For purposes of completeness we have assumed that at the start the local church has a bank balance of \$45,00 representing \$15,000 in the building fund and \$30,000 in other church funds. These beginning balances are identified as "Bal." in the T-accounts.

## **Section 209 Other Responsibilities of the Church Treasurer**

### 209.01 Commitment of Church Funds

It is sometimes overlooked that any individual making a purchase in the name of the church is thereby committing the church to pay for that purchase out of church funds. This being the case, it is necessary to make sure, in advance of any purchase, that funds are available to pay the bill. This is particularly important in the case of purchases made by one of the departments or organizational activities, for the funds of these groups are strictly limited by the amount in the hands of the church treasurer designated specifically for each group. In the smaller churches it is usually possible to have an understanding with the directors of the various departments, the pastor, head elder, head deacon, or custodian that, if there is any doubt about the availability of funds, they should check with the church treasurer *before* making the purchase to determine that money is available to pay the bill. In larger churches, where more people are involved in purchasing activities, it is well that a purchase order system be used and that all concerned persons understand that no purchases are to be made without a purchase order signed by the church treasurer. The treasurer will check before issuing the purchase order that money is available in the proper fund to pay the invoice when it arrives.

### 209.02 Adventist Book Center Business

Nearly all activities of the typical church are involved quite regularly in purchases from the Adventist Book Center. It is important that certain

guidelines be set up to avoid confusion in paying the ABC monthly statement and in charging the proper fund for the purchases thus made.

- ▶ As inferred in portions of the *Church Manual* quoted as paragraphs 102.02 and 102.07 of this manual, money for literature orders to be forwarded to the Adventist Book Center should be turned in to the church treasurer to be properly receipted and recorded.
- ▶ The Adventist Book Center should be instructed to carry only one account for each local church and to mail the statements on that account to the church treasurer.
- ▶ The ABC should be notified promptly of a change in church treasurer or a change in the treasurer's mailing address.
- ▶ For all purchases made from the ABC, the individual receiving the material should sign the ABC sales ticket. If the order is placed by mail or by telephone, the ABC should be requested to write on the sales ticket the name of the individual placing the order.
- ▶ The practices in the ABCs vary. In some cases all sales tickets are attached to the monthly statement and mailed at the end of the month. In other instances the sales ticket is handed to the individual making the purchase or mailed along with the material. If the latter plan is used in your conference, all individuals doing business with the ABC should be instructed to immediately turn over the invoices for merchandise that they have purchased. The officer of the department involved should approve each invoice for payment.
- ▶ Upon receipt of the monthly statement from the ABC, the treasurer should match the charges on the statement with the sales invoices (as described above) and pay only those charges for which itemized, approved invoices have been received. It is never proper to pay from the unitemized monthly statement.

### 209.03 Local Church Literature Ministry

There is an increasing commendable trend toward keeping a representative stock of missionary literature which the church makes available to its members, not as a sale, but in return for free-will offerings to the Personal Ministries fund or to a separate Missionary

Literature Fund. This is a praiseworthy effort to involve the individual members in scattering our truth-filled literature “like the leaves of autumn.” The church treasurer should work with the individuals responsible for this stock of literature to ensure that it is physically safeguarded at all times, is kept under lock and key except when personally attended, and is issued to members individually at their request. Financing for this literature, which is purchased outright from the Adventist Book Center, may be either through the Personal Ministries Fund or through a separate Missionary Literature Fund, and handled on a revolving basis. By this we mean that, after the first purchase of a stock of literature, replacement purchases from the ABC are made only as contributions from members are received and placed in the Missionary Literature Fund. The church treasurer can help in encouraging contributions to this fund, and should be watchful to see that purchases are not made unless there is a sufficient balance in the fund to cover them.

#### 209.04 Purchases for Members

In many churches, particularly where the church is at a distance from the ABC, members are encouraged to place their ABC orders through the Personal Ministries secretary of the church. It should be understood that all such orders should be paid for in advance. The church is not in a position to carry charge accounts for its members. If such transactions are relatively small in number and amount, it may be feasible to run them through the Personal Ministries fund on the church treasurer’s records. On the other hand, if there are numerous such orders, the church treasurer may wish to use a separate column in the Local Church Funds section of the journals and enter the amount received from members and the payments to the ABC in this separate column. In every case—and this is particularly important—the treasurer’s receipt to the member for money paid on such orders should be identified as “Personal Purchase; Not a Tax-Deductible Contribution.” This can be done either by writing across the face of the receipt, or by using a stamp with the proper wording.

#### 209.05 Legal Documents

As mentioned in the *Church Manual* (see paragraph 107.01), the local conference association is the custodian of all legal documents relating to the local church properties or to legal business with anyone. The reason for this is that the local church is not a legally incorporated

body. Rather it is a “voluntary association” which has no legal standing as a body. The Conference Association is legally incorporated and is authorized to hold title to property and to receive bequests. Therefore, any deeds or mortgages pertaining to property of your church or any wills executed by individuals in which any denominational organization is named should be sent promptly to the office of the conference association.

#### 209.06 Local Church Insurance

Most conferences in the North American Division now have a designated Loss Control Officer who is responsible for looking after the insurance program of the conference itself, as well as of the local churches, schools, and conference institutions. As church treasurer, you should work closely with the loss control officer to make sure that your church is properly protected against the usual property losses (fire, flood, windstorm, etc.), and also against public liability claims (from individuals injured while on church property) and workers’ compensation coverage if the church employs custodial, grounds, or secretarial workers. You should also investigate the matter of coverage against loss by burglary or holdup, vandalism, and fidelity bond on local church personnel responsible for the handling of funds, as required by your conference.

#### 209.07 Repairs and Upkeep

As stated in the *Church Manual* (see paragraph 107.02), the responsibility for repairs and maintenance of the church property is usually assigned to the deacons, under the direction of the Church Board. As this activity invariably involves the expenditure of funds, the church treasurer will necessarily become involved in it. The treasurer should keep in touch with plans for major expenditure of funds and make sure that funds are available or provided for before commitments are made. As the financial officer of the church, the treasurer must know of all such arrangements. Financing should always be arranged in advance, not after the work has been done and the money has been spent or obligated.

## **Section 210 Reporting and Budgeting**

### **210.01 Reporting on Stewardship**

Throughout this manual the fact has been repeatedly emphasized that the church treasurer is a steward of funds. “It is required in stewards that a man be found faithful” (I Cor. 4:2), and the reports rendered by the church treasurer are simply a means of demonstrating this faithfulness. “Reports” in this context refer not only to the formal reports to the local conference, the church board, and the church business meeting, but to the individual receipts written to the donors themselves, for these are also “reports” of the amounts which the treasurer has received and for which he/she assumes responsibility.

### **210.02 Conference Monthly Remittance**

The monthly remittance to the local conference of all conference funds has been discussed in paragraphs 204.04 and 206.11. Sample forms are illustrated in Exhibits 2-3 and 2-7. Your own conference will provide a form on which you will render this monthly report of conference funds remitted. It will probably follow fairly closely one or the other of the two illustrations. Exhibit 2-7 includes space for all these items and also provides for a complete report by the local treasurer of transactions affecting local church funds that are retained at the local church. If your conference form does not include provision for reporting on local church funds, you should prepare or design a form to include this information.

### **210.03 Report of Local Church Funds**

Depending on the size and activity of the local church, the report of local church funds may be either fairly simple as illustrated in the lower half of the form shown in Exhibit 2-7, or it can contain considerably more detail. The simple form is illustrated in Appendix 2-1. Note first the heading of the statement. It must always include the name of the church and the *period* of time covered by the report—in this case the “Month Ended April 30, 20\_\_.” Each fund is listed and for each the balance in the fund at the beginning of the month (which must correspond with the closing balance from the previous month’s report), total funds received, total funds disbursed, and the balance at the end of the month. These figures will be identical with those on the last several lines of the Disbursements Journal.

#### 210.04 A More Comprehensive Report

Appendix 2-4, which is presented in two pages, presents a more comprehensive report, including not only the single-month data, but also the totals for the year to date. (Note that this church operates on a fiscal year of July 1-June 30.) This has the advantage of showing both total offerings and details of disbursements on the first page and the apportionment of both offerings and disbursements to their respective funds on page 2. It can be used as both the monthly and the annual reports and thus might replace the form shown as Appendix 2-3(2).

#### 210.05 Funds on Hand

In our discussion of the closing of the Disbursements Journal (paragraphs 206.12 and 206.13), it was emphasized that the final balances in the local church fund columns total the amount actually in the bank. The same principle is brought out in the closing portion of the report illustrated: the amounts listed as balances in the checking, savings, and investment accounts agree with the final balances in all church funds.

#### 210.06 Budget Comparison

The two columns at the right of the report form provide a comparison of the amounts actually expended *for the year-to-date* with the amount provided by the church board or the advisory committees of the various department activities as a budget for the year. Preparation of the budget for church expense will be discussed in a later paragraph of this section. It is simply pointed out here that the budget for the year-to-date is determined by dividing the annual budget by 12 and multiplying by the number of months of the year expired to the date of the report. (In this case, the total church budget was \$1,925; the budget per month is 1/12 of this, or \$160.4167. For the four months of the year,  $\$160.4167 \times 4 = \$641.67$ .) The actual expended for the year is the total of the "Paid Out" columns for each of the four monthly reports.

#### 210.07 Analysis of Church Expense

In paragraph 207.07 we discussed the plan of breaking down the expenditures from the Church Expense Fund into separate classifications. This is done primarily for the purpose of reporting to the church board or the membership each month not only the total of

church expense, but also the particular *kinds* of expense, and how each kind of expense compares with the amount provided for it in the annual budget. List each individual category of church expense separately with beginning balance, receipts and disbursements, ending balance, and budget comparisons. At the end of this list, show a *sub-total* of all the Church Expense classifications and follow this with a listing of all other funds in the usually way. In a large church with a highly detailed budget, a separate sheet with the same columnar headings can be used for the detail of the church expense accounts. It would then be totaled and the totals carried over to the report as only a single line item.

#### 210.08 Balance Sheet

The report mentioned in the previous paragraphs is designed particularly for the smaller churches and for those which use the Receipts and Disbursements Journals as the entire accounting record. For those churches using a double-entry system of accounting (with a general ledger carrying asset and liability accounts), it is necessary to present a simple balance sheet as well as a detailed report of the status of local church funds in order for the report to be complete. Such a balance sheet is shown as Appendix 2-2.

#### 210.09 Conference Funds, Comparative Reports

The sample conference remittance report form in Exhibit 2-7 provides for showing the status of both conference and local church funds for the current month. This may be adequate for the report to the conference, but the local church board may be interested in more detail. In every case, along with the report of local church funds to the church board, there should be an accompanying report of conference funds received and remitted. If your church board is satisfied with an arrangement such as shown in Exhibit 2-7, well and good. In many cases, though, the church board and church membership like to have and are encouraged by a report which will show not only the conference funds received and remitted this month, but also the total received for the year-to-date and a comparison column showing the amount received last year-to-date. The church treasurer should be alert to opportunities for designing reports which will pass on the required minimum of information as well as demonstrate the progress which the membership is making in increasing their support of the gospel work world wide.

## 210.10 The Church Budget

No church, however small, should be satisfied to operate without a budget. Financial planning is necessary for the happiness and prosperity of any family, and this applies equally to the church family. Setting up a budget for the local church need not be a burdensome responsibility. Certain guidelines are necessary if the budget is to be an effective measure of financial control for the church. Some suggestions for the church treasurer and the church board include:

- ▶ Start planning for the budget no later than November 1 for the budget to become effective January 1 of the next year. The first step is for the church treasurer to prepare a record of actual expenditures for the current year. Use the actual figures for the ten months ending October 31 and add 1/6 as an estimate for the remaining two months of the year. This will give you an estimated amount for the current year and will be a good starting point in estimating the amount to be required for the next year.
- ▶ Discuss with the church board (or with the board's Finance or Budget Committee) the prospective needs for the coming year. Are any unusual expenditures anticipated for repairs to buildings or equipment, for purchase of new equipment, for employment of additional help in the local church? Secure this information and make adjustments to the estimated expenditures for the year. Don't forget to add a percentage to each category as required to cope with rising prices.
- ▶ If the various departmental activities and organizations are subsidized from Church Expense, include in the Church Expense budget the amounts which will have to be passed on to these activities.
- ▶ All the above is preliminary work to be done by the treasurer with counsel from the church board. When the treasurer has finished compiling the estimated requirements for the coming year, the tentative budget is taken to the church board for its consideration, modifications, and ultimate approval. If a Finance or Budget Committee is active, the treasurer's tentative budget should be processed through that committee. It is necessary, though, that the church board approves the final budget and the action is shown in

the church board minutes. A copy of the approved budget should be part of the minutes.

#### 210.11 Unified Church Budget

Some churches operate on the plan of a unified church budget with provision being made for those items which are properly considered "church expense" and for the requirements of the other departments and activities. When this is done, the church budget will show the amounts to be transferred to the other activities from incoming funds designated as "Church Budget" funds. This apportionment can be made either on the basis of a flat dollar amount each month to the other activities from "Church Budget" or on a percentage allocation of whatever funds come in for "Church Budget." For example, 5 percent to Sabbath school expense, 2 percent to Community Services, 2 percent to Youth activities, and so on, based on the estimated needs of the various activities and with counsel from the treasurer based on the actual needs of the activities in previous years. This apportionment should be voted by the church board at the time it approves the budget. The actual apportionment month by month is recorded as described in paragraph 206.16.

#### 210.12 Offerings Direct to Activities

From time to time a question arises when a departmental activity which has been given a commitment for an allocation of money from the Church Budget funds receives a direct offering of a significant amount. The question is asked, "Should this 'windfall' offering be in addition to the amount committed from the Church Budget, or should the appropriation from the Church Budget be reduced in recognition of the direct offering?" This manual offers no answer to the question. It would be well for the church board, in anticipation of such a situation, to discuss the problem and arrive at a definite policy for handling such a problem if and when it arises.

#### 210.13 The Annual Report

The discussion in the foregoing paragraphs of this section has to do with the monthly report which the treasurer prepares for presentation to the church board and a copy of which is sent promptly to the conference treasurer and auditor. It is also necessary, at the close of the year, to prepare a report that reflects the total activity of the year,

represented by an accumulation of all the figures in the monthly reports. In some cases it may be possible to adapt the monthly report illustrated in Exhibit 2-7 for this purpose, changing the column headings to read:

Balance First of Year  
Received During the Year  
Paid During the Year  
Balance at Close of Year

However the variety of transactions handled during a full year period may be such that these column headings do not afford space for a complete report of all activity. A more adequate form of report for conference funds received and remitted and transactions affecting local church funds is shown in Appendix 2-3. This is a two-page report with conference funds received and remitted on page 1, and a summary of local church fund activity, complete with a budget comparison for the year, on page 2. With the background contained in the earlier sections of this manual, most of these items will be self-explanatory. The following brief comments will be of assistant in completing the report properly.

- ▶ On page 1 (Conference Funds) list the totals received and remitted to the conference for each month of the year. The grand total will, of course, agree with the figure “Total Conference Funds” in the upper portion of the report. Tabulation of the monthly remittances, with dates, will substantiate the fact that the treasurer has remitted promptly each month to the conference.
- ▶ On page 2 (Local Church Funds) blank lines are provided for a breakdown of Church Expense into its component budgetary provisions. If your church has provided budget for specific items in church expense, this detailed listing will permit you to show the actual disbursed and the related budget provision for each category.
- ▶ The column “Over (Under) Budget” is the difference between amounts actually paid and the budget provided. If the budget has been overspent, the amount is entered in this column. If the budget is more than actual disbursements, the difference is entered in parentheses.

- ▶ The “Transfers” column is to be used only when funds have been transferred, by proper authorization, from one fund to another. The transfers *from* and the transfers *to* will balance, and the total of this column will always be a zero.
- ▶ The proof of figures in the upper portion of the report is contained in the summary of cash on deposit in various bank accounts and savings instruments. Each account or investment should be listed separately. The total of this section will agree with the “Balance on Hand, December 31” column.
- ▶ The sample reports in this manual are dated for a fiscal year ending December 31. We recognize that in some conferences certain churches are permitted to operate on some other year ending.

## **Section 211    The Annual Audit**

### 211.01 The Basic Plan

The *Church Manual* and the *Working Policy* of the Seventh-day Adventist Church provide for every set of accounting records, from the local church through to the General Conference, to be audited each year by competent, professional-qualified auditors. These auditors are elected or appointed by the General Conference at all levels down to the local conference. The conference executive committee appoints local conference auditors who audit the records of the local churches and church schools. The church treasurer should expect a biannual audit review from the local conference auditor and should understand in general terms what the auditor will do and what records will be required. The audit review would include, but not be limited to, the following:

- Receipting documentation
- Tithe envelopes for accurate distribution of donation
- World/conference offerings
- Accounts payable documentation
- Accounts receivable documentation
- Payroll related items
- Church (school) board minutes
- Internal control policies
- Combined budget distribution
- Process for reporting church (school) financial position to board

### Section 211

Timeliness of remittance of funds to conference  
Bank reconciliation  
Bank statement, general ledger check register reconciliation  
Building fund projects

## 211.02 Preparing for the Audit

If the instructions and recommendations in this manual have been followed carefully, if all reports have been submitted accurately and on time, and if all records and files have been maintained and held available, there should be no question of “getting ready” for the auditor. It is helpful for the treasurer to know, though, what records the auditor will ask for and examine. The following points are only suggested. If all the records mentioned are available and up-to-date, though, the auditor will undoubtedly be pleased with the treasurer’s work.

- ▶ Individual packs of weekly tithing envelopes, with adding machine tapes showing total funds received.
- ▶ Validated carbon copies of weekly deposits of funds in the bank, each one agreeing with the weekly totals of envelopes. Dates on deposit tickets, usually for the Monday following the Sabbath covered by the offering.
- ▶ Receipts journals for each week’s receipts written, totals agreeing with envelopes and deposits, and distributions to various funds agreeing with that shown on individual envelopes.
- ▶ Disbursement journal listing all checks accurately with proper distribution, all entries supported by invoices or vouchers, preferably originating *outside* the local church organization (vendor invoices properly approved, conference remittance forms promptly drawn and receipted by conference treasurer, etc.).
- ▶ A separate numerical file of canceled checks. (Do not attach canceled checks to the supporting vouchers or file them with the bank statements. They should be kept in a separate file in numerical order.)
- ▶ A file of bank reconciliations and bank statements (one for each month of the year) evidencing that reconciliations have been

prepared promptly and regularly and have been reviewed by someone other than the treasurer.

- ▶ Church board minutes containing authorizations for the annual budget, for all out-of-the-ordinary expenditures, for opening and closing of bank or investment accounts, and authorizing signatures and signature changes on accounts.

As has been said, all of these items are a part of the routine of the church treasurer's job and should be done whether there is an audit or not. If the work is done properly and on time, there is no "preparation" necessary.

### 211.03 Relationship With the Auditor

The efficient church treasurer has no reason to feel nervous when the auditor arrives to do the audit. In fact, the auditor should and can be the church treasurer's best friend. The auditor has an intimate knowledge of the difficulties and frustrations that the treasurer faces, and is sympathetic with the problem of trying to work the burdensome tasks of the treasurer into an already overcrowded program of family responsibilities, regular employment, and other tasks. In most cases the auditor will have helpful suggestions as to how the treasurer's work can be done more efficiently and how the treasurer can save time while still doing a top grade of work. The treasurer's contact with the conference auditor should not be limited to the annual audit. It is well to get in touch with the auditor immediately when a problem or question arises. The time to solve the problems is when they occur, not months later when the auditor appears for a regular visit.

### 211.04 Records Retention

One area in which the auditor can be of definite help is in the matter of filing and retaining records. Tithe envelopes, especially, pile up through the year, and the matter of providing space for keeping them pending the auditor's examination can be perplexing. Consult with your auditor on this point and find out not only how to file the envelopes, but how long they should be retained after the audit is completed. Other records—journals, disbursement vouchers, bank statements and reconciliations—are not so voluminous, but in each case they should be filed neatly and in a way that permits a specific paper to be located readily. Here, too, the auditor can give you valuable suggestions and can acquaint you with the requirements of your conference as to how long the records should be kept.

211.03

Following is a suggested schedule or retaining documents:

Audit reports (financial)	Permanent
Audit reports (labor, salary, expense)	Permanent
Ledgers (general)	Permanent
Ledgers (accounts receivable)	10 years
Journals (general)	Permanent
Receipts (cash)	6 years
Vouchers (journal, purchase, disbursement)	6 years
Canceled checks (general)	6 years
Canceled checks (payroll)	4 years
Bank statements and reconciliations	6 years
Employment records	Permanent
Time cards	4 years
Payroll journals and earnings record (employee)	Permanent
Tithe envelopes	Keep until after audit, then destroy by shredding or burning

Donor Name and Address

RECEIPT FOR TITHES AND WEEKLY OFFERINGS  
 A Local Conference of Seventh-day Adventists  
 P O Box 000, City, State 00000

Fund	Children's Names					Monthly Totals
	First Week	Second Week	Third Week	Fourth Week	Fifth Week	
Month of: _____						
TITHE	_____	_____	_____	_____	_____	_____
Sabbath School	_____	_____	_____	_____	_____	_____
Conference Advance	_____	_____	_____	_____	_____	_____
Ingathering (SDA)	_____	_____	_____	_____	_____	_____
Ingathering (Non-SDA)	_____	_____	_____	_____	_____	_____
Conference Evangelism	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
Church Budget	_____	_____	_____	_____	_____	_____
Church School	_____	_____	_____	_____	_____	_____
Personal Ministries	_____	_____	_____	_____	_____	_____
Sabbath School Expense	_____	_____	_____	_____	_____	_____
Building Fund	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
<b>Weekly Totals</b>	_____	_____	_____	_____	_____	_____

Month of: _____						
TITHE	_____	_____	_____	_____	_____	_____
Sabbath School	_____	_____	_____	_____	_____	_____
Conference Advance	_____	_____	_____	_____	_____	_____
Ingathering (SDA)	_____	_____	_____	_____	_____	_____
Ingathering (Non-SDA)	_____	_____	_____	_____	_____	_____
Conference Evangelism	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
Church Budget	_____	_____	_____	_____	_____	_____
Church School	_____	_____	_____	_____	_____	_____
Personal Ministries	_____	_____	_____	_____	_____	_____
Sabbath School Expense	_____	_____	_____	_____	_____	_____
Building Fund	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
<b>Weekly Totals</b>	_____	_____	_____	_____	_____	_____

Month of: _____						
TITHE	_____	_____	_____	_____	_____	_____
Sabbath School	_____	_____	_____	_____	_____	_____
Conference Advance	_____	_____	_____	_____	_____	_____
Ingathering (SDA)	_____	_____	_____	_____	_____	_____
Ingathering (Non-SDA)	_____	_____	_____	_____	_____	_____
Conference Evangelism	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
Church Budget	_____	_____	_____	_____	_____	_____
Church School	_____	_____	_____	_____	_____	_____
Personal Ministries	_____	_____	_____	_____	_____	_____
Sabbath School Expense	_____	_____	_____	_____	_____	_____
Building Fund	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
<b>Weekly Totals</b>	_____	_____	_____	_____	_____	_____

NOTE: This receipt is for funds received during the past three months. Save this sheet for Income Tax Purposes. Those items marked with an asterisk may or may not be deductible for income tax purposes. If not, then the nonacceptable ones should be deducted from the totals.

\_\_\_\_\_ Local Church Name  
 \_\_\_\_\_ Date \_\_\_\_\_ Treasurer

Form D-2

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NOTE: Attach invoice, disbursement voucher, or other evidence of authorization for payment to the upper portion of this form and fill in information called for on the blank lines below.

If no invoice is available (which will be the case for such items as rent and loan payments) fill in the requested information below and place this form in the disbursement voucher file in regular numerical order according to check number.

**DO NOT ATTACH THE CANCELED CHECK TO THIS SHEET.**

Date \_\_\_\_\_ Amount \_\_\_\_\_  
Paid to \_\_\_\_\_  
For \_\_\_\_\_  
Charge to \_\_\_\_\_

Check No. \_\_\_\_\_

## REMITTANCE SHEET

Received of \_\_\_\_\_

\_\_\_\_\_  
 Street  
 \_\_\_\_\_  
 City, State, Zip

\_\_\_\_\_  
 Credit to Church  
 \_\_\_\_\_  
 For the Month Ending

### CHURCH RECEIPTING CODES

Ref #	Account Title		
1	Tithe(Churches)		
2			
3	Sabbath School (12 Sabbaths)		
4	Sabbath School (13th Sabbath)		
5	Investment		
6	Birthday-thank		
7	Annual Sacrifice		
8	Midsummer Missions		
9	Mission Extension		
10	Missions Miscellaneous		
11	Spring Mission Advance		
12			
13			
14	World Budget		
15	Ingathering (member donations)		
16	Ingathering (non-member donations)		
17	Andrews University		
18	Christian Record		
19	Faith for Today		
20	Loma Linda University		
21	Oakwood College		
22	Voice of Prophecy		
23	ADRA		
24	North American Mission Literature		
25	Servicemen's Fund		
26	Temperance Union (Oct. & Nov.)		
27	Adventist World Radio		
28	World Evang (GC Session) Adv in F		
29	It Is Written		
30			

Ref #	Account Title		
31			
32			
33			
34	Religious Liberty		
35	VOP Spanish		
36	VOP Wayout		
37			
38	Isralite (Jews)		
39			
40	Conference Advance		
41			
42	Colporteur Literature		
43	Elementary Education		
44	TV Evangelism (Conf.)		
45	General Evangelism (Conf.)		
46			
47	Indian Offering		
48	Inner City Offering		
49			
50	Youth Camp		
51	Mission School		
52	Academy Offering		
53			
54	Conf. Retirement Home		
55	Temperance Local		
56	Check Exchange		
57	quiet Hour		
58			
59	Dark County Evangelism		
60			
TOTAL REMITTANCE			

\_\_\_\_\_  
 By \_\_\_\_\_ Conference of SDA

\_\_\_\_\_  
 Receipt No. \_\_\_\_\_

\_\_\_\_\_  
 Date \_\_\_\_\_

**HYPOTHETICAL SEVENTY-DAY ADVENTIST CHURCH  
BANK RECONCILIATION  
April 30, 20xx**

Name of Bank: Blissful County National Bank	Account No:	203-20302
Balance per Bank Statement		\$ 2,236.21
Add: Deposit in Transit, April 30	\$ 361.50	
Other SDA Church check charged in error to our account	<u>23.92</u>	385.42
Less: Outstanding Checks:*		
#799	\$ 42.86	
#809	153.09	
#816	25.65	
#822	<u>48.01</u>	<u>(269.61)</u>
ADJUSTED BANK BALANCE		<u><u>\$ 2,352.02</u></u>
Balance per Church Records		\$ 2,444.02
Less: NSF Check, John Brown, 3/12/xx	\$ 30.00	
Bank Service Charges	8.00	
Our Error Recording Check #821	<u>54.00</u>	<u>(92.00)</u>
ADJUSTED RECORD BALANCE		<u><u>\$ 2,352.02</u></u>

Reviewed by \_\_\_\_\_

\*For checks outstanding more than one month, show date and name of payee.

## CASH RECEIPTS JOURNAL

Seventh-day Adventist Church

Page No. \_\_\_\_\_

AMOUNT RECEIVED	RECEIVED FROM	RECEIPT NUMBER	CONFERENCE FUNDS																					
			TITHE	INGATHERING DONATED   SOLICITED		MISSIONS	SABBATH SCHOOL	13TH SABBATH	INVEST- MENT	CODE	AMOUNT	CODE	AMOUNT											


M--Mid-Summer X--Mission Extension W--Week of Sacrifice B--Birthday Offering	I--Spring Missions E--Christian Education C--Loma Linda University S--North American Missions	F--Faith for Today L--Religious Liberty T--Temperance V--Vouce of Prophecy	O--Oakwood College
---	--	---	--------------------

Prepared by \_\_\_\_\_

For the month of \_\_\_\_\_

LOCAL CHURCH FUNDS

CHURCH BUDGET	CHURCH SCHOOL	PERSONAL MINISTRIES	BUILDING FUND	S. S. EXPENSE	COMMUNITY SERVICES	YOUTH SOCIETY	NEEDY POOR			MISC. OFFERINGS	NAME OF OFFERING IN MISC. COL.




Prepared by \_\_\_\_\_

For the month of \_\_\_\_\_

LOCAL CHURCH FUNDS											
CHURCH BUDGET	CHURCH SCHOOL	PERSONAL MINISTRIES	BUILDING FUND	S. S. EXPENSE	COMMUNITY SERVICES	YOUTH SOCIETY	NEEDY POOR			MISC. OFFERINGS	NAME OF OFFERING IN MISC. COL.


Summary of \_\_\_\_\_ Church Treasurer's Record

For the Month of			NAME OF FUNDS				TOTALS	
			Tithe*					
			MISSION FUNDS					
			Ingathering* - SDA Donated					
<b>SABBATH SCHOOL</b>			Ingathering* - Non-SDA Donated					
Regular Sabbath School			Midsummer					
Birthday/Thank Offerings			Mission Extension					
Investment			Week of Sacrifice					
13th Sabbath								
<b>TOTAL SABBATH SCHOOL OFFERINGS</b>								
For Office Use Only			Total Mission Funds					
			MISCELLANEOUS FUNDS					
			Conference Advance*					
Check No.	Date	Amount	Conference Evangelism*					
			Faith for Today					
			Voice of Prophecy					
Conference Receipt								
Treasurer:								
_____ Conference								
_____ of Seventh-day Adventists								
			Total Miscellaneous					
			<b>TOTAL REMITTANCE</b>					
<b>LOCAL CHURCH FUNDS</b>			Balance First	Received During	Paid During	Balance at Close		
Retained by Church Treasurer			of month	the Month	the Month	of Month		
Church Budget* (undistributed)								
Church Expense								
Church School*								
Personal Ministries*								
Sabbath School Expense*								
Community Services*								
Building Fund*								
Youth Activities*								
Poor Fund								
<b>TOTALS** (Same as Total Church Funds)</b>								

White & Yellow - Send to Conference with Remittance (Yellow copy will be returned to Treasurer as receipt)  
 CHECKING \_\_\_\_\_ Treasurer \_\_\_\_\_  
 (Total Received)  
 Pink - Give to your Pastor  
 SAVINGS \_\_\_\_\_ Address \_\_\_\_\_  
 (Savings Acct.) \_\_\_\_\_

\*Offerings on the envelope  
 \*\*Totals must equal

TOTAL CHURCH FUNDS \_\_\_\_\_

## CHART OF ACCOUNTS

Account Number	Title	Account Number	Title
101	Petty Cash	401	Building Projects
110	Bank Checking Account	499	Projects Cleared to Conference Association
120	Bank Savings Account		
121 . . .	Investment Accounts (each investment in a separate account)	501	<u>Local Church Funds</u>
			Church Expense: may be broken down into budget categories such as:
201	Trade Accounts Payable	501.01	Church Custodial
211	Federal Income Tax Withheld	501.02	Grounds Maintenance
212	State Income Tax Withheld	501.03	Elementary School Appropriation
213	Social Security Tax Payable	501.04	Secretarial Expense
214 . . .	Other Taxes Payable (separate accounts)	501.05	Printing and Stationery
221	Payroll Clearing	501.06	Postage and Mailing
251	Revolving Fund Notes Payable	506.07	Telephone
252 . . .	Other Long-term Notes Payable (separate accounts)	506.08	Interest on Loans
			(Other categories as required)
		502	dorcas Society
	<u>Conference Funds</u>	503	Personal Ministries
301	Tithe	504	Adventist Youth
302	12 Sabbath Offerings	505	Sabbath School Expense
303	13th Sabbath Offering	506	Pathfinder
304	Birthday/Thank Offering	507	Welfare
305	Investment Offering	508	Building Fund
306 . . .	Other conference Funds (separate account for each offering)	509 . . .	Other local church funds as required
399	Conference Funds Clearing		

## DISBURSEMENTS JOURNAL

Month of \_\_\_\_\_

Date	Payee	Check No.	Amount	Savings/Investments		Accounts Payable	Payroll Clearing	Conference Funds Clearing
				Amount	Account			

Left Hand Page

Other Liabilities		Church Expense		Dorcas	Personal Ministries	S.S. Expense	Youth Activities	Pathfinders	Building Fund	Other Church Funds	
Amount	Account	Amount	Cd							Amount	Account

Right Hand Page

**BUILDING PROJECT T-ACCOUNTS**

Bank Checking			
Bal.	45,000	15,000	#2
#4	1,125	1,750	#7

Building Fund Checking			
#1	10,000	23,875	#3
#2	15,000	1,125	#4

Revolving Fund Notes Payable			
#7	1,000	10,000	#1

Church Building Fund			
#6	13,875	15,000	Bal.

Building Project			
#3	23,875	23,875	#5

Other Church Funds			
#7	(501.08)	750	30,000 Bal.
#8	(501)	1,000	

Projects Cleared to Association			
#5	23,875	23,875	#6

Appropriations to Conference			
#6	10,000	1,000	#8

HYPOTHETICAL SEVENTH-DAY ADVENTIST CHURCH  
**MONTHLY REPORT OF LOCAL CHURCH FUNDS**  
 Month Ended April 30, 20xx

Fund No.	Name of Fund	Balance 4/1/xx	This Month		Balance 4/30/xx	Budget Comparison	
			Received	Paid Out		Actual to Date	Budget to Date
	Church Expense	417.21	115.50	197.82	334.89	682.50	641.67
	Adventist Community Services	115.40	87.00	79.50	122.90		
	Personal Ministries	63.28	147.00	152.75	57.53		
	S.S. Expense	97.07	48.58	27.18	118.47		
	Youth Activities	15.54	108.01	89.77	33.78		
	Pathfinder						
	Welfare	105.00	37.80	91.80	51.00		
	Building Fund	1,527.00	223.00		1,750.00		
	TOTALS	2,340.50	766.89	638.82	2,468.57	682.50	641.67

Funds on Hand:	Bank Checking		968.57
	Bank Savings		1500.00
	Other		
	TOTAL Funds on Hand		2468.57

Signed: Jane W Doe  
 Church Treasurer

HYPOTHETICAL SEVENTH-DAY ADVENTIST CHURCH  
**BALANCE SHEET**  
 April 30, 20xx

**ASSETS**

Current Assets

Cash in Bank - Checking  
 Cash in Bank - Savings

\$ 1,451  
 3,575

TOTAL ASSETS

\$ 5,026

**LIABILITIES AND FUND BALANCE**

Current Liabilities

Trade Accounts Payable  
 Payroll Taxes Payable

\$ 428  
274

TOTAL CURRENT LIABILITIES

\$ 702

Long-term Liabilities:

Revolving Fund Note Payable

8,700

TOTAL LIABILITIES

\$ 9,402

Fund Balance:

Current Church Funds (see report attached)  
 Balance of Bldg Project Funds Reported to Conf  
 FUND BALANCE(Overdraft)

\$ 4,324  
(8,700)

(4,376)

TOTAL LIABILITIES AND FUND BALANCE

\$ 5,026

**HYPOTHETICAL SEVENTY-DAY ADVENTIST CHURCH**  
**TREASURER'S ANNUAL REPORT**  
 Year Ended December 31, 20xx

Conference Funds Received and Remitted During the Year

Tithe		\$	16,225
Sabbath School:	12 Sabbaths	\$	2,641
	13th Sabbath		309
	Brithday and Thank Offerings		56
	Investment		102
	<b>TOTAL SABBATH SCHOOL OFFERINGS</b>		<b>\$ 3,110</b>
Ingathering	SDA Donated		325
	Non-SDA Donated		572
Midsummer			203
Missions Extension			198
Week of Sacrifice			714
			57
			139
			61
			47
			38
	Conference Evangelism		288
	Faith for Today		207
	Voice of Prophecy		252
	Conference Academy		250
	<b>TOTAL CONFERENCE FUNDS</b>		<b>\$ 22,686</b>

<u>Month</u>	<u>Date Remitted</u>	<u>Amount</u>	<u>Month</u>	<u>Date Remitted</u>	<u>Amount</u>
January	2/8	\$ 2,442.05	July	8/5	\$ 1,675.40
February	3/6	1,812.81	August	9/8	2,023.32
March	4/8	21,036.40	September	10/7	954.40
April	5/9	1,931.75	October	11/7	2,101.01
May	6/4	1,041.80	November	12/4	1,861.40
June	7/6	1,703.82	December	1/8	3,102.31
			<b>TOTAL CONFERENCE FUNDS</b>		<b>\$ 22,686.47</b>

Local Church Funds Received and Disbursed During the Year

	Balance Jan. 1	Received During the Year	Paid Out During the Year	Transfers to (from) Other Funds	Balance Dec. 31	Annual Budget	Over (Under) Budget
Unified Budget	501.41	1,946.67	2,101.50	100.00	245.58	2,000.00	102.50
Church Expense							
Personal Ministries	41.80	450.00	412.80		79.00	480.00	(67.20)
S.S. Expense	102.02	217.75	140.00		179.77	120.00	20.00
Community Services	125.73	198.50	241.87	(100.00)	182.36	240.00	1.87
Building Fund	810.00	1,275.00			2,085.00		
Youth Activities	28.18	258.80	232.10		54.88	240.00	(7.90)
Poor Fund							
BALANCE Jan 1	1,719.14						
Total Receipts		4,611.72					
Total Disbursements			3,404.27	- 0 -			
Over(Under) Budget						3,320.00	84.27
BALANCE on Hand, December 31					2,926.59		
Cash on Deposit:							
Checking Account				926.59			
Savings Account				2,000.00			
TOTAL CASH ON DEPOSIT					2,926.59		

(Note: Outstanding accounts payable may be listed to close the report.)

**ANOTHER SEVENTH-DAY ADVENTIST CHURCH**  
**STATE OF CASH RECEIPTS AND DISBURSEMENTS**  
For the Ten Months ended April 30, 20xx

	April		Year-To-Date	
	Actual	Budget	Actual	Budget
<b>Conference Funds</b>				
<u>Receipts</u>				
Tithe	\$ 8,471.34		\$ 88,393.81	
World Budget	416.40		4,303.57	
Ingathering	37.00		4,985.79	
Other	408.61		4,772.14	
Sub-Total	9,333.35		102,455.31	
Less--Remittances to Conference	9,333.35		102,455.31	
Net Receipts--Conference	-0-		-0-	
<u>Combined Budget Funds</u>				
<u>Receipts</u>				
Combined Budget	1,812.17	2,690.00	20,821.72	26,900.00
Other	729.18		8,437.19	
Sub-Total	2,541.35	2,690.00	29,258.91	26,900.00
<u>Disbursements</u>				
Heating	571.53	545.00	5,145.55	5,450.00
Electricity	626.62	300	3,662.85	3000
Water/refuse	40.00	25.00	242.23	250.00
Janitor Supplies	24.25	25	280.11	250.00
Janitor Salary	130.00	130.00	1,300.00	1,300.00
Maintenance/Repairs		125.00	1,482.64	1,250.00
Insurance		100.00	888.00	1,000.00
Grounds		50.00	315.00	500.00
Treasurer Salary	110.00	110.00	1,100.00	1,100.00
Secretary Salary	100.00	100.00	1,000.00	1,000.00
Office Supplies	87.13	60.00	589.53	600.00
Telephone	38.90	40.00	433.12	400.00
Church Socials	28.98	70.00	1,383.12	700.00
Office Equipment		50.00	31.49	500.00
Student Aid	696.00	450.00	6,442.00	4,500.00
Personal Ministries		45.00	817.64	450.00
Sabbath School	116.59	250.00	3,037.49	2,500.00
Community Services		30.00	334.25	300.00
Pathfinders		75.00	228.23	750.00
Evangelism	306.25	65.00	426.32	650.00
Vacation Bible School		20.00		200.00
Miscellaneous	89.75	25.00	839.68	250.00
Sub-Total	2,966.00	2,690.00	29,979.25	26900
Net Receipts--Combined Budget	(424.65)	-0-	(720.34)	-0-
<u>Capital Funds</u>				
<u>Receipts</u>				
Building Program	3,174.75		32,465.29	
<u>Disbursements</u>				
Building Program	1,047.63		125,926.94	
Rept.	2,127.12		(93,416.65)	
Cash Rept.				
Disbursements				
Combined Budget and Capital	\$ 1,702.47	-0-	(93,461.64)	-0-

**ANOTHER SEVENTH-DAY ADVENTIST CHURCH**  
**STATE OF CASH RECEIPTS AND DISBURSEMENTS**  
For the Ten Months ended April 30, 20xx

	<u>Balance 6-30-xx</u>	<u>Receipts</u>	<u>Transfers In (Out)</u>	<u>Disburse- ments</u>	<u>Balance 4-30-xx</u>
<b><u>Combined Budget</u></b>					
Combined Budget		20,821.72	(20821.72)		
Church Operations					
Heating		299.78	4,845.77	5,145.55	
Electricity		25.00	3,637.85	3,662.85	
Water/Refuse			242.23	242.34	
Janitor Supplies			140.49	280.11	(139.62)
Janitor Salary			1,300.00	1,300.00	
Maintenance/Repairs	446.97	663.96	719.52	1,482.64	347.81
Insurance		293.40	584.45	888.00	(10.15)
Grounds			412.89	315.00	97.89
Treasurer Salary			1,100.00	1,100.00	
Secretary Salary			1,000.00	1,000.00	
Office Supplies		10.00	347.21	589.53	(232.32)
Telephone			231.65	433.12	(201.47)
Church Socials	70.00	920.87	569.52	1,383.12	177.27
Office Equipment		218.90	296.88	31.49	484.29
Sub-Total	<u>516.97</u>	<u>2,431.91</u>	<u>15,428.46</u>	<u>17,853.64</u>	<u>523.70</u>
Student Aid		941.14	2,594.57	6,442.00	(2,906.29)
Departmental Expenses					
Personal Ministries	150.03	71.00	256.22	817.64	(340.39)
Sabbath School	300.00	1,543.65	1,437.85	3,037.49	244.01
Community Services	375.97	324.58	180.94	334.25	547.24
Pathfinders	1,246.52	566.94	437.46	228.23	2,034.33
Evangelism	200.00	1,203.28	386.95	426.32	1,423.91
Vacation Bible School		153.14	115.72		268.86
Sub-Total	<u>2,272.52</u>	<u>3,862.59</u>	<u>2,815.14</u>	<u>4,843.93</u>	<u>4,106.32</u>
Other					
Miscellaneous	250.19	1,201.55	(16.45)	839.68	595.61
Total Combined Budget	3,039.68	29,258.91	-0-	29,979.25	2,319.34
<b><u>Capital</u></b>					
Building Program	49,143.98	32,465.29		125,926.94	(44,317.67)
Total Fund Balances	<u>52,183.66</u>	<u>61724.2</u>		<u>155,906.19</u>	<u>(41,998.33)</u>

## **Part Three**

### **THE CHURCH SCHOOL TREASURER**

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- 301.02 Structure of the Organization
- 301.03 Conference Department of Education
- 301.04 Conference Auditor
- 301.05 Multiple-Church Operated Schools

#### **Section 302 Financing the Church School**

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- 302.02 Tuition and Fees
- 302.03 Church Subsidies
- 302.04 Conference direct Subsidy
- 302.05 Conference Indirect Subsidy
- 302.06 Assistance on Capital Projects
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- 303.02 Personal Relationships
- 303.03 Technical qualifications
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**Section 309 Accounting—The Comprehensive System**  
(continued)

- 309.20 Supplies Inventories
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- 309.26 General Ledger Trial Balance

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- 310.01 The Budget Plan of Operation
- 310.02 Preparation of the Budget
- 310.03 Budget Base
- 310.04 Approval by the Board
- 310.05 Monthly Operating Budget
- 310.06 Variable Budget
- 310.07 Basic System—Monthly Reports
- 310.08 Basic System—Statement of Financial Activity
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- 310.11 Comprehensive System—Monthly Reports
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**Section 311 The Annual Audit**

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- 311.03 Relationship with the Auditor
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- 312.01 Accountant or Administrator
- 312.02 Commitment of School Funds
- 312.03 Local Church School Insurance
- 312.04 Repairs and Upkeep
- 312.05 Building Projects
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- Exhibit 3-1** Weekly Cash Status Report
- Exhibit 3-2** Receipts Journal
- Exhibit 3-4** Disbursements Journal
- Exhibit 3-5** Chart of Accounts
- Exhibit 3-6** Journal Voucher
- Exhibit 3-7** Income Journal
- Exhibit 3-8** Furnishings and Equipment Record

- Appendix 3-1** Financial Reports—Basic System
- Appendix 3-2** Financial Reports—Comprehensive System

## Part Three

### THE CHURCH SCHOOL TREASURER

#### Section 301 Introduction

##### 301.01 The School and the Church

The church school, whether operated under the direction of a single church or a group of churches, is an integral part of the local church program, and the treasurer of the school will be in constant contact with the pastors, elders, and members of the constituent churches. The treasurer will find it necessary to work especially closely with the church treasurers. This relationship makes it particularly important that the work of the church treasurers, their problems, and their responsibilities are thoroughly understood. For this reason it is essential that the treasurer of the church school or junior academy be fully acquainted with the subject matter of all of the parts of this manual: Part I, which presents verbatim quotations from the *Church Manual*; Part II, which discusses the work of the church treasurer; and Part III, which deals specifically with the church school treasurer's responsibilities and relationships. Much of the information in Part II—handling cash, the recording of transactions, and the general features of the reporting system—apply with equal force to the church school treasurer. Even though all these points may not be repeated in specific language in Part III, they are good counsel for the church school treasurer.

##### 301.02 Structure of the Organization

A School Board made up of members of the congregation of the sponsoring church and elected to their positions by the church membership governs every church school. In some cases the church board acts also as the school board. In other instances a committee of the church board functions as the school board. Whatever the arrangement, it should be recognized that the school board, functioning in its assigned place as the directing body of the school, is a separate body. Its responsibilities, its actions, and its records should all be kept separate from those of the church that it represents. The school treasurer is responsible ultimately to the school board for his/her performance. Usually this responsibility runs to the treasurer through the principal of the school, who is under the direction of the school

board. Actions in both the academic and the financial areas are authorized by the school board either in general terms (as, for example, in the billing and collection of tuition and charges, and the payment of routine expenses of the school) or as specific actions of the board authorizing, for example, the write-off of certain uncollectible accounts, the purchase of major equipment items, or the employment or discontinuance of auxiliary workers.

### 301.03 Conference Department of Education

While the operating functions of the school are under the direction of the school board, it in turn does its work in accordance with the general policies of the General Conference, the union conference, and the local conference. The Superintendent of Schools of the local conference and the staff generally oversee the operation of all elementary and secondary schools in the conference territory. The treasurer will find these conference workers an invaluable source of guidance, instruction, and support in carrying out the treasurer's work. More will be said in later sections of the manual as to specific areas in which the conference Department of Education should be consulted, and in which it can be helpful to the treasurer.

### 301.04 Conference Auditor

A later section will deal with the function of the local conference auditor in reviewing the financial operation of the school at the time of the annual audit. As with the Department of Education, the conference auditor is a source of information as to the handling of the accounting and reporting duties of the school treasurer. In all conferences the conference auditor and the Department of Education staff work closely together in dealing with the financial policies and financial operation of the schools in the conference. The school treasurer should depend heavily on both of them in meeting the questions and problems that arise.

### 301.05 Multiple-Church Operated Schools

Many of the elementary schools and junior academies are operated by groups of churches rather than by a single church. This arrangement at times necessitates some modification in the keeping of the accounting records, but basically the work of the school treasurer should be the same whether a single-church school or one directed by a board

representing several churches is involved. In either case it is important that the records of the school be kept separate from the records of the church and that the funds of the school be kept in a separate bank account, not commingled with the church funds. This is automatic in the case of a multiple-church school; the same principle must apply in a single-church school. The requirement is applicable even if the same individual is treasurer of the church and treasurer of the school. The two operations are separate functionally, and the records and reports for each entity are to be maintained separately.

## **Section 302    Financing the Church School**

### **302.01   Financial Support**

It is basic to the operation of every school that it lives within its income. A later section will deal with the matter of budgeting and budgetary control. In this introductory discussion, it is important to emphasize that the operating plan of the school be based on recognition of all normal sources of income and that the expenses of operation be controlled to fit within the total income.

### **302.02   Tuition and Fees**

The most highly visible source of income of the school is the tuition and fees charged to the patrons of the school. The school board should adopt, at or before the beginning of each school year, a definite schedule of charges that includes: tuition fees; cafeteria (if one is operated); special activities, such as private music lessons; registration, textbook rental, laboratory and physical education fees, etc. This schedule should be voted by formal action of the board and should appear in the board minutes. If the board has a policy for granting discounts for advance payment of a full semester or full year's charges, or for families having several children enrolled as students, this policy, too, should be the subject of a formal board action. The point is that it should not be left to the discretion of the principal or the treasurer as to how much should be charged under certain circumstances, or when and how much discount should be allowed. This is not intended as a restriction of the authority of the administration, but as a protection against the pressures that inevitably result if these matters are left open to on-the-spot decision.

### 302.03 Church Subsidies

It is well known that the tuition charged to patrons is never adequate to meet all the expenses of the school. The church or churches involved in the operation of the school must agree to underwrite a portion of the deficit. Where one church is involved, the amount of the subsidy required from the church to the school is a matter to be composed between the school board and the church board after the operating budget of the school has been prepared. In the case of a multiple-church school, a formula for apportionment of the deficit to the respective churches must be worked out. Generally the conference Department of Education has already developed such formulas, and this is one of the points at which the conference staff can be of help in working with the respective churches to secure their acceptance of the subsidy assigned to them. The apportionment of the subsidy required from the local churches should appear in the minutes of the school board, and the school should be notified by each church that the church board has accepted the assessment.

### 302.04 Conference Direct Subsidy

In some cases, the conference underwrites a portion of the school's deficit and agrees to send a cash subsidy to the school. This may be a general subsidy to be used in the overall operation of the school, or it may be a specific program subsidy wherein the conference agrees to finance a particular activity within the school. In either case, such assistance should be recognized in preparation of the budget and should be properly recorded by the school treasurer as received.

### 302.05 Conference Indirect Subsidy

It is more customary to find that the conference renders important financial assistance to the local school by absorbing a part of the salaries and related expenses of the teaching staff. Quite commonly an arrangement is reached between the conference and the local church school by which the school pays a stated amount to the conference each month for each teacher, this payment continuing for nine or ten months of the school year. The conference then pays all the teachers their salaries and other allowances according to policy and absorbs the difference between the actual cost and the amount paid in by the school. This difference, assumed by the conference and not reported in specific terms to the school, never appears on the school records as a part of the

cost of operation. The implications of this plan will be discussed at some length later in this chapter.

### 302.06 Assistance on Capital Projects

The income of the school discussed in the preceding several paragraphs is all for normal operating purposes. The purchase of major items of equipment, the outlays for improvement of physical facilities—grounds improvement, remodeling or construction of buildings or additions—must all be financed based on definite plans for the cost to be underwritten by the supporting churches and/or the conference. We are not dealing at this point with the accounting for such programs. It is only necessary to say that any major outlay of funds by the school must be covered by a plan formed and accepted in advance of the expenditure by those organizations that will be expected to subsidize the program.

### 302.07 Financial Management

The point of the foregoing discussion of financial support is that a thorough understanding of the entire program is necessary so that the treasurer can bear a share of the responsibility for the program. Much of the burden will be borne by the chair of the school board or the finance committee of the board. Extensive counsel with the conference administration and Department of Education and with the pastors and boards of the constituent churches is also necessary. The school principal, as chief administrative officer, has a part to play, and the treasurer, as a financial counselor and source of financial information, can be an effective agent in helping to carry the project through.

## **Section 303 The Work of the Treasurer**

### 303.01 A Steward of Funds

The church school treasurer assumes the custody and administration of the cash funds of the school. The treasurer should recognize that although much dependence is placed upon him/her in the wise care of these moneys, he/she is at all times acting as an agent of others: of the school board, of the patrons of the school, and ultimately of the congregations of the constituent churches. This responsibility is a delegated one. The treasurer acts under the instructions and

authorizations, either expressed or implied, of the governing board. As a steward of the funds of others, the treasurer is required to keep adequate records and to render such reports as will establish the faithfulness of this stewardship.

### 303.02 Personal Relationships

Essential to the treasurer's success in the appointed task is the fostering of pleasant, cooperative relationships with all the persons with whom he/she has to deal. The treasurer should realize that his/her "publics" are numerous: The treasurer deals with and relates to the students themselves and to their parents, and contact with this "public" should be friendly and cordial. The relationship to the principal of the school will naturally be a close one based on mutual understanding and acceptance of common aims. The treasurer should be well acquainted with the members of the school board, especially with its chair or the members of its finance committee. Beyond the immediate circle of the school, the treasurer will be dealing with the treasurers, elders, and pastors of the constituent churches and must never forget that it is those churches, as well as the parents of the students, who support the school and make it a going concern. On the conference level, the treasurer can find a very important source of help, guidance, and support by cultivating the friendship of the Department of Education staff, of the local conference treasury staff, and of the local conference auditor. "No man is an island," the poet Donne has told us. The school treasurer simply cannot function efficiently in a vacuum. Just as the various "publics" are dependent on the treasurer for information painstakingly compiled, so the treasurer is dependent on them for sympathy, cooperation, and support.

### 303.03 Technical Qualifications

Many of our school treasurers are volunteer workers who render their services for no compensation or for a token salary that does not purport to compensate them for their services. Many, too, have had little or no formal training in accounting, but do their best with the instruction that is afforded them from their conference staff. Especially in the smaller schools, it is not necessary that the treasurer be a qualified accountant. The system is so designed that a careful study of the instructions prepared for its operation and an earnest effort to improve performance by continuing study and effort will develop in the individual the degree of expertness needed to do a satisfactory job. Basic traits that are

necessary, aside from training and experience in the job, include a reasonable aptitude with figures, an ability to perform simple arithmetic problems, and a conscientious desire to do the job painstakingly and accurately. And underlying it all is the foundation of unswerving integrity and wholehearted dedication to the work of God. Without these, even the most highly qualified worker cannot expect to succeed.

#### 303.04 Education and Training

Under the blessing of God, small churches become big churches, and small schools grow from two teachers and forty students to many teachers, a principal, and a student body of two or three hundred. The school treasurer should plan to grow at least as fast as the school. This means continuing study and training. Our Seventh-day Adventist educational system provides wonderful opportunities for continuing education on the secondary, collegiate, and post-graduate levels. In the accounting and business management fields generally, there are a multitude of self-study courses offered, beginning with those available through our own Home Study International. The development of the community college system in the United States means that there is such a college only a few miles from the location of practically every one of our church schools. All these are sources of formal education in subjects that will help the school treasurer to grow technically and professionally. The North American Division and Adventist Risk Management have produced a training video/DVD/guidebook, *Trustees of the Lord's Finances*, which explores the fundamentals of church and school treasurer responsibilities. Contact *AdventSource* (800-329-0525) to order this valuable training tool. And on a day-to-day basis, the treasurer always has available the assistance of the local conference auditor and the conference Department of Education staff. They can be consulted as problems arise. They are also active in arranging annual training sessions for all the school treasurers in the conference area where the individual can have the benefit of exchanging experience with peers and of taking part in discussion of common problems, new procedures, new policies, and more efficient ways of handling tasks.

#### 303.05 Use of This Manual

Reference was made in the opening paragraph of this chapter to the advisability of the school treasurer becoming familiar with the contents of the entire manual, not simply with the one part that deals directly with the school treasurer. A study of the extensive quotations from the

*Church Manual* is beneficial, for it gives one the perspective of the entire operation of churches and schools and helps give an understanding as to how the school treasurer fits into the total program. Basically, the responsibilities of the church treasurer and the school treasurer are very similar. The requirements of handling the assets of the organization, maintaining the proper records, and rendering the proper reports are much the same in both cases. For that reason, while we shall deal with all of the matters specifically relating to the school treasurer in this part of the manual, the statements made in Part II relating to the work of the church treasurer should be read as well to broaden the understanding of the requirements. Finally, when faced with a problem or question, the treasurer should go through the instructions in this manual to see if it contains the answer *before* calling for help from the principal or from the conference staff. A solution reached by personal study and research will make more of an impression on the mind and will endure in the memory far longer than one that is passed on, neatly packaged, from someone else.

### 303.06 The Problem of Size

One of the difficulties that the compilers of this manual have faced from the outset is that of dealing with an accounting system that would meet the needs of very small and very large schools at the same time. It should not be necessary to maintain the extensive system of accounting for a school of twenty or thirty students that would be required for a junior academy, say with an enrollment ten times that size. In order to try to meet this problem, we have presented in later sections of this chapter an accounting system on two levels, one that will be completely satisfactory for the small school, and another designed to provide the more extensive information for the larger school. Both systems are basically the same. The more advanced system moves farther into the area of conventional accounting procedures and affords a more comprehensive look at the total financial picture of the larger school. While the treasurer of the smaller school, using the basic system, can function with high efficiency and complete satisfaction, he/she is encouraged to study the more advanced system as well in preparation for the day when the school will grow beyond the limits of the basic accounting plan.

### 303.07 Accounting and Reporting

An accounting system that simply accumulates factual data without some plan for communicating that data to others would be of little value. The treasurer should understand that accounting is a *management tool*. Using the basic information that has accumulated in the records as a source, the school treasurer reports that information in summary to those who require it in order to understand the present financial condition of the organization and its accomplishments in the past and to make decisions as to the course of its operation for the future. The reports are the end product of the whole process of accounting. Without accurate, informative, timely reports, the accumulation of the basic data is an exercise in futility.

### 303.08 Sequence of Presentation

It is because the reports of the treasurer are so important that this manual devotes two whole sections (Sections 310 and 311) to the treasurer's monthly reports and the annual audited report. As stated in the preceding paragraph, because these reports are the end product of the accounting function, they come at the close of this chapter. We begin the discussion of the system with a review of the requirements for the proper handling of cash—incoming funds, a petty cash account, disbursements of funds, and the management of the bank account and investments.

Following this are two sections describing the accounting system on the two levels mentioned in paragraph 303.06: the basic system and the comprehensive system. Then, following the discussion of the monthly and annual reports, there is a section dealing with other duties and responsibilities of the school treasurer. Throughout the manual exhibits are presented where appropriate showing sample forms and reports. These should be used in the way they are presented, as *samples* only. Most of our local conferences have designed standard forms for the use of their school treasurers, and it is not intended that the forms illustrated in this manual should supersede those already in use unless they are seen to be more satisfactory. The school treasurer should not change the basic system of forms and reports prescribed by the local conference with first conferring with the conference staff and securing their agreement. We believe that the procedures outlined and the forms illustrated in the manual cover all the necessary points of internal control and of accumulation of accounting data for satisfactory

reporting. Given sufficient time for adaptation, the programs in the local conferences will develop so as to comply with the basic principles that are here set forth.

## **Section 304 Incoming Funds**

### **304.01 Sources of Funds**

The church treasurer receives most of the funds through the medium of church and Sabbath school offerings. The treasurer of the school does not have this once-a-week inflow of funds. Rather, the cash and checks are received from patrons and others through the mail or over the counter every day of the week. The principal source of this cash, in terms of number of transactions handled, is from patrons who either mail their checks to the school office or call in person to make payments. Checks from the constituent churches for their monthly subsidies and checks from the local conference for assistance that it grants usually arrive in the mail. In the case of a single church sponsoring an elementary school as mentioned in paragraph 301.05, it is important that the school funds be kept in a bank account separate from those of the church. Therefore, the church treasurer will write a check for the monthly support agreed upon and hand it to the school treasurer for receipting. Even though the same individual functions in both capacities, the transfer of cash from church to school should still be by check, which is properly receipted. In addition to cash payments by patrons and subsidies from supporting organizations, many schools operate bookstores, cafeterias, gasoline pumps, and other service facilities, all of which generate cash that must come promptly to the school treasurer for handling and recording.

### **304.02 Receipting Funds**

The basic rule that must be followed without exception is that all cash flowing into the organization must be receipted promptly. The receipt is to be on a standard form that is either bound in a book or is loose in single copies. Every receipt bears a printed number, and the treasurer (or the cashier, if one is employed) is responsible to account for every number. This means that if a receipt is voided or unused, both the original and the carbon copy must be kept. It is not correct to throw away the original of a voided or unused receipt.

### 304.03 Receipts and Accounting Records

We shall not at this point discuss the integration of the receipt form as such with the accounting records. That information will be brought out in Sections 308 and 309 that deal with the accounting system. It should be kept in mind at this point, though, that the receipt is an accounting document and insofar as the inflow of cash is concerned, it is the basis for all accounting records. This means that the receipts are not to be treated carelessly or entrusted to the possession of anyone other than the individual designated to handle incoming cash. When the custodian of cash is absent, the receipt book should either be locked up or entrusted to another person who is assigned the task of writing receipts and receiving cash during the absence of the regular custodian. This person is specifically responsible to the regular custodian for any receipts written and cash collected.

### 304.04 Custody of Cash

All incoming cash should be entrusted to a single individual—the treasurer or cashier—who is solely responsible for receiving, holding, and depositing the money. The total of receipts written in a given period represents the amount for which that individual is accountable. If, as mentioned in the previous paragraph, the receipt book is entrusted to another person during the temporary absence of the designated custodian, all cash received by that individual should be turned over immediately upon return of the custodian. As evidence that the cash has been received, the custodian should initial carbon copies of receipts written during the custodian's absence. No other funds should be commingled with the receipted cash. The cash funds should be kept in a locked cash box at all times, and no person other than the assigned custodian should have access to the cash box.

### 304.05 Cash from Auxiliary Operations

Paragraph 304.01 mentions cash received through the student store, the cafeteria, or from gasoline sales. Designated individuals should be responsible in each of these auxiliary operations for receiving and accounting for cash received and should daily turn over all cash collected to the cashier. The cashier will write a formal receipt for these moneys, giving the original of the receipt to the custodian of the auxiliary activity and retaining the carbon copy of the receipt for entry in the accounting records. Each of these auxiliary activities may have a

change fund (see Section 305). The balance in the change fund should remain unchanged and all cash received in a given day should be turned over to the cashier. It is not permissible for the auxiliary custodian to retain cash from current collections to “build up” the change fund or to turn in cash in excess of that actually collected, thus reducing the balance in the change fund. The auxiliary custodian should hold in a file all receipts written by the cashier for cash he turns in.

#### 304.06 Preparing the Bank Deposit

If the cash receipting function is at all active, it is desirable that a daily bank deposit be prepared. In no event should receipted cash be held in the office or in the possession of the cashier for longer than a few days. We recommend a bank deposit once weekly as a minimum. It may be that daily bank deposits are necessary during certain periods of the month when cash inflow is especially heavy and that twice-weekly or weekly deposits can be made at other times. In all cases, the bank deposit should include all cash deposited in exactly the same form in which it is received. The bank deposit total should agree with the total of all receipts written since the previous deposit. At the end of the month, the total of all receipts written during the month will agree with the total deposited in the bank for that month. The requirement for depositing cash “in the same form in which it is received” means that no checks will be cashed for individuals from the funds destined for deposit, nor will any other changes be made in the identify of the actual cash and checks received.

#### 304.07 Foreign Currency

From time to time foreign currency of various nations will be turned in to the cashier. In the United States the kind of currency varies with the section of the country: In the Southwest, Mexican pesos may be tendered; in the Southeast, currencies of various Caribbean nations must be handled; and along the northern tier of states, Canadian coins and currency are turned in. Foreign currencies should *not* be receipted immediately. It is necessary for the treasurer to find out from the local bank the rate of exchange on the particular currency and the actual value that the bank will credit to the school’s account in U.S. dollars. When that is determined, a separate deposit ticket is prepared in the usual way for the foreign currency, and a receipt is written showing both the foreign currency amount and the U.S. dollar amount.

## 304.08 Endorsing Checks

The cashier should ask that all checks presented in payment of accounts should be written payable to the order of the school, not to “Cash” or to any individual. Immediately upon acceptance of the check, the bank endorsement stamp should be affixed to the back of the check. It is not good practice to wait until the bank deposit is prepared and then endorse all checks included in the deposit. Immediate endorsement, while not a complete safeguard, does make it more difficult for any unauthorized person to cash or deposit the check.

## **Section 305    Petty Cash Funds**

### 305.01 The Imprest System

Although it is desirable that all disbursements of school funds be made by check, a means must be provided for the handling of small expenditures in cash—purchase of postage stamps, perhaps, or payments for small purchases of office supplies, or freight or express bills on incoming shipments. Also the individuals in charge of auxiliary cash operations need to have a small change fund available. All of these are legitimate needs and can be provided for by the establishment of petty cash funds assigned to each such individual in a fixed amount. Receipts or vouchers for expenditures from the fund are held in the petty cash fund until they are reimbursed from the school’s bank account as will be described later in this section. This plan means that at all times the total of actual cash in the cash box plus the total of all expenditures for which receipts are present should equal the total of the fund, the amount for which the custodian is charged. This plan of a fixed balance, with periodic reimbursement of expenditures, is called an *imprest* system. From the standpoint of operation and control, it is much more satisfactory than the practice sometimes followed of “holding out” from cash collections a varying amount of money to be used for petty cash purposes.

### 305.02 Recording the Basic Fund

At the time an imprest fund is set up, the procedure is to write a check payable to “John Doe, Petty Cash Custodian” for the amount required in the fund. Writing the check in this way requires that the custodian of the fund endorse the check in order to cash it, and the endorsement is

proof that the cash has been turned over to the custodian. At this time the custodian of the fund should also execute a receipt for the money. This receipt is then held in file and provides additional documentation as to the responsibility for the fund. The amount of this basic balance is not changed by reason of expenditures from the fund. As described in the preceding paragraph, the *balance of the fund is always the same*, being represented at any particular time by the total of cash plus unreimbursed vouchers for expenditures. If it is discovered with the passage of time that the fixed balance in the fund is not adequate, another check for an additional amount can be written in the same way and added to the fixed balance. If, on the other hand, the balance is found to be more than necessary, a portion of it may be turned in to the cashier and receipted as a credit to the Petty Cash Fund. In either case, a new receipt is taken from the custodian of the fund for the new amount and the original receipt is returned to the fund.

### 305.03 Custody of Cash

We have emphasized in a previous section the importance of entrusting all cash to specific individuals, each of whom is solely responsible for the money in his or her hands. This applies to the petty cash funds, as well as to funds received for deposit. In the hands of the school cashier or any one of the auxiliary activity cashiers, the petty cash fund should be available only to the person to whom it is assigned. It is a complete loss of control of cash if, for example, in the cafeteria several individuals collect cash and make change out of a single change fund. This is certainly unfair to the individual who is responsible for the change fund, and any errors that are made cannot be tied to any one individual. For the protection of the various custodians, it is essential that no other person have access to the funds assigned to them.

### 305.04 Disbursements from Petty Cash

The whole concept of a fixed balance represented by actual cash and receipts means that no payments should be made from the petty cash fund for any purpose without a valid invoice or petty cash disbursement ticket being taken in exchange for the cash paid out. It is always preferable to secure an invoice from a third party for an expenditure. Where that cannot be done, a petty cash voucher (usually a printed form) should be filled out in ink showing the amount of the disbursement and the description and signed by the individual receiving the money. In no case should temporary payroll advances or IOUs

305.03

from employees or others be handled through the petty cash fund. The general rule is that all expenditures should be of such a nature that they could be reimbursed from the school bank account immediately. It is not proper practice to hold unreimbursed vouchers of any kind for any purpose in the petty cash fund.

### 305.05 Cash Collections

The preceding paragraph deals with expenditures from the petty cash fund. In the case of auxiliary operations, the activity typically involves collections of cash, not expenditures. Taking the cafeteria cashier as an example, the procedure should be for the custodian of the cash to make a cash proof daily and to turn over to the school cashier all money in excess of the fixed balance in the fund, retaining only the amount of the fixed balance. The school cashier will then receipt the proceeds of the daily collections, and the cafeteria cashier will hold these receipts. It is desirable to have a cash register in each of these auxiliary activities that will accumulate the total of the transactions for the day. This total should agree with the amount of cash in excess of the change fund balance and should represent the amount of cash turned in. Most cash registers produce a printed tape showing all ring-ups. This tape, with the total of transactions for the day, should be turned in along with the cash to the school cashier. If small expenditures are made from the auxiliary activity fund—and, while this is not desirable, it is sometimes permitted—the vouchers for those expenditures should be turned in daily to the school cashier as a part of the total cash for the day. The school cashier will then put these vouchers in the petty cash fund, taking out of the fund the equivalent amount of cash and putting it in the cash for deposit. Two points in this procedure should be kept in mind:

- ▶ The auxiliary cashier should *not* accumulate expenditure vouchers in the cash fund, but should turn them in daily as the equivalent of cash.
- ▶ The school cashier should put these vouchers in the cash fund, taking out the equivalent amount of cash, and should add that cash to the actual cash turned in by the auxiliary cashier to make up the total cash receipted and destined for deposit.

## 305.06 Reimbursement of Petty Cash

The procedures outlined in the previous paragraphs have the effect of putting in the school cashier's petty cash funds all vouchers for unreimbursed expenditures. All auxiliary cashiers will have turned over to the school cashier all receipts for expenditures that they have made from their funds, and all are now in the school cashier's petty cash fund. At stated intervals—usually not less often than once a week and in all cases at the end of each month—the school cashier will summarize and total all the vouchers and will write a check on the school bank account for the total amount. This check should be made payable to “John Doe, Petty Cash Custodian” and will be cashed at the bank and the cash proceeds replaced in the petty cash fund which then has the fixed balance all in cash. When these vouchers are numerous, it is advisable that they be summarized on the face of a 6” x 9” manila envelope showing the amount of each voucher and the account to be charged for each, with the total agreeing with the amount of the check. Before the actual reimbursement is effected, the summary and the individual vouchers should be scrutinized by the principal or other individual senior to the cashier and approved. They are then filed in the summary envelope.

## **Section 306 Disbursement of Funds**

### 306.01 Disbursements by Check

All disbursements of school funds should be made by a check drawn on the school bank account. This rule applies in all cases. Even where expenditures are made from petty cash funds, the formal record of the expenditure is made when a check is written for an accumulation of small disbursements to replace money in the petty cash fund as described in paragraph 305.06. The details of the operation of the bank account are discussed in Section 307. At this point we are considering only the actual drawing of the check and the documentation supporting that action.

### 306.02 Form of the Check

It is recommended that a “voucher” type of check be used. This form includes the familiar check form itself as the top half of the form with a detachable section of the same size as the bottom half. The detachable

bottom section is provided for a statement of the details of the transaction: a brief explanation, a list of invoice numbers and amounts and discount deducted. The form is prepared in either duplicate or triplicate. In every case one carbon copy represents the school's record of the details of the disbursement and is filed numerically, along with supporting documents (see paragraph 306.04). If the school administration feels that it is desirable to maintain a separate record of all disbursements to individuals and firms on an alphabetical basis, the triplicate copy of the check can be used for this purpose. As the accounting record of deposits and disbursements provides for a running record of the bank balance after each transaction, it is not necessary to keep a check stub that repeats this information.

### 306.03 Authorization

The concept of the treasurer (or cashier) as a custodian of funds belonging to others implies that every disbursement of funds must be authorized. Generally the school administration is authorized by the governing board to make routine disbursements without specific individual authorization of each transaction. This is known as "general authorization" and is comprehended in the board's approval of the operating budget. However, major purchases involving significant outlays of funds and such items as purchases of equipment should be backed up by specific authorization by the governing board or its finance committee. Such specific authorization should appear in the minutes of the governing board. As a general rule, the board should authorize specifically any expenditures that are not provided for in the budget.

### 306.04 Payment for Purchases

Most of the routine disbursements of the school will be for the purchase of materials, supplies, and services from outside individuals and firms. In every such case, an invoice from the vendor that itemizes the particular goods or services, and shows quantities, unit prices, extensions, and totals, should support the disbursement. Such bills should be authorized before they are paid by the treasurer (or cashier). In the larger schools a purchase order system will be used, and each invoice should be supported by a purchase order with which it is in agreement. The head of the department or activity where the disbursement will be charged should approve an invoice before giving it to the principal or his or her designee for final approval. All

supporting documents are to be attached to the carbon copy of the check covering the disbursement, and the check copy plus all supporting documents are maintained in a numerical file by check number. These documents become the source data for each entry of check disbursements in the accounting records.

#### 306.05 Other Disbursements

Wherever possible, the same standards of support for disbursements should be adhered to for other payments as well. Frequently, in the case of such payments as those to the conference and checks for auxiliary payroll, if any, no such supporting documents are available. In those cases a complete explanation of the reason for the payment should be prepared on a separate sheet of paper, the necessary authorization should be secured, and the additional paper should be attached to the check voucher. Some churches and schools use a “disbursement voucher” form for this purpose. A sample of such a form is shown in the discussion of the Church Treasurer’s activities as Exhibit 2-2.

#### 306.06 Check Exchange

Occasionally as a matter of accommodation for employees, the school writes a check for the employee in exchange for cash. While this practice should not be encouraged, it sometimes seems necessary. It is important that certain definite rules be established. It should be understood that *no* “check exchange” check would be written unless the cash has been paid in and receipted before the check is written. When the cash is received, the check for the same amount should be written immediately. If this practice is followed faithfully, it is possible to trace both sides of the transaction—receipt of cash and writing of check—on the same day, in an identical amount. Here is an example of a transaction that is properly handled as “check exchange.” Suppose a class, under the direction of its teacher, wishes to buy merchandise for sale by the students, with the net profit going to a classroom project. The check is written for check exchange, with the reimbursement to be turned in later to balance off the amount of the check, the remainder to be held for the classroom project. Obviously, this does not come within the standards for a check exchange transaction. The check should be charged to the classroom account, and when the proceeds of the sales are realized, the payment should be receipted as a credit to the classroom account. To repeat: a check exchange involves the payment

of the cash *first*, with the check written immediately for the same amount.

### 306.07 Church School Payroll

It is customary that the payroll for teachers is handled through the conference records. The school reimburses the conference in a stated sum each month, which usually does not cover the entire cost of salaries and allowances for the teachers. In addition, the church school may have other employees who may be paid either by the school directly or through the conference. In either case these individuals are, for purposes of Federal and state tax laws and regulations, *employees*, and thus are subject to all the requirements for withholding of income tax, payment of Social Security contributions, and any other Federal or state taxes related to their employment. When employing an individual, the remuneration should be evaluated as to whether or not the prospective employee will be exempt (salaried) or non-exempt (hourly), as determined by the federal wage and hour laws. The conference, of course, handles the tax involvement for all individuals on its payroll. When the local church school makes the salary payments<sup>1</sup> direct to its employees it is, as subsidiary organization of the conference, obligated to pay the Social Security tax on behalf of its employees, and to comply with all Federal and state laws for income tax withholding. The local church school comes under the Federal Employer Identification number of the conference, and must report all such withholdings and tax liabilities through the local conference to the appropriate government entities. The local church is also responsible for submitting to the employee the required annual reports of Federal and state income tax withheld, and Social Security contributions deducted from his or her salary. The church treasurer is urged to counsel with the conference treasury staff to make sure that the procedures fit in with the conference program, and that all legal requirements for Social Security and all other payroll taxes and withholdings, both Federal and state, are met.

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<sup>1</sup> Where an individual performs services in exchange for credit on his tuition account, the fair value of those services are considered as salary or wages, and are subject to the same requirements for withholding Social Security contributions as if the payment were made in cash.

### 306.08 Checks Returned by Bank

Because of insufficient funds or for some other irregularity, occasionally the bank will refuse a check turned in by a patron. Most banks put such checks through a second time before returning them to the depositor. When they are returned, they have been charged back by the bank to your account and must be handled in exactly the same way as a check you have drawn against your account. It is necessary that you prepare a voucher form and enter the returned check as a withdrawal against your bank account. The returned check is a decrease in your bank balance, and the charge should be to the same account (patron account or income account) that received the original credit.

### 306.09 Redeposit of Returned Checks

If the maker of the check requests that you put it through again for payment, this may be done. If so, it should be treated as an entirely new transaction. The check should be receipted as new money and deposited in the usual way. Some accountants prefer to handle these redeposits as separate deposits. There is no objection to this plan; the point is that the re-acceptance and redeposit of the check should be treated as a new transaction.

## **Section 307 Bank Accounts and Investments**

### 307.01 Separate Bank Accounts

The provisions of the *Church Manual* imply, and this manual recommends, that the funds of the school be kept in a bank account separate from that of any of the constituent churches. This rule should apply even when the church treasurer and the school treasurer are the same person. The accounting records must be maintained separately, and it follows, logically, that the funds of the two entities should be kept entirely separate.

### 307.02 Authorizations for Bank Accounts

No bank account should be opened, closed, or changed without formal action by the school board, evidenced by written minutes. This applies not only to the school checking account, but also to any savings or

306.08

investment accounts that are established. The authorization should include specifically the names of individuals authorized to sign checks and whether one or two signatures are required. All bank accounts should be carried in the name of the school, not of any individual. Whenever any of those authorized to sign checks leaves the position, or for any other reason the authorization is canceled, the board must take an action recording the removal of the authorization and the replacement with another. When any bank or investment accounts are closed out or discontinued, the board again should take action authorizing the discontinuance.

### 307.03 Two-Signature Accounts

If the board requires that two individuals sign a check, it is important that the intended feature of control be recognized and implemented. It is not consistent with the spirit of the requirement for the treasurer (or cashier) to sign the checks at the time they are drawn and the second party to sign a group of checks in advance or to sign them after preparation without really scrutinizing them. While the treasurer will know the details of each disbursement, the second party should be satisfied that the disbursement is reasonable and authorized. It follows that neither party should sign blank checks and turn them over to anyone else to be completed. Another practice to be discouraged is that of the treasurer or principal taking blank checks from the office and writing them while away from the school's place of business.

### 307.04 Savings Accounts

On occasion the school will have in its possession funds that are being accumulated for a specific major project, or funds which are temporarily not required for current operations. Such excess funds should be kept in a savings account or some other insured bank deposit in order to take advantage of the possibility of earning interest. The school board must specifically authorize any such accounts. Withdrawals should be only for the purpose of the transfer of the funds to the checking account. No expenditures should be made directly from the savings account. No investments should be made in any other type of security than insured bank accounts or bank savings instruments without prior counsel and authorization from the conference officers and the conference Department of Education even though the rate of interest may seem very attractive. No loans or advances of school funds should be made to any individual, employee or other, except as

provided for in policy, and then only with the authorization of the school board.

### 307.05 Reporting Savings and Investments

The method of reporting cash in banks and investments will be covered in a later section. It must be emphasized that periodic financial reports should cover not only the balance in the school's checking account, but balances in other types of approved investments as well.

### 307.06 Bank Reconciliations

The necessity for monthly reconciliation of all bank balances is covered in detail in paragraphs 205.07 through 205.09 of this manual. The school treasurer should review these paragraphs and be familiar with the proper procedure for preparing and securing approval on bank reconciliations.

### 307.07 Change of Treasurers

Under normal circumstances, all funds belonging to the school will be on deposit in bank accounts, or evidenced by bank savings instruments, or be assigned to various custodians of petty cash. When there is a change of treasurers by vote of the governing board and a new person is named to the office, the board will arrange for discontinuance of the signature of the outgoing treasurer on all accounts and for authorization of the signature of the incoming treasurer. The outgoing treasurer should prepare a bank reconciliation up to the date of the change in treasurer (see paragraph 307.06) and make a list of all other bank accounts or savings instruments belonging to the school. This list should include serial numbers and complete descriptions, including amounts, of all such accounts. The incoming treasurer should confirm that the bank reconciliation and the listing of other investments are correct and complete. The incoming treasurer should sign a copy of the reconciliation and the list, acknowledging acceptance of the funds, and give this signed copy to the outgoing treasurer.

### 307.08 Cash Status Report

The need for information on the part of the treasurer and principal of the school is nowhere more pressing than in the matter of the balance of cash available for current needs. A complete report of cash and bank

307.05

transactions should be prepared by the treasurer for his or her own use and for the information of the principal, preferably on a weekly basis. A set form should be developed and, the information presented should include the beginning balance in the operating bank account from the previous report, a summary of cash received and deposited, a summary of disbursements, including itemization of major items, and the new bank balance. A report of savings and investment accounts and other bank accounts, if any, should be included also. A highly simplified Cash Status Report is shown as Exhibit 3-1. It should be adapted to meet the specific needs of your school.

## **Section 308    Accounting: The Basic System (Smaller Schools)**

### **308.01 Definition of the System**

As mentioned in paragraph 303.06, this manual presents an accounting system for church schools on two levels: a basic system for the smaller school and a more comprehensive plan designed for larger schools. This section will describe the operation of the basic system that is maintained on a cash basis. This term requires explanation. A *cash* system such as this operates on the assumption that no income will be recognized until the amount due is paid to the school in cash and that no expense or outlay of funds will be recorded until the amount is actually paid out. Under this plan the amounts of tuition and other charges billed to patrons but not actually collected from them are not reported as income. On those rare occasions when outstanding bills are not paid in full at the end of the month, there is no record of an expense having been incurred until the bill is actually paid. There are some obvious advantages to this plan. The entire record of the operations of the school is found in the cash (or bank) account; this makes it simple to operate. As to income, we are sure that the income has been realized when the cash is received. There is no problem of reporting as income an amount of tuition due which may never be paid. And if the school operates on a pay-as-you-go basis, the bills for operating expenses will be paid promptly and will show up in the bank account. Granting all of this, it is undeniable that there are some serious deficiencies in the "cash" system of accounting. They will be discussed next.

### 308.02 Limitations of the System

The basic flaw in the “cash” system is that it does not match incomes with expenses. The school’s charges for tuition month by month are earned as the teachers perform their duties in the classroom and as the incidental costs of running the school accumulate. If the patron does not pay the tuition promptly, then the school is in the position of having paid teacher salaries and other running expenses, say in September, and the income from a particular patron to match those expenses is not reported perhaps until November. Or to look at a more pleasant situation, suppose a patron pays an entire semester’s tuition in advance. It is obviously not fair to recognize the whole semester’s tuition as income when the services for which it has been paid have not yet been rendered. The same inconsistencies show up in the matter of purchase of materials and supplies. With the cash system, we must recognize a payment as an expense when it is made. If we purchase classroom supplies sufficient to last for several months, there is no way, under the cash system, to assign the usage of those supplies to the months in which they are actually consumed.

### 308.03 Criteria for Application

The discussion in the previous paragraphs makes it quite evident that a more sophisticated system of accounting than the cash basis is highly desirable. We recognize, though, that in many of the smaller schools, where the work is done on a part-time, volunteer basis and where the constituency is small, qualified accounting help may not be available. In the smaller schools, too, the effect of the inconsistencies described may not be so great—although at times it can be very important—and with a small student body it is possible to keep more closely in touch with these various circumstances on a personal basis than it is in a larger institution. For all of these reasons, it is recommended that the cash basis of accounting as described in this section be limited to schools having three or fewer teachers and to schools operated under the sponsorship of a single church. Putting it the other way, if a school is operated for two or more churches or if the teaching staff numbers four or more, the comprehensive system described in Section 309 should in all cases be used. It is highly desirable even for the school treasurer who is working with the basic cash system to study carefully the description of the comprehensive system as well. Under the blessing of God, our schools have a tendency to grow, and the treasurer who is prepared to move into the more highly developed system

described in Section 309 can be a source of strength to the institution and the constituencies served.

#### 308.04 The Receipts Journal

We have discussed in Section 304 the mechanics of receipting and depositing income funds. It is necessary now to look at the method by which the receipts are recorded and made a part of the accounting system itself. Exhibit 3-2 illustrates a "Receipts Journal" as used in a conference educational system. Your conference may have a slightly different form and that point should not be a cause for confusion. The basic use of the form will be the same in every case: It is a means by which a consecutive record is made of *all* receipts of cash, and identification is made of the types of income that that cash represents. Please have the sample form in front of you as we discuss it in detail.

- ▶ Ignoring for the moment the first column, "Total Amount Deposited," the several columns following it, up to the center of the page, record the total amount of cash received and how it is broken down into the various categories of income. These left-hand columns cover all types of income from the patrons—tuition, fees, cafeteria, and so on. The total of the figures entered in the individual income columns must equal the total amount received in cash from patrons. We shall look at the columns on the right-hand half of the sheet a little later.
- ▶ For miscellaneous items of income, there is a "code" column provided. This will identify those types of income which are encountered less often than tuition and fees, but which must still be recorded. Those sources of income should be identified for your particular school and an alphabetical code adopted which can be used consistently throughout the year to designate them.
- ▶ For each line entry it is necessary to insert the name of the individual from whom the cash is received, the initials of the person receiving the cash, and the receipt number just as shown on the receipt form itself.
- ▶ The principle followed for recording cash from patrons will be carried out identically as cash from other sources received for various purposes. The right-hand columns provide space for recording the funds received from the conference (column 7) and

from constituent churches. Note that an alphabetical code can be used to identify type of subsidy. (This form provides for subsidies from as many as six constituent churches; probably that is more than will be needed for the smaller schools using the cash system. There is no objection to using the columns for other income sources.) The section at the extreme right provides space for recording incomes from other sources for other purposes. Most of the column headings are self-explanatory. In using any of these right-hand columns, *be sure* that the "Total Amount Received" column is filled in for the total of the receipt and that the date, name, and receipt number columns are also completed.

- ▶ Note the column toward the right-hand end of the form headed "Check Exchange." We will see in a later paragraph how the check to be written is recorded in a Disbursements Journal. The Receipts Journal takes care of the actual receipt of the money. If the provisions of paragraph 306.06 are adhered to, the record of the check in exactly the same amount will balance the record of the receipt.
- ▶ We have recommended that all cash collected be deposited on a daily, semi-weekly, or weekly basis. The first column of the Receipts Journal form, "Total Amount Deposited," is provided to record the deposit of cash collections. (You will learn that this same amount will also be recorded in the Disbursements Journal.)

When the deposit is prepared, enter the total, which should agree with the total receipts written since the previous deposit, in this column. In order to be sure that the deposits are properly made, it is well to "foot" the *first two* columns, "Total Deposits" and "Total Receipts," each time a deposit is entered. Add all the deposits for the month to date and insert the total in light pencil figures immediately below the last deposit entered. Do the same with the receipts: put the pencil footing immediately below the amount of the last receipt written. These two running totals should always agree. They tell you that the total amount of cash has been deposited in the bank up to that point.

- ▶ It is probable that your school will use more than one page of Receipt Journal forms in a month. All pages (beginning with the beginning of your school's fiscal year, which is usually July 1) should be numbered consecutively in the space provided in the top

margin of the form. (We suggest number the pages "05-06-1, 05-06-2" and so on. This will identify the year as well as the sequence of the pages.)

When the first page for the month is completed, total all columns and make sure that they "cross-foot": Total Deposits should equal Total Receipts, and both should balance with the total of the remaining columns (except "Balance Due" which need not be totaled).

When you have completed the second page for the month, total *that page* in the same way, and then enter on the line "Total Brought Forward" the figures from page 1. Add the two lines together and insert the total on line 3, "Total to Date, Present Month." Repeat this process until the end of the month. On the last page for the month, after determining the total (line 3) for the present month, bring forward from the previous month's last page the figures on line 5 of the previous month. Enter these figures on line 4 of this month's journal. Adding line 3 (this month's totals) and line 4 (total of previous months) will give you, on line 5, the accumulated totals for the year to the end of the current month. Be sure that each line balances: total income columns equal total receipts and equal total deposits.

### 308.05 Patrons Ledger

Exhibit 3-3 shows a sample of a form that is identified at the bottom as "Accounts Receivable Ledger." This form will be used for amounts due from both patrons and constituent churches. In this paragraph we shall discuss only the recording of amounts billed to patrons and cash collections from patrons.

- ▶ As has already been noted, income from patrons is recognized as income only when the cash is received. It is essential, though, to keep an account of the amounts due from each patron for the usual tuition and fees charges and for other charges that apply to the service rendered to the students. In the cash system, these charges are entered month by month in the Accounts Receivable Ledger form for the individual patron. Each patron has a separate ledger card. Be sure to fill in all blanks in the heading before beginning to record the monthly charges.

- ▶ Each month enter the date in the first column, the total amount of the *charges* for that month in the second column (this column is headed “Total Amount Received,” but do not let that confuse you; enter the total charges in this space), and distribute the total into the separate columns for tuition, music, fees, and various other charges. If a charge is made for some service other than those for which separate columns are provided, enter it in the “Misc.” column (Column 6) and insert a code letter in the “Code” column to identify the nature of the charge. After the first entry is made, the amount in the “Balance Due” column will be the same as the total charges in that entry. The use of the “Balance Due” column will be explained in later sections of this paragraph.
- ▶ When a receipt is written for the cash paid by a patron and entered in the Receipts Journal (see paragraph 308.04), the same information is entered on the ledger card for that patron: date of receipt, total amount received, and a distribution of the amount in the remaining columns. If the exact amount already charged is now paid, the amounts entered in these columns will be the same as the charges.

Supposing that only a part of the total charge is paid, what then? The distribution of the cash should be *first* to the incidental charges (music, fees, etc.). The credit to the tuition charge is entered for any excess of the payment above the total of these other charges. In other words, tuition collections are entered *last*.

- ▶ To arrive at the figure to be entered in the “Balance Due” column, subtract the cash received from the previous amount in the “Balance Due” column and enter the difference as the new balance due. After each entry of either charges or payments, it is advisable to make a pencil footing of each column. This will provide you with information as to the amount remaining unpaid in each of the income classifications. The total of these income columns, after applying cash paid in, will always agree with the pencil footing of the “Total Amount Received” column and the “Balance Due” figure.

### 308.06 Subsidies Ledger

The same Accounts Receivable Ledger form should be used to record regular monthly subsidies due from constituent churches. These entries

should be made each month (assuming that subsidies agreed upon with the constituent churches are payable each month), following the same procedure as for recording charges to patrons. The amount of the subsidy due should be entered, in this case, in the "Misc." column (column 6). Payments received from the local churches to apply on their subsidies due will also be entered just as cash from patrons is recorded, and the "Balance Due" column will be brought down with each entry of a new charge or a payment. If cash subsidies are committed by the local conference, either for routine operating or for capital expenditures or other purposes, these subsidies, too, can be entered when word is received from the conference of their definite commitment to make these payments. Cash received from the conference in payment of these subsidies will then be handled in just the same way as cash received from patrons or churches.

#### 308.07 Accounts Receivable Data

Remember that the *charges* entered in the ledgers, under the cash accounting system, are not considered income until they are paid in cash and entered through the Receipts Journal. The balance in each ledger account, though, will show at all times the amount of patron accounts or subsidies unpaid. Because the ledgers themselves are not completely integrated with the recording of incomes and expenses, and there is no arithmetic control of the accuracy of the unpaid balances brought down after each transaction, it is especially important that the transactions recorded and the balances in each column are computed carefully. This lack of an interlocking control of accounts receivable is one of the deficiencies of the cash system, which is overcome in the comprehensive plan described in Section 309. It is acceptable to go along with this weakness in the case of smaller schools. The risk should be recognized, however, and special care should be taken to see that the figures are accurate.

#### 308.08 The Pegboard System

The treasurer who has followed carefully the explanations of the Receipts Journal and the Accounts Receivable Ledger up to this point will recognize that the columnar arrangement of the *left-hand* half of the Receipts Journal corresponds exactly with the arrangement of the ledger form. In order to eliminate the necessity for copying information from the receipt itself to the Receipts Journal and then to the ledger (preparation of the receipt and two operations to copy that same

information to journal and ledger), a system is used in most conferences that produce all three of these records simultaneously. The plan involves the use of a heavy plastic or metal backing board, with pegs arranged on the left- and right-hand edges to which the Receipts Journal is anchored. The receipt form is designed so that all the information corresponding to the columns of the journal is written on the top line of the receipt. This top line is carbonized so that a carbon impression of exactly what is written on the receipt is transferred to the journal page. The receipts are “shingled” so that when the top receipt of a group is removed, the next receipt is lined up with the next line on the journal. To record the same information on the ledger for the individual patron or church, the ledger form is inserted between the receipt and the journal, lined up so that the carbon impression of the receipts shows on the first blank line of the ledger. Thus when the receipt is written, the posting appears on the ledger form and is listed in sequential order on the Receipts Journal. In one operation, writing the receipt, we have recorded the identical information in three places: receipt, ledger, and journal.

### 308.09 Cash Payment of Subsidies

Because subsidies received are recorded in columns on the right-hand half of the Receipts Journal, whereas the amount of the subsidy has been recorded in the “Misc.” column (column 6) of the ledger, we have a problem in writing the receipt for cash payment of subsidies. We recommend that the receipt be written in the usual way, with the amount paid on the subsidy entered in the “Misc.” column of the receipt and the ledger. Of course the carbon impression also shows in the same column of the Receipts Journal, which is incorrect insofar as the journal is concerned. The treasurer should draw a line through this figure *in the journal*, and enter the amount in the columns provided on the right-hand half of the journal sheet. As there will probably not be more than a few such entries each month, this is not particularly inconvenient. It is an important point, though, and one that must be kept in mind each time a payment on a subsidy is received.

### 308.10 Disbursements Journal

Exhibit 3-4 shows a sample Disbursements Journal—the record made of each check written. The page size is the same as that of the Receipts Journal shown in Exhibit 3-3. Note, however, that this is a double-page form—the left-hand side begins with “Check No.” and “Payee,” and

many columns are provided, both on the left-hand page and on the right-hand spread, for identifying the purposes for which the disbursement was made. Because it is necessary to break down payments into a large number of specific expense categories, it is convenient to have separate columns for each type of frequently used expense. The columnar arrangement shown in the sample may be more comprehensive than is required for some of the smaller schools, and your conference may have a somewhat abbreviated form. The principles for recording disbursements are always the same, though, and while the form used in your conference may vary in some respects, you should understand the basic procedures as explained in the following paragraphs.

- ▶ The heading of the form is similar to that described for the Receipts Journal: name of school, month, and page number.
- ▶ The first several columns provide for entry of basic information for each check written: check number, name of payee, date, gross amount of invoices, cash discount allowed by the vendor, if any, and amount of the check. Do not delay entry of checks into the journal. They should be entered *at the time the check is written*, or no less often than once each day.
- ▶ Each time a deposit is made it must be entered, not only in the Receipts Journal, but in the Disbursements Journal as well, using the columns “Deposit Amount” and “Date of Deposit” (see paragraph 308.04). It is essential that the entries in the two journals be exactly the same at all times. As the Receipts Journal columns for total cash received and total deposits are footed, the “Deposit Amount” column in the Disbursements Journal should be footed, too, to make sure that the amounts agree.
- ▶ This journal provides space for keeping a running bank balance after recording each check or deposit. The operation does not require explanation because the balance is entered in the appropriate column after each transaction is recorded. Maintaining this record makes it unnecessary to keep a check stub record, and the balances shown in the journal provide all the necessary information.
- ▶ As each check is recorded, the amount of the check should be extended into the remaining columns to classify the expenditure as

to the type of expense or other category. Note that expenses are grouped under the following headings: Instructional Expense, Other Expense, Utilities, Insurance, Plant and Grounds Maintenance, and Bus Expense. Additional columns are provided for other types of expenditures that are not actually operation expenses: Refunds, Check Exchange, and accounts carried with Home and School, ASB, and classroom projects.

- ▶ Entries for check exchange transactions are entered in column 34, “Check Exchange.” Paragraph 306.06 discusses the guidelines for check exchange transactions. We repeat here that the receipt of funds and the writing of the check should take place simultaneously. This means that the recording of the receipt and the recording of the check will always balance. At no time should there be a difference in the amount involved, nor should there be any time lag between acceptance of the cash and writing of the check.
- ▶ In the sample form, column 35 is headed “Cafeteria.” It is desirable that several columns be provided for various types of expense related to the Cafeteria Operation. Just as Bus Expense is broken down into several categories, so there should be, at a minimum, columns for wages, student labor, and supplies.
- ▶ The last column of the Disbursements Journal provides for transfer of funds from the checking account to a savings or investment account. In no case should funds received be deposited directly to a savings account. All money receipted should go *first* to the regular bank account of the school, and if it is desired that the money be put in savings, a check should be written on the regular bank account and deposited in the savings account. When the money in the savings account is to be expended, it should be withdrawn from savings and deposited to the regular bank account.
- ▶ A check returned by the bank because of insufficient funds or other irregularity is exactly the same as a check written by you on the bank account and should be recorded in the same manner. The extension of such a transaction will be in column 33. At the time the extension is made, it should be identified so it can be charged back as a decrease in the amount of income already recorded. In each case it will be necessary to refer to the receipt written when the check was accepted, to see what income account was credited.

The charge for the returned check should then be identified as being applied in reverse to the same income account.

### 308.11 Closing the Disbursements Journal

Please refer to paragraph 308.04 which describes the footing of each page of the Receipts Journal, the carrying forward of the page totals, and the closing of the journal at the end of the month. The same procedure is followed with the Disbursements Journal: total each page bringing forward the accumulated totals from previous pages for this month and bringing down a new total for this month-to-date. When the end of the month comes, this total for the month-to-date (line 3) is added to the cumulative total of previous months this year (line 5 of last month's journal) to yield the total for the year-to-date of checks written, all categories of expenses, and other non-expense accounts.

### 308.12 Review of the System

Section 308 deals with the accounting records themselves. Now that all transactions relating to the bank account have been recorded, the records are in condition for the preparation of the financial reports. All incomes have been recorded through the Receipts Journal, and all out-of-pocket expenses have been recorded through the Disbursements Journal. Keep in mind that in this basic system we are dealing with and reporting only those items of income and expense that have involved cash. The preparation of the reports for the month, and for cumulative year-to-date figures, is covered in detail in Section 310.

## **Section 309 The Comprehensive System (Larger Schools)**

### 309.01 Definition of the System

Section 308 discusses the format and operation of a basic accounting system built around cash transactions only. We are now ready to move into a comprehensive system based on double-entry principles of accounting and involving the accrual features which permit the recognition of income as it is earned and expenses as they are incurred in the production of income. While the cash system already described permits the reporting of results of operations and the current status of the cash account, the comprehensive system allows the school to prepare a periodic statement of income and expense and a balance sheet

in conventional form in compliance with generally accepted accounting principles.

### 309.02 “Double Entry” and “Accrual”

A double-entry system is based on the equation:

$$\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$$

(Equity is the equivalent of net worth or fund balance in the non-profit organization.) Every business transaction has a double effect and must be recorded in two or more accounts: for every value we receive, we part with an equivalent value. Thus when we charge a patron for tuition, we have *parted with* certain services of a specified value; at the same time we have *received* the expectation that the patron will pay us cash in the same amount. The *accrual* feature touched on briefly in the preceding paragraph means that a transaction is entered when a specific agreement is reached in economic terms or when an economic event has occurred. The application of this principle means that we record an income when the services are rendered; we recognize interest payable to a creditor on a note as the time passes during which we use the money, rather than waiting until we are required to pay the interest in cash. The same concept applies to the purchase of goods or services for use or for resale, the using up of the value of a piece of equipment as times passes, and the recognition of the value of an inventory of goods on hand which are destined for eventual usage.

### 309.03 Criteria for Application

Paragraph 308.03 states that the cash basis of accounting described in Section 308 should “be limited to schools having three or fewer teachers, and to schools operated under the sponsorship of a single church . . . . If a school is operated for two or more churches, or if the teaching staff numbers four or more, the comprehensive system described in Section 309 should in all cases be used.” It is safe to assume that in these larger schools the help of a qualified accountant is available, and the application of the principles discussed in this section should represent no serious problem. Two strong recommendations should be given at the outset:

- ▶ All the material in Section 308 should be studied carefully as a basis for the approach to the comprehensive accounting system.

Much of the material in Section 308 is equally applicable to our present discussion, and much of it will not be repeated here, but will simply be incorporated in this discussion by reference.

- ▶ The accountant or treasurer should not expect to operate the system, particularly at the start, without conferring with the local conference Department of Education and Treasury staffs and with the local conference auditor.

When a question arises, first use the guidance of this manual and then the counsel of these qualified conference staff members.

#### 309.04 Similarities and Differences

A reading of Section 308 will reveal that most of the basic procedures for the entry of business transactions are identical with those which will be required under the comprehensive system: Receipts and disbursements can be recorded in substantially the same way, deposits and withdrawals of funds are handled the same, and the footing and forwarding of journal pages does not differ. In the basic system, though, there is no ledger. The function of the ledger is covered in the bringing forward from month to month of previous cumulative totals of each column in the Receipts and Disbursements Journals. And the basic system is restricted in that there is no means for recognizing income as earned, or expenses as incurred, or for recording purely non-cash transactions such as inventory/expense adjustments, depreciation, etc.

#### 309.05 The Pegboard System

The operation of a pegboard system for the Receipts Journal is described in paragraph 308.08. We encourage the use of such a system for accounting applications wherever possible, and in the comprehensive system, the Receipts Journal and the Income Journal (the latter to be discussed in a subsequent paragraph of this section) lend themselves to such an application. The Disbursements Journal does not adapt itself quite so well to a pegboard method (although some organizations have designed bank check forms which use the top line of the form for all essential information, which is recorded in the journals as a carbon impression of the date on the check itself). Neither can general journal entries involving ledger adjustments be put on a pegboard.

### 309.06 The Chart of Accounts

The double-entry system we are describing involves the use of a general ledger. Postings are usually made on a monthly basis from the various books of original entry—the journals. The ledger is organized into specific accounts for various assets, liabilities, net worth, income, and expense. These accounts are arranged generally in the order in which they will appear in the financial statements. The Chart of Accounts shown in Exhibit 3-5 lists the accounts that will generally be required in a school of moderate size and typical activity. Note that each account bears a *title* and a *number*. As far as possible, these numbers have been assigned on a logical basis, and gaps have been left in the sequence to accommodate additional accounts as may be required. The logic of the numbering system is summarized as follows:

Assets	100
Current	101-150
Fixed	151-160
Liabilities	200
Current	201-260
Long-term	291-299
Fund Balances (Net Worth)	300
Unallocated (Regular)	301-304
Allocated (Net Worth Reserves)	305-310
Capital Additions	351-399
Operating Income	400
Operating Expense	500
Instructional	501-525
Bookstore	526-530
Pre-school	531-535
Cafeteria	536-540
Bus Operation	541-550
Administration	551-565
Utilities	566-570
Building and Grounds	571-580
Miscellaneous	581-599

When it becomes necessary to open new accounts other than those listed in the Chart of Accounts, they should be put in the proper sequence according to the above outline. As previously mentioned, the accounts are in the order in which they will normally be shown in the financial reports. Putting a new account in some place other than that

to which logic assigns it can cause a good deal of inconvenience and confusion.

### 309.07 Fixed Assets

Note that the Chart of Accounts provides for recording the value of equipment purchased and used by the school, and for depreciation on the equipment. This is a feature that has not been generally applied in our school system in the past—the common practice has been to write off the value of equipment purchased as an expense. Sound accounting practice requires that we recognize that when a piece of equipment is purchased, we are acquiring a value that will diminish over the years, with use of the equipment, and that this gradual using-up of the equipment should be recognized as an expense *as it occurs*, not immediately upon acquisition. More will be said about the accounting procedures involved in the application of this principle in later paragraphs of this section.

### 309.08 Opening the Ledger

Many of the schools that will be using the comprehensive accounting system have in the past operated solely on a cash basis as outlined in Section 308. Others will have been using a double-entry system with a general ledger, but they may not have been following the principles embraced in the present discussion for the recording of inventories, prepaid expense, fixed assets, and accumulated depreciation. In the first instance it will be necessary to open ledger accounts for all data reflected in the cash system records. In the second case it will be necessary to make certain entries to adjust the existing accounts. The procedures to cover these requirements will be dealt with in the following discussion.

- ▶ From the cash basis records, make a journal entry to transfer all active balances to the new ledger. First of all, make sure that the final totals for the journals at the end of the year balance:

Cash in Bank + Savings Accounts =  
Total all Income columns – total all Expense columns +  
Total all Classroom Project, ASB, etc., columns

When it is determined that the above equation balances, make an opening journal entry as follows (be sure to put this entry on a

*journal voucher* form first, as shown in Exhibit 3-6, then post the entry to the general ledger):

Debit	101 Cash in Bank	xxx.xx	
	102 Bank Savings Account	xxx.xx	
Credit	211 Home and School		xxx.xx
	212 A.S.B.		xxx.xx
	223 Classroom Project, 3 <sup>rd</sup> Grade		xx.xx
	225 Classroom Project, 5 <sup>th</sup> Grade		xx.xx
	301 Unallocated Fund Balance		xxx.xx

The last credit item, Unallocated Fund Balance, will be the total of all the income columns from the Receipts Journal minus the total of all the expense columns from the Disbursements Journal. In other words, the Unallocated Fund Balance is the amount belonging to the school itself, as distinguished from those balances that are held for other organizations.

- ▶ Even for the cash basis system, there will be ledger cards for each patron, showing the amount of money due from that patron. Make sure that all the balances shown on these ledger cards are correct *and collectible*. If not all are considered to be 100 percent collectible, then, with the help of your principal, school board chair, or finance committee, estimate the total amount recorded in the patrons' ledgers that may not be collectible. Remember, this is *only an estimate* and may be arrived at by designating certain accounts that may be collectible only in part or not at all; or it may be determined by estimating that of all accounts on the ledgers, perhaps an average of 10 percent will be uncollectible. When these data have been determined, make the following entry (we assume a total of \$4,982.50 of balances due from patrons; it is estimated that \$750 is uncollectible):

Debit	111 Accounts Receivable, Students	\$4,982.50	
Credit	119 Provision for Bad Accounts		\$750.00
	301 Unallocated Fund Balance		\$4,232.50

- ▶ Follow the same procedure for subsidies due and unpaid from churches at the end of the year. Here it may not be necessary to make any provision for uncollectible accounts—you and your administration may wish to assume that all church accounts are fully collectible. Be guided by existing circumstances, and take a

realistic view of collectibility. Assuming that the Subsidies ledger shows \$821.50 due from churches, the entry will be as follows:

Debit	112 Accounts Receivable, Churches	\$821.50	
Credit	301 Unallocated Fund Balance		\$821.50

- Determine, for the end of the year, the amount of money invested in various inventories of supplies: cafeteria food and supplies, gasoline and other bus supplies, instructional and administrative supplies, etc. If the amounts are small (say \$50 or less in any one case), ignore them. If they are significant, set them up as inventories as follows:

Debit	121 Instructional Supplies	xxx.xx	
	123 Bookstore Supplies	xx.xx	
	125 Cafeteria Supplies	xxx.xx	
Credit	301 Unallocated Fund Balance		xxx.xx

- One of the most important opening entries relates to the establishment of account balances for various types of equipment. Assume that the conference association carries title to the school buildings and that they do not appear on the school records at all. An inventory should be taken of all equipment in use, and wherever possible, the purchase price of the individual items should be determined. In those cases where the purchase price is unknown, an estimated value should be placed on the item. As a last resort, it may be necessary—but it is definitely not recommended—to agree upon a lump sum value for all equipment presently in use. Inasmuch as all this equipment was, when purchased, charged as an operating expense, we need not record any present value for it, but will consider that it is completely depreciated. Assume that the total purchase price of all items of equipment now in use is found to be \$18,743.90. Make the following entry:

Debit	151 Equipment	\$18,743.90	
Credit	152 Accumulated Deprec, Equip		\$18,743.90

- Let us suppose that at the end of the year, unpaid bills for supplies purchased (which have already been included in inventory values recorded in the entry above) and other running expenses of the school applicable to last year amount to \$329.78. Also, the school has a revolving fund with a balance of \$3,500 outstanding of which

an installment of \$700 is due during the coming year. The following entry records these facts:

Debit	301 Unallocated Fund Balance	\$3,829.78	
Credit	201 Accounts Payable		\$329.78
	209 Notes Payable, Current Portion		\$700.00
	291 Long-term Notes Payable		\$2,800.00

- ▶ The above entries are typical of what will be necessary in setting up the beginning balances in the ledger for starting the new system. The sample entries are for the school that has been on the cash system in the past, with no record other than the individual amounts of Accounts Receivable from patrons or constituent churches and with no record of inventories, equipment, or outstanding liabilities. In the case of those schools that have already established a double-entry system with a general ledger, it will be necessary only to *adjust* the balances that are already in existence. Most schools, for example, carry no general ledger record of equipment. Under this system that would necessitate making an entry such as is shown in fifth point above.

### 309.09 Income Journal: Part 1

Under the basic system the Receipts Journal functioned as an Income Journal because only those amounts paid in cash were recognized as income. Using an accrual system, though, recording income *as it is earned* rather than when it is paid must be provided for. This means that there must be a separate Income Journal that will debit the accounts receivable from patrons and constituent churches and credit the appropriate income accounts. Such a form, which is very similar to the Receipts Journal shown as Exhibit 3-2, is illustrated as Exhibit 3-7. Some of the column headings have been changed: The first column now is "Previous Balance," the second is "Total Charge," and instead of "Name Received From," there is "Name Account Charged." This form can be used with the pegboard system. To make an entry for a charge for tuition and fees to an individual patron, take the patron ledger card and lay it over the Income Journal, lined up so that the entry on the ledger card will show on the first unused line of the journal. As there is no spot carbon on the ledger cards, a sheet of carbon paper between ledger and journal is necessary. Make the required entry, bringing down first as "Previous Balance" the amount shown on the previous line of the ledger card as "Balance Due." Then enter the total

of the charge, make the distribution to the various tuition-and-fees columns, enter the date, and write in the name of the patron.

### 309.10 Income Journal: Part 2

Monthly subsidies due from churches are entered in the same way. Usually these are all entered at one time each month and can be grouped together. For purposes of posting to the ledger card, distribute the "Total Charge" into the "Misc." column. Be careful, however, not to include entries in this column on the journal with miscellaneous income from charges to patrons. It is best to run a line through each of these entries in the "Misc." column on the journal and to make the correct extension in the columns provided in the "Subsidies" section.

### 309.11 Closing the Income Journal

As each page of the income Journal is completed for a given month, it is footed, and the footings are carried forward to the next page using the procedure described for the Receipts Journal in paragraph 308.04 (point 7). On the last page for the month, you will have on line 3 at the bottom of the page the accumulated totals for that month. It is not necessary that lines 4 and 5 be completed. Instead, the totals from line 3 are posted to the proper accounts in the general ledger: Total Charges to patrons as a debit to account 111; Total Charges to churches to account 112. These two debits must be in exact balance with the credit postings to account 401 for regular tuition, 403 for music charges, 404 for fees, and so on through the student-related incomes; then 411 for church operating subsidies. Entries for various incidental charges to patrons in the "Misc." column must be analyzed by the code letter or figure entered in the "Code" column and posted to the appropriate income account—Preschool, Bus Income, Cafeteria, Bookstore, or whatever. Do this analysis *before* making the postings of columnar totals. At least until you are confident of the procedure, make a list of debit postings to be made, make a separate list of credit postings, and be sure they are in balance.

### 309.12 Tuition Discounts

Policies differ as to the allowance of tuition discounts. In some cases the discount is granted when the charge is made to the patron, while in other instances the discount is allowed only when the account is paid. In either case it is necessary that a credit for the discount be recorded

and reflected both in the operating accounts of the school and in the balance due from the patron. If the discount is granted when the charge is made, proceed as follows:

Enter in the Income Journal the full amount of the charge for tuition, fees, etc., in the appropriate columns. Enter the amount of the discount in *parentheses* in the "Misc." column, with a letter code to identify it as a discount. Enter in the "Total Charge" column the total of all charges for tuition and fees, minus the discount granted. Thus while all the tuition and fees items are added, the discount (in parentheses) is subtracted. If the discount is allowed only when the account is paid, the same basic procedure is followed, but the entry is in the Receipts Journal instead of the Income Journal. In either case the month-end posting of discounts is a *debit* to account 402.

### 309.13 Receipts Journal

The basic procedures for entry of transactions in the Receipts Journal are the same as described in paragraph 308.04. For purposes of analyzing the patron accounts to keep track of partial payments and balances due, it is necessary to follow the same breakdown of cash paid by patrons, applying it first against fees and other charges, and last against the tuition charge. Receipts written for church and conference subsidies are handled just as described in paragraph 308.04. Receipts from other sources, or for other purposes, are written as usual, with the amounts extended to columns in the section at the extreme right of the journal form. The variation in procedure comes with the month-end postings. Total cash received is posted, of course, as a debit to account 101, Bank Checking Account, as all cash received during the month will have been deposited. Special care is needed in posting the credits: The total of all entries in columns 1-6 (those covering payments) is posted as a credit to account 111. If subsidies have been received from the conference and entered in column 7, they will be posted to the appropriate income accounts—412 for operating subsidies, 351 for capital appropriations. Payments by constituent churches on their subsidy accounts will be posted as a credit to 112, Accounts Receivable, Churches. All entries in columns 14-18 must be entered as direct credits to the accounts provided in the general ledger. Bookstore income, for example, is posted as a credit to account 422; gifts and donations to account 421, Home and School cash paid in to account 211, and so on. As with the postings from the Income Journal, it is well to make a rough listing of the various combinations of column

totals before doing the posting, to make sure that total debits (usually only to Bank Checking Account and to Tuition Discount, account 402) agree with total credits (to Accounts Receivable, Students, Accounts Receivable, Churches, and the various miscellaneous accounts for which cash has been paid in). Note that an account has been provided for Check Exchange, 289. Credit to that account will be posted from the Receipts Journal column 16, and a balancing posting as a debit will come from the Disbursements Journal.

#### 309.14 Subsidiary Accounts Receivable Ledgers

With the introduction of a procedure to record income as earned, a new element is brought into the handling of the patrons' ledger. We now have in the general ledger a *control* account for Accounts Receivable from patrons. It is important that this general ledger account and the total of the individual accounts with patrons be in agreement at all times. We have seen that all entries made for tuition and other charges in the individual patron accounts are also entered, in monthly totals, in the general ledger account. In the same way, all cash paid by patrons on their accounts is entered as credits to the individual accounts when the receipt is written. The total of all these credits is posted to the credit of the general ledger account at the end of the month.

As long as all entries in the individual accounts are reflected in postings to the general ledger, and as long as all entries in the general ledger account are reflected in postings to an individual patron account, the two will agree. It is basic to this feature of the accounting system that the control account and the patrons' ledger accounts (called a *subsidiary* ledger because it is subsidiary to the general ledger control) are in agreement at all times. This is no problem as long as the principle outlined above is unfailingly followed: All entries in the subsidiary are reflected in the control, and all entries in the control are reflected in the subsidiary. Obviously, this agreement between the two is lost if some unauthorized person makes a change in one of the patron accounts without letting the treasurer know so that the control account can be similarly changed. Loss of agreement will result, too, if one of the patron ledger cards is removed from the ledger file and finds its way into someone's desk drawer or into the correspondence files. The integrity of these accounts must be carefully safeguarded.

At the close of each month, after all postings have been made to both the subsidiary ledger and the general ledger, a list should be made

showing the balance due on each patron account, and the total of this list should agree with the balance of the general ledger control account. Of course, all that has been said about the patrons' ledger applies with equal force to the accounts for church subsidies due (general ledger account 112). In this case, there will seldom be more than a very few accounts, and the problem does not loom so large. The necessity for constant agreement between the total of individual accounts and the general ledger control is exactly the same, and the proof of their agreement should be performed monthly.

### 309.15 Disbursements Journal

The Disbursements Journal shown in Exhibit 3-4 is usable in the comprehensive accounting system as well as in the cash basis system. Instructions for its use found in paragraph 308.10 should be studied carefully. In most cases, these instructions will apply in the present system. The columnar arrangement for the recording of the debit side of the disbursement transaction, you will note, is not in account-number order as shown in the Chart of Accounts. The sample form represents only one possibility for columnar arrangement. As the system described in this section is implemented, your conference staff will no doubt wish to develop a form that will fit the needs of the schools in the conference.

The application of the principle does not differ, though, whatever the particular columnar arrangement may be. Checks should still be recorded as written, or no less than once a day. Deposits will be recorded, repeating the entry of deposits in the Receipts Journal. The bank balance will be brought down after each transaction, or at least at the close of each day's business. Each check, as it is entered in the journal, will be extended to the appropriate distribution column. In case of a purchase on which a cash discount is allowed for prompt payment, be sure to extend in the distribution columns the *net* amount—the amount of the check—not the gross amount of the invoices paid. The principle here is that the department or activity should receive the benefit of the cash discount taken and be charged only with the actual amount of cash expended for the particular purchase. Treatment of payment of invoices dating back to a previous month that have already been recorded as Accounts Payable in the ledger will be discussed in paragraph 309.24.

### 309.16 Closing the Disbursements Journal

As is the case with the Income and Receipts Journals, it is not necessary to complete lines 4 and 5 at the bottom of the last page of this journal for the month. Page totals during the month will be accumulated and brought forward, and at the end of the month the monthly totals of the columns are posted to the appropriate general ledger account. As suggested previously, it is well to run an adding machine tape prior to posting to make sure that the debit and credit postings balance. Some column totals are not posted: Gross Amount, Discount, Deposit Amount, and Bank Balance. Crosscheck the total of the Deposits column with the related column in the Receipts Journal—no posting is necessary. For the distribution columns, those that relate to a single general ledger column are handled by posting the column total. For the various “Miscellaneous” columns, it is necessary to analyze them and post to individual accounts in the general ledger. The total of column 33, “Refunds and Returned Checks,” will be posted to the debit of account 111, Accounts Receivable, Patrons. Be very sure that each entry in this column has been posted as a charge to the individual patron’s ledger card (see paragraph 309.18).

### 309.17 Cash Status Report

The practice of bringing down the current bank balance after each transaction, or each day, has already been described. This plan of maintaining a running bank balance in the Disbursements Journal eliminates the need for using the old-fashioned check stub that accomplishes the same thing in a less efficient way. This plan makes it easy to prepare periodic reports of the status of cash on hand and in banks. Preparation of a Cash Status Report is discussed in paragraph 307.08, and a suggested form is shown as Exhibit 3-1.

### 309.18 Other Bank Transactions

Please review the statements in paragraph 308.10 (points 6, 8, and 9) relating respectively to Check Exchange transactions, transfers from checking to savings accounts, and recording of returned checks. We call attention to these points here because, while the transactions are entered in the Disbursements Journal in the same way as under the basic system, it is now necessary to post these items to the general ledger. Check Exchange transactions will be posted as a debit to account 289 (the credit entry having come from the Receipts Journal in

the same amount). Transfers of funds from the checking to the savings accounts are shown in the last column on the right-hand sheet of the journal—the total will be posted to the appropriate savings account in the general ledger. As to returned checks, we mentioned in paragraph 309.16 that the total (assuming they are patron checks) would be debited to account 111, with corresponding entries in the individual patron ledger accounts. If the returned check was originally tendered for some other purpose than payment on a patron account, *do not* enter the distribution in column 33, “Refunds and Returned Checks.” Enter it instead in column 36 (a blank column in the sample form) and indicate the account to be debited—the same account that was credited when the check was originally received.

### 309.19 General Journal Vouchers

The three special journals discussed in previous paragraphs—Income, Receipts, and Disbursements Journals—take care of practically all of the routine day-by-day business transactions of the school. Other data need to be recorded, however, which do not fit into any of these special journals: adjustments between inventories and expense accounts, recording of unpaid bills at the close of the month or year, recognition of interest due but not yet paid on loans, recognition of depreciation expense on equipment, and write-off of uncollectible accounts, to name a few. In order to record these sorts of transactions, a form of “General Journal Voucher” is used. A suggested form is shown as Exhibit 3-6, and we have already encountered its use in our discussion of entries required to open the general ledger in paragraph 309.08. We shall see further uses for this form in the paragraphs immediately following. At this point, a few general observations are pertinent.

It is not required, as stated in some textbooks in elementary accounting, to copy the information on the journal voucher into a ruled book. The vouchers themselves, filed numerically, are the “general journal.” Every journal voucher should be numbered; for a given year, the numbers might be shown as “05/06-1, 05/06-2” and so on. Each journal voucher should include the initials of the person preparing it, and if it records a transaction in any way out of the ordinary, it should be approved before entry by the principal, chair of the school board, or chair of the finance committee. Each voucher should balance, the debits and the credits being equal, and each one should contain an adequate explanation of the need for the entry or what is being accomplished by the entry.

### 309.20 Supplies Inventories

The Chart of Accounts (Exhibit 3-5) provides for a number of accounts in the Current Assets section for inventories. It is not required that every school maintains every one of these inventories. If the dollar value of materials carried in any one of these categories is significant, the inventory should be recognized. Two types of procedure are commonly employed, and either one is acceptable. In fact, one plan may be used for one inventory and the alternate plan for others. The two plans are described briefly as follows:

- ▶ At the time materials are purchased, they are debited to the inventory account. As materials are used and withdrawn from inventory, a record is made to *debit* the appropriate expense account and to *credit* the inventory account. For example, transactions affecting the inventory of gasoline for use by the school buses would, under this plan, be debited originally—at the time purchased—to account 124. As the gasoline is used, or at the end of the month based on a running record through the month of usage, account 124 is credited for the value of the usage, and account 543 is debited.
- ▶ The alternate plan is the reverse of that just described. Purchases are debited to the expense account originally, and at the close of the month or year, an entry is made to transfer to the inventory account the amount remaining on hand unused. Following the example above, the original purchase would be debited to account 543; the inventory at the end of the period is recorded by a credit to account 543 and a debit to account 124.

Depending on the experience in the individual institution, it may be satisfactory to make monthly adjusting entries as described above on the basis of a *record* of usage. However, at the end of the year certainly, and in some cases more frequently, a physical inventory of the materials on hand should be taken, recorded in writing as a permanent record, and the inventory ledger account adjusted to reflect the value of the stock actually on hand. If the actual inventory were *more* than the ledger account shows, the entry would be to debit the inventory account for the difference and credit the related expense account. If the physical inventory is *less* than the book account, enter a debit to the expense account and a credit to the inventory account for the difference.

### 309.21 Fixed Assets

In our discussion of ledger opening entries, we covered the recording of the historical cost of equipment now on hand and an equivalent figure as a credit to Accumulated Depreciation. This is done because all equipment now on hand was written off as an expense when the payment was made, and it is not required that it be brought back on the books at its present value and depreciated. For equipment purchased in the future, however, it is necessary that the actual cost (which will include base cost, sales tax, and transportation to the school) be recorded as an asset in account 151, 153, or 155. At the time of purchase of each piece of equipment other than library books, which can be handled as group purchases, a form will be prepared showing the description of the equipment, from whom purchased, when, on what check number, and the total cost. A sample of such a form is shown as Exhibit 3-8. The historical cost of all equipment purchased as shown on these individual forms will always agree with the balance of the general ledger account. In other words, we have here a subsidiary ledger with a general ledger control, quite similar to the arrangement for Patron Accounts Receivable.

### 309.22 Depreciation of Equipment

Each piece of equipment is expected to last for a given number of years. This life expectancy is used as the basis for estimating the portion of the value of that equipment which is used up year by year. A desk with an expected life of ten years and an original cost of \$250 will thus be depreciated \$25 each year. The total of all *individual* depreciations for a given year will be divided by 12, and that amount—1/12 of the annual total—will be recorded as depreciation expense for the month. This process necessitates entering the annual depreciation on the individual forms at the beginning of the year, running a total of all such entries, and recording 1/12 of that total each month. The entry is:

Debit	518 Depreciation, Industrial	\$xxx.xx
	547 Depreciation, Buses	xxx.xx
	558 Depreciation, Administration	xx.xx
	575 Depreciation, Bldg & Grounds	xxx.xx
Credit	152 Accumulated Depreciation, Equipment	\$x,xxx.xx
	154 Accumulated Depreciation, Buses	x,xxx.xx
	156 Accumulated Depreciation, Library	xxx.xx

This entry will be repeated for each of the first eleven months of the year. During the year, however, purchases, of new equipment will be made, and additional depreciation for fractions of the year will be entered on this new equipment. Also, some equipment may be sold, retired, or otherwise disposed of, and depreciation on those items, as described in the following paragraph, will be effective only for a part of the year. These changes make it necessary to re-total the actual depreciation on all equipment at the end of the year. From the annual total as corrected, deduct the amount already recorded on the eleven monthly entries, and for the twelfth month record the amount necessary to bring the total recorded for the year up to the actual total as recomputed.

### 309.23 Disposal of Fixed Assets

In dealing with sales or other dispositions of equipment, the complete entries to remove the asset and its related depreciation from the books, and to record any loss or gain on the disposition, should be made as soon as the transaction takes place. Assuming an asset with an original cost of \$300 and an estimated life of ten years is sold on September 30 of the fifth year for \$200, the following are the steps to be taken:

- ▶ The principal or other administrator will prepare a memorandum outlining the sale price and terms of sale, and authorizing entries to remove the asset from the records.
- ▶ Correct the depreciation entry in the equipment ledger to  $\frac{1}{4}$  year (July 1 to September 30) instead of a full year. This means that depreciation for the fifth year is \$7.50 ( $\frac{1}{4}$  of \$30); depreciation at \$30 per year has been recorded for each of the first four years, so total depreciation to the date of sale is \$127.50 ( $\$30 \times 4 + \$7.50$ ). The net value of this piece of equipment on your books will then be \$172.50 (\$300 original cost minus \$127.50 depreciation).
- ▶ Prepare a general journal voucher to remove the asset from your records. The entry will be:

Debit	152	Accumulated Deprec, Equipment	127.50
	435	Loss & Gain on Sale of Equip.	172.50
Credit	151	Equipment	300.00

- ▶ At the same time a receipt will be written for the \$200 sale price of the equipment. This appears in the Receipts Journal with the entire \$200 credited to account 435, Loss and Gain on Sale of Equipment.
- ▶ The result of this combination of entries is that:
  - ☞ The original cost of the equipment has been removed from the Equipment asset account;
  - ☞ The total accumulated depreciation for 4 ¼ years has been removed from the Accumulated Depreciation account; and
  - ☞ The Loss and Gain on Sale of Equipment shows a net balance of \$27.50 credit (a debit of \$172.50 and a credit of \$200), which represents the net gain on the sale.

### 309.24 Accounts Payable

We assume that all current bills for operation of the school are paid promptly at the end of the month, and that ordinarily there is no carry-over of unpaid bills from one month to the next. Note that the statement is “paid promptly at the end of the month.” This means that the checks should actually be written for all outstanding bills during the month in which they are to be recorded. It is not proper to “hold open” the Disbursements Journal for a week or ten days after the actual end of the calendar month and pay the bills after the month has actually closed. With the assumption of payment in the month in which the purchase is made, the necessity for recording accounts payable—unpaid bills—seldom arises. When an account is carried over the month-end, or especially over the year-end, it is required that the purchase be properly recorded in the month in which it was made, and that a liability be set up for the unpaid amount. This is done by a simple General Journal entry debiting the appropriate expense or other account—inventory, operating expense, or other—and crediting account 201, Accounts Payable. This has the effect of showing the expense or inventory value at the close of the month, and reports a liability outstanding at the same date. When this procedure is followed, it is proper to *reverse* this journal entry on the first day of the new month—debit 201 Accounts Payable, and credit inventory, operating expense, or other account. When the bill is paid, the disbursement can be entered in the conventional way, as a credit to cash in bank, and a debit to the expense, inventory, or other account.

### 309.25 Long-Term Liabilities

A long-term liability is defined as one that is due for payment at some date beyond one year from the date of the financial statement. Let us suppose that you enter into a contract for the purchase of a bus:

- ▶ The total purchase price is \$25,000
- ▶ You have traded in the old bus for \$5,000 (and made the proper entry for disposition of the old bus, as described in paragraph 309.23)
- ▶ The balance of \$20,000 is payable over the next four years in equal payments monthly payments of \$416.67 plus interest at 12 percent per year on the unpaid balance

The purchase will be recorded as follows:

Debit 153 Bus Equipment	25,000.00	
Credit 435 Loss & Gain on Sale of Equipment		5,000.00
209 Notes Payable, Current Portion		5,000.00
291 Notes Payable, Long-term		15,000.00

This recognizes the total cost of the new bus, credits the Loss and Gain account with proceeds of the “sale” (trade-in) of the old bus, and divides the remaining unpaid balance into \$5,000 due during the coming year ( $\$416.67 \times 12$ ) and the remainder as a long-term liability due in subsequent years. Interest is computed at 12 percent per year on the initial unpaid balance of \$20,000:  $12 \text{ percent} \times \$20,000/12 = \$200$ . Of course the amount of monthly interest will decrease with each payment as the unpaid balance of the loan decreases. The entry to record the first payment on the new bus is as follows:

Debit 209 Notes Payable, Current Portion	416.67	
548 Bus Interest Expense	200.00	
Credit 101 Cash in Bank		616.67

The accounting aspects of such an arrangement are not complicated. The administrative details of the transaction are highly important: No transaction incurring a long-term liability or for any other long-term commitment should be entered into without the express formal approval of the governing board of the school. This action should be taken in advance of consummating the transaction and should include authorization for the transaction, specifying the amount of the loan,

interest rate, terms of payment, and type of security (in this case probably a conditional sale agreement or chattel mortgage on the bus).

### 309.26 Closing the Ledger

In previous paragraphs we have outlined the procedure for closing the special journals—Income, Receipts, and Disbursements. It is advisable that general journal entries be posted during the month as soon as they are prepared and approved. At the close of the month after all the remaining postings have been made, the accounts will be reviewed to determine which of them need to be adjusted before the system is ready for the preparation of the financial reports. Month-end entries typically include the recording of the month's depreciation of equipment, adjustments between inventory and expense accounts, and the recording of any unpaid bills carried over the end of the period. It is at this time that the Patrons Accounts Receivable ledger should be totaled and brought into agreement with the control account 111 in the general ledger. When all of these adjustments have been recorded in General Journal vouchers and posted to the ledger, the final step in preparation for the compilation of financial reports is the preparation of a trial balance of the ledger. This will be discussed in the next paragraph.

### 309.27 General Ledger Trial Balance

We have emphasized throughout this discussion that every posting made to the general ledger must be a balanced entry—total debits for each entry must equal total credits. This is true of the final month-end postings from the special journals, and equally of the posting of General Journal vouchers. If all entries to the general ledger are in balance, it follows that all the account balances in the general ledger, when combined, will be equal between debit balances and credit balances. The process of proving this is the preparation of the *trial balance*.

1. Foot all debit and credit postings for each account in the general ledger; subtract debits from credits or vice versa, to determine the balance of the account. Be sure to differentiate between account debit balances and credit balances.
2. When this has been done for every account in the ledger, prepare a list of all accounts, showing debit balances in one column, credit balances in another. Add the debit balances; add the credit balances. The total of the two columns should agree.

309.26

3. If the trial balance is out of balance, it is an indication that either:
  - a. The basic entries from the journals were not in balance
  - b. The amounts from the journals were incorrectly posted (posted as a debit instead of a credit, perhaps, or posted in a wrong amount)
  - c. The footing and balance of each ledger account was incorrectly done
  - d. The balances were incorrectly entered in the trial balance
  - e. The trial balance itself was incorrectly added to arrive at the column totals
  
4. To check for these possible errors, *reverse* the order in which they are listed in 3 above:
  - a. Check addition of trial balance columns
  - b. Check recording of balances from ledger to trial balance
  - c. Check footing and balancing of ledger accounts
  - d. Check postings from journals to ledger
  - e. Check journals to determine that column totals represent a balanced entry

When the General Ledger is proved to be in balance, we are assured that all entries are arithmetically correct and in balance. A trial balance does not prove that the entries themselves are correct in principle, only that they balance and that debits equal credits. When this point is established, we are ready for preparation of the financial reports. This subject will be dealt with in Section 310.

## **Section 310 The Budget Plan of Operation**

### **310.01 The Budget Plan of Operation**

The *Church Manual* specifically recommends the budget plan of operation for all churches, and by implication for church schools as well (see paragraph 105.05). This principle is further mandated in the *North American Division Working Policy 2001-2002* P 15 15 as follows:

**Budget Plan**—All denominational organizations shall follow the budget plan of financial operating. The controlling committee

shall approve the annual operating budget. It shall be the responsibility of the officers of each level of organization to require subsidiary organizations in their territory to follow the budget plan.

Essential points in the above policy, which will be discussed in detail in this section, are

- ☞ Adoption of the budget plan
- ☞ Approval by the governing board

### 310.02 Preparation of the Budget

If the budget is to be considered as an effective instrument of control for the institution, it is essential that the budget be prepared, approved, and put in operation at the beginning of the school year. Budget preparation is frequently a process involving discussions, decisions, and trade-offs. Therefore, the mechanics of preparation should be started well in advance of the close of a given school year for implementation at the beginning of the new year. The treasurer is not the final word in the preparation of the budget; the budget itself is an administrative tool, and its form and content will be determined by administrative decision by the governing board. However, the treasurer, as custodian of the financial records, will certainly be responsible for furnishing factual data as to costs in all areas of school operation. These data, usually based on actual operating figures and compiled in a form very similar to that of the Statement of Financial Activity, will be presented by the treasurer, preferably at least sixty days prior to the opening of the new school year, to the principal, who will consult with his staff as to necessary modifications in past performance to accommodate increasing costs, new activities, etc. Either the governing board as a whole or—a more efficient plan—a budget or finance committee of the board will then work with the principal and the treasurer in bringing the budget into final form for submission to the full board.

### 310.03 Budget Base

It is the usual situation that budgeted income is not sufficient to cover all the cost requirements that grow out of the plans of the administration for the coming year. Income should be budgeted *first* and should be based, not on unduly optimistic projections, but on conservative expectations as to

310.02

#### Student enrollment

Assistance in the form of subsidies from constituent churches

Agreed subsidies to be received from the local conference

Miscellaneous income such as bookstore, cafeteria, donations, etc.

When the first computation of costs is made, it is not a solution simply to increase projected income to meet those costs. Rather, the incomes must be realistic, and costs must be tailored to fit within those incomes. Obviously, there will usually be a good deal of negotiation by the principal and treasurer with staff members who are expected to operate within the budget, and with the constituent churches. The budgeted costs are not to be imposed on staff members as a dictum from higher authority. A broad consensus must be reached and the staff—who are the individuals who will be required to live within their budget limitations—must be in general agreement and ready to embark on the new year's program in a spirit of cooperation. Only after all these preliminary steps are taken—history of past year's operational costs, modification to recognize new plans and new programs, consultation with staff members, and involvement by administration, staff, and budget or finance committee—is the draft budget ready to be submitted to the governing board for consideration and adoption.

#### 310.04 Approval by the Board

It is at this point that the budget as developed in its preliminary stages is presented to the full governing board for its approval. If the work has been done well and faithfully, only a few changes should be expected at this point. It must be remembered, though, that the final budget is the decision of the board and is the board's mandate and authorization to the administration to operate within its terms. The budget should be approved by formal action of the board and evidenced in the minutes of its meeting, and a copy of the budget should be filed with the board minutes. When this action has been taken, it constitutes the general authorization by the board for the administration to make routine disbursements for operating purposes within the limitations of the budget.

#### 310.05 Monthly Financial Reports

*The North American Division Working Policy 2001-2002 P 05 25*  
states:

**Financial Reports**—Monthly financial reports showing the actual operating expenses and budgetary provision to date shall be prepared and studied by the organization's administrative officers. Treasurers shall keep controlling boards and committees informed by providing monthly financial statements except in the case of relatively inactive organizations in which case statements may be submitted quarterly. Boards and committees should compare these statements with the budget adopted at the beginning of the year and be prepared to act with the officers in increasing income and/or decreasing expenditures as may be necessary.

This policy requires the submission to the board of monthly operating statements, with a budget comparison column for the month (or for the year-to-date), which affords the board an opportunity to compare actual operating results with the budget. This necessitates breaking down the annual budget into monthly increments so that at the end of each month it is possible to report on the amount of budgetary provision for that month, or for the year-to-date, of each item of income and expense shown in the operating statement. The simplest way to do this is to divide each item in the budget by 12 and to consider 1/12 of the total provision for the year as accruing each month. This is best done by using a columnar work sheet, with columns headed for July, August, Total Two months, September, Total Three Months, and so on through the year. If this is done at the beginning of the year, the treasurer will be able, with the publication of each month's operating statement, to take from the work sheet the budget amount for the single month and for the year-to-date.

#### 310.06 Variable Budget

The plan of accumulating 1/12 of the annual budget in each category of income and expense, as described above, is simple. It does have obvious drawbacks, though, in school operation where incomes and expenses do not accumulate on an even basis throughout the year. Tuition income usually is booked on a nine-month basis; some salaries are based on twelve monthly payments, others on nine or ten months; some operating expenses accumulate evenly through the year, while others are incurred only while the school is in session. A more sophisticated approach is available. This plan is *not* required in the reporting system for all schools. Many of the larger schools, though, with a highly qualified full-time staff in the business office, may find it feasible. The plan involves using a work sheet as described in the

310.06

preceding paragraph. Instead of dividing each annual budget item into twelve equal installments, *each item* in the budget is broken down separately into nine, ten, or twelve segments, and the monthly increments, thus determined, are entered in the appropriate months. Thus, tuition may be entered in the monthly budget columns for September through May. If some salaries are paid on a ten-month basis, that portion of salary expense will be entered in the ten-month columns in which the salaries will be paid; if church subsidies are payable on a nine- or ten-month basis, they will be similarly divided. All other items will then be divided on the 1/12-per-month basis. Each column (including the year-to-date columns) will be totaled, and the total for the final year-to-date column will equal the total of the budget as approved by the board. We repeat: This plan is not required in the reporting system. We encourage its use in those cases where the need for such a breakdown and the necessary personnel are both present.

### 310.07 Basic System, Monthly Reports

If the work of recording and summarizing the business transactions of the month has been properly done, the preparation of the monthly financial reports, as required by policy, is not burdensome. In succeeding paragraphs we shall go over the process step by step; now it will be helpful to take a final look at the condition of the accounting records to make sure they are at the stage where the reports can be compiled. As the basic accounting system is maintained on a cash basis, our interest is in the Receipts and Disbursements journals, which between them record all cash transactions. The Receipts Journal will have been totaled for the month, the month-end totals will have been combined with the cumulative totals from the end of the previous month, and it will have been determined that the columns "cross-foot"; that is, the total of cash received and deposited equals the totals of all the other columns. This procedure is described in paragraph 308.04 (point7). Similarly, the disbursements Journal will have been totaled for the month, completed to include cumulative figures, and the columns cross-footed and balanced (see paragraph 308.11 for details). Be sure that the total deposits entered in the Disbursements Journal agrees with the similar figure in the Receipts Journal, and that the bank balance figure is properly computed (beginning balance plus receipts minus disbursements equals new bank balance). In addition to the two journals, there will be a file of ledger cards for patrons, each one showing charges due for tuition and fees, cash payments made on the accounts, and the balance due for each patron. With all of this

information in hand, the records are in readiness for compilation of the monthly financial reports.

### 310.08 Basic System, Statement of Financial Activity

Appendix 3-1 (1) illustrates the recommended form for the Statement of Financial Activity. This statement has also been known as the Operating Statement, Income Statement, or Profit and Loss Statement. For a number of reasons, the new title is the one preferred, and we recommend its use. Preparation of the statement involves simply transcribing pertinent figures from the Receipts and Disbursements Journals to their proper places on this statement, inserting the budget figures for the month and for the year-to-date (paragraph 310.05 and 310.06), and totaling the various sections of each column.

- ☞ Note the heading of the report: It includes first the name of the school, then the title of the statement, followed by specification "Cash Basis." It is important that, for the basic accounting system, the basis of the report be shown. The date line specifies the period covered by the report. This statement pictures events which have taken place over a period of time, and it is not proper to date it simply "December 31, 20xx." Specify the length of the period, six months in this case, and the ending date of the period.
- ☞ The columnar arrangement fulfills the policy requirement for a statement that compares actual performance with the authorized budget. The December figures as to incomes and expenses will be taken from line 3 of the respective journals; the year-to-date figures will come from line 5 of the journals. Budget figures for the month and for year-to-date will come from the budget work sheet mentioned in paragraphs 310.05 and 310.06.
- ☞ For the smaller schools for which the basic accounting system is designed, it may be that some of the entries in the sample statement in Appendix 3-1 are superfluous. If your school does not operate a cafeteria, or a bus, or a bookstore, those lines will be omitted. If, on the other hand, you do operate a pre-school or kindergarten, you will want to report the details of that operation. Keep in mind that the statement forms presented are samples only. With the counsel of your conference Department of Education, treasurer, and auditor, they may in all cases be adapted to meet your specific needs.

- ☞ When the income journal entries, as explained in the second point above, have been made, you will have picked up from the Receipts Journal the totals of all columns *except* the “Total Cash Received” and those distribution columns which relate to “trust funds” (accounts such as Home and School, ASB, and classroom projects, which do not belong to the school itself, but which are being held for other persons or organizations) and amounts received as appropriations intended to be expended for capital purposes, such as purchases of equipment. Disposition of all these totals (total cash received, trust fund receipts, and capital appropriations) will be covered in later discussion in this paragraph.
  
- ☞ Entries in the “Expense” section will follow the pattern described in the preceding paragraph for incomes: Totals of all columns will be included except those pertaining to total disbursements, total deposits and bank balance, transactions involving trust funds, and disbursements for capital expenditures such as purchases of equipment. It is important that the expense entries correspond wherever applicable with similar entries for incomes. Thus instructional income will be matched by instructional expense. If there is an entry for bus income, there should also be an entry for bus expense, and so on. As will be brought out later in this discussion, this relationship between categories of income and classifications of expense is particularly important.
  
- ☞ When all of the income and expense items have been entered, bring down the totals as indicated in the sample form: Total Earned Income, Total Operating Subsidies, and (a combination of the two) Total Operating Income. Total Operating Expense is entered, and subtracting total operating expense from total operating income, the Net Excess (Deficiency) figure corresponds to what has commonly been called Net Income from Operations, or Net Profit, or Net Gain. The reason for the change in designation is that the school is not a profit-oriented entity; it is established to perform a service to its patrons. While the incomes in some periods will exceed the related expenses, the difference is not a “profit” in the generally accepted meaning of the term.
  
- ☞ The remaining sections of the report are designed to pick up those columns of the journals which were omitted earlier and which do not pertain to the day-to-day operation of the school. First, from the Receipts Journal any appropriations received from the

churches, the conference, or other sources designated for investment in *capital* assets (equipment, a new bus, or whatever) are entered in the appropriate spaces in the Capital Additions (Deductions) section. Then from the Disbursements Journal any expenditure for these purposes is entered. The net addition to or reduction of the cash account from these capital transactions is entered on the proper line.

- ☞ Just an explanation on the use of parentheses in financial statements: The line Net Excess (Deficiency) affords a good example of this use. If incomes exceed expenses, the difference is a *net excess* of income over expense, and the figure is entered without parentheses. If, however, the expense exceeds the income, there is a deficiency, and the figure is entered in parentheses. Similarly, in the Capital Additions section, if appropriations exceed expenditures, there has been a net addition to the cash account from these transactions. If expenditures exceed appropriations received, there has been a decrease in the cash account, and the figure is entered in parentheses. The rule is that use of parentheses denotes a reversal of the normal significance of the amount entered.
- ☞ One remaining line must be discussed: Net Cash Received (Disbursed) from Trust Funds. In order to reduce these transactions to a single figure, it is necessary to *combine* the figures from the Receipts Journal and from the Disbursements Journal to arrive at the net amount received or disbursed. The resulting figure is entered on this line—in the clear if cash received is more than cash disbursed and in parentheses if the disbursements exceed the receipts.
- ☞ The final line of the report represents the net amount of cash received or disbursed during the period—the month or the year-to-date. We have entered all operating incomes and expenses to arrive at the net excess or deficiency in normal operations. We have combined with that figure the transactions relating to capital appropriations and capital expenditures to determine the total cash flow in or out from school business. Finally, we have brought in the cash flow from the various non-school funds. All of these entries combined should take care of every distribution column in both the Receipts and the Disbursements Journals. The proof of accuracy of the entire process lies now in taking Total Cash Received (which is the same as Cash Deposited) from the Receipts

Journal, deducting Total Disbursements from the Disbursements Journal, and seeing that it agrees with the final line of the statement, Net Cash Flow for the Period. For the month of December only, the figures from line 3 of the journals must be used; for the Year-to-Date column, the figures from line 5 of the journals are used. To repeat: *If* both journals cross foot for the end of the month and for the year-to-date, and *if* all columnar distribution figures have been picked up correctly and correctly entered in the statement, and *if* all additions and subtractions in the statement itself have been performed correctly, the final Net Cash Flow figure will agree with the difference shown in the journals between Total Received and Total Disbursed.

### 310.09 Account Summary

Appendix 3-1 (2) shows a sample report bearing the title “Account Summary.” This report is designed to accomplish two things: (1) to summarize all entries in the cash accounts for the entire period, and (2) to report on other financial matters, which, in this basic system, are not a part of the Cash Basis accounting records. The form is considerably simpler than the Statement of Financial Activity discussed in the previous paragraph; a few brief comments, however, will be helpful.

☞ Note that the heading in this case bears a single date, December 31, because the report includes data as of that date. The first section, covering the cash account, has separate columns for December and Year-to-Date; the second section shows only the balances in various accounts at December 31.

☞ The Cash Account section is self-explanatory. The first portion of this section covers beginning balance in *all* cash accounts (as of December 1 for the December column; as of July 1 for the Year-to-Date column). The net cash flow figures are taken from the Statement of Financial Activity, which in turn is a combination of total cash received and total cash disbursed. Cash Balance, December 31, is the beginning balance plus the net cash flow (or minus the net cash deficiency). The second portion of this section simply details the balances in various cash and bank accounts that go to make up the total cash balance as already presented. It is essential that the two “Cash Balance” lines in this section agree.

☞ In the “Other Accounts” section we report on assets and liabilities of a non-cash nature that, in the basic accounting system, are not included in the Receipts and Disbursements Journals. Paragraph 308.05 and 308.06 discuss the ledgers for patrons and for church subsidies. Entries of charges in these ledgers are not recognized in the financial reports until cash is paid in. In the “Other Accounts” section of the present report, we give the status of such accounts at the end of December. Similarly, the two journals report only the cash transactions affecting trust funds held by the school, but do not show balances in the accounts. Those balances are determined by the formula (applied to each individual trust fund account):

	Balance, Beginning of Year
+	Cash Received (Receipts Journal line 5)
-	<u>Cash Disbursed (Disbursements Journal line 5)</u>
=	Balance, End of Period

☞ We now have total accounts receivable and total liabilities. Subtract liabilities from total accounts receivable to arrive at “Net Non-Cash Assets.” Bring down from Section 1, Cash Account, the ending cash balance, add this to the Net Non-Cash Assets, and the result is “Total Net Worth, December 31.”

#### 310.10 Basic System, Supporting Schedules

The Statement of financial Activity is quite obviously a highly-condensed report of operations for the period. In order to supply the administration and the governing board with detailed information as to each aspect of the operation, it is necessary to prepare *supporting schedules* to accompany the basic statement. Samples of such schedules are shown in Appendix 3-1 (3), (4). You will have noted that the Statement of Financial Activity has, on most lines, a notation “S-1,” “S-2,” and so on. These references pertain to the supporting schedules and give details of the makeup of each item shown in total in the parent statement. Let us examine some of these presentations in detail.

☞ S-1 covers a breakdown of activity in the instructional area. In essence, it is a miniature Statement of Financial Activity for the classroom operation. Note that income is broken down into several categories; similarly, expenses are itemized to show the type of expense. As noted previously, it may be that some schools do not have the need for as detailed a breakdown as is shown in these

schedules. The treasurer should counsel with the principal and with the board chair or Finance Committee to determine just how much detail is required in order for them to perform their functions properly and on a well-informed basis.

- ☞ Each supporting schedule and each breakdown of expenses and incomes should be tailored to the particular operation it covers. The expense categories are not the same in every case; necessarily, expenses for bus operation will differ from those for the instructional area, or for the cafeteria or the bookstore.
- ☞ For some categories of expense (Administration, Utilities, Building and Grounds, for example) there are no offsetting incomes. This is perfectly proper. The point to keep in mind is that the supporting schedules should follow exactly the pattern of the parent statement. And they should *support* the parent statements; the figures in the supporting schedule must always *agree* with those in the statement.
- ☞ In the sample statements and schedules in Appendix 3-1, the schedules have been numbered consecutively, and you should follow this plan in the preparation of your financial reports. In the individual schools the need for supporting schedules will vary. Some schools may not operate a cafeteria or a bookstore, and no schedules will be required. It is not proper in such a case to leave Schedules 2 and 3 unaccounted for, simply because school does not have those operations. Number your schedules consecutively, leaving no blank or unaccounted-for numbers.

### 310.11 Comprehensive System, Monthly Reports

Much of the information in paragraphs 310.08 and 310.10 regarding the monthly financial reports for the basic system are equally applicable to the comprehensive double-entry system with full accruals. The user of the double-entry system should by all means read these paragraphs carefully before studying the discussion of the financial reports to be prepared. Of course, there are important differences, too. The basic system is built on the records of cash flow only, and does not recognize income as charged to the patrons or expense as incurred. The basic system lacks a general ledger, and all data for the financial reports are picked up from the journals. And while the Statement of financial Activity is nearly the same in form for both systems, the basic system includes a listing that we call an "Account Summary" whereas the

comprehensive plan will present a conventional balance sheet. With these preliminary remarks in mind, we can proceed to an examination of the statements themselves and their supporting schedules. The statement forms, completely filled out, are shown in Appendix 3-2.

### 310.12 Comprehensive System, Balance Sheet

The concluding paragraphs of Section 309 described the process for making month-end adjusting entries and taking a trial balance of the general ledger after all postings from all journals had been completed. Assuming that this has been done and that the general ledger is now in final form for the month, we can proceed with the preparation of the balance sheet. The recommended form is shown in Appendix 3-2-1. Every accountant is familiar with this form, which includes a listing by category of various types of current and fixed assets, liabilities, and fund balances (with which you are probably familiar under the terms Capital Stock, Retained Earnings, or Net Worth). The order of presentation follows exactly that shown in the Chart of Accounts. Actual procedure for preparation of the statement will probably involve first a preparation of the supporting schedules shown, as to the balance sheet, in Appendix 3-2-3. Every account in the balance sheet section of the ledger (i.e., accounts 101-349) will be listed either as part of the supporting schedule to be transferred in total to the body of the balance sheet, or as a separate item in the balance sheet itself. Comments on specific items in the balance sheet and its supporting schedules follow.

- ☞ Schedule 4 for Fixed Assets summarizes the status of the separate equipment accounts and their related depreciation entries. The historical cost figures are shown, followed by the depreciation expense for the current year-to-date, and the accumulated depreciation. Cost minus accumulated depreciation yields the net value of each category at balance sheet date. The cost figures as shown in the schedule agree with those in the balance sheet. The depreciation expense for the current period must tie in with schedules of expense that support the Statement of Financial Activity (to be discussed in a later paragraph), the total accumulated depreciation in the supporting schedule agrees with the similar figure in the balance sheet, and the net value totals in schedule and parent statement must agree.
  
- ☞ Notes Payable, both current and long-term, is shown in a single supporting schedule (Schedule 6). The columnar arrangement is

self-explanatory. The figures in each of the first two amount columns tie in with the listings in current liabilities and long-term liabilities respectively. It is important that notes of disclosure similar to those shown in the schedule be included. A simple statement that \$20,000 is “due after one year” is not sufficient. The reader wants to know the details of the transaction—how the principal amount is to be paid off, installment arrangements, interest rate, and security, if any.

- ☞ Unallocated Fund Balance is shown in the balance sheet as beginning balance, increase (or decrease) for the current year, and the total unallocated at the balance sheet date. The increase or decrease figure will agree with the final year-to-date figure in the Statement of Financial Activity. The terminology Unallocated Fund Balance and Allocated Sub-Funds is preferable to Regular Net Worth and Net Worth Reserves, both terms are ambiguous and not generally accepted.

### 310.13 Comprehensive System, Statement of Financial Activity

This statement takes the place of that which has been variously known as the Income and Expense Statement, Profit and Loss Statement, or Operating Statement. The change of title is warranted by the fact that it includes data not only as to operations, but also as to capital additions and expenditures. A sample statement, which resembles in most respects the one for the basic system, is shown in Appendix 3-2-2. The supporting schedules are displayed on pages 4 and 5 of Appendix 3-2. Detailed instructions for preparation of the statement and supporting schedules follow closely those for the basic system found in paragraph 310.08, except that data will be taken from the general ledger accounts, not from the columnar totals of the journals. Again, as in the balance sheet preparation, it will be advantageous to prepare the supporting schedules first, and transfer the summarized data from them to the body of the parent statement. Some incidental observations:

- ☞ Note particularly the heading of the statement. The date line specifies a period of time rather than a specific date. This statement covers events that have occurred over a six-month period, and it would be inexact to date the statement simply December 31, 20xx. The length of the time period should be stated, “Six Months Ended . . .”

- ☞ Budget figures will be transferred to both the supporting schedules and the parent statement from the work sheet described in paragraphs 310.05 and 310.06. Note that each supporting schedule, as well as the statement itself, calls for budget data for comparison with actual performance.
- ☞ For those activities which generate income as well as incurring expense, data from the supporting schedules will be transferred to two locations in the statement: Income from supporting schedule will be located in the upper portion of the statement, and total expense will be entered in the Expense section.

#### 310.14 Numbering Schedules

In the sample statements and schedules in the Appendix, schedules have been numbered consecutively. In the individual schools, the need for supporting schedules will vary: some schools may not have “Other Current Liabilities” or may not operate a cafeteria or a bookstore. Number the schedules consecutively for your own set of statements. It is not proper to leave Schedule 8 unaccounted for simply because you have no “Other Current Liabilities.”

### **Section 311    The Annual Audit**

#### 311.01 The Basic Plan

The *Church Manual* and the *General Conference Working Policy* provide that every set of accounting records, from the local church through to the General Conference, be audited each year by competent, professionally-qualified auditors. These auditors are elected or appointed by the General Conference in all levels to the local conference. The conference executive committee appoints local conference auditors, who audit the records of the local churches and church schools, with the concurrence of the General Conference Auditing Service. In light of this policy, the church school treasurer and principal should expect a biannual audit review from the local conference auditor and should understand in general terms what the auditor will do and which records will be required.

## 311.02 Preparing for the Audit

If the instructions and recommendations in this manual have been followed carefully, if all reports have been submitted accurately and on time, and if all records and files have been maintained and held available, there should be no question of “getting ready” for the auditor. It is helpful for the treasurer to know, though, what records the auditor will ask for and examine. If all the enumerated records are available and up-to-date, the auditor will undoubtedly be pleased with the treasurer’s work. The following points are only suggestions:

- ☞ Carbon copies of receipts written (or sequential listing of all receipts in the Receipts Journal if a pegboard system is used).
- ☞ Validated copies of all bank deposit tickets, each of them agreeing with the entry of the deposit in the accounting records, and all of them indicating that there has been no undue delay in depositing cash received.
- ☞ Disbursement journal showing a listing of all checks written, with proper distribution of the check amounts. A proper voucher or invoice, preferably a document originating outside the local church or school organization, should substantiate each entry in the journal.
- ☞ A separate numerical file of canceled checks. (Do not attach canceled checks to the supporting vouchers or file them with the bank statements. They should be kept in a separate file, in numerical order.)
- ☞ A file of all monthly financial statements prepared and presented to the board.
- ☞ A file of bank statements and bank reconciliations, one for each month of the year, evidencing that reconciliations have been prepared promptly and regularly and have been reviewed by someone other than the treasurer.
- ☞ School board minutes containing authorizations for the annual budget, for all out-of-the-ordinary expenditures, for opening and closing of bank or investment accounts, and for authorization of signatures and signature changes on accounts.

As has been said, all of these items are a part of the routine of the treasurer's job and should be done whether there is an audit or not. If the work is done properly and on time, there is no "preparation" necessary.

### 311.03 Relationship With the Auditor

The efficient school treasurer has no reason to feel nervous when the auditor arrived to do the audit. In fact, the auditor should and can be the school treasurer's best friend. The auditor has an intimate knowledge of the difficulties and frustrations that the treasurer faces and is sympathetic with the problem of trying to work the burdensome tasks of the treasurer into an already overcrowded program of family responsibilities, regular employment, church assignments, and other tasks. In most cases, the auditor will have helpful suggestions as to how the treasurer's work can be done more efficiently and how the treasurer can save time while still doing a top grade of work. The treasurer's contact with the conference auditor should not be limited to the annual audit. It is well to get in touch with the auditor immediately when a problem or a question arises. The time to solve the problems is when they occur, not months later when the auditor appears for a regular visit.

### 311.04 Relationship With the Department of Education

All that has been said in the previous paragraph about the treasurer's relationship to the auditor applies with equal force to contacts with the local conference Department of Education. The operation of a school of any size on any level is a highly-specialized task, and the local conference Superintendent of Schools and the staff are specially trained to help you, your principal, and your school board to cope with the multitude of problems and to make the decisions which will make your school an effective instrument for the evangelization of our youth. Your contact with the conference staff should be continuing and cordial. At the close of the school year when the audited financial statement is available, the Department of Education staff will probably use the financial data as a basis for making detailed, informative cost analyses. The alert school treasurer will be interested not only in the results of these analyses, but in the methods used to make them and in the significance of the results as a means of determining past efficiency of operation and possible corrective action for the future. It is in such analyses that the value of the accounting system becomes apparent: It should be not simply an accumulation of interesting historical facts, but

also a means in the hands of the administration for detecting possible weaknesses or inefficiencies, and taking timely corrective action. With what you can learn from your conference Department of Education staff and conference auditor, you can employ their methods to keep your administration and governing board informed from month to month of areas that might require their attention.

## **Section 312 Other Responsibilities of the School Treasurer**

### **312.01 Accountant or Administrator**

Assignment of duties to the school treasurer varies with circumstances. In some cases the treasurer is simply charged with the duties of receiving and disbursing funds and maintaining the accounting records; and the job may be a part-time arrangement. In many of the larger schools, the treasurer is an administrator in general charge of all aspects of the financial administration. There may be a staff available to perform the duties of the cashier and the accountant. The principal may care for some of the matters discussed in the following paragraphs; in other cases the treasurer may be assigned these responsibilities. In either case, the information in this section can be a guide to whatever individual carries these duties.

### **312.02 Commitment of School Funds**

It is sometimes overlooked that any individual making a purchase in the name of the school is thereby committing the school to pay for that purchase out of school funds. This being the case, it is necessary to make sure, in advance of any purchase, that funds are available to pay the bill and that the expenditure will fall within the terms of authorization, either general or specific, granted by the school board. Especially in the larger schools where several people may be involved in making purchases of various kinds, it is well that a purchase order system be used, and that all concerned persons understand that no purchases are to be made without a purchase order signed by a designated individual—the principal or the school treasurer, in most cases. That individual will need to be sure that funds are available within the budget to cover the purchase before issuing the purchase order.

### 312.03 Local Church School Insurance

Most conferences in the North American Division now have a designated Loss Control Officer who is responsible for looking after the insurance program not only of the conference itself, but of the local churches, schools, and conference institutions as well. As school treasurer, you should work closely with this conference representative to make sure that your school is properly protected against the usual property loss risks from fire, flood, windstorm, etc.; against public liability claims covering both students and members of the public who may be injured while on school property; workers' compensation coverage for teachers and for all other employees of the school; and coverage for risks of burglary, holdup, vandalism, etc. You should inquire, too, if it is the policy of your conference to carry a fidelity bond on local school personnel responsible for the handling of school funds or other assets.

### 312.04 Repairs and Upkeep

In an extensive school plant, there will probably be a person assigned to the physical tasks of repairs and upkeep. As this activity invariably involves the expenditure of funds, the school treasurer will necessarily become involved in it. The treasurer should keep in touch with plans for major expenditure of funds and should make sure, before commitments are made, that funds are available or provided for and that the proper authorization has been voted by the school board. As the financial officer of the school, the treasurer must keep in touch with all such arrangements. Financing should always be arranged in advance, not after the work is done and the money has been spent or obligated.

### 312.05 Building Projects

In the case of major building projects, the school treasurer will be required to assume an additional load of responsibility for proper maintenance of the accounting records and the special bank accounts involved in the project. A complete discussion of accounting for building projects is contained in Section 208 of this manual. Before such a project is adopted for the institution, the church school treasurer should study that section carefully and become well informed as to just how to administer the funds and maintain the records.

### 312.06 Legal Documents

As mentioned in the *Church Manual* (paragraph 107.01), the local conference association is the custodian of all legal documents relating to the local church and school properties or to legal business with anyone. The reason for this is that the local school is usually not a legally incorporated body; rather, it is a “voluntary association” which has no legal standing as a body. The Conference Association is legally incorporated and is authorized to hold title to property. Therefore, any deeds or other documents pertaining to the property of the school should be in the name of the conference association, and the documents should be sent promptly to that office.

Seventh-day Adventist Church School

**WEEKLY CASH STATUS REPORT**

at 9 a.m. \_\_\_\_\_, 20xx

Bank Operating Account:

Ending Balance, Last Report

Cash Receipts: On Accounts Receivable

    Rcpt. Nos.

    \_\_\_\_\_

    to

    \_\_\_\_\_

Cash Sales

Other

Sub-Total

Disbursements: Check #

to #

BALANCE, Bank Operating Account

Other Checking Accounts:

Payroll Imprest Account (Fixed Balance)

Time Deposits:

Union Natl. Bank CD due '4/1/xx

Imprest Cash Accounts

TOTAL CASH on Hand and in Banks

Remarks:

Signed

\_\_\_\_\_  
General Cashier





A SEVENTH-DAY ADVENTIST SCHOOL

Statement

Home Address \_\_\_\_\_

Home Phone \_\_\_\_\_

Grade \_\_\_\_\_

Denomination \_\_\_\_\_

Church Membership \_\_\_\_\_

Discount Rate \_\_\_\_\_

Remarks \_\_\_\_\_

\_\_\_\_\_  
Student's Name

Address \_\_\_\_\_

\_\_\_\_\_  
City

Date of Charges	Total Amount Received	TUITION			MISCELLANEOUS			Code	Balance Due	Date of Receipt
		Tuition	Music	Fees	Cafeteria	Gas Sales	Misc.			

ACCOUNTS RECEIVABLE LEDGER

DISBURSEMENTS JOURNAL

School Name \_\_\_\_\_

Month \_\_\_\_\_

CHECK NUMBER	PAYEE	DATE	GROSS AMOUNT	DISCOUNT	CHECK AMOUNT	BANK BALANCE	DEPOSIT AMOUNT	DATE OF DEPOSIT

TOTAL This Page								
TOTAL Brought Forward								
TOTAL for Present Month								
TOTAL From Previous Months								
TOTAL Year-to-Date								







## CHART OF ACCOUNTS

Account Number	Title	Account Number	Title
<b>ASSETS</b>		<b>FUND BALANCES (NET WORTH)</b>	
	<u>Current Assets</u>	301	Unallocated Fund Balance
101	Bank Checking Account	302	Current Changes in Fund Balance
102	Savings Account		Allocated:
	(Use as needed 103, 104, 105, etc.)	305	Bus sub-fund
109	Imprest Cash Funds	306	Building Sub-fund
111	Accounts Receivable, Patrons		(Use as needed 307 onward)
112	Accounts Receivable, Churches		
119	Allowance for Bad Accounts		
	Inventories:		<b>CAPITAL ADDITIONS</b>
121	Instructional Supplies	351	Capital Appropriations, Conference
122	Administrative Supplies	352	Capital Appropriations, Churches
123	Bookstore Supplies	353	Capital Donations, Other
124	Bus Operating Supplies		
125	Cafeteria Supplies		
	<u>Fixed Assets</u>		<b>OPERATING INCOME</b>
151	Equipment	401	Tuition
152	Accumulated Depreciation	402	Tuition Discount
153	Bus Equipment	403	Music
154	Accumulated Depreciation	404	Fees
155	Library	405	Pre-school or Kindergarten
156	Accumulated Depreciation	412	Church Operating subsidies
		421	Donations, Operating
		422	Bookstore Income
		423	Bus Income
		424	Cafeteria Income
			(Use 425-430 or other auxiliary incomes)
		431	Interest Income
		438	Miscellaneous Operating Income
			<b>OPERATING EXPENSE</b>
	<b>LIABILITIES</b>		<u>Instructional</u>
	<u>Current Liabilities</u>		Wages
201	Accounts Payable	501	Regular Teacher
202	FICA Taxes Payable	502	Music Teacher
203	Federal Withholding Payable	503	Home Economics Teacher
204	State Payroll Taxes Payable	504	Substitute Teachers
209	Notes Payable, Current Portion	505	Teacher aides
211	Home and School	506	Payroll Taxes, Teachers
212	Associated Student Body	507	Teacher Travel
213	Yearbook	508	Field Trips
	Classroom Projects		Supplies
221	Grade 1	511	Classroom
222	Grade 2	512	Music Teacher
	(etc.)	513	Home Economics Teacher
251	Pre-registration Deposits	514	Library
252	Check Exchange	515	Grading & Testing
		516	Professional Growth
		517	Student Insurance
	<u>Long-term Liabilities</u>		
291	Long-term Notes Payable		

Account Number	Title	Account Number	Title
<b>OPERATING EXPENSE (cont'd)</b>			
518	Depreciation Expense		Administration:
519	Provision for Bad Debts	551	Wages
	Bookstore:	552	Payroll Taxes
526	Wages	553	Travel
527	Cost of Goods Sold	554	Office Supplies & Stationery
528	Supplies	555	Postage
	Pre-school or Kindergarten	556	Insurance, Property/Liability
531	Wages	557	Taxes
532	Payroll Taxes	558	Depreciation Expense
528	Supplies		Utilities:
	Cafeteria:	566	Gas and Fuel
536	Wages	567	Electricity
537	Payroll Taxes	568	Water
538	Food and Supplies	569	Telephone
	Bus Operation:		Building and Grounds Care:
541	Wages	571	Wages (Maintenance/Custodial)
542	Payroll Taxes	572	Payroll Taxes
543	Gasoline and Oil	573	Supplies
544	Repairs	574	Repairs, Outside Charges
545	Other bus Supplies	575	Depreciation Expense
546	Taxes and Insurance		Miscellaneous Operating Expense:
547	Depreciation Expense		(Use 581-599 as needed)

\_\_\_\_\_ SEVENTH-DAY ADVENTIST SCHOOL

Journal Voucher

No. \_\_\_\_\_

**DEBIT**

**CREDIT**

Explanation:



Page No. \_\_\_\_\_

SUBSIDIES													
Conf (7)	Church (8)	Church (9)	Church (10)	Church (11)	Church (12)	Church (13)							
A - Library													
B - Equipment													
C - Operation													
D - Sub Teach													




**LOCAL SEVENTH-DAY ADVENTIST CHURCH SCHOOL**  
**STATEMENT OF FINANCIAL ACTIVITY**  
(Cash Basis)  
Six Months Ended December 31, 20xx

		December		Year-to-Date	
		Actual	Budget	Actual	Budget
<b>INCOME</b>					
<u>Operating Income</u>					
S-1	Instructional	5,810	22,870	22,870	21,500
Auxiliary Service:					
S-2	Bookstore	581	600	3,025	2,400
S-3	Cafeteria	1,820	1,800	7,187	7,200
S-4	Bus Operation				
S-5	Other				
	Total Earned Income	<u>8,211</u>	<u>7,775</u>	<u>33,082</u>	<u>31,100</u>
<u>Operating subsidies</u>					
S-6	Church A		600	1,800	2,400
S-6	Church B	900	900	3,600	3,600
S-6	Conference				
Other Operating Donations					
	Total Operating Subsidies	<u>900</u>	<u>1,500</u>	<u>5,400</u>	<u>6,000</u>
	Total Operating Income	<u><u>9,111</u></u>	<u><u>9,275</u></u>	<u><u>38,482</u></u>	<u><u>37,100</u></u>
<b>EXPENSE</b>					
S-1	Instructional	4,875	5,000	21,497	20,000
Auxiliary Services:					
S-2	Bookstore	474	525	2,850	2,100
S-3	Cafeteria	1,681	1,800	7,054	7,200
S-4	Bus Operation				
S-5	Other				
S-7	Administration	912	900	3,875	3,600
S-8	Building & Grounds	460	450	1,904	1,800
S-9	Utilities	700	600	2,728	2,400
S-10	Other				
	Total Operating Expense	<u>9,102</u>	<u>9,275</u>	<u>39,908</u>	<u>37,100</u>
	Net Excess (Deficiency) of				
	Cash from Operations	<u>9</u>	<u>-0-</u>	<u>(1,426)</u>	<u>-0-</u>
<b>CAPITAL ADDITIONS (DEDUCTIONS)</b>					
Capital Appropriations:					
	Churches			850	
	Conference	500		500	
	Other	150		150	
Capital Expenditures:					
	Equipment	(450)		(1,250)	
	Other				
	Net Additions (Deductions)	<u>200</u>		<u>250</u>	
	Net Cash Excess (Deficiency)				
	from School Operations	209		(1,176)	
	Net Cash Received (Disbursed)				
	for Trust Funds	<u>50</u>		<u>250</u>	
	Net Cash Flow for the Period	<u><u>259</u></u>		<u><u>(926)</u></u>	

**LOCAL SEVENTH-DAY ADVENTIST CHURCH SCHOOL**  
**Account Summary**  
**December 31, 20xx**

	December	Year-to-Date
<b>CASH ACCOUNT:</b>		
Beginning Balance	1,570	2,755
Net Cash Flow (Deficiency) for the Period	259	(926)
Cash Balance, December 31	1,829	1,829
Cash on Hand and on Deposit:		
Bank Checking Account	1,829	1,829
Savings Account		
Petty Cash Funds	_____	_____
Cash Balance, December 31	1,829	1,829
		Balance
		December 31
<b>OTHER ACCOUNTS:</b>		
Accounts Receivable:		
Patrons--Current		1,871
Patrons--Previous Year Balance		320
Other Receivables:		
(List) church A		600
Total Accounts Receivable		1,791
Liabilities:		
Home and School		142
Associated Student Body		71
Others (List) worth Student Aid Trust Fund		322
Total Liabilities		535
Net Non-cash Assets		2,256
Cash Balance, December 31		1,829
Total Fund Balance, December 31, 20xx		4,085

**LOCAL SEVENTH-DAY ADVENTIST CHURCH SCHOOL**  
**Statement of Financial Activity**  
**Supporting Schedules**  
**Six Months Ended December 31, 20xx**

	December		Year-to-Date	
	Actual	Budget	Actual	Budget
<b>S-1 Instructional</b>				
Income:				
Tuition	5,610	5,200	21,540	20,800
Less Tuition Discount	70	200	185	800
Net Tuition Income	<u>5,540</u>	<u>5,000</u>	<u>21,355</u>	<u>20,000</u>
Music	180	155	650	620
Fees	90	220	865	880
Other (List)				
Total Instructional Income	<u>5,810</u>	<u>5,375</u>	<u>22,870</u>	<u>21,500</u>
Expense:				
Wages:				
Regular Teacher	3,300	3,000	13,000	12,000
Music Teacher	452	500	2,100	2,000
Other (List)				
Payroll Taxes	300	280	1,208	1,120
Teacher Travel	170	220	740	880
Field Trips	125	100	515	400
Supplies	427	800	3,553	3,200
Other (List)	101	100	381	400
Total Instrucitonal Expense	<u>4,875</u>	<u>5,000</u>	<u>21,497</u>	<u>20,000</u>
Net Income, Instrucitonal	<u>935</u>	<u>375</u>	<u>1,373</u>	<u>1,500</u>
<b>S-4 Bus Operation</b>				
Income: Bus Fees				
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Expense:				
Wages				
Payroll Taxes Gasoline and Oil				
Repairs				
Other Supplies				
Taxes and Insurance				
Total Bus Expense	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net Income, Bus Operation	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>S-6 Operating Subsidies</b>				
Cash Received:				
Church A		600	1,800	2,400
Church B	900	900	3,600	3,600
Total Church Subsidies	<u>900</u>	<u>1,500</u>	<u>5,400</u>	<u>6,000</u>
Cash Received, Conference				
Total Operating subsidies	<u>900</u>	<u>1,500</u>	<u>5,400</u>	<u>6,000</u>

**LOCAL SEVENTH-DAY ADVENTIST CHURCH SCHOOL**  
**Statement of Financial Activity**  
**Supporting Schedules**  
**Six Months Ended December 31, 20xx**

	December		Year-to-Date	
	Actual	Budget	Actual	Budget
<b>S-7 Administration Expense</b>				
Wages	600	600	2,400	2,400
Payroll Taxes	47	48	206	192
Administrative Travel	62	50	310	200
Supplies and Stationery	107	75	350	300
Postage	41	25	108	100
Insurance, Property/Liability		70	350	280
Taxes				
Other (List)	55	32	151	128
Total Administration Expense	<u>912</u>	<u>900</u>	<u>3,875</u>	<u>3,600</u>
<b>S-8 Building and Grounds Care</b>				
Wages (Maintenance/custodial)	273	250	1,210	1,000
Payroll Taxes	22	20	97	80
Supplies	64	90	301	360
Repairs, Outside Charges	64	50	166	200
Other (List)	37	40	130	160
Total Building & Grounds Expense	<u>460</u>	<u>450</u>	<u>1,904</u>	<u>1,800</u>
<b>S-9 Utilities</b>				
Gas and Fuel	320	260	1,210	1,040
Electricity	257	225	1,033	900
Water	15	15	54	60
Telephone	108	100	431	400
Total Utilities Expense	<u>700</u>	<u>600</u>	<u>2,728</u>	<u>2,400</u>

**LOCAL SEVENTH-DAY ADVENTIST CHURCH SCHOOL  
BALANCE SHEET  
December 31, 200xx**

**ASSETS**

<b>Current Assets</b>				
S-1	Cash and Bank		41,538	
S-2	Accounts Receivable: Patrons	5,217		
S-2	Churches	2,200		
S-2	Other	804	<u>8,224</u>	
S-3	Inventories		<u>2,785</u>	
	Total Current Assets			52,547
<b>Fixed Assets</b>				
S-4	Equipment (at cost)	27,192		
S-4	Buses (at cost)	12,722		
S-4	Library (at cost)	5,091	45,005	
S-4	Less: Accumulated Depreciation		<u>14,743</u>	
	Total Fixed Assets			<u>30,262</u>
	Total Assets			<u><u>82,809</u></u>

**LIABILITIES AND FUND BALANCE**

<b>Current Liabilities</b>				
S-5	Accounts Payable		1,597	
S-6	Notes Payable, Current Portion		4,000	
	Payroll Taxes Payable		604	
	Trust Funds		1,811	
	Other Current Liabilities			
	Total Current Liabilities		<u>8,012</u>	
<b>Long-term Liabilities</b>				
S-6	Notes Payable, due after one year			<u>9,000</u>
	Total Liabilities			17,012
<b>Fund Balance</b>				
	Unallocated, Balance July 1, 200xx	44,319		
	Increase, Year-to-date	6,929		
	Unallocated Fund Bal, December 31		51,248	
	Allocated:			
	Bus Sub-fund		4,549	
	Building Sub-fund		10,000	
	Total Fund Balance		<u>65,797</u>	
	Total Liabilities and Fund Balance			<u><u>82,809</u></u>

**LOCAL SEVENTH-DAY ADVENTIST CHURCH SCHOOL**  
**STATEMENT OF FINANCIAL ACTIVITY**  
**Six Months Ended December 31, 20xx**

INCOME		December		Year-to-Date	
		Actual	Budget	Actual	Budget
<b>Operating Income</b>					
S-9	Instructional	23,240	22,500	91,480	90,000
Auxiliary Services:					
S-10	Bookstore	2,471	2,250	8,880	9,000
S-11	Cafeteria	3,209	3,000	12,220	12,000
S-12	Bus Operation	1,870	2,000	7,851	8,000
S-13	Other				
	Total Earned Income	<u>30,510</u>	<u>29,750</u>	<u>120,431</u>	<u>119,000</u>
<b>Operating Subsidies</b>					
S-14	Churches	5,000	5,000	20,000	20,000
S-14	Conference				
	Other Oper Donations	185		720	
	Total Operating Income	<u>35,695</u>	<u>34,750</u>	<u>141,151</u>	<u>139,000</u>
<b>EXPENSE</b>					
<b>Operating Expense</b>					
S-9	Instructional	19,330	20,250	85,248	81,000
Auxiliary Services:					
S-10	Bookstore	1,820	2,125	2,405	8,500
S-11	Cafeteria	2,598	2,750	11,087	11,000
S-12	Bus Operation	1,629	1,825	7,200	7,200
S-13	Other				
S-15	Administration	3,952	3,600	15,244	14,400
S-16	Building and Grounds	1,840	1,800	8,016	7,200
S-17	Utilities	2,880	2,400	10,872	9,600
S-18	Other				
	Total Operating Expense	<u>34,049</u>	<u>34,750</u>	<u>140,072</u>	<u>139,000</u>
	NET EXCESS (Deficiency) from Operations	<u>1,646</u>	<u>-0-</u>	<u>1,079</u>	<u>-0-</u>
<b>CAPITAL ADDITIONS</b>					
<b>Capital Appropriations</b>					
	Conference	500		2,000	
	Churches			3,000	
	Other	400		850	
	Total Capital Additions	<u>900</u>		<u>5,850</u>	
	INCREASE (Decrease) in Fund Balance	<u>2,546</u>		<u>6,929</u>	

**LOCAL SEVENTH-DAY ADVENTIST CHURCH SCHOOL**  
**Balance Sheet**  
**Supporting Schedules**

**Schedule 1: Cash and Bank**

Bank Checking Account	1,488	
Savings Account #1	20,000	
Savings Account #2	20,000	
Petty Cash	50	
Total Cash and Bank		41,538

**Schedule 2: Accounts Receivable**

Patrons:		
Current	5,887	
Previous Year Balance	581	
	6,468	
Less Allowance for Bad Accounts	1,251	
	5,217	
Patron Accounts Receivable, net	5,217	
Churches	2,200	
Other	807	
Total Accounts Receivable		8,224

<b>Schedule 4: Fixed Assets</b>	Cost	Depreciation This Year	Accumulated Depreciation	Net Value
Equipment, Instructional	12,225	1,524	4,981	7,244
Administration	7,879	604	2,478	5,401
Building and Grounds	7,088	520	2,010	5,078
Total Equipment	27,192	2,648	9,469	17,723
Buses	12,722	725	5,274	7,448
Library	5,091			5,091
Total Fixed Assets and Accumulated Depreciation	45,005	3,373	14,743	30,262

<b>Schedule 6: Notes Payable</b>	Current Portion	Due After One Year	Total
(1) Security Pacific Bank	3,000		3,000
(2) Blank Union Revolving Fund	1,000	9,000	10,000
Total Notes Payable	4,000	9,000	13,000

Note:

- (1) Conditional sale agreement on Bus #3, payment of \$xx per month, principal and interest, all due within one year.
- (2) Unsecured promissory note to Blank Union Conference Revolving Fund, payable \$xx per year for ten years, with interest on unpaid balance at 8 percent. Current payment due March 1, 20xx.

**LOCAL SEVENTH-DAY ADVENTIST CHURCH SCHOOL**  
**Statement of Financial Activity**  
**Supporting Schedules**  
**Six Months ended December 31, 20xx**

	December		Year-to-Date	
	Actual	Budget	Actual	Budget
<b>Schedule 9: Instructional</b>				
Income:				
Tuition	22,440	21,800	86,160	87,200
Less Tuition discount	280	800	740	3,200
Net Tuition Income	<u>22,160</u>	<u>21,000</u>	<u>85,420</u>	<u>84,000</u>
Music	720	620	2,600	2,480
Fees	360	880	3,460	3,520
Other (List)				
Total Instructional Income	<u>23,240</u>	<u>22,500</u>	<u>91,480</u>	<u>90,000</u>
Expense:				
Wages, Regular Teacher	13,200	12,250	52,000	49,000
Music Teacher	1,808	2,000	8,400	8,000
Other (List)				
Payroll Taxes	1,200	1,120	4,832	4,480
Teacher Travel	510	880	2,220	3,520
Field Trips	500	400	2,060	1,600
Supplies	1,708	3,200	14,212	12,800
Other (List) Depreciation	404	400	1,524	1,600
Total Instructional Expense	<u>19,330</u>	<u>20,250</u>	<u>85,248</u>	<u>81,000</u>
Net Income, Instructional	<u>3,810</u>	<u>2,250</u>	<u>6,232</u>	<u>9,000</u>
<b>Schedule 12: Bus Operation</b>				
Income: Bus Fees				
	<u>1,870</u>	<u>2,000</u>	<u>7,851</u>	<u>8,000</u>
Expense: Wages				
Payroll Taxes	84	85	352	340
Gasoline & Oil	321	350	1,409	1,400
Depreciation	108	120	725	480
Repairs & Supplies	31	35	174	140
Taxes & Insurance	35	35	140	140
Total Bus Expense	<u>1,629</u>	<u>1,825</u>	<u>7,200</u>	<u>7,200</u>
Net Income, Bus Operation	<u>241</u>	<u>175</u>	<u>651</u>	<u>700</u>
<b>Schedule 14: Operating Subsidies</b>				
Church A	1,200	1,200	4,800	4,800
Church B	1,800	1,800	7,200	7,200
Church C	2,000	2,000	8,000	8,000
Conference				
Total Operating Subsidies	<u>5,000</u>	<u>5,000</u>	<u>20,000</u>	<u>20,000</u>

**LOCAL SEVENTH-DAY ADVENTIST CHURCH SCHOOL**  
**Statement of Financial Activity**  
**Supporting Schedules**  
**Six Months ended December 31, 20xx**

	December		Year-to-Date	
	Actual	Budget	Actual	Budget
<b>Schedule 15: Administration Expense</b>				
Wages	2,400	2,400	9,600	9,600
Payroll Taxes	192	192	768	768
Administrative Travel	248	200	1,240	800
Supplies & Stationery	428	300	1,400	1,200
Postage	164	100	432	400
Insurance, Property/Liability	300	280	1,200	1,120
Taxes				
Other (List) Depreciation	220	128	604	512
Total Administration Expense	3,952	3,600	15,244	14,400
 <b>Schedule 16: Building &amp; Ground Care</b>				
Wages (Maintenance/Custodial)	1,092	1,000	4,840	4,000
Payroll Taxes	88	80	388	320
Supplies	256	360	1,604	1,440
Repairs, Outside Charges	256	200	664	800
Other (List) Depreciation	148	160	520	640
Total Building & Grounds Expense	1,840	1,800	8,016	7,200
 <b>Schedule 17: Utilities</b>				
Gas & Fuel	1,280	1,040	4,840	4,160
Electricity	1,028	900	4,132	3,600
Water	60	60	216	240
Telephone	512	400	1,684	1,600
Total Utilities Expense	2,880	2,400	10,872	9,600

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Leviticus 27:30 .....	Section 103
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