Handling Financial Matters in the Congregation
Separation of Financial Duties

- Written policies and procedures for key responsibilities (not person specific)
- Avoiding conflicts of Interest
- Handling/recording church income vs. handling disbursements
- Reconciling bank accounts by an individual not directly involved in banking activities
- 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 need to know)
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
Designated and restricted gifts

• Acknowledge gift purpose
• Separate accounting and/or tracking
• Maintaining cash balance sufficient to cover designated restricted funds
• Honoring donor intent
  – Interpretation
  – General policy shared at time of gift for circumstances when purpose cannot be fulfilled
• Grant accountability and reporting; return of funds
Handling expenditures

- Utilize sales tax exemption forms
- Standard vouchers or expense forms
- Written approval for payment (including original invoices, receipts, etc)
- Check prepared by someone other than approver
- Authorized signatures on file at the bank; dual signatures recommended
- Pastor should not be an authorized signer
- Securing blank checks
- Considering electronic billing and payments
- Credit cards
- Petty cash
Accountable Reimbursement

- Written Policies and Procedures (not person specific)
- Establish a budget
- Reimbursing business expenses on an actual-cost basis rather than providing an expense allowance; cutoff to submit expenses for reimbursement
- Documentation of business purpose and original receipts
- Congregation making certain payments directly; reimbursing others; advances others
- Under account reimbursement, no reporting of W-2 income is required
- Congregation retains ownership of purchased items
Employee vs. self-employed

- Some important factors developed by the IRS for determining employee status include:
  - Must comply with instructions
  - Must provide services personally (no substitutes)
  - Services are integral part of organization’s operation
  - Continuing relationship
  - 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 church council
• Applies to ordained, commissioned or licensed clergy

• 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

- Cash basis, accrual basis, modified accrual
- Accounting software
  - Dual entry bookkeeping
  - Fund accounting
- Balance Sheet
- Statement of Revenue and Expenses
- Statement of Cash Flows
- Management Reports
- Records retention
- Internal and external audits
Data Security

- People are the best security
- Internet, virus scans and firewalls
- Paper files
- E-mail, portable media devices (flash drives, CD, laptops, cellular phones, etc)
Resources

• elca.org
  – Congregational Treasurers’ and Bookkeepers’ Financial and Accounting Guide
  – Internal Control Best Practices
  – Program Budget Presentations
  – Congregational Audit Guide
  – Q&A, Accountable Reimbursement Policies
  – Congregational Data Security Education
  – Contingency Planning
  – Records Retention
  – Administration Matters Newsletters

• irs.gov