

2010 Financial Situation

Draft 3 – 27Oct10

Finance Committee 28 October 2010

When I began to serve you as St. Aidan's parish treasurer in July 2010, we were preparing for our 2009 audit, which had been delayed. Our operations appeared to be in a very good financial position.

In the Aidan Comfort, I reported to you that we were doing well. As of the end of August, operating revenues were at \$264,000, almost \$40,000 better than budget. Operating expenses were at only \$204,000, over \$40,000 better than budget. Our operating surplus was nearly \$60,000, even though we had expected a \$20,000 deficit. We had \$18,000 operational cash on hand and all our bills were paid.

This was great news. We finished our audit preparations, restating our 2009 and 2010 financials to make key changes which had been designed in 2008, or asked for by our auditor in 2009 after his review of 2008 results. We passed our 2009 audit, though with many comments, including comments that we had not finished the required changes from 2008 and also comments asking for more changes.

The Audits

In 2006, we had a combined audit of 2004 and 2005. This was the first formal audit of the parish books in a very long time. The books were difficult to work with. The operations of Canterbury and Joycare had been recently separated out, and operations of the endowment fund and some other funds were not centralized. In addition, our accounting software was out of date and was not designed for non-profit operations. We began a conversion to a new package, which included converting to the non-profit standard of fund accounting, and committing to the strict cash accounting standard required by the Episcopal Church.

Not all of changes were completed in 2006, and our next audit was a combined review of 2006 and 2007 in 2008. That audit was left unfinished, although it generated many informal comments. We then had a formal audit of 2008 results in 2009, and a formal audit of 2009 results in 2010, though it was delayed until September. These 2009 audit results produced in September 2010 are part of tonight's vestry focus on financials.

The Restatements

In restating our financials we realized that we had some remaining accounts on our books that were in the "accrual" style of accounting, specifically reserves for Mother Mary Kate's sabbatical and professional development expenses. These were being accounted for in fund 000, worship or operations, and not in fund 003, world or restricted funds. As part of our restatement, we transferred the funds from fund 000 to 003 effective for the end of 2009 and restated the books for 2010, along with other 2009 year-end changes recommended by the auditor more than a year ago.

Surprisingly, that change caused us to suddenly overdraw our operational checking account as we started paying our September bills.

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The Cash Investigation

Mother Mary Kate was immediately notified. An initial investigation by Donna Colville, Bill Sweeney, and Connie Mackin (St. Aidan's bookkeeper and On-Line Ledger employee) was performed immediately and determined that the books and records were accurate and that there was **no evidence of wrongdoing** that could be detected within the scope of all internal and bank records taken together.

A thorough examination was undertaken, and Debra Bridson (owner of On-Line Ledger) and Mother Mary Kate Réjouis additionally worked on the investigation.

It was determined that the operating fund cash position was poor, and that this condition had been in place and deteriorating for several years, but had not been detected because of a combination of factors. Four primary problems were determined to relate to the immediate cash shortfall:

1. At the end of 2009, some parishioners had prepaid their 2010 pledges. The income had been properly reported as deferred until 2010, but the cash had remained in the fund 000 check book. Also, during 2009, some payments from the parish to the endowment had not been made and others had been made on an accrual footing, making it appear that fund 000 was more profitable and better than budget than it in fact was by about \$20,000. Therefore, a payment of \$20,000 was authorized, which used up the apparent surplus cash and offset the apparent profit.
2. At the end of 2005, a reversal entry of about \$10,000 was made in a restricted fund account to offset the effect of certain separately maintained checkbooks and to prepare for the software conversion. When the conversion was completed and the check books combined, the offset entry was not removed from the books, so that the total amount of our restricted funds appeared to be \$10,000 lower than they should be.
3. The \$18,000 of sabbatical and professional development funds for Mother Mary Kate were recorded by accrual accounting techniques in fund 000 instead of fund accounting in fund 003, and therefore there was no discipline to insure that offsetting cash was maintained for them.
4. Certain payments of \$6,000 had been made inadvertently from the parish checkbook instead of the Canterbury checkbook, even though they were not properly within the scope of the management agreement.

Overall, we had a cash shortfall of \$48,000, which had been masked by several accounting and reporting problems. Finance committee members Dick Meckley, Phil Zak, and John Alderson were informed as soon as possible, as were Senior Warden Grace Pierce, Junior Warden Matt Clark, Bishop O'Neill, Pam Greenfield (diocesan treasurer) and Bob Leaman (auditor).

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Fixing the Cash Problem, almost

Canterbury has repaid the \$6,000 sum and gifts of \$36,000 have stabilized our working capital or operating cash on hand. Interim trial balance sheet and income statements as of 26 October 201 have been prepared, reflecting collections up to that date as well as processing of the month-end payroll and a few reimbursement checks.

Problems with accounting, in addition to cash.

As part of the cash investigation, it became clear that there were other problems of recordation on our books that misleading us about our financial position. Further accounting-oriented investigations have turned up the following:

1. The Roof Capital Campaign was not correctly accounted for. We did indeed set out to raise about \$50,000, all of which has been pledged and most of which has been fulfilled. We also performed the work and nearly all has been billed and paid. However, the cash was handled in the operating fund checkbook instead of the restricted fund checkbook, and the budgets were not reset to reflect the extra \$50,000 of income and expense authorized by the vestry. Therefore, our results looked much better in terms of revenue and expense compared to budget and cash-on-hand than they in fact were. [A similar effect occurred earlier in the year when \$50,000 was raised for relief in Haiti and when the decision was made to offer our Lent/Easter plate to outreach. Similarly, in late 2009, the Konbit fund drive was mixed into operations and not budgeted. In all cases, all the designated funds went to their intended uses, but the parish operating books appeared to be better than they in fact were.]
2. Our mechanisms for paying the diocese and region did not record the payments that should have been made on pledges pre-paid in 2009 for 2010 and on certain weekly pledge and plate collections which had the wrong dates entered for their deposits. This led to the appearance that we were about \$7,000 more profitable than budget and had more cash on hand than we in fact did. The diocese has been notified and the payments will be made up; the methods have changed so that similar errors cannot occur. Similar errors occurred in 2009 and were caught up at year end.
3. Pledge and plate budgets showed our income split 90/10 between operations (fund 000) and outreach/restricted (fund 003), but all pledge and plate income was recorded in fund 000. This caused operating results to appear to have about \$30,000 more income than was correct and to appear to have more cash-on-hand than was correct. The diocesan and region payments were generating an accounting deficit in the outreach/restricted fund 003. All amounts except those noted above have been properly paid to the diocese and region and the deficits will be made up. The recordation of income has been corrected and the procedures changed.

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Vestry Actions

At the vestry meeting of 26 October, the situation was reviewed in depth and the vestry approved the audit report for 2009, as well as an amended plan for response. The vestry also approved the September 30 financials.

Corrected and Restated position

Having entered many corrections and restated many entries, we have produced our September reports for the year-to-date financial performance of the parish and its financial position as of September 30, 2010.

Compared to the glowing summary I made about two months ago, our situation seems disappointing, but it certainly is not dire.

As of the end of September and on a corrected and restated basis, operating revenues were \$254,000, about \$6,000 worse than budget. Expenses were at only \$273,000, about \$10,000 better than budget. Our deficit was about \$18,000, even though we had expected a \$24,000 deficit. We had \$6,000 operating cash on hand, unpaid bills of about \$42,000, and a restricted cash deficit of about \$10,000.

Projected Cash Needs

We are projecting a cash need above budgeted and expected collections for the remainder of the year as follows:

\$10,000 to restore restricted cash
\$11,000 to pay deferred bills
\$10,000 to fund expected deficits in the remainder of 2010
\$ 5,000 to fund a more comfortable level of operating working capital

\$36,000

As you know, the season of budget preparation for 2011 is upon us. On a preliminary basis, it appears that the 2011 budget will be substantially similar to the 2010 budget. Additionally, we are also working on our annual stewardship campaign, which will culminate in Consecration Sunday this coming Sunday, October 31.

Mother Mary Kate has asked that the Finance Committee and the Endowment Committee meet jointly to bring together all of our best financial and accounting talent to explore our financial situation. That meeting is scheduled for 5:45 pm tomorrow, Thursday, October 28, and the vestry is also invited.