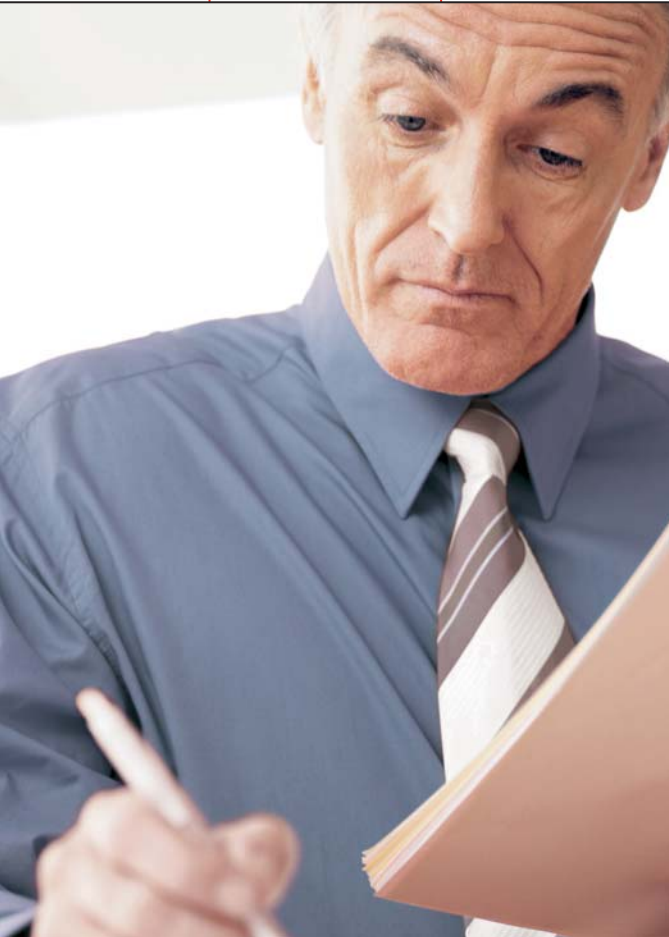


risk reporter

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Property inventories add value to insurance policies

Devastating fires, storms and theft are often furthest from the minds of worship center officials. However, if disaster strikes, is your ministry prepared? Developing a detailed property inventory is the first step to ensure your organization will survive a damaging loss.

“A property inventory is crucial to determine adequate amounts of insurance coverage prior to a loss as well as expedite the claims process after a loss has occurred,” said Randy Forman, chief operating officer for Asset Verification Inc. in Batavia, Ill. Asset Verification specializes in property inventories for places of worship.

Oftentimes, congregations have a level of insurance for church contents that does not adequately address the value of the property. According to Asset Verification, more than 70 percent of churches are underinsured by at least 40 percent.

“Establishing adequate insurance coverage for the contents within our church was the driving force behind the decision to conduct a property inventory,” said George Kalaris, president of the parish council for Annunciation Greek Orthodox Church of Mobile, Ala. “Like many parishes, we had items donated to us over the years but had no idea what most of them were worth. Conducting an inventory provided us with a net worth for all church contents and helped us adjust our insurance coverage accordingly.”

Developing an inventory

There are two common types of property inventories: written and pictorial.

“The ideal inventory combines both types of inventories, including a detailed written inventory supported by pictures of the property,” Forman said.

There are many companies and different types of software available to help organizations complete an initial property inventory; however, with a camera and attention to detail, an organization can easily complete an inventory on its own.

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To determine how to organize and structure a property inventory, Forman suggests congregations begin by remembering three key components used for insurance claims: proof of ownership, proof of condition and proof of value.

“These three components help structure what types of information are important to record for each piece of property,” Forman said. “For example, receipts and serial numbers show proof of ownership, pictures show proof of condition and model numbers show proof of value.”

Written inventories

The first step in developing a written inventory is to create an inventory worksheet or spreadsheet. The worksheet should contain areas to record the following pieces of important information:

- *Location* — the building and room each item is located in
- *Category* — assign each piece of property to a proper category or field such as furniture, electronics, lighting, artwork, etc.
- *Description* — a detailed physical description of each piece
- *Manufacturer*
- *Model/Serial Number*
- *Date Purchased*
- *Purchase Price*
- *Value* — if a value is not known, have the item appraised by a professional appraiser
- *Quantity*

Once you have prepared an inventory worksheet, have several people from your congregation work together to complete the inventory. One person should be responsible for the written account of each item, while another takes photographs or a video of items.

“Complete the inventory systematically as to not miss or skip items,” Forman said. “Break the inventory up by location, perhaps starting in the pastor’s office; document each item in the room and then move onto the next location.”

Although it is important to document specialty items, such as rare artwork or artifacts, and big ticket items, such as audiovisual, musical, sound and office equipment, remember also to include smaller items in the inventory.

“Small items, such as hymnals, folding chairs, Sunday school materials, books and sheet music, add up when you have them in large quantities,” Kalaris said.

Forman also recommends scanning any important documents during the inventory process.

Once the inventory is complete, fill in any missing information. Have items appraised professionally if a current value is not available.

After the inventory

It is important to store a backup copy of the final inventory, including both the written and pictorial inventories, at an off-premise location such as a safe deposit box.

You also should provide a copy of the inventory to your insurance agent. Use the document to review your organization’s current content coverage and make any necessary adjustments. In some instances, valuable items, such as an organ, might require special coverage beyond basic content coverage.

“We consider the property inventory an insurance policy in and of itself,” Kalaris said. “The policy has allowed us to adjust our coverages ensuring, in the event of a loss, the church and all its contents will be covered.”

Updating the inventory

The property inventory should be updated on a regular basis — either annually or biannually.

“A property inventory is an ongoing process,” Forman said. “An organization should continuously collect receipts from new purchases and keep a database of items the parish no longer owns. Make a point to update the property inventory at least once a year or sooner, if a major purchase is made.”

To order an Inventory Survey from Church Mutual or download the forms, visit www.churchmutual.com, click on Safety Resources and select Inventory Form.

Tips for pictorial inventories

- Take wide-angle photographs or a video of entire rooms
- Take individual, close-up shots of expensive items
- Zoom in on important labels and special features such as signatures on artwork
- Take photos of important receipts, invoices and cancelled checks
- Take photos in the same order as the written inventory
- Label each photo with the date and item name and attach it to the written inventory

- **For more information** on property inventories, please visit www.assetverification.com.

headlines

Pastor indicted for tax fraud

August 2005 — Federal prosecutors indicted a Chicago pastor for failing to pay taxes on \$525,000 worth of money that was illegally taken from the church. The pastor took an average of \$1,000 per week from the collection plate and used the church credit card to purchase personal items such as a life insurance policy, a Mercedes-Benz, travel and clothing. The judge estimated that the 62-year-old pastor owed about \$120,000 in back taxes. The pastor pleaded guilty to one single count of tax fraud; the other six counts were dropped. He is scheduled to begin serving his 18-month sentence in mid-October.

Source: *Associated Press*

Fire marshal encourages lightning protection

August 2005 — Lightning hit and destroyed the steeple, bell tower, roof and other areas resulting in more than \$500,000 of damage to the Cold Point Baptist Church in Pennsylvania. The rod that was used to protect the steeple was not effective due to offshoots of lightning and Cold Point's wooden roof. Fire Marshal Calvin Bonenberger said this incident could have been prevented if the church had a proper lightning protection system installed.

Source: *TimesHerald.com*

Juvenile charged in church arson

August 2005 — A 15-year-old boy was charged with deliberately starting a fire that destroyed the Cornerstone Community Baptist Church. He faces three felonies: one count of arson to a place of worship, one count of criminal damage to property and one count of arson. The remains of the building have been inspected, and missing items are being itemized for insurance purposes.

Source: *Chicago Tribune*



seasonal spotlight

fall

Minimize facility rental risk

As the summer season comes to an end, busy fall schedules fill fast. Oftentimes, groups such as 4-H or scouts solicit worship center facilities for their meetings and other events. These types of facility rentals make congregations susceptible to property damage and liability if a visitor is injured.

“Our congregation takes pride in our facilities, and we are happy to accommodate building rental requests,” said Betty Ann Berube, office administrator in charge of facility rentals for First Presbyterian Church in Rumson, N.J. “However, we also want to ensure our property and congregation are protected from damage or loss that could occur.”

Consider the following when allowing groups to use your facilities:

Intended use

Require each prospective organization to submit a rental request form identifying the organization's name, purposed activities and dates needed.

“We require all organizations to complete a formal rental process,” Berube said. “They must submit a letter of request, which is reviewed by our church's governing body for approval.”

The parish council or facilities manager should review the requests regularly to approve or decline rentals. During the review process, consider the reputation of the group, the type of activities the organization will conduct in your building and whether the activities are of high risk or will cause unnecessary wear and tear.

Legal considerations

A written “use of facility” agreement can help protect your ministry in the event of injury or damage. The written agreement should include the following elements:

- *Contact information* — name, address and phone number
- *Rules for usage* — rules might exclude the use of profanity or activities other than those permitted in agreement
- *Condition of rented facilities* — user agrees to return facilities in the same condition and will be held responsible for all damages to property arising from use
- *Release of liability* — releases church from all liability relating to the rented facilities
- *Evidence of insurance* — require the user to provide a certificate of insurance and ask the church be named as an “additional insured” on the certificate

Ask your congregation's attorney to review the agreement to make sure it complies with all state laws.

Rental checklist

Create a quick checklist for organizations using your facilities that cover items such as locking doors, turning off lights, turning in keys, hours of operation and emergency contact information.

“We require groups using our facilities to pick up a packet prior to their event that includes a key and instructions for proper care and cleaning of the facilities,” Berube said.

Keep in mind, the congregation is responsible for maintaining a safe facility — perform a regular safety check for hazards and address any problems immediately.

- **For more information** on facility rental, contact your Church Mutual regional representative at (800) 554-2642, select Option “1” when prompted.

q | a

A Perspective

Religious organizations depend upon donations for economic vitality. Understanding the tax-exempt status and having a trained board of financial advisors are essential to sound accounting principles.

Risk Reporter spoke with Sanders Davies, senior partner at O'Connor, Davies, Munns & Dobbins, LLP, a leading accounting and consulting firm serving nonprofit organizations with offices in New York, New Jersey and Connecticut. Davies is a Certified Public Accountant with more than 30 years in the business.



Sanders Davies

Risk Reporter: How should religious institutions account for the weekly collection plate?

S. Davies: All contributions should be recorded at the time they are made and reported as income. Generally, undesignated plate offerings are considered to be an unrestricted, tax-deductible gift and may be used as the church sees fit.

Risk Reporter: What constitutes an unrestricted gift and how should it be accounted for?

S. Davies: Like all other nonprofits, worship centers are required to recognize gifts in one of three categories: unrestricted, temporarily restricted and permanently restricted based on donor restrictions.

An unrestricted gift is a contribution that comes without any restrictions. The weekly offering is an example of an unrestricted donation. Generally speaking, the money in the offering plate has not been given for a specific purpose and can be used for any budgetary purpose or however the organization sees fit.

A temporarily restricted gift can be used by the organization only in accordance with the donor's restriction. In many cases, time is the restriction. For example, let's suppose it's the Fall 2005 Annual Stewardship Campaign for the 2006 budget. Parishioners pledge and/or give their money in 2005, but the gift is intended for the 2006 budget.

A permanently restricted gift is the ultimate time-restricted gift and must be held in perpetuity. Endowment funds for music programs and seminary scholarships are an example of permanently restricted gifts. The original gift is restricted forever, and the income is restricted to the specified purpose and cannot be used for anything else.

Risk Reporter: What qualifies a religious institution as tax-exempt?

S. Davies: In most instances in order for a church or any charity to achieve a tax-exempt status, it must apply by filing Form 1023 with the Internal Revenue Service (IRS). There are few instances when a religious institution will not be considered tax-exempt. However, if the organization operates a business on a regular basis, unrelated to its purpose or mission, it might be subject to federal, state and local taxes.

Risk Reporter: What is the best way to ensure properly maintained books and records?

S. Davies: Recruit financial expertise for the board of trustees and educate them about their responsibilities as fiduciaries. Provide the board with monthly financial statements. After the board prepares the end-of-the-year financial statement, have it audited by an accounting firm to ensure that generally accepted accounting principles are being used. However, an audit is not inexpensive. That said, all religious institutions can fund raise, and there is no reason why they can't "friend" raise. If budget does not allow for an audit, speak to a professional CPA about possible pro bono assistance. As long as the work doesn't impose on billable time, many CPAs are happy to lend a hand.

- **For more information** on nonprofits and accounting, please visit www.odmd.com or contact Sanders Davies at O'Connor, Davies, Munns & Dobbins, LLP (212) 286-2600.