



Evangelical Lutheran Church in America

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Congregational Treasurers' and Bookkeepers' Financial and Accounting Guide

**A resource provided by the Office of the Treasurer of the
Evangelical Lutheran Church in America**

Preface

These resources for congregational treasurers and bookkeepers have been developed in response to questions that the Office of the Treasurer is frequently asked. If you have suggestions for additional information, please email: OTinfo@elca.org.

This information is based on our best information at the time the guidelines were prepared. Updated resources can be found on the “Finance for Congregations” section of the Office of the Treasurer website.

www.ELCA.org/Who-We-Are/Our-Three-Expressions/Churchwide-Organization/Office-of-the-Treasurer/Finance-for-Congregations.aspx.

The treasurer of the congregation has the responsibility to be aware of current tax reporting requirements for congregations. The ELCA strongly encourages congregational treasurers to consult up-to-date resource material on tax requirements and reporting. The ELCA also strongly encourages congregational treasurers to consult with a tax preparer and attorney as necessary.

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Responsibilities of the congregational treasurer

The responsibilities of the treasurer of a congregation are usually stated in the bylaws of the congregation; these responsibilities include but are not limited to the following:

- Serving as financial officer of the congregation
- Being responsible for payment of all bills, invoices and charges
- Performing or overseeing all of the bookkeeping functions
- Preparing the monthly (or quarterly) financial reports for the congregation council
- Filing all of the required federal and state tax forms
- Monitoring the cash position of the congregation and investing available funds as directed
- Borrowing funds as directed by the congregation council
- Providing the congregation with any requested financial information
- Assisting in the preparation of the annual budget for the congregation council

These guidelines are presented to clarify the role of the congregational treasurer and help establish accounting procedures that will meet the financial objectives of a congregation. Please refer to the additional reference material provided as needed.

Once accounting procedures for the congregation are established, they should be documented for reference purposes. This process is both for the benefit of the Office of the Treasurer and for the protection of the congregation.



Congregation business ethics and conflict of interest policy

Best practices for all organizations, including nonprofits and churches, recommend that a business ethics and conflict-of-interest policy be in place. A model Congregation Operational Ethics Policy has been developed by the churchwide office. It can be found online at www.ELCA.org/congregationethics. ELCA congregations are encouraged to review this model and work to adapt this form or create their own policy.

Some explanations

Ethics policies are designed to help people understand fiduciary duties and address conflicts of interest or appearance of conflicts. For example, there is a conflict of interest that needs to be examined if the congregation president is the head of the construction company that is bidding to build the new addition to the sanctuary. Likewise if the congregation is considering hiring a choir director who is the niece of the associate pastor, this needs to be carefully handled.

This policy contemplates coverage for all congregation officers, congregation council members, congregation committee members, and congregation staff. In some organizations, there are separate policies for staff. This policy is a combined policy designed to cover directors, committee members and employees.

You will note that we have called it an “operational” ethics policy. The reason for this name is to be clear that the ELCA has many ethical concerns that are certainly not covered in this short policy. This policy is to address the business side of your congregation and its role as a nonprofit corporation.

Some ethics policies require that all those who are covered sign the policy at inception and then re-sign on a regular basis. There is no such requirement in the draft, but you may choose to require it. In any event, it is very important that all staff and directors be provided a copy when it is adopted and a protocol should be in place to provide a copy to all new individuals.

It is important to consult with your legal and financial advisors when adopting a business ethics policy.



Separation of financial responsibilities

There should be clear separation of duties between those responsible for handling and recording the income of the congregation and those responsible for handling the disbursements of the congregation. A strong system of internal controls safeguards the assets of the congregation and protects the character of the individuals handling cash or writing checks. The congregation should operate under the same standards and safeguards as a good business operation. This includes written policies and procedures for key responsibilities.

In the congregational setting, a climate of personal trust is usually assumed. This is healthy and proper. The following suggestions should not be interpreted as a lack of trust in the financial officers of a congregation. Rather, they offer protection for their reputation. No person should be placed in a position where any suggestion of mishandling of funds must be defended by the word of one person against that of another. This system is intended to provide verification and support of sound practices at every step. Prudent and consistent practices in handling money help maintain a climate of trust and help safeguard church assets.

The same concepts apply to congregational auxiliaries and organizations. The congregation council is constitutionally responsible for the financial and property matters of the congregation (C12.05).

Cash transactions should be handled at all times in dual custody. The following functions should be the responsibility of someone other than the treasurer, such as a financial secretary or the stewardship committee:

- Oversee the counting of offerings
- Oversee depositing of receipts
- Train individuals involved in counting the offerings
- Report to the treasurer the total offerings each week and any special-purpose breakdowns
- Oversee recording of contributions to the individual contribution records
- Report on levels of giving to the church council and congregation
- Provide periodic and annual statements to the contributors for tax reporting

Employee dishonesty bond

All individuals elected or appointed to handle money in the congregation and its auxiliaries should be covered under an employee dishonesty blanket bond. Further information on employee dishonest blanket bonds can be provided by the ELCA Endorsed Property and Liability Insurance Program; please visit www.ELCA.org/insurance.



Handling congregational income

Normal handling of funds in the congregation involves several steps. Some general principles:

1. No individual should be required or allowed to handle the congregation's income alone at any time.
2. It is preferred that no cash be stored in the church.
3. Several people should be involved on a rotating basis in handling income.
4. All income transactions (receipts and disbursements) should be properly recorded and verifiable.
5. It is understood that the recording of income or gifts from individuals of the congregation is a confidential matter and such records are only available to the pastor, financial secretary and the stewardship committee, when required.
6. The pastor should not serve in the position of treasurer and should not have check-signing authority over any church account.
7. It is preferable for all funds under the direction of the congregational council to be in a single checking account and investment program. Congregational auxiliaries and organizations may wish to be included in this system, authorizing disbursement of funds through the congregational treasurer with vouchers for payment.
8. Financial reports to the council and the congregation should include all funds, accounts and investments of the congregation and its auxiliaries and organizations. No information should be withheld. These should be reviewed and reported on a consistent basis.



Suggested steps in safeguarding offerings and deposits

1. Immediately following the service, two people carry the contents of the offering plates to a secure room for counting or placing in an adequate safe for counting the following day. Church funds or offerings should never be taken to a private residence for counting.
2. The envelopes are immediately opened by at least two people. Envelopes are marked as to intent and purpose if for other than undesignated offerings.
3. Balances between envelope totals and cash and check totals are reconciled.
4. A summary report outlining the various accounts income is to be credited to must be prepared and initialed by at least two people.
5. A deposit slip is prepared and the deposit taken to the bank promptly.
6. Copies of the deposit slip and the summary report are given to the treasurer and to the financial secretary.
7. Individuals responsible for handling offerings and deposits should be rotated periodically. It is best if the treasurer and the financial secretary are not personally involved in the process.
8. The term of office served by the treasurer should be limited to a specific period of time. The successor to the treasurer should not be from individuals of the same family nor should this office be rotated between the same individuals serving as financial secretary and treasurer.
9. There should be clear segregation of duties and the people involved in handling income should not be involved in handling of expenditures.
10. Funds collected from other activities (fundraisers, special events, etc.) should be directed to those responsible for recording and making bank deposits of these funds. Copies of the deposit slip and summary report are given to the treasurer and financial secretary.
11. Members should be encouraged to make their offering by check or electronic payments, not cash.
12. Congregations should send out quarterly giving reports.



Suggested steps in handling expenditures

1. Congregations should have documented policies and procedures in place for handling expenditures. This should include what constitutes appropriate business expense, supporting documentation and approval levels for various transactions.
2. Bills and obligations should be approved for payment by an authorized signatory. This approval should be indicated in writing by the person responsible. In larger congregations, a purchase or approval form may be used to approve payments and identify the accounts to be charged. Expenditures should be supported by original invoices or receipts, not photocopies.
3. Check is prepared by someone other than the person approving the expenditure.
4. Check is signed by individuals authorized under the bank account agreement. Dual signatures are recommended. The pastor should not be an authorized signer.
5. Blank checks should never be signed in advance under any circumstance.
6. Check number is written on invoice or support document to prevent duplicate payment, and check should be mailed directly to the vendor by the accounts payable staff.
7. At least three individuals should be involved in the above four steps.
8. Savings and investment accounts – if the financial secretary and/or treasurer is authorized to initiate fund transfers to or from these accounts via telephone, it is suggested that a verification notice (written form) be developed indicating that on a specific date such transfer took place (and for what purpose) and signed by the president of the congregation. This form is to be retained in the files of these accounts.
9. Individuals independent of the process should be responsible for reconciling the savings and investment accounts.



Accountable reimbursement policies

For business and tax reasons, it is usually in the best interest of the congregation and its staff to have an accountable reimbursement policy. Accountable reimbursement policies are simply a method for reimbursing business expenses on an actual-cost basis rather than providing an expense allowance.

Establishing an accountable reimbursement policy is simple: a congregation first sets up a budget for the pastor's professional and business expenses, such as travel, continuing education, subscriptions, etc. When the pastor incurs a ministry-related expense, s/he submits a reimbursement claim with appropriate documentation. Or, instead of paying the expense directly, the pastor can request the congregation to make the payment.

The IRS requires adequate accounting by the employee and maintenance of the appropriate supporting documentation by the employer. The IRS requires actual receipts for any expense over \$75.00. The congregation may use this figure or set a lower limit. (e.g., ABC Lutheran Church requires receipts for all expenses over \$25.00.) The documentation should indicate (or be listed on the receipt itself): the purchase, amount, date, place and the business nature of the expense.

We have provided a number of different resources to help congregations understand and establish an accountable reimbursement policy. They may be found at: www.ELCA.org/treasurer/congregations/arp.

Congregation credit cards

Best practices for congregation or synod credit cards

Payments made by credit cards are subject to the same best practices, legal and IRS regulations as any other payments and proper authorization, approval and recordkeeping are essential. Here are best practices for establishing a general charge account for your organization:

1. Determine whether a credit card is needed.

Evaluate the need for a credit card. While some online and telephone transactions can only be processed using a credit card, a prompt expense reimbursement system could process reimbursements for expenses charged to personal cards before the end of the billing cycle. For sake of convenience congregations may find credit cards a good option for necessary expenses. However, on credit cards, the payment obligation occurs at the time the card is used. This makes it different from payment by check, in which case the expense is reviewed and approved according to policy before payment is issued. So the organization should identify ahead of time what transactions will be charged.

2. Determine who will have custody of the card and be responsible for accounting for all charges.

The custodian of the credit card is not necessarily the same person responsible for accounting and reconciling all the charges. Card issuers will require the name and



personal identification information for the responsible individual, even on a company card. All credit card statements should be reconciled by another responsible person in order to prevent fraud.

3. Establish a published policy for use of the card that covers:

1. Who will have custody of the card (and statements) and how will those be kept secure.
2. What charges may be made.
3. Who may make the charges. This generally should be employees or officers.
4. Who approves the charges and when.
5. Who is the contact with the card issuer for disputes, problems, etc.
6. How the charges will be documented, reconciled and securely filed.
7. How the credit card bills will be paid.?
8. Avoiding sales tax charges, if the congregation is exempt under state law.
9. Prohibiting personal (non-business) charges.
10. Setting card limits that are reasonable based on the expected usage. If you only use the card for \$1,000 a month, keep that limit to no more than \$1,500.
11. Prohibiting cash advances. If an advance is needed, it should be processed using the congregation's established approval policies.

4. Determine which credit card is best and which organization will issue it.

Visa and MasterCard credit cards enjoy wider acceptance than American Express, Discover or Diners Club and are generally issued by banks and financial institutions. It is a good idea to obtain a credit card from your lead bank as the relationship with the bank could help if difficulties or problems occur. You may also be able to negotiate better rates and account protection coverage by leveraging your existing account/s with the bank. Discuss theft and misuse protection with the issuer before signing an account agreement. Ensure that you fully understand the terms and conditions of the credit card agreement including the APR, payment due dates and pertinent conditions affecting the use of any account checks and their related fees and interest charges.

5. Monitor the activity to ensure that the established procedures are being followed. The treasurer or authorized person, other than the primary cardholder, should carefully review each month's transactions. It may be wise to have your financial institution display only the last four digits of the account number on monthly statements. Your congregation may have other unique needs or concerns that leadership should review as part of a credit card and usage policy.



Bank reconciliations

Bank accounts should be reconciled in a timely manner on a monthly basis by someone other than the treasurer or anyone having check-signing authority. This procedure should be reviewed and initialed by a person other than the treasurer.

SPECIAL NOTE: "Dormant" bank accounts should be closed.



Recordkeeping and substantiation rules of the IRS

Generally taxpayers who itemize may deduct contributions of money or property made to charitable organizations. The IRS has special rules on recordkeeping and substantiation of donations received.

Effective Jan. 1, 2007, the IRS requires that all taxpayers who itemize deductions on their income tax returns substantiate their contributions by a bank record (such as a cancelled check) or written communication from the charity (such as a receipt or acknowledgment letter) for all cash contributions. The charity's acknowledgement must include the name of the charity, the date of the contribution and the amount of the contribution. A taxpayer who makes a charitable contribution online should be sure to print and retain a receipt of the transaction and not merely rely on the credit card statement.

Substantiation of single contributions of \$250 or more

The requirement that a contribution (cash or property) of \$250 or more must be substantiated by a written receipt (as specified below) is unchanged.

Congregations have the same requirement to acknowledge cash gifts from identified donors by providing a quarterly or annual statement of giving. The congregation's statement should include the name of the church, the date and the amount of each contribution. For single contributions of \$250 or more, the statement must:

- Be in writing
- Identify the donor by name
- Describe donations of property but not state the value of the property
- Show separately each individual contribution of \$250 or more
- State whether or not the charitable organization provided any goods or services to the donor in exchange for the donation, and if so, include an estimate of the value of those goods and services
- Contain a statement to the effect that "No goods or services were provided to you by the church in connection with any contribution, or their value was insignificant or consisted entirely of intangible religious benefits" if the church provided no goods or services to the donor in exchange for a contribution.
- Provide the receipt to the donor on or before the date the donor files a tax return claiming the deduction



Quid pro quo contributions of more than \$75

A *quid pro quo* contribution is one that is made by a donor in exchange for goods or services. In some cases, contributions may include a *quid pro quo* contribution and a true contribution, e.g., a ticket for an event that includes a meal. A church or religious organization must provide a written statement to a donor for any payments over \$75 when the payment is partly a contribution and partly in exchange for goods or services. This written statement should:

- inform the donor that the amount of the contribution that is deductible for federal income tax purposes is limited to the excess of the money contributed by the donor over the value of any goods or services provided by the charitable organization, and
- provide the donor with a good-faith estimate of the value of goods or services furnished by the charitable organization.

The IRS has a detailed document called “Tax Guide for Churches and Religious Organizations” that provides further information. It can be accessed at www.irs.gov/pub/irs-pdf/p1828.pdf.



Setting financial goals — the budget

The budget of a congregation establishes the financial goals and overall objectives for the current year and also constitutes a good internal control system. The budget is a plan for revenue and expenditures to support activities the congregation has decided to undertake in order to fulfill the goals of the congregation.

Estimating revenue and expenditures is an inexact science; information from previous years can be a good starting point but should not be the only pre-determining factor for the proposed budget.

Once the budget is established, it is the treasurer's responsibility to report on a monthly or quarterly basis to the council and members of the various service committees. This report typically compares actual revenue and expenditures to budget for the current period and compares revenue and expenditures to the same period from the previous year. Significant deviations from budget should be highlighted and investigated.

Budget Types

The budget may be one of the following types:

Zero-based budget

This budget starts at zero, and every item that is presented for inclusion in the budget must be justified as to its need and the benefit it provides. This type of budget typically requires more effort to produce but also forces an in-depth look at every budget line item.

Same as last year budget

This budget starts with last year's budget and adds percentage increases or makes minor adjustments for the next year. This is the type of budgeting done by most congregations, because it is fairly easy to put together. Unfortunately, using a "Same as last year budget" tends to preserve the status quo and can be an obstacle to vision and development.

Unified budget

A unified budget pulls together all of the congregation's receipts and disbursements into one budget. Included in this one budget would be anticipated receipts and disbursements of each church group which previously may have had their own budget and even their own bank account. These might include the youth group, the women's group and the construction budget.

Capital budget

A capital budget provides for the addition of capital items such as office equipment, furniture and fixtures, land and construction. In the event of a construction project, a capital budget may extend for a period of longer than one year. It normally is developed for the life of the project.



Program budget

A program budget is a way of presenting the budget that puts all expenditures into various program categories, e.g., worship, learning, outreach, etc. Salaries can also be prorated into each program category. A program budget can be an effective communication and planning tool. It can show ministry emphasis more clearly than a line-item budget.

Line-item budget

A line-item budget groups individual items under categories and further lists each item that makes up that category. An advantage of the line-item budget is that it provides a systemic step by step mechanism for formulating the budget but it should be noted that a listing of every line item is not effective in communicating the overall plan or mission of the congregation.

Debt-retirement budget

A debt-retirement budget is a special budget that lists all of the funds and use of these funds needed to pay off indebtedness.



The budget process

The following is a suggested method:

- The congregation council appoints a budget committee.
- The various church committees are made aware of their budget responsibilities and the timeframe they have to submit an estimate of their budget to the budget committee.
- The committees determine their needs for the coming year.
- The committees forward their budgets to the budget committee.
- The financial secretary develops an estimate of the next year's income.
- A representative from each committee meets with the budget committee to review the budget submitted by that committee. Discussion to keep or remove certain budget items occurs at this time.
- The budget committee compares all the budgets submitted with the anticipated income and prepares a balanced budget which it presents to the congregation council.
- The council reviews the budget, makes any adjustments it deems necessary and presents the budget to the congregation.
- The budget is presented, discussed and approved by the congregation. If not approved, the budget goes back to Step 6 above for further evaluation and follows the remaining steps.

In an effort to expand participation and increase support of the budget, alternatives to this model may include:

- open forums including the entire membership could take place prior to Steps 2 and 3;
- budget hearings could be held prior to Step 4; and
- the budget could be presented in one meeting with a second meeting scheduled within a few weeks to take action on the budget.

For a budget to be effective, the following must be present:

- The congregation should have clear objectives and goals stated in dollar amounts.
- The budget must be well thought out and approved by the council and congregation. The budget needs to be owned by every member of the congregation.
- Participation in the process by as many people as possible is critical for support.



- Financial statements must be prepared on a timely basis and comparison made to the budget.
- The council must be prepared to take action if budget variances show a significant deviation.

Budget contingency planning

It is both prudent and strategic to develop contingency plans as part of the budget development process. Because a large percentage of a congregation's operating budget is from weekly offerings, small variances in the percentage of income shared or the number of households giving can have a significant impact on a congregation's budget plan.

A guide for budget contingency planning can be found at:
www.ELCA.org/treasurer/congregations.



The accounting system

The accounting system for the congregation should be based upon a method that best serves the financial activities of the congregation and provides the financial reports that the congregation council requires.

All congregations should utilize a double-entry accounting system where debits equal credits for every entry made. A congregation may be on a cash basis, a modified accrual basis or a full accrual basis.

A cash basis system is when you record revenue when you receive it and expenses when you pay them. In an accrual system, you record revenue when the transaction occurs and expenses when the goods or services are received, but not necessarily paid for. A modified accrual system records revenue when available and measurable, but records expenses when the goods or services are received.

In order to be in conformity with General Accepted Accounting Principles (GAAP), a nonprofit organization should use the accrual method of accounting. The accrual method provides a more accurate record of an organization's financial picture.

Fund accounting systems

Most nonprofit organizations typically use a method of accounting known as fund accounting. Fund accounting separates assets into net asset classes based on whether there are any restrictions on the funds. Assets may be unrestricted, temporarily restricted and permanently restricted. Some organizations also have designated funds. These are designated to a certain purpose or project based on board or council action. (Designated funds may be treated separately as a fund in internal record-keeping, but are considered unrestricted for accounting purposes.) Temporarily restricted funds are those that have a purpose or time restriction. Permanently restricted funds are typically endowments. Each fund is a self-balancing group of accounts that records assets, liabilities and fund balance as well as revenues and expenses.

Some typical funds used by many congregations would include:

1. General operating fund (unrestricted)
2. Temporarily restricted funds (purpose restriction or time restriction)
3. Property, plant and equipment funds (unrestricted)
4. Permanently restricted funds (e.g., endowment funds)
5. Designated funds (unrestricted)



General operating fund

The treasurer should be aware of any separate bank accounts and separate banking institutions for these various funds. The treasurer should review each separate account to be certain that the bank resolutions and associated signature cards are current and safeguard the interests of the congregation.

The general operating fund handles all of the business activity of operating the congregation. Some congregations may have no other funds than their general operating fund.

Temporarily restricted funds

Temporarily restricted funds are those that come from donors with the specification that the gift be used for a particular purpose or there is a time restriction on them. Restricted funds can range from a Flower Supply Fund to a Dishwasher Fund to a New Carpet Fund. An individual makes a gift expecting it to be used for a specific item or program. These restricted funds are temporarily restricted until the intended purpose or the time restriction has been met, after which they are released from restriction.

Property, plant and equipment funds

Many congregations record the cost of their fixed assets in a separate fund. This practice is helpful for keeping track of capital items for insurance purposes as well as for historical cost and depreciation purposes.

Permanently restricted funds

A permanently restricted fund is typically a gift for which the donor has stipulated that the principal is to be maintained in perpetuity. The donor may also stipulate that the income from the investment activity may be expended for specific purposes such as scholarships. Endowment funds are a great example of permanently restricted funds.

Designated funds

Also called quasi-endowments, board-designated funds are those funds which the council or other governing body, rather than the donor, has determined are to be retained and invested. The council has the right to decide at any time to expend the principal of these funds. For financial reporting purposes, these funds are classified as unrestricted net assets.

Creating a chart of accounts

The chart of accounts is the coding system that is developed to record all of the accounting transactions. It is important that the chart of accounts be flexible enough to allow for future expansion, but also easy to use and understand.

A typical chart of accounts uses numeric codes for the basic account categories based on the following conventions:

1XXXX refers to assets



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2XXXX refers to liabilities

3XXXX refers to net assets

4XXXX refers to revenue

5XXXX refers to expenses

Your synod may be able to provide assistance in developing a chart of accounts.



Petty cash accounts

Sizable amounts of cash, if any, should not be kept in the church office. If there are occasions when small cash payments are needed, a petty cash account may be desirable. Each church office must determine an amount for the petty cash account just sufficient to meet the occasional needs of the office.

A petty cash fund is a convenience to individuals who are required to make small cash payments for goods and services. It benefits those individuals who cannot wait for a normal check reimbursement (such as the postman with a postage-due package). It benefits church employees because they don't have to expend personal funds for business purposes. It benefits the church treasurer by reducing the number of reimbursement checks that need to be issued.

The petty cash fund is a specific amount of cash set aside to be replenished periodically as it is used. Control of the petty cash fund must be the responsibility of one designated individual who must be prepared to account for the cash at any time. Having too many individuals with access to the petty cash fund often results in mismanagement or misappropriation of the funds.

To set up the petty cash fund, first establish a dollar amount for the beginning balance. That dollar amount is different for every congregation and depends on the needs and activities of the congregation. An individual is appointed as the petty cash treasurer. A lockbox or locking file cabinet or other such security measure is identified. The cash is transferred from the church's checking account to the petty cash fund by writing a check to petty cash. The journal entry would be a credit to the church's cash account and a debit to an asset account called "Petty Cash."

When requests for reimbursement come in, the petty cash treasurer verifies that the request is legitimate, collects any original receipts and pays out the cash. He/She also needs to fill out a petty cash voucher and have it signed by the payee.

At any time, the total cash on hand in the petty cash fund plus any receipts or vouchers must equal the beginning petty cash fund balance. For example, if the beginning petty cash fund was \$75.00 at the beginning of the month and at the end of the month the cash is down to \$24.00, then the vouchers or receipts must total the \$51.00 which was used during the month. When the petty cash account falls to a predetermined level, the petty cash treasurer adds up the vouchers and fills out a check request for the total amount of the vouchers which will bring the petty cash account back up to the original balance. The church treasurer takes the check request and issues a check payable to petty cash, charging the appropriate expenses for which the petty cash was used.



Petty cash checking account

A number of congregations may use a petty cash checking account. A petty cash checking account operates in basically the same way as a petty cash account except that there is no cash -- only reimbursement by check. The advantage to using a petty cash checking account is that there is no actual cash that might be misplaced or mishandled. Usually larger amounts can be kept in a petty cash checking account as opposed to a petty cash account.

A predetermined amount is put into a separate checking account. A specific individual is given the responsibility and check signing authority. When requests for reimbursement come in, the petty cash treasurer verifies that the request is legitimate, collects any receipts and issues a check for reimbursement. He/She must also fill out a petty cash voucher and get it signed by the payee.

Security measures to consider include:

- limiting check-signing authority
- keeping the checkbook in a secure location
- segregating petty cash check signers from other church funds.

At all times, the balance of the petty cash checking account along with the checkbook registers and vouchers must equal the beginning petty cash balance — similar to a regular petty cash fund. When the petty cash checking account falls to a certain predetermined level, the petty cash treasurer totals up all vouchers, makes up a check request which tells the church treasurer the breakdown of expenses, attaches all the vouchers and submits the request to the church treasurer. The church treasurer makes a check payable to the petty cash account (or just transfers the money if both accounts are in the same bank) charging the appropriate expense accounts. The church treasurer rather than the petty cash treasurer should be responsible for reconciling the bank statement of the petty cash checking account.



Congregational Treasurers and Bookkeepers Financial and Accounting Guide

A resource provided by the Office of the Treasurer of the Evangelical Lutheran Church in America

An example of a petty cash voucher is provided below.

Petty Cash Voucher	
Date _____	Amount _____
Amount _____	
For _____	
Paid to _____	
Payee Signature _____	
Account Code _____	
Petty Cash Treasurer Initials _____	



Church employment and payroll

Establishing the employer/employee relationship

A congregation typically has a number of individuals whom it pays for services. An important consideration is whether the individuals are employees or self-employed — independent contractors. This determination affects payroll withholding and worker's compensation coverage. The classification of individuals as either employees or self-employed individuals should take place before any payments are written rather than at the end of the year when doing the W-2s and 1099s.

The IRS has developed a list of 20 factors that are to be used as guidance in determining whether an individual is an employee under the common law rules. (Revenue Ruling 87-41.)

1. *Instructions* - an individual who must comply with instructions is usually considered an employee.
2. *Training* - if the worker needs training in order to do the work for which he was hired, it usually indicates that he is an employee.
3. *Integration* - if the worker's services are an integral part of the operation of the organization, this generally shows that the individual is an employee.
4. *Services rendered personally* - if the services must be done personally by the individual, this suggests classification as an employee. A self-employed individual generally has the right to hire a substitute.
5. *Hiring, supervising, and paying assistants by the employer* - normally means that all of the workers are employees. A self-employed individual would hire, supervise and pay their assistants.
6. *Continuing relationship* - the existence of a continuing relationship between an individual and the organization for which the individual performs services is a factor tending to indicate the existence of an employer-employee relationship.
7. *Set hours of work* - generally means the individual is an employee. A self-employed individual sets his own hours.
8. *Full-time required* - the worker is generally an employee. Self-employed individuals can choose when and for whom to work.
9. *Doing work on employer's premises* - indicates that the worker is an employee.
10. *Order or sequence of work* - if the organization sets the sequence of work for the worker; this generally indicates that the worker is an employee.



11. *Oral or written reports* - if the worker is required to submit oral or written reports; this suggests that the worker is an employee.
12. *Payment by hour, week, month* - an employee is normally paid by the hour, week or month; whereas a self-employed person is usually paid by the job.
13. *Payment of business expenses* - if the employer pays the worker's business or travel expense, this usually suggests that the worker is an employee. A self-employed individual generally takes care of their own business and travel expenses.
14. *Furnishing of tools and materials* - Self-employed individuals generally furnish their own tools and materials. If provided by the employer, then the worker is generally an employee.
15. *Significant investment* - if all the necessary equipment and premises are furnished by the employer, this suggests that the worker is an employee.
16. *Realization of profit or loss* - employees do not realize profits or losses on the services they perform, whereas self-employed individuals may.
17. *Working for more than one firm at a time* - an employee typically works for only one firm. A self-employed person typically works for a number of organizations at the same time.
18. *Making services available to the public* - workers who make their services available to the general public are normally considered self-employed.
19. *Right to discharge* - the right to discharge is generally a right of the employer and indicates that the worker is an employee. Self-employed individuals usually cannot be fired as long as they are producing the results specified in their contract.
20. *Right to terminate* - an employee can normally leave the employer at any time whereas a self-employed person, on the other hand, is usually legally obligated to complete the contracted job.

A couple of recent court cases involving employment status highlighted the following seven factors:

1. The degree of control exercised by the employer over the details of the work.
2. The party which invested in the facilities used for the work.
3. The opportunity for the individual to make a profit or loss.
4. Whether or not the employer has the right to discharge the individual.



5. Whether the work is part of the employer's regular business.
6. The permanency of the relationship.
7. The relationship the parties believe they are creating.



Employees (other than clergy)

Typically most of the workers that congregations hire fall into the category of employee other than clergy. This can include associates in ministry, secretaries, office staff, choir directors and janitors. These individuals typically do not meet the requirements for being considered self-employed.

For tax purposes, non-clergy employees of tax-exempt organizations such as congregations are treated the same as employees of any other business with the exception of unemployment benefits and some tax-deferred savings plans. For the congregation, this means that they are required to withhold the correct amounts of federal income tax, any applicable state tax, and Social Security tax from the employees' wages. They also need to match the amount of Social Security tax from their own funds. IRS Circular E states that once an employee reaches \$100.00 in wages he is subject to FICA (Social Security) withholding. The congregation, as the employer, is required to make timely deposits of these taxes, file Form 941 every quarter, issue a W-2 to each employee at year-end and transmit the W-3 transmittal statement to the IRS along with copies of the W-2s.

Clergy

One of the most difficult concepts to understand is the employment status of ordained clergy. Ordained ministers have "dual status treatment" under the provisions of the Internal Revenue Code.

1. Ordained ministers may generally be treated as employees for income tax purposes (Revenue rule 80-110), but the IRS code exempts ordained ministers from federal income tax withholding (Code section 3401 (a)).
2. Ordained ministers are treated as self-employed for Social Security reporting purposes.

While some clergy consider themselves self-employed, IRS Publication 517 states that in most cases, ordained clergy are considered to be employees of the congregation. Page 1 reads as follows:

Even though you are considered a self-employed individual in performing your ministerial services for social security tax purposes, you may be considered an employee for income or retirement plan tax purposes. Some of your income may be considered income from self-employment and other income may be considered income from wages.

Common law rules – Under the common law rules, you are considered an employee or a self-employed person depending on all the facts and circumstances. Generally, you are an employee if your employer has the legal right to control both what you do and how you do it, even if you have considerable discretion and freedom of action.



For example, a congregation hires and pays you a salary to perform ministerial services subject to its control. Under common law rules, you are an employee of the congregation while performing those services.

A couple of other factors strongly suggest that pastors are indeed employees of the congregation.

- Employer-paid pension benefits
- Employer-paid medical benefits
- Worker's Compensation Insurance coverage

A self-employed contract laborer would be ineligible for the benefits listed. If your pastor receives the above benefits, the IRS would most probably categorize him/her as an employee and advise that he/she should be getting a W-2 at the end of the calendar year.

The consequences of classifying someone as an independent contractor instead of an employee could include penalties and interest, back payment of the employees FICA payments and all taxes that should have been withheld.

Self-employed independent contractors

If after a thorough evaluation, the congregation deems that certain individuals whom they pay for services are indeed not employees, then they are considered self-employed or independent contractors.

There are no tax consequences to the congregation for hiring independent contractors. That is, there is no withholding, no quarterly filing or no remitting of taxes on behalf of such individuals. There is one important year-end filing requirement. The IRS requires that Form 1099-MISC be prepared and given to the worker if the individual received more than \$600 during the course of the year. Form 1096 is also prepared and sent to the IRS with the number of 1099s issued and the total dollar amount.

Whenever the congregation has contract work done, they should require the contractor to complete an IRS form W-9 so that the congregation can secure the Social Security number of this individual.

Also, if the independent contractor is in the business of supplying its services to the general public and advertises such services, it would be appropriate for the congregation to request a "Certificate of Insurance" from the contractor naming the congregation as "Additional Insured" on the contractor's insurance policy. This would indicate to the congregation that the contractor has liability and Worker's Compensation Insurance in place for this particular project.



Housing allowance

The allocation of housing to those eligible individuals employed by the congregation is a matter that should be reviewed by those individuals and the congregation council. The treasurer should be given written instructions as to the amount that will be designated as a "housing allowance" for each person authorized to participate in this allowance.

A tax advantage available to clergy is the ability to exclude from federally taxable income the rental value of a parsonage or that part of compensation that is used to provide a home. (Internal Revenue Code section 107)

Who qualifies for the housing allowance?

- Must be employed by the congregation (or agency of the congregation)
- Must be ordained, commissioned or licensed
- Administers the sacraments
- Conducts religious worship
- Has management responsibilities in the church or denomination
- Considered to be a religious leader
- Available to the pastor as compensation for services

All of these need not apply.

What kind of expenses can be used when calculating the housing allowance exclusion?

- Mortgage or rent payments
- Real estate taxes
- Property insurance
- Down payment on a home
- Utilities
- Furnishings & appliances (purchase & repair)
- Remodeling & repairs
- Yard maintenance & improvements

How much of the pastor's salary can be used as the housing allowance exclusion?

Only the lowest of the following can be used when the pastor files his/her federal income tax return:

- The fair rental value of the home
- The amount actually used to provide a home
- The amount officially designated as the housing allowance

How is the difference between the designated housing allowance and the lower of the three amounts handled?

- If the allowance exceeds the lower of the actual expenditures or the fair rental value, the pastor needs to include the difference on Form 1040 as "other income."



- If the actual expenditures or fair rental value exceed the allowance, the difference cannot be taken as an additional deduction on the pastor's tax return. It is lost.
- Clergy need to maintain records supporting the actual housing costs incurred.

How is the housing allowance declared?

- It should be adopted by the council or congregation.
- It should be in writing.
- It should be in advance of the calendar year or in advance of a new pastor starting employment. (If a congregation fails to designate an allowance in advance of a calendar year, it should do so as soon as possible in the new year. The allowance will operate prospectively, never retroactively.)

What about the pastor living in a parsonage?

Those clergy living in congregation-owned parsonages are already having the fair rental value of their home excluded from their income. In addition, they can request their council to establish a "parsonage allowance" out of their salary that is used for such things as utilities, repairs and furnishings for the parsonage.

What is a housing equity allowance?

A housing equity allowance is used by forward-thinking congregations to deal with the situation where a pastor has spent his/her career in congregations with parsonages and has essentially been prevented from building up equity in a home that is normal for pastors who are able to own their own home. Because parsonages are provided more for the economic benefit and convenience of the congregation than for that of the pastor, the equity allowance is an appropriate response to the situation by the congregation. This is best accomplished by providing the allowance in the form of a tax-sheltered annuity. This limits the tax burden on the pastor and helps ensure that the funds are not available until retirement. Please contact Portico Benefit Services for more information.

How is the housing allowance handled on the W-2?

The housing allowance (or the value of living in a congregation-owned parsonage) is always excluded from federal income. This means the treasurer excludes this value from Box 1 of the W-2. The treasurer can, however, put this amount in Box 14 of the W-2 which is merely an information box.



Payroll tax obligations

Every congregation must report the income paid to each employee to the Internal Revenue Service. These 10 steps will prepare you to meet this obligation.

1. Employer Identification Number (EIN). Every congregation should have an EIN. To secure an EIN, the congregation must complete Form SS-4, Application for Employer Identification Number, available from the Internal Revenue Service. Once you are assigned a number, your congregation should automatically begin receiving:
 - Form 941, Employer's Quarterly Federal Tax Return
 - Form 8109, Federal Tax Deposit Form
 - IRS Publication 15, Circular E - Employer's Tax Guide
2. Determine whether each worker is an employee or self-employed. In most cases, individuals who perform services for a congregation are considered employees of the congregation. If in doubt, congregations should treat workers as employees since penalties can be assessed against a congregation for treating a worker as self-employed if the IRS later reclassifies that person as an employee.
3. Have each employee complete a W-4 Form, and have each self-employed individual complete a W-9 Form. The W-4 Form for employees gives the congregation the necessary social security number, address of the employee and the information required to withhold the correct amount of federal income tax. (Any W-4 forms which claim more than 10 withholding allowances need to be reported to the IRS.) The W-9 Form for self-employed individuals provides the congregation with addresses and social security numbers of the individuals. This information is needed when filing 1099s for these individuals at year-end. (If a self-employed worker performs services for your congregation and earns at least \$600 for the year, but fails to provide you with his/her social security number, then the congregation is required by law to withhold 28 percent of the amount of compensation as "backup withholding.")
4. Compute each employee's taxable wages. Each employee's taxable wages include the following:
 - Cash Christmas gifts from the congregation
 - Social Security offsets given to any clergy employees
 - Imputed interest on low-interest (or no-interest) loans that the congregation might make to any employee
 - Personal use of a church-owned vehicle
 - Any business expense reimbursement given under a nonaccountable business expense reimbursement arrangement. For example: a car allowance is given to an employee every month, but the congregation requires no record keeping or accounting for how the car allowance was spent. The total given as car allowance is considered taxable wage and at year end would be included on the W-2.
 - Bonuses or any cash gifts
 - Forgiven debts



- Most reimbursements of a spouse's travel expenses

The following amounts can be **excluded** from taxable wages:

- Payments to a compliant Flexible Spending plan
- Voluntary pension payments made to a 403B plan. However, such payments are subject to social security tax.

5. Determine the amount of income tax to withhold. IRS Publication 15 (Circular E) gives you two ways to calculate the correct amount of income tax to withhold. One way is called the wage bracket method in which you use the withholding tables in Publication 15. The other way is the percentage method in which the number of allowances claimed by the employee is multiplied by an appropriate value given in Publication 15. Make sure to secure a new Publication 15 each year to get the most up-to-date withholding tables and percentages.

Normally federal income taxes are withheld only on the wages of the non-clergy staff. Clergy are exempt from withholding. A clergy member can, however, ask to have federal income taxes withheld (but not FICA). To do this, a clergy member needs to fill out the W-4 giving you a certain dollar amount that he/she would like to have withheld.

6. Withhold FICA taxes from non-clergy employees' wages. Congregations must withhold 7.65 percent of each employee's wages and also match this amount with their own funds. This 7.65 percent rate is composed of two items: (1) a Medicare hospital insurance tax of 1.45 percent on all taxable wages and (2) an "old-age, survivor and disability" tax of 6.2 percent. Refer to your current year's tax guide to determine what the maximum taxable wage is for this category.
7. The congregation must deposit the taxes it withholds. There are three components of federal payroll taxes: (1) federal income taxes withheld from the employees' wages, (2) the employees' share of FICA taxes, and (3) the employer's share of FICA taxes. These dollars must be deposited according to the deposit status that the IRS determines for each congregation. In November of each year, the IRS notifies every employer of their deposit status for the next year. The different rules are as follows:
 - If withheld taxes are less than \$2,500 at the end of any calendar quarter, the congregation may not need to deposit the taxes, but rather send them directly to the IRS with each quarterly 941 Form.
 - If withheld taxes were \$50,000 or less during the most recent look-back period, the taxes are deposited monthly, by the 15th day of the following month.
 - If withheld taxes were more than \$50,000 during the most recent look-back period, the taxes are deposited semi-weekly. This means that for paydays falling on Wednesday, Thursday or Friday, the payroll taxes must be



deposited on or by the following Wednesday. For payday on Monday or Tuesday the taxes must be deposited on the Friday following the payday.

- Withheld taxes of \$100,000 or more must be deposited by the next banking day.

Generally, all federal tax deposits must be made using electronic funds transfer. The Electronic Federal Tax Payment System (EFTPS) is a free service provided by the U.S. Department of Treasury for this purpose.

8. All employers subject to income tax withholding, social security taxes or both must file Form 941 each quarter. Form 941 reports the amount of FICA taxes and the withheld income taxes that are payable. This total amount of tax should agree to the amount deposited or accumulated for that particular quarter. Form 941 is due by the last day of the month following the end of each calendar quarter.
9. Prepare a W-2 form for each employee as well as the accompanying W-3 transmittal form for the IRS. The W-2's are due to employees by January 31; the W-3 is due to the IRS by February 28. Complete the W-2 according to the form's instructions:

Box a. Employee's social security number

Box b. Congregation's employer identification number

Box c. Congregation's name and address

Box d. No need to put anything here

Box e. Employee's name

Box f. Employee's address

Box 1. All wages earned by the employee for the year. Please see item 4 above for a discussion of what is considered taxable wage.

Do not include the amount that is designated as housing allowance.

Box 2. The federal income tax withheld from that employee's wages. For clergy who have not requested withholding by the congregation, this box should be left blank.

Box 3. The lay employee's wages subject to social security. Often this is the same amount as listed in Box 1, but not always as some retirement contributions are excluded from Box 1, but included in Box 3. Box 3 should not list more than the maximum wage base for social security. For clergy employees, leave this box blank as the congregation does not report social security wages; the clergy must do so on their own tax return filing for SECA.



Box 4. Report the social security taxes withheld. (6.2 percent of Box 3.) Leave blank for clergy employees, as clergy must make their own payment of this tax.

Box 5. Report the lay employee's wages subject to Medicare. In most cases this will be the same as Box 3 except there is no maximum wage base for Medicare. Again for clergy employees, leave this box blank.

Box 6. Report the Medicare taxes withheld (1.45 percent of Box 5). Leave blank for clergy employees, as clergy must make their own payment of this tax.

Box 12. Insert the appropriate code and dollar amount in this box. Some of the codes that congregations might use would be C - for providing more than \$50,000 in group term life insurance; E - for contributions made to a 403(b) tax shelter annuity through a salary reduction agreement; and L - for the amount the congregation paid that equals the allowable standard mileage rate. (In the event the congregation paid at a rate higher than the IRS allowable rate, any excess should be included in Boxes 1 & 3.) Use code P if the congregation reimbursed the employee's moving expenses and the reimbursements are not included in the employee's income.

Employee out-of-pocket expenses

How employee out-of-pocket expenses are handled is a policy matter for each congregation and should be established by the council. The treasurer should have a good understanding of this policy and be aware that such expenses have a direct relationship to the annual budget of the congregation.

Generally, reimbursements are considered taxable income unless they are made under an **accountable** plan as defined by the IRS and documented under IRS regulations. An accountable plan is one which meets the three requirements below:

- Your expenses must have a business connection — that is, you must have paid or incurred deductible expenses while performing services as an employee of your employer.
- You must adequately account to your employer for these expenses within a reasonable period of time (60 days).
- You must return any excess reimbursement or allowance within a reasonable period of time (120 days).

For more information, please consult IRS Publication 463.



Benevolence remittance to synod and churchwide

Just as members of each congregation share their resources with their congregation, so too each congregation is invited to share with their synod and the churchwide organization.

Fiscal year

As mandated by the constitution of the ELCA, both the synod and the churchwide bodies have fiscal years running February 1 through January 31. This captures the receipts for the calendar year from the congregations. The monies that you receive in December and pass on proportionately in January are actually booked in the synod and churchwide offices in the month of January. The fiscal year stays open through January 31 to allow for this lag in recording income for the calendar year.

Statements

Every April 30, July 31, October 31 and January 31, which are the ends of each quarter of the fiscal year, statements are sent out to each congregation. These statements are not a request from the synod office for more funds, but rather opportunities for the congregation to double-check the accuracy of the recording of the monies that had been remitted to the synod. You are asked to review these statements and contact the appropriate synod office if there is a discrepancy of any sort.

Where to send

All benevolence checks should be made out in the name of your synod and sent to your synod's address. Please remember that it helps the cash flow of the synod to receive funds on a timely basis.

Undesignated gifts

The undesignated gifts that you send to your synod office are actually made up of two components: 1) that part which stays with your synod and goes toward the support of its synodical ministries; and 2) that part which gets forwarded to the churchwide organization and supports national and global ministries. The percentage that gets forwarded on to the churchwide organization ranges from 40 percent to 55 percent and is determined annually by a consultation between each synod and churchwide staff. (Please feel free to contact your synod office if you would like more details about the synod's budget and their proportionate sharing with the churchwide organization.)

Restricted gifts

Restricted gifts are those gifts that are intended for very specific purposes rather than for general support of the synod and churchwide bodies.

Any gifts for specific local purposes such as those to local nursing homes, food banks, etc., should not be sent to the synod office but rather handled by the congregation directly.



Congregational Treasurers and Bookkeepers Financial and Accounting Guide

A resource provided by the Office of the Treasurer of the Evangelical Lutheran Church in America

The synod office can take any purpose-restricted gifts for special projects going on in each individual synod. The other types of restricted gifts that the synod office can process are those that need to be forwarded to the churchwide organization. These would include gifts for purposes such as ELCA World Hunger, ELCA Malaria Campaign, Fund for Leaders or Lutheran Disaster Response as well as missionary sponsorship or other projects for which the churchwide organization is collecting funds.

Each recipient of such a gift also receives a listing informing them of who provided the gift and the amount from each giver.

Using the remittance form

Please use the remittance form that is provided from your synod office to send in your benevolence. The form makes it easier for the office to process and provides the office with documentation after the check has been deposited.

Normally the synod office will print your congregation's name and address along with your ID number on the supply of forms you receive. Line No.1 is for the undesignated benevolence – that is the money that gets split between the synod and the churchwide organization. The remaining lines are for any possible purpose-restricted gifts. Be as clear and descriptive as possible when using the lines of the form to list those gifts. Please total the gifts and make sure your remittance form equals the amount of the check you include.



Financial reporting

Once the annual budget for the congregation has been approved and the various accounts of the accounting system (chart of accounts) have been established, the financial structure of the congregation is in place. The treasurer must now transform these data into meaningful reports so that the financial status of the congregation can be monitored and decisions made.

- At a minimum, the financial statements should consist of a balance sheet (also called a statement of financial position) and statement of revenue and expenses (also called a statement of activities). A statement of changes in cash flows is also very desirable.
- The financial statements should be designed to meet the needs of the user.
- Financial reports should be prepared on a timely basis.
- The format should be simple and easily understood.
- The reports should be all inclusive.
- The reports should have a point of comparison, such as comparison to budget or comparison to last year.
- Reports should provide the needed detail for decision making.
- The treasurer should include a verbal or written report which points out critical items and areas.



Balance sheet

The balance sheet shows the financial position of an organization at a given point in time. It summarizes the assets, liabilities and fund balance.

Sample Congregational Balance Sheet
Per month/Year to Date

	General*	Restricted	Endowment	Total All
	Fund	Fund	Fund	Funds
ASSETS				
Cash and Cash Equivalents	78,743	32,947	8,500	120,190
Accounts Receivable	1,768			1,768
Pledges Receivable	72,000			72,000
Other Current Assets	4,765			4,765
Land, Buildings and Equipment	525,000			525,000
Investments	10,000	43,000	62,000	115,000
TOTAL ASSETS	692,276	75,947	70,500	838,723
LIABILITIES AND FUND BALANCE				
Accounts Payable	3,621		5,000	8,621
Payroll Withholding	524			524
Deferred Revenue	22,000			22,000
Current Portion Long-Term Debt	10,000			10,000
Long-Term Debt	150,000			150,000
Total Liabilities	186,145	-	5,000	191,145
Fund Balances				
Unrestricted	506,131			506,131
Temporarily Restricted		75,947		75,947
Permanently Restricted			65,500	65,500
Total Fund Balances	506,131	75,947	65,500	647,578
TOTAL LIABILITIES & FUND BALANCES	692,276	75,947	70,500	838,723

* Includes current operating, board-designated and plant funds



Statement of revenue and expense

The revenue and expense report provides a summary of the operating results for a specific period of time. Revenue and expense reports may be shown in great detail or may be shown in a summarized manner depending on the needs of the user.

**Sample Statement of Revenue and Expense
Per month/Year to Date**

	General* Fund	Restricted Fund	Endowment Fund	Total All Funds
Support and Revenue				
Tithes and offerings (general)	315,602	5,472		321,074
Restricted Gifts	10,000			
Interest Income	6,772	3,655	5,130	15,557
Workshops/Events Income	733			733
Bequests			10,000	10,000
Total Support and Revenue	333,107	9,127	15,130	357,364
Expenses (by Program)				
Benevolence	31,560			31,560
Worship	66,981	2,435	5,000	74,416
Education	10,205	750		10,955
Care/Fellowship	9,876	219		10,095
Evangelism	9,545			9,545
Resources	46,723			46,723
Community Relief	3,000	1,934		4,934
Youth	3,025			3,025
Administration	134,786			134,786
Total Expenses	315,701	5,338	5,000	326,039
Excess of Support and Revenue over Expenses	17,406	3,789	10,130	31,325
Fund Balances at Beginning of Fiscal Year	488,725	72,158	55,370	616,253
Fund Balances at End of Fiscal Year	506,131	75,947	65,500	647,578



Statement of cash flows

The statement of cash flows provides a summary of the sources and uses of funds during a specific period of time. It is an outline of the cash receipts and cash disbursements.

Sample Statement of Cash Flows
Per Month/Year to Date

	General Fund	Restricted Fund	Endowment Fund	Total All Funds
Operating Cash Flows				
Change in net assets	17,406	3,789	10,130	31,325
Adjustments:				
Depreciation	2,796			2,796
Change in Prepaid Expenses	(1,248)			(1,248)
Change in Accounts Payable	1,525			1,525
Change in Payroll Withholding	(78)			(78)
Change in Deferred Revenues	(6,525)			(6,525)
Net Operating Cash Flows	13,876	3,789	10,130	27,795
Financing Cash Flows				
Proceeds from Borrowings				-
Repayment of Debt	(25,000)			(25,000)
Net Financing Cash Flows	(25,000)	-	-	(25,000)
Investing Cash Flows				
Fixed Assets Sales (Purchases)	(5,755)			(5,755)
Purchase of Investments	(10,000)	(75,000)	(50,000)	(135,000)
Proceeds of Investments	-	60,000	47,000	107,000
Net Investing Cash Flows	(15,755)	(15,000)	(3,000)	(33,755)
Net Increase (Decrease) in Cash	(26,879)	(11,211)	7,130	(30,960)
Cash and Cash Equivalents:				
Beginning of Fiscal Year	105,622	44,158	1,370	151,150
End of Fiscal Year	78,743	32,947	8,500	120,190



Management reports

There are additional reports that congregations may find useful. Each individual congregation should assess their needs periodically and determine the extent and scope of their reporting needs. Financial reports that do not communicate and do not get used are not doing the job. A sample expanded budgeted revenue and expense report is provided below.

**Sample General Fund
Statement of Revenue and Expense
for the Month and Year-to-Date Ending (Current Month)**

Support and Revenue	Month	Year-to-Date	Budget	Budget Remaining	% of Budget Rec'd/Spent
Contributions	26,417	247,123	305,000	57,877	81.02%
Interest Income	623	5,112	5,000	(112)	102.24%
Workshops/Events Income	214	600	1,000	400	60.00%
Total Support and Revenue	27,254	252,835	311,000	58,165	81.30%
Expenses (by Program)					
Worship	9,000	77,845	100,000	22,155	77.85%
Education	2,403	9,453	10,000	547	94.53%
Care/Fellow ship	925	8,766	10,000	1,234	87.66%
Evangelism	1,613	8,453	10,000	1,547	84.53%
Resources	2,543	28,488	50,000	21,512	56.98%
Community Relief	800	2,475	3,000	525	82.50%
Youth	865	2,776	3,000	224	92.53%
Administration	10,325	111,457	125,000	13,543	89.17%
Total Expenses	28,474	249,713	311,000	61,287	80.29%
Excess of Support and Revenue over Expenses	(1,220)	3,122	-	(3,122)	



Audit guide

What is an audit?

Generally, an audit is comprised of a number of tests of the various transactions that occurred during the year. These tests, along with questions and inquiries made by the auditor(s), lead to an opinion about the appropriateness of the financial statements.

Why have an audit?

- To obtain independent assurance that all financial records fairly represent the financial condition of the congregation;
- To ensure that the year's financial activity has been properly recorded in accordance with generally accepted accounting principles;
- To ensure adherence with the policies and procedures established by the congregation; and
- To maintain confidence in the integrity of the congregation's financial system and the individuals responsible for handling the finances.

ELCA's recommendation regarding congregational audits

The churchwide organization of the ELCA does not require that congregations have an audit performed every year, but it highly recommends the practice. There is no stipulation concerning who should perform the audit — an outside audit firm, the congregation's audit committee or an individual congregant(s) with a financial background appointed by the audit committee or council. At a minimum, the council should appoint an audit committee and have this committee (or an individual congregant(s) working under the guidance of the audit committee) review the congregation's financial records each year. An audit can often discover weaknesses in the congregation's system of internal controls or discrepancies in the financial records. Having an outside auditor from a certified public accounting firm conduct periodic audits can be beneficial in providing an independent assessment of the congregation's financial management process.

The audit committee

The audit committee is appointed by the council of the congregation. This committee should be composed of at least two members of the congregation, excluding the treasurer and the financial secretary. It is preferable that they be individuals who have had training in accounting procedures.

The committee, with approval of the finance committee, may secure outside help on a fee basis from an independent accountant, registered in the state.



Functions of the audit committee

- Examines and reviews all financial statements
- Conducts the annual audit or exercises supervision and oversees the work of the audit if it is conducted by an outside accounting firm or individual congregants
- Examines all insurance policies and prepares a schedule of the insurance coverage
- Inspects and examines securities and investments
- Prepares a schedule of the securities and investments for review by the finance committee
- Reports its findings in writing to the council with supporting schedules and recommendations for change and improvement
- Verifies that the congregation complies with federal and state tax laws and regulations

Conducting an audit

The ELCA has developed a Congregational Audit Guide. This guide can be used by a congregation to conduct an internal audit or as a guide to better understand the audit process.



Insurance coverage

The council (and/or the insurance/finance committee) has the responsibility to secure adequate insurance coverage to safeguard the assets of the congregation. Fires and thefts happen on occasion, and it is crucial that each congregation protect itself and review its policies on an annual basis. For further information about the ELCA Endorsed Property and Liability Insurance Program, go to www.ELCA.org/insurance.



References

Complete Handbook of Church Accounting, Holck, Manfred, Prentice Hall, Inc.

Church Bytes Software Guide, Church Bytes, Inc., 562 Brightleaf Square #9, 905 West Main Street, Dunham, NC 27702, (919) 479-5242

Portico Benefit Services has a website at <https://porticobenefits.org>, which has many valuable tools for congregational treasurers and bookkeepers. Topics include clergy taxes and housing allowance, tips for new treasurers, etc.

The IRS has released some new publications that may be of interest to you — they can be found in the publications link at www.irs.gov.

Publication 4221-PC, *Compliance Guide for 501(c)(3) Tax-Exempt Organization*. This brochure explains disclosure rules, record-keeping, and report-filing rules that apply to 501(c)(3) organizations. www.irs.gov/pub/irs-pdf/p4221pc.pdf

IRS Publication 1828, *Tax Guide for Churches and Religious Organizations* www.irs.gov/pub/irs-pdf/p1828.pdf. This document is a review of many of the IRS provisions, regulations and information that may be of assistance to ELCA congregations and related organizations. Topics include explanation of the Group Ruling and tax exemptions, unrelated business income tax (UBIT), political and lobbying activity prohibitions, rules for withholding for ministers, housing allowances, record and file keeping requirements, substantiation rules as well as special rules limiting the IRS authority to audit a church.

IRS Publication 463, *Travel, Entertainment, Gift and Car Expenses* www.irs.gov/pub/irs-pdf/p463.pdf Publication 463 outlines treatment of various reimbursable business expenses and accountable plans.

Revelations: Church Administration Software, www.revelations.com, (800) 596-4266. Windows and Macintosh compatible.



Resources

The Office of the Treasurer maintains a resource page for congregations at www.ELCA.org/treasurer/congregations.

As of September 2013, resources available include:

Congregational Audit Guide
Internal Control Best Practices
Accountable Reimbursement Policies
Financial Contingency Planning
Data Security
Identity Theft
Program Budget Presentations

The resources below can be accessed at: www.christianitytoday.com

- *Church Finance Today* (a monthly review of accounting, financial and tax developments affecting ministers and clergy), *subscription service*
- *Church Law & Tax Report* (a bi-monthly review of legal and tax developments affecting ministers and churches), *subscription service*
- *Church and Clergy Tax Guide* (resource book for sale, updated annually)

