

Resources for Congregational Treasurers and Bookkeepers

The chapters below lead to resources for congregational treasurers and bookkeepers. These resources have been developed in response to questions we are frequently asked. If you have any suggestions for additional information, please contact us at OTinfo@elca.org.

The information included here is based on our best information at the time the guidelines were prepared. However, the treasurer of the congregation has the responsibility to be aware of tax reporting requirements for congregations as they are established and change. 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 responsibility of the treasurer of a congregation is usually stated in the Bylaws of the congregation. This statement usually includes the following description of the treasurer's position:

- Serves as financial officer of the congregation
- Is responsible for payment of all bills, invoices and charges
- Performs or oversees all of the bookkeeping functions
- Prepares the monthly (or quarterly) financial reports for the church council
- Files all of the required Federal and State tax forms
- Monitors the cash position of the congregation and invests available funds as directed
- Is empowered to borrow funds as directed by the church council
- Provides the congregation with any requested financial information
- Assists in the preparation of the Annual Budget for the church council

These guidelines are presented to establish an understanding of the role of the congregation treasurer. The suggestions set forth are for the purpose of establishing an accounting procedure that will best suit the financial objectives of a congregation. The guidelines may not cover the complete details of a given subject, but sufficient reference material is provided that will assist in obtaining additional information as required.

It is suggested that once accounting procedures for the congregation are established, or reviewed, they should be put in writing so they may be a matter of record for the present and reference for the future. It is urged that you consider this process-- both for the benefit of the office of the treasurer and for the protection of the congregation

Separation of Financial Responsibilities

It is recommended that there be a separation associated with those responsible for handling and recording the income of the congregation and those responsible for handling the disbursements of the congregation. This can not be stressed enough.

Never put just one person in the position of handling cash transactions from beginning to end. By establishing a strong system of internal controls, you not only are taking steps to safeguard the assets of the church; you are also protecting the character of the individuals who perform the cash handling or check writing functions.

Arrangements should be made, either through the position of a Financial Secretary or the Stewardship Commission, that the following procedure is conducted separate from that of the treasurer:

- Oversee the counting
- Oversee the depositing of all receipts
- Train those individuals who are involved in the offering counting process
- Report back to the treasurer the total offerings each week and the breakdown of such offerings as to how much was designated for special purposes
- Oversee the recording of all contributions to the individual's contribution records
- Report to the church council and congregation as to the levels of giving
- Provide periodic statements to the contributors

It makes good sense to follow the same standards and safeguards that apply to a good business operation.

Handling Church Income

In most cases the responsibility of counting and depositing the offerings rests with the Financial Secretary or Stewardship Commission rather than the treasurer. The following are suggestions and may or may not be somewhat different than the process in place at your congregation. We include this section mainly to underscore the importance of having written policies and procedures in place for both the protection of the church and of those individuals involved in counting and depositing offerings.

Generally taxpayers who itemize may deduct contributions of money or property made to charitable organizations. The Revenue Reconciliation Act of 1993 has changed the way donors can substantiate their donation. Prior to 1993, all a donor needed to support a deduction was a canceled check. For contributions made after December 31, 1993, the following new rules apply.

Substantiation of single contributions of \$250 or more

Any single contribution of \$250 or more can no longer be substantiated by a canceled check. Donors will not be allowed a tax deduction for an individual contribution (cash or property) of \$250 or more unless they receive a written acknowledgment from the charitable organization that satisfies the following requirements:

- The receipt is in writing
- The receipt identifies the donor by name
- For donations of property, the receipt describes the property but does not state a value of the property
- The receipt shows separately each individual contribution of \$250 or more
- The receipt states whether or not the charitable organization provided any goods or services to the donor in exchange for the donation, and if so, the receipt includes an estimate of the value of those goods and services
- If the charitable organization provides no goods or services to the donor in exchange for a contribution, or if the only goods or services the organization provides are "intangible religious benefits," then the receipt must contain a statement to that effect. An appropriate statement would be "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."
- The receipt must be received by 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 a payment that is partly a contribution and partly a payment for goods or services received in exchange for the contribution. For every quid pro quo payment the charitable organization receives it must provide a written statement to the donor that satisfies the following conditions:

- The statement informs the donor that the amount of the payment that is tax-deductible is limited to the excess of the contribution over the value of any goods or services provided by the charitable organization
- The statement provides the donor with an estimate of the value of goods or services furnished by the charitable organization.

For further information on substantiation requirements please contact your local Internal Revenue Service office.

In the handling of church income a climate of personal trust is usually assumed in the congregational setting. This is healthy and proper. However, some systems of handling money place individuals in a position in which their honesty can be questioned or in which they may be tempted to sin. Prudent and consistent practices in handling money are needed to maintain a trustful climate.

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 reputations. No person with this kind of responsibility 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. This is important for the church as a trustee of "public" funds.

The above principles are applicable to the congregation's auxiliaries and organizations. The Congregation Council is constitutionally responsible for the financial and property matters of the congregation (C12.05). 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 congregation treasurer with vouchers for payment.

The financial reports to the Congregation Council and congregation should include all funds, accounts, and investments of the congregation and its auxiliaries and organizations. No information should be withheld.

SPECIAL NOTE: "Dormant" bank accounts should be carefully monitored and preferably closed.

In some areas of its work and mission, the congregation does not follow the same practices as a business might. However, in accounting and handling of income, it is helpful to follow the same standards and safeguards that apply to a good business operation.

Income Handling Principles

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. It is preferable for several people to be involved on a rotating basis in handling income.
4. All income transactions (receipts and disbursements) should be properly recorded and verifiable. It is understood that the recording of income/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.
5. It is suggested that the pastor should not serve in the position of Treasurer and pastor should not have check signing authority over any church account.

Suggested Steps in Handling Income

1. Immediately following the service, two persons carry the contents of the offering plates to a room for counting or placed in an adequate safe for counting the following day. Church funds/offerings should never be taken to a private home for counting.
2. The envelopes are immediately opened by at least two persons. Envelopes are marked as to intent and purpose if for other than undesignated offerings.

3. Balances between envelope totals and cash/check totals are reconciled.
4. A summary report outlining the various accounts income is to be credited to, is prepared and initialed by at least two persons.
5. A deposit slip is prepared and at least two persons bring the deposit directly to the bank.
6. A copy of the deposit slip and the summary report are given to the treasurer and to the financial secretary.
7. Persons in the above steps should be rotated periodically. It is best if the treasurer and the financial secretary are not personally involved in the above procedure.
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 persons of the same family nor should this office be rotated between the same individuals serving as financial secretary and treasurer.
9. Persons involved in handling income should not be involved in any way in the 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. A copy of the deposit slip and summary report is given to the treasurer and financial secretary.
11. Members should be encouraged to make their offering by check, not cash.

Suggested Steps in Handling Expenditures

1. Bills and obligations should be approved for payment. This approval should be indicated in writing by the person responsible. In larger congregations, a purchase/approval form may be used to approve payment and identify the account to be charged. In all cases, expenditures should be supported by original invoices and/or receipts, not photocopies.
2. Check is prepared.
3. Check is signed by persons authorized under the bank account agreement. Dual signatures are recommended. The pastor should not be an authorized signer.
4. Blank checks should never be signed in advance, under any circumstance.
5. Check number is written on invoice/support document to prevent duplicate payment, and check is mailed.
6. At least three persons should be involved in the above four steps, even in a simple system.
7. Savings and/or Investment Accounts - if the Financial Secretary and/or Treasurer is authorized to initiate fund transfers to/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 to be retained in the files of these accounts.

Bank Reconciliation

Bank statement reconciliation should be prepared by persons other than the treasurer or anyone else having check signing authority. This procedure should be reviewed and initialed by a person other than the treasurer.

Computers

If a computer is being used in your accounting and record keeping system, the software program for financial accounting and check writing should be a double entry program and provide a bank reconciliation program for deposits and withdrawals (cancelled checks). One of many software programs for you to examine is "Revelations Church Management Software" which provides record keeping programs related to membership, baptism, weddings, contributions, etc. This

software offers a fully integrated, direct link to "QuickBooks", "Quickbooks Pro" and "Quicken" accounting software. For more information about Revelations, click on www.revelations.com.

Employee Dishonesty Bond

It is recommended that all persons elected or appointed to handle money in the congregation and all its auxiliaries are covered under an employee dishonesty blanket bond. Further information and quotations associated with the level of financial coverage is available from CHARITY FIRST.

Setting Financial Goals-The Budget

In as much as the budget of a congregation establishes the financial goals and overall objectives for the current year it is prudent that these guidelines begin with the creation of a budget. The budget is a plan that indicates those activities of the congregation that require a specific disbursement obligation in order to fulfill the goals of the congregation.

Once the budget objective has been determined the income requirement for the congregation has also been established.

It is the responsibility of the treasurer to structure a monthly or quarterly report of income and expenditures related to the budget so that the council and members of the various service committees are aware of how specific expenditures relate to the total budget.

The treasurer, when establishing the Chart of Accounts for the congregation's accounting system, will often use the budget allocation descriptions as the basis for the accounting recording process.

The following are descriptions of various types of budgets:

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 enshrine the status quo and tends to be an obstacle to vision and development.

Unified Budget. It pulls together all of the congregations' receipts and disbursements into one budget. Included in this once budget would be anticipated receipts and disbursements of each church group which previously had their own budget and quite often even had their own bank account. This might include the youth group, the women's group and the construction budget in addition to the normal general fund items.

Capital Budget. A capital budget provides for the addition of capital items such as office equipment, furniture and fixtures, land and construction. In some cases, especially 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 way of presenting the budget which puts all expenditures into various program categories, i.e., 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 simple listing of every line-item. It is not effective in communicating the overall plan 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:

1. The council appoints a budget committee.
2. The various committees are made aware of their responsibility and of the timing they have to submit an estimate of their budget to the budget committee.
3. The committees determine their needs for the coming year.
4. The committees forward their budgets to the budget committee.
5. The financial secretary determines an estimate of the next year's income.
6. 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 is presented at this time.
7. The budget committee compares all the budgets submitted with the anticipated income and prepares a balanced budget which it presents to the council.
8. The council reviews the budget, makes any adjustments it deems necessary and presents the budget to the congregation.
9. 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 participating and increase support of the budget, alternatives to this model may include open forums, which include the entire membership, prior to Steps 2 and 3. In addition, budget hearings could be held prior to Step 4, or in Step 9 the budget could be presented in one meeting with a second meeting scheduled within a few weeks to take action on the budget.

Once the budget has been approved and formerly put into place, the important work of using and reporting on the budget must now be taking place. This is typically the responsibility of the Treasurer. Reports that compare actual receipts and disbursement to those budgeted must be prepared on a timely basis (at least quarterly, preferably monthly), be consistent with one reporting period to the next and must be able to communicate to the end user. That is, they must be easy to understand and highlight any deviations from the budget.

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

- The congregation should have clear policies by which it operates and goals that are consistent with them. These policies and goals then need to be stated in dollar amounts.
- The budget must be well thought out, having been prepared by someone who has been given that responsibility, 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 when the actual compared to the budget shows a significant deviation.

The Accounting System

Arranging the accounting system for the congregation will be based upon a method that best serves the financial position of the church and how this system best provides for the financial reports that the church council will require.

A cash-based accounting system, which is considered a basic check book system, is adequate when the monthly expenses are small and easily handled by means of the familiar check book.

However, in this day and age, when it is required that financial conditions are verified, disbursements to budget accounts be confirmed, and payroll accounts for Workers' Compensation Insurance are audited, the double entry, accrual accounting system is the method to use.

In order to be in conformity with General Accepted Accounting Principals, a not-for-profit organization should use the accrual method of accounting. The accrual method provides a more accurate record of an organization's financial picture than does the cash-basis method.

The availability of the computer provides the means to establish an accounting system that offers everything that a congregation may require in the recording and processing of their financial information.

The software programming for this accounting process should be a double entry system similar to "QuickBooks" available in computer stores. It should provide for check writing and a monthly reconciliation of deposits and withdrawals (canceled checks). Due to the fact that this type of accounting software automatically records deposits and disbursements as posted to the congregation's chart of accounts, the ability to create reports of financial activity is relatively easy and can provide informative details of the congregation's financial status as related to its annual budget program.

Also, you may want to look into Augsburg Fortress Publishing Co.'s software program called "Revelations Church Management Software" providing record keeping programs related to membership, baptism, weddings, contributions, etc. This software also provides a fully integrated direct link to "QuickBooks."

Establishment of Fund Recording Procedures

Most non-profit organizations typically use a method of accounting known as Fund Accounting. Fund Accounting is an accounting method which is used to separate resources that are restricted or designated. 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
2. Restricted Funds
3. Property, Plant and Equipment Funds
4. Endowment Funds
5. Designated Funds

If these funds are already established the treasurer should be aware if any of the funds are held in separate bank accounts and possibly separate banking institutions. These accounts should be so arranged that a monthly financial report is readily available to the congregation.

It is recommended that the treasurer review each separate fund account to be certain that each bank resolution and associated signature cards are current and express the interest of the congregation.

General Operating Fund

This is where all of the business activity of operating the congregation takes place. The general fund accounts for and accumulates everything except restricted gifts and payments. Some congregations may have no other funds than their general operating fund.

Restricted Funds

Restricted funds are those gifts that come from donors with the specification that the gift be used for a particular purpose. Restricted funds can run the gamut 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. Many restricted funds do not have an ongoing life. That is, they are closed out when their purpose has been served.

Property, Plant and Equipment Funds

Many, but not all, congregations record the cost of their fixed assets in a separated fund. A separate fund for fixed assets is helpful for keeping track of capital items for insurance purposes as well as for historical cost and depreciation purposes.

Endowment Funds

An endowment is typically a gift received in which the donor has stipulated that the principal is to be maintained in perpetuity and only the income from the investment activity may be expended.

Most endowment gifts stipulate that the income be used for specific purposes such as scholarships or some other restricted use.

Designated Funds

Also called Quasi-Endowments, board-designated funds are those funds which the church council, rather than the donor, has determined are to be retained and invested. The church council has the right to decide at any time to expend the principal of these funds.

Income to the above funds are normally reported to the treasurer on the weekly bank deposit report provided by the Financial Secretary of Stewardship Commission.

Create a Chart of Accounts

Each of the funds mentioned previously will probably have specific designations within the fund to identify area where certain monies are to be held or to which certain costs are to be charged. This is especially true in the General Operating Fund of the congregation.

A chart of Accounts, therefore will be required to identify all areas within a fund where income and disbursements will be recorded. While there are many ways to set up a chart of accounts it is important that a bit of logic be used and that the chart of accounts be flexible enough to allow for future expansion, but also easy to use and understand.

Depending upon the type of accounting system you feel will best suit the needs of your congregation, a chart of accounts may use a system whereby each account designation is assigned a number or you may use the actual account name designation. A computerized software system will allow you to use either the alpha numeric or the account name arrangement.

Your chart of accounts will be, for the most part, based upon the annual budget of your congregation. Each of the designated accounts itemized in the budget will be the basis upon which your accounting system will be designed.

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

Petty Cash Account

It is always recommended that sizable amounts of cash not be available in the church office but there are at times those occasions when small cash payments are appropriate. Each church office must determine an amount just sufficient to meet the occasional needs that the office experiences.

A petty cash fund is often maintained by many churches as a convenience to those individuals who are required to make small cash payments for goods and services. A petty cash fund will provide the necessary funds quickly and easily. It benefits those individuals who cannot wait for a normal check reimbursement (such as the postman with a postage due package.) It benefits the church employees in that they don't have to expend personal funds for church business. And it benefits the church treasurer in that it can significantly reduce the amount of reimbursement checks that need to be issued.

Such a fund is nothing more than setting aside a specific amount of cash to be replenished periodically as it is used. Control of the petty cash fund must be the responsibility of one and only one designated individual who must at all times be prepared to account for the cash or its use. Having a number of individuals with access to the petty cash fund often results in mismanagement or misappropriation of the funds.

Setting up the petty cash fund might go something like this: a dollar amount is determined to be the petty cash beginning balance. That dollar amount is of course 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 measures are developed. The cash is transferred from the church's checking account to the petty cash fund. The journal entry would be a credit to the church's checking 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 possible receipts and pays out the cash. He/She also needs to fill out a voucher of sorts and have it signed by the payee. Example below.

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

At any time, the total cash available in the petty cash fund when added to the total 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 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 in addition to or in place of a petty cash account have turned to using 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. Security measures should be taken in that the check signing authority is limited to as few individuals as possible, the checkbook is kept in a safe place, and that the individual(s) granted check signing authority on the petty cash checking account does not have access to other church funds.

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. Example below.

Petty Cash Checking Voucher	
Amount	_____
For	_____
Account	_____
Payable to	_____
Date	_____
Check number	_____

At all times, the amount of the balance of the petty cash checking account along with the check checking vouchers must total the beginning petty cash balance. For example, if the petty cash checking account was opened with a \$200.00 balance and the balance is down to \$70.00, then the checking vouchers should total \$130.00. When the petty cash checking account falls to a certain predetermined level, the petty cash treasurer totals up all to vouchers, makes up a check request which tells the congregational 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 congregational treasurer rather than the petty cash treasurer should be responsible for reconciling the bank statement of the petty cash checking account.

Establishing the Employer/Employee Relationship

A congregation typically has a number of individual whom it pays for services. The most important consideration to determine is whether the individual is an employee or is self-employed.

The IRS has developed a list of twenty factors that are to be "used as an aid 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 she is an employee. A self-employed individual generally has the right to hire a substitute.
5. Hiring, supervising, and paying assistants. Hiring, supervising and payment of assistants by the employer normally means that all of the workers are employees. A self-employed individual would hire, supervise and pay their own assistants.
6. Continuing relationship. The existence of a continuing relationship between an individual and the organization for whom the individual performs services is a factor tending to indicate the existence of an employer-employee relationship.
7. Set hours of work. If the worker has set hours, this generally means he is an employee. A self-employed individual sets his own hours.
8. Full-time required. If Full-time work is required, the worker is generally an employee. Self-employed persons can choose when and for whom to work.
9. Doing work on employer's premises. Doing the work on the employer's premises can indicate 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 she is an employee.
11. Oral or written reports. If the worker is required to submit oral or written reports, this suggests he 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 such are 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 can suggest 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 her employer at any time she wishes. 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. Which party invests in the facilities used in the work.
3. The opportunity of individual for 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.

Please do take a look at both lists of factors before making payment to anyone for services rendered. Your classification of individuals as either employee or self-employed should take place before any checks are written rather than at the end of the year when doing the W-2's and 1099's.

Employees (other than clergy)

Typically most of the workers that congregations hire fall into this category. This can include Associates in Ministry, secretaries, office staff, organists, choir directors, and janitors. In very few instances do these individuals meet the requirements for being considered self-employed.

For tax purposes, workers of tax-exempt organizations such as churches are treated basically the same as workers 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, and at year end issue a W-2 to each employee as well as a W-3 transmittal statement to the IRS along with copies of the W-2s.

Clergy

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

1. Ordained minister may generally be treated as employees for income tax purposes (Revenue rule 80-110). But the IRS code exempts the ordained minister from federal income tax withholding (Code section 3401 (a)).

2. Ordained ministers are to be 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.

Example. A church hires and pays you a salary to perform ministerial services subject to its control. Under common law rules, you are an employee of the church 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

The benefits listed above are some typical employee benefits, but such things would never be given to a self-employed contract laborer. If your pastor is receiving the above benefits, the IRS would in most cases label her as an employee and advise that she should be getting a W-2 at the end of the calendar year.

Furthermore, the consequences for classifying someone as an independent contractor who is actually an employee, could include penalties, interest, the employees FICA and all taxes that should have been withheld.

Self-employed Independent Contractors

If after going through the definition of a common law employee and applying the twenty criteria or seven factors stated earlier, 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 not 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, however, one important year-end filing requirement. The IRS requires that Form 1099-MISC be prepared and given to the worker in the event that the individual received more than \$600.00 during the course of the year. Form 1096 is also prepared and sent to the Social Security Administration telling the number of 1099s issued as well as the total dollar amount.

It is suggested that whenever the congregation has contract work done, they request that the contractor file form W-9 with them so that the congregation can secure the social security number of this individual.

Also, if the independent contractor is in the business of supplying, it's 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 for this particular project the contractor has liability and Worker's Compensation insurance in place.

Housing Allowance

Housing allowance for ordained ELCA ministers called to be on the staff of the churchwide organization ([click here](#))

The allocation of the housing to those eligible individuals employed by the congregation is a matter that should be reviewed by the individuals and the church 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.

One of the few significant tax advantages left for 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 church (or agency of the church)
- 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
- The benefit is made available to the minister 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 Exclusion?

Only the lowest of the following can be used when the pastor files his 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.

How is the Housing Allowance declared?

- It should be adopted by the church 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 church-owned parsonages are already having the fair rental value of their home excluded from their income. In addition they can request their church 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 the kind of equity over the years that is normal for pastors who are able to own their own home. Because parsonages are generally 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 Board of Pensions for more information.

How is the Housing Allowance handled on the W-2?

The housing allowance (or the value of living in a church-owned parsonage) is always excluded from federal income. This means the congregational 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.

[ELCA Board of Pensions](#) has more information on this topic.

Payroll Tax Obligations

Every congregation, as an employer, must report to the Internal Revenue Service with regard to the income paid to each employee. These 10 steps will prepare you to meet this obligation.

1. Employer Identification Number (EIN). Every congregation should have one. If you happen to be a new congregation then you must secure an EIN from the Internal Revenue Service. To obtain one, your congregation must complete Form SS-4, Application for Employer Identification Number, available from your local IRS office. 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 an employee since penalties can be assessed against a church for treating a worker as self-employed who the IRS later reclassifies as an employee. The IRS has developed 20 criteria to assist in classifying a worker as self-employed or an employee. Generally a self-employed person typically is engaged in a specific trade or business and offers his/her services to the general public. A self-employed worker would not be subject to the control of an employer with respect to how a job is to be done. (LINK TO SECTION 9)

3. Have each employee complete a W-4 Form. Have each self-employed individual complete a W-9 Form. The W-4 Form for employees will give the congregation the necessary social security number, address of the employee, and the information required to withhold the correct amount of federal income tax. Remember that any W-4 forms which claim more than 10 withholding allowances needs to be reported to the IRS. The W-9 Form for self-employed individuals will give the congregation the address and social security number of the individual. 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 31% of the amount of compensation as "backup withholding."

4. Compute each employee's taxable wages. This of course means each employee's salary taxable wages also 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.

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 the Publication 15. The other way is the percentage method in which the number of allowances claimed by the employee are multiplied by an appropriate value given in Publication 15. Make sure to secure a new Publication 15 each year so that you have the most up-to-date withholding tables and percentages.

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

6. Withhold FICA taxes from non-minister employees' wages. Congregations must withhold 7.65% of each employee's wage 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% on all taxable wages and (2) an "old-age, survivor and disability" tax of 6.2% - 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. As pointed out above, there are three components of federal payroll taxes: (1) federal income taxes withheld from the employee's 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 \$500 at the end of any calendar quarter, the congregation need not 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 paydays 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.

Use form 8109—Federal Tax Deposit Coupon—to deposit all employment taxes. The deposit can be made at any financial institution qualified to act as a depository for federal taxes or directly to the federal reserve bank serving your area.

8. All employees subject to income tax withholding, social security taxes or both, must file Form 941 each quarter. The 941 reports the amount of FICA taxes and the withheld income taxes that are payable. This total amount of tax should of course agree to the amount deposited or accumulated for that particular quarter. The 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 out by January 31, the W-3 by February 28.

Box a. No need to put anything here

Box b. Congregation's employer identification number

Box c. Congregation's name and address

Box d. Employee's Social Security number

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 what is considered taxable wage.
Do not include that amount which is designated as housing allowance.

Box 2. The federal income tax withheld from that employee's wages. For most clergy this box can be left blank.

Box 3. The 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 they are not subject to social security.

Box 4. Report the social security taxes withheld. (6.2% of Box 3.) Leave blank for clergy employees.

Box 5. Report the 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% of Box 5.) Leave blank for clergy employees.

Box 12. Insert the appropriate code and dollar amount in this box. Some of the codes that churches might use would be eg.; 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; L- for the amount the church paid that equal the allowable standard mileage rate in the event the church paid at a rate higher than the IRS allowable rate. Any excess should be included in Boxes 1 & 3; P- the church reimbursed the employee's moving expenses and the reimbursements are not included in the employee's income.

10. Prepare a 1099-MISC for each self-employed worker who earned \$600 or more as well as the accompanying 1096 transmittal form for the IRS. The 1099's are due out by January 31 and the 1096 by February 28.

Box 1. Report in this box the amounts paid to recipients for all types of "rents, such as equipment rentals, machine rentals, or office space rent."

Box 4 Report in this box any backup withholding

Box 7 Report in this box the amount of compensation paid to the non-employee.

[ELCA Board of Pensions](#) has more information on this topic.

Employee Out-of Pocket Expense

How employee out-of-pocket expenses are handled is a policy matter of each congregation and should be established by the church 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 taxable income unless they are made under an **accountable** plan as defined by the IRS and documented under IRS regulations. For more information, please consult IRS publication 463.

Benevolence Remittance to Synod and Churchwide

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

Fiscal Year

As mandated by the constitution of the Evangelical Lutheran Church in America, both the synod and the churchwide bodies have fiscal years running February 1 through January 31. This was done for the purpose of capturing the receipts of the calendar year from the congregations. Thus the monies that you receive in December and pass on proportionately in January are actually booked in the synod/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 is the end of each quarter of the fiscal year (which tries to capture the quarters of the calendar year), statements are sent out to each congregation. These statements are not a request from the synod office for more funds, but rather are an opportunity for the congregation to double check the accuracy of the handling of the monies that had been remitted to the synod. On occasion an input error occurs and maybe a gift gets credited to the wrong congregation or the wrong designated code. 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 does help 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 office and supports the more global endeavors. The percentage that gets forwarded on to the churchwide office ranges anywhere from 40% to 55%, and is determined annually by a consultation between each synod and churchwide. (Please feel free to contact your synod office if you would like more details about the synod's budget and their proportionate sharing with churchwide.)

Designated Gifts

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

Any designated gifts such as those to local nursing homes, food banks and the like should not be sent to the synod office but rather handled by the congregation directly.

The synod office can take any designated gifts for special projects going on in each individual synod. The other type of designated gifts that the synod office can process are those that need to be forwarded to the churchwide office. These would include gifts for such things as World Hunger and Lutheran World Relief as well as any missionary sponsorship or any type of project that churchwide has communicated to you that it is collecting funds for.

Each recipient of a designated gift also receives a listing with the check them who the money was actually from and the amount from each giver.

Using the Remittance Form

Please use the remittance form that is provided you from your synod office to send in your benevolence. The form makes it easier for the office to process and provides the office with a hard copy trail 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 bodies. The remaining lines are for any possible designated gifts. Be clear and descriptive as possible when using the lines of the form to list designated gifts. Please total the gifts and make sure your remittance form equals the amount of the check you include.

Financial Reporting

The annual budget for the congregation has been approved and the various accounts of the accounting system (Chart of Accounts) has been established. The basis around which the financial data of the congregation is prepared is in place. The treasurer must now transform this data into meaningful reports so that the financial progress of the congregation can be monitored and decisions made.

- At the very minimum the financial statements should consists of a Balance Sheet and Statement of Revenue and Expense (also called a Statement of Activity). A Statement of Changes in Cash Position 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, comparison to budget or comparison to last year.
- Reports should provide the needed detail for decision making.
- The treasurer should accompany the financial reports with a verbal or written report which points out critical items and areas.

Balance Sheet

The balance sheet is the financial report which 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

ASSETS	General	Restricted	Plant	Endowment	Total
	Fund	Fund	Fund	Fund	All Funds
Cash and Cash Equivalents	62,533	32,947	16,210	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	79,066	75,947	613,210	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 Lon-Term Debt			10,000		10,000
Long-Term Debt			150,000		150,000
Total Liabilities	26,145	-	160,000	5,000	191,145
Fund Balances					
Unrestricted	52,921				52,921
Temporarily Restricted		75,947			75,947
Permanently Restricted				65,500	65,500
Net Investment in Plant			453,210		453,210
Total Fund Balances	52,921	75,947	453,210	65,500	647,578
 TOTAL LIABILITIES & FUND BALANCES	 79,066	 75,945	 613,210	 70,500	 838,723

Statement of Revenue and Expense

The income and expense report is the financial report which provides a summary of the operating results of a fund during a specific period of time. Income 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 Expenses Per Month/Year to Date

	General Fund	Restricted Funds	Plant Funds	Endowment Funds	Total All Funds
Support and Revenue					
Contributions	309,027	5,472	16,575		331,074
Interest Income	6,132	3,655	640	5,130	15,557
Workshops/Events Income	733				733
Bequests				10,000	10,000
Total Support and Revenue	315,892	9,127	17,215	15,130	357,364
Expenses (by Program)					
Worship	98,541	2,435		5,000	105,976
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	123,786		11,000		134,786
Total Expenses	304,701	5,338	11,000	5,000	326,039
Excess of Support and Revenue Over Expenses	11,191	3,789	6,215	10,130	31,325
Fund Balances at Beginning of Year	41,730	72,158	446,995	55,370	616,253
Fund Balances at End of Year	52,921	75,947	453,210	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. In other words, it provides an outline about the cash receipts and cash disbursement.

[Click here for sample report.](#)

Sample Statement of Cash Flows Per Month/Year to Date

	General Fund	Restricted Funds	Plant Funds	Endowment Funds	Total All Funds
Operating Cash Flows					
Excess Revenues (Expenses)	11,191	3,789	6,215	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 Revenue	(6,525)				(6,525)
Net Operating Cash Flows	7,661	3,789	6,215	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 Asset 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	(8,094)	(11,211)	(18,785)	7,130	(30,960)
Transfers	(10,000)		10,000		-
Cash and Cash Equivalents:					
Beginning year	80,627	44,158	24,995	1,370	151,150
End of Year	62,533	32,947	16,210	8,500	120,190

Management Reports

In addition to the above stated statements there are an endless number of additional reports that congregations find useful. Each individual congregation should assess their needs periodically and determine the extent and scope of their reporting needs. And always keep in mind the needs of the user. Financial reports that do not communicate and do not get used are not doing the job. If your audience needs simple reports, keep them simple but highlight the critical information. If your audience should handle more detail, make sure the reports provide it in a format that doesn't overwhelm them.

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

Support and Revenue	Month	YTD	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)	102.240%
Workshop/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/Fellowship	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	1.00%

Insurance Coverage

The Church Council (and/or the Insurance/Finance Committee) has the responsibility to secure adequate insurance coverage to safeguard the assets of the church. Fires and thefts do happen on occasion and it is crucial that each congregation protect itself and review its policies on an annual basis. The following types of insurance are the ones that congregational treasurers may have to be personally familiar with:

Worker's Compensation Insurance

Worker's Compensation (often called Labor and Industrial Insurance or L&I for short) is a mandatory insurance provided by the employer in the event of employee injury while on the job. Each state has different laws governing Worker's Compensation and for full details contact your state Department of Labor & Industries. Some states have state-administered programs. Other states allow for the purchase of insurance coverage through private carriers. Some states allow for the optional assessing of the employees for part of the insurance cost. The cost of the insurance is calculated based either on the number of hours worked or on a percentage of payroll costs. It is important to remember that Worker's Compensation coverage is mandatory. A congregation cannot go without it. It is also important to remember to cover all employees including the pastor. Please contact your state department for further details.

Unemployment Insurance

Churches are exempt from paying federal unemployment tax since they are IRS Section 501(c)(3) exempt organizations. Most unemployment taxes however are assessed by the individual states. Please contact your state Department of Revenue for further details.

Employee Dishonesty Bond

A climate of personal trust is usually assumed in the congregational setting. This is healthy and proper. However, some systems of handling money place individuals in a position in which their honesty can be questioned or in which they may be tempted to sin. Prudent and consistent practices in handling money are needed to maintain a trustful climate.

It is recommended that all persons elected or appointed to handle money in the congregation and all its auxiliaries are covered under an employee dishonesty blanket bond. For further information on Fidelity Bond coverage [click here](#).

Congregational Church Insurance Program

For congregations looking for insurance coverage, one place to look is with Charity First. Charity First, under the auspices of the ELCA Churchwide Office, has developed and administers a comprehensive insurance program exclusively for ELCA congregations. Charity First is a wholly owned subsidiary of Arthur J. Gallagher & Co., the fourth largest provider of insurance services worldwide and the insurance broker of record for the ELCA.

[Insurance Buyers Guide for ELCA Congregations](#)

Property Value Verification Program

This program, also administered by **Charity First**, is designed to assist church leaders verify the current replacement cost value of their building structures. This may be important to make certain your church property is adequately insured and that you are in compliance with coinsurance warranties contained in some policies.

The Value Verification method requires someone within your congregation to complete a data form for which outlines a variety of building and geographical characteristics. The questions are not technical and the form is "user friendly". The service provider, **Gallagher Bassett**, then enters your responses into their data bank to determine the appropriate replacement cost values. The report is then reviewed by a senior American Society of Appraisers member.

Gallagher Bassett has extensive experience appraising churches, schools and living quarters.

Please note, the Value Verification method is not a certified appraisal. But it does offer church leaders a cost effective resource to monitored current estimates of the replacement value of their church building structures.

The cost per location for a Property Value Verification report is very reasonable.

Audit Procedure

What is an audit?

Generally an audit (also called a financial compliance review) is a number of tests on 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 church.
- To insure that the year's financial activity has been properly recorded in accordance with generally accepted accounting principals.
- To insure adherence with the policies and procedures established by the congregation.
- To maintain confidence in the integrity of the congregation's financial system and the persons responsible for handling the finances.

The ELCA recommendation regarding audits of congregations

The churchwide office of the ELCA does not require that its congregations have an audit performed every year, but it does highly recommend the practice. There is no stipulation concerning who performs that audit, whether it be by an outside auditor or firm of auditors or whether it be an internal audit carried out by an financial compliance review (audit) committee appointed by the church council. As a minimum the church council should establish an internal audit committee and have this committee review the records each year. An audit committee can often discover weak spots in your 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 outside assessment of the congregation's financial management process.

Functions of a 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 select 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.

The audit committee:

- Examines and reviews all accounts and records.
- Exercises supervision and oversees the work of this review if it is conducted by an outside accounting firm.
- 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 church council with supporting schedules and recommendations for change and improvement.
- Verifies that the congregation complies with Federal & State tax laws and regulations.

Procedures:

1. Review the recording of cash receipts -

- a. Trace deposits from the counter's reports in the financial secretary's and treasurer's records. Compare these to the entries recording such deposits so they agree with the deposits recorded by the bank.
- b. Check on the timeliness of the deposits.
- c. On a sample basis, check the account distribution in the cash receipts journal, being especially alert for funds designated for specific purposes.

2. Verify check accounting -

- a. Inspect the cash expenditures record in the cash disbursement journal which should show the date, check number, name of payee, amount of check and account distribution for each check written.
- b. Check mathematical accuracy of entries.
- c. Examine the authority for writing a check such as approval on invoices; pastor's call, including current salary and housing arrangements; employee salaries, contract agreements; actions of council reported in minutes, and actual receipts for tangible goods.
- d. Examine canceled checks to verify that disbursements were actually paid to the proper parties.
- e. Account for all checks, used and voided.
- f. Prepare a statement of expenditures for comparison with the adopted budget for the year and analyze variances.
- g. Prepare a tabulation of benevolence payments to the synod and compare with statements received from the synod. Compare this total with the expected response for the year.
- h. Analyze expenditures, noting proper capitalization of major improvements, refurbishing, new equipment, and proper designation of employees vs. Independent contractors.

3. Reconcile bank accounts -

- a. Inspect, on a sample basis, endorsements on the canceled checks.
- b. Request banks, savings and loan associations, and other investment agents to confirm, in writing, the balances held in accounts.
- c. Confirm authorized signatures for check writing with the financial institutions. Compare signatures on the card with those currently used on checks.

d. Prepare a statement of reconciliation between bank balances and balances shown on the books. The reconciliation should begin with the bank's balance. Add to that figure deposits shown on the books but not yet credited on the bank statement. Subtract the outstanding checks (those which have not yet cleared the bank) to prove the balance shown on the books.

e. The statement of reconciliation should be performed by someone who does not process receipts or disbursements.

4. Examine petty cash funds to determine that -

- a. Disbursement vouchers have proper approval and receipts.
- b. Reimbursements to the fund are made properly.
- c. Maximum figure for individual payments has been established and followed.

5. Examine individual member records -

- a. Compare "pledge amount" with the signed pledge.
- b. On a sample basis, check the financial secretary's posting of contributions to the members' records.

6. Inspect insurance policies and prepare a schedule of insurance in effect to show -

- a. Effective and expiration dates.
- b. Kind and classification of coverage.
- c. Maximum amounts of each coverage.
- d. Premium amounts and terms.
- e. Comparison of insurance coverage with the insurance appraisal or other supporting cost data. Does insurance coverage provide adequate replacement value for church building and personal equipment such as: organ, pews, hymnals, computers, printers, etc.

Upon completion of the audit report, it is suggested that the following certification be completed and made a part of the congregations records that a review of the financial records has been performed.

SAMPLE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
Certification of Financial Compliance Review of Congregation Records

Congregation _____ Synod _____

Address _____

Pastor _____ For year ending _____

Review performed by: _____
(Name of persons or accounting firm)

Check appropriate items:

Review includes records of

- Congregational Treasurer
- Financial Secretary
- Building Fund Treasurer (if separate)
- WELCA
- Men's Organization
- Youth Organization
- Scout Troops
- Parochial Schools
- Church school
(if separate from cong. Treasury)
- Other

Funds reviewed include:

- Current or General
- Building or Capital
- Memorial
- Special
- Other

Verification was made of:

- Regular checking account (s)
- Investments
- Other

Funds excepted from Compliance Review:

CERTIFICATION

We hereby certify that the financial records of the congregation named above and all of its auxiliary organizations have been reviewed and that a proper accounting of all funds has been found.

Signed _____ Title _____

Signed _____ Title _____

Certificate is to be signed by any two of the following: Pastor (or Associate Pastor), Congregation President, Vice-President, or Chair of Finance Committee. This certification is to be placed with the Congregation's Council or Board of Directors permanent files.

(Do not send this certificate to the ELCA churchwide office.)

References

Christian Ministry Resources, P.O. Box 1098, Matthews, North Carolina 28106, (800) 222-1840.

Church Treasurer Alert (a monthly review of accounting, financial and tax developments affecting ministers and clergy) \$29.95 per year

Church Law & Tax Report (a bi-monthly review of legal and tax developments affecting ministers and churches) \$39.00 per year

Church and Clergy Tax Guide (book, updated annually) \$15.95

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

[ELCA Board of Pensions](#) has a web site which has many valuable tools for congregational treasurers and bookkeepers. Topics include clergy taxes and housing allowance, [tips for new treasurers](#), etc.

Income Tax Guide for Ministers and Religious Workers, Worth Tax & Financial Service, Box 725, Winona Lake, IN 46590, (219) 267-4687

The IRS has released some new publications that may be of interest to you:

Publication 4221, *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. <http://www.irs.gov/pub/irs-pdf/p4221.pdf>

While not new, IRS Publication 1828, *Tax Guide for Churches and Religious Organizations*, is a very valuable resource. <http://www.irs.gov/pub/irs-pdf/p1828.pdf> Publication 1828 has also been translated into Spanish. <http://www.irs.gov/pub/irs-pdf/p1828sp.pdf>

This 25-page document is a review of many of the IRS provisions, regulations, and information that may be of assistance to ELCA churches 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.

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