Financial Best Practices for Congregations
Separation of Financial Duties

• Keep written policies and procedures for key responsibilities (not person-specific, but duty-specific)

• Avoid conflicts of interest

• Responsibilities for handling/recording church income should be separated from handling disbursements

• An individual not otherwise directly involved in banking activities should reconcile the bank account

• Suggested responsibilities for a person other than the treasurer:
  – Overseeing counting and recording offerings
  – Depositing receipts
  – Reporting income/gifts from individuals
Safeguarding offerings

- **Dual custody** at all times
- **Rotating** basis for **counters**
- Cash **deposited immediately** after counting
- **Log** of cash and check activity, including purpose (signed by two persons)
- Copies of deposit slips given to treasurer and financial secretary
- Regular **reporting** of offerings to members (quarterly)
- Maintain **confidentiality** (pastor, financial secretary and stewardship committee as have need to know)
Designated and restricted gifts

- Acknowledge gift purpose on gift receipt
- Separate accounting and/or tracking in the accounting system from undesignated gifts
- Maintain a sufficient bank balance to cover designated/restricted funds
- Honor donor intent
  - Congregation has the right to refuse any gift, including if it believes donor intent cannot be honored
  - Create and communicate a general policy for circumstances when purpose can’t be fulfilled
- Grant accountability and reporting; unused or misused funds might be subject to return of funds to grantor
Charitable Deductions

• Meeting IRS requirements for charitable contributions
  – Cannot deduct
    • Contributions to individuals
    • Contributions from which donor benefits
    • Services, but can deduct unreimbursed, out of pocket expenses directly connected with the services (not living expenses)

• Substantiation
  – Cash: written acknowledgment (over $250, no goods or services provided in exchange for the gift)
  – Non-cash gifts:
    • Fair market value
    • Form 8283 to be completed by charity for more than $500
    • Generally, qualified appraisals for gifts of more than $5,000
Handling expenditures

- **Avoid sales tax** by requiring use of exemption letter
- Use standard **vouchers** or expense forms
- Require **written approval/support** for payment (including original invoices, receipts, etc.)
- **Checks should be prepared by someone other** than those with authority to approve expenditures
- Keep **authorized check signatures** on file at the bank; dual signatures recommended
- **Secure blank checks** at the church
- **Consider electronic billing and payments** if have appropriate security and access
- **Credit cards** might be appropriate for a limited number of individuals
- **Petty cash** should be safeguarded and counted regularly
Accountable Reimbursement

- Decide when to **reimburse** business expenses on an actual-cost basis **rather than** providing an **expense allowance**
- Establish a **budget and create a timing cutoff** (e.g. 90 days) to submit expenses for reimbursement
- Require **documentation** of business purpose and original receipts
- If providing **cash advance**, require reconciliation and substantiation of each payment
- Under account reimbursement, **no reporting of W-2 income** is required
- **Congregation retains ownership** of all purchases
Employee vs. self-employed

- Twenty factors as developed by IRS, including:
  - Individual must comply with instructions
  - Individual must provide services personally (no substitutes)
  - Services are integral part of organization’s operation
  - Continuing relationship between individual and organization
  - Set hours of work
  - Full-time required
  - Working on organization’s premises
  - Paid by hour, week or month (as opposed to by the job)
  - Payment of business expenses, benefits
  - Working for only one organization at a time
  - Right to terminate

- Clergy have dual tax status treatment- employee for income tax and self-employed for social security
Housing Allowance

- Excluded from federal income
- Established annually before beginning of tax year
- Approved by congregation council
- Applies to ordained, commissioned or licensed; administers sacraments and conducts worship
- Allowable expenses:
  - Mortgage/rent/real estate taxes/property insurance
  - Utilities
  - Furnishings and appliances (purchase and repair)
  - Remodeling and repairs
  - Yard maintenance and improvements
- Amount – fair market value, actual expenses (as long as less than amount previously designated)
- Housing equity allowance
Payroll (IRS Pub. 15, Circular E)

- Upon hiring, contracting – Form W-4, W-9
- Taxable wages (includes cash gifts, spouse’s travel, personal use of church-owned vehicle, nonaccountable reimbursements; imputed interest on loans from employer; social security offsets
- Quarterly – Form 941 (to report Social Security, Medicare and income taxes withheld and paid); Form 8109 (federal tax deposit form)
- Annually – Form W-2 or 1099-MISC (to employee) and coordinating forms to IRS
- Housing allowance included on W-2 (box 14)
- No Form 990 required for churches (unless unrelated business income over $1,000 requires Form 990-T)
Accounting System/Financial Reporting

- Choose the **basis for accounting**: cash basis, accrual basis, modified accrual
- **Utilize accounting software** whenever possible
  - Dual entry bookkeeping
  - Fund accounting
- **Provide regular reporting** to church council
  - Balance Sheet
  - Statement of Revenue and Expenses
  - Statement of Cash Flows (sometimes excluded)
  - Other Management Reports, as requested
- Establish a **records retention** policy and process
- Conduct internal **audits** annually and external audits, if desired
Data Security

- **People are the best security**
- Ensure adequate **IT security** for internet, e-mail and network (including virus scans and firewalls)
- Provide security for **portable media devices** (flash drives, CD, laptops, cellular phones, etc.)
- Ensure **confidential paper files** are kept in a locked, limited access location
- Be aware of Personal Identity Information (PII):
  - Names and addresses
  - Social security numbers
  - Credit card information
  - Documents with any financial information
- Ensure access to data is commensurate with duties; **review user access** regularly
Resources

• [www.elca.org](http://www.elca.org) (found in Resources/Financial/Congregations tab)
  — Congregational Treasurers’ and Bookkeepers’ Financial and Accounting Guide
  — Internal Control Best Practices
  — Program Budget Presentations
  — Congregational Audit Guide
  — Accountable Reimbursement Policies
  — Data Security Education
  — Contingency Planning

• Administration Matters e-newsletter and blog (subscribe under [https://blogs.elca.org/adminmatters/](https://blogs.elca.org/adminmatters/))