ELCA Region 1

resources for ministry

REGION 1
Evangelical Lutheran Church in America

Serving the synods of:
Alaska
Northwest Washington
Southwestern Washington
Eastern Washington-Idaho
Oregon
Montana

CONGREGATIONAL TREASURER'S HANDBOOK

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INTRODUCTION

Greetings from Region 1! If you've read this far we're assuming you are a congregational treasurer – or at least someone with a strong interest in the financial workings of your church. We're glad you're here with us!

What follows is information that hopefully will assist you in your role as congregational treasurer. This is our third printing of such a handbook and some of you who have been in the position of treasurer for awhile may find parts of it quite familiar. We trust that as you carry out your leadership responsibilities you'll find here the answers to some of your questions or concerns. And please don't forget to pass this handbook on when a new congregational treasurer comes aboard at your congregation!

On behalf of the synods that we assist please accept our thanks for serving as your congregation's treasurer. You fill such an important role and we hope that in some small way we can promote you in your position. If you have any questions or comments concerning this handbook, please feel free to let us know. It is only because of your questions and desires to do your jobs well that we even attempted this third printing of the handbook. We hope you can find here some answers to your questions and validation of the good work you are doing.

Alyce J. Bakker, CMA
Financial Services Officer
Region 1 ELCA

ACKNOWLEDGEMENTS

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1. Accounting Policies

In order for you to do the tasks required in your position as Congregational Treasurer it is essential that you have the support and instruction from your council when it comes to financial matters. Congregational Treasurers should never let themselves be put in a position where they alone are making decisions or developing policies regarding the finances of the congregation. It is crucial that your congregational council or finance committee develop a written set of accounting policies for their treasurer. The accounting policies could cover such things as:

- Where are the congregation's funds kept?
- Who has signing authority on the accounts?
- What are the procedures for handling offerings?
- What is the budget process?
- Who can enter into a contract or purchase agreement on behalf of the congregation?
- Who can authorize bills for payment?
- Who can actually issue payment for expenses incurred?
- Who can do the treasurer's job in the event the treasurer is unavailable?
- What financial reports are needed? How often should they be submitted?
- How are designated gifts handled?
- How is event income handled?
- What is the priority of payments? Who gets paid first each month?
- How are payment levels determined?
- How are general fund cash shortfalls handled?
- How are general fund cash surpluses handled?
- What level of cash must be kept liquid? How can the rest be invested?
- What type of investments can be acquired?
- Who can open new restricted funds? How and when should restricted funds be closed out?
- Are there written procedures for a new treasurer?

These questions and many more are the sorts of questions that should be answered by the collective wisdom of your congregation's finance committee or council.

You as Treasurer should see to it that the congregation operates within the guidelines established, but you should not be taking it upon yourself to make these types of decisions on your own. Please urge your council or finance committee to put the accounting policies in writing – both for your benefit and for the protection of the congregation.

The following pages illustrate one such set of policies for a smaller congregation.

XXX Lutheran Church
Adopted April 3, 2002

I. PREFACE

XXX Lutheran Church is entrusted by God with financial and material resources to carry out the work of the church. It is the intention of the Congregation to be good and faithful stewards, using such resources wisely and with care.

It is the intention of the Congregation to be a responsible partner with the other congregations of the Northwest Washington Synod of the Evangelical Lutheran Church in America; with the ELCA churchwide organization; and with other congregations, agencies, or institutions with which it is involved in shared ministry.

The Congregation Council is the board of directors for the Congregation and is guided by the Congregation's constitution. These financial policies have been developed to give further guidance regarding the use of financial resources.

II. GENERAL PROVISIONS

A. FINANCE COMMITTEE

1. The Finance Committee shall be a standing committee of the Congregation.

2. The Finance Committee is comprised of the Congregation Treasurer, the Congregation Financial Secretary, and other members as may be appointed by the Congregation Council.

3. The Finance Committee shall meet every odd month, and additionally as the need arises for specific or urgent matters.

4. The functions of the Finance Committee shall include the following:

    a. Gather and compile information for the development of the general fund budget.

    b. Monitor income and expenditures in relation to the general fund budget, these financial policies, and actions of the Congregation Council.

    c. Serve as a resource to the Congregation Council, Committees, and the Church office.

    d. Review and recommend revisions to these financial policies.

B. LOCATION OF FUNDS

1. BANK ACCOUNTS - With approval of the Congregation Council, the Congregation Treasurer shall be responsible for opening and closing bank accounts. The current approved bank accounts are listed in Appendix 1.

2. SIGNING AUTHORITY - The Congregation Treasurer, Congregation President, Congregation Vice President, and Congregation Secretary are authorized to sign on bank accounts. Exceptions shall be only with the approval of the Congregation Council. Checks shall only require one signature to be valid.

3. AUXILIARY ORGANIZATIONS - An auxiliary organization may keep its funds in separate bank accounts for the auxiliary organization. Such funds shall be accounted for in accordance with policies and procedures established by

the auxiliary organization. If total receipts during the year exceed $500, a financial report, with supporting documentation, shall be submitted for audit.

C. CASH RECEIPTS PROCEDURES

1. Two person teams (not members of the same family or household) shall weekly be identified by the Financial Secretary to be Tellers responsible for counting and depositing all offerings and other moneys received by the Congregation. As a precaution, the Treasurer is not eligible to be a Teller.

2. Moneys received in the church office during the week, together with envelopes and any accompanying paperwork, shall be kept in a safe place until the following Sunday at which time they shall be counted with the regular Sunday offering. Checks shall immediately be endorsed with a stamp “For deposit only” to the Congregation checking account.

3. For tax purposes, moneys received during the first week of January shall be designated as either December or January receipts based upon postmark, check date, and/or other evidence of timing of the payment.

4. The offerings and other receipts shall be counted in the church building following worship services at which an offering is received. If counters are unable to count immediately following the service, the offering shall be placed a safe place and counted in the church building as soon as possible.

5. The team shall separate all cash and checks from the offering envelopes. The amount of money in each offering envelope shall be compared with the amount written on the envelope. If no amount is stated on the envelope or if the amount of money in the envelope is different from the amount listed on the envelope, the counters shall write the correct amount on the envelope and circle and initial it.

6. All checks shall be endorsed by a stamp “For deposit only” to the Congregation checking account.

7. Checks and cash must be deposited intact, as actually received. Cash shall not be exchanged for personal check.

8. The team shall prepare two copies of the Bank Deposit Slip (original with one carbon copy) and shall prepare and sign the Offering Tally Sheet.

9. The Tellers shall place the offering envelopes and other records of contribution in the Congregation Financial Secretary’s box in the church office.

10 The Tellers shall deposit in the bank the cash and checks with the original of the Bank Deposit Slip. The deposit shall be made as soon as possible.

11 The Congregation Treasurer shall verify that all deposits are properly reflected in the bank account and are recorded in the books of the Congregation.

12 The Congregation Financial Secretary shall make a record of cash gifts from each member. Cumulative year-to-date statements shall be made available to the respective members semi-annually. The statements shall include information required by the donor to claim the appropriate deduction for income tax purposes.

D. AUTHORIZATION TO ISSUE PAYMENT

1. Upon receipt of appropriate documentation, the Congregation Treasurer, Congregation President, Congregation Vice President, and Congregation Secretary have authority to issue payment from Congregation funds. A check signer shall not issue a check to oneself or to a member of ones family or household.

2. Invoices and/or check requests, prior to being submitted for payment, must be signed by a person authorized to make commitments on behalf of the Congregation. Such signature indicates that material has been properly received; that the services have been performed; that a proper commitment has been made for future services; that the request is in carrying out direction from an approved budget or through Congregation Council action. The documentation must include either:

   a. Original receipt which includes description(s) with an explanation giving evidence that the expense is consistent with the budget and with indication of the appropriate account to be charged; or

   b. Signature of another person authorized to make such commitments on behalf of the Congregation with an explanation giving evidence that the expense is consistent with the budget and with indication of the appropriate account to be charged.

3. In the event any of the documentation is incomplete or otherwise inadequate, or if the Congregation Treasurer or other payer has any question as to the appropriateness of an invoice or request for payment, the Treasurer or other payer shall obtain approval of the Congregation Council prior to issuing payment.

4. In lieu of a two-signature check system, the Pastor or his/her designee shall review the cancelled checks that are received monthly from the bank prior to the Treasurer's receiving them. In the event an unusual check is observed, the Treasurer is to be contacted for an explanation, and if that explanation is unsatisfactory, the matter should be brought to the attention of the Congregation Council for discussion.

E. CONTRACTS AND PURCHASE AGREEMENTS

All financial commitments of $500 or more or with periods exceeding twelve months shall be stated in a written and signed contract or purchase agreement prior to execution. A contract or purchase agreement shall be defined as an agreement between the Congregation and one or more parties for the purpose of acquiring services or personal or real property. It includes the disposition or exchange of personal or real property.

1. APPROVAL - A contract or purchase agreement must be approved by the Congregation Council if its non-cancelable term exceeds twelve months or if the contract or purchase agreement charge will cause a budget allocation to be exceeded.

2. SIGNING AUTHORITY - Congregation Officers have signing authority for the Congregation.

3. CONTRACT AND PURCHASE AGREEMENT COMMUNICATION - A copy of any executed contract or purchase agreement shall be sent to the Church office for use by the Congregation officers in financial planning, activity awareness, and record retention.

4. FINANCIAL ANALYSIS - Contracts and purchase agreements in excess of $2,000 involving financial formulas for final pricing, buy versus lease options, or payment plan alternatives shall be reviewed with the Congregation Treasurer or designee before being signed.

F. FINANCIAL REPORTING

1. FINANCIAL STATEMENTS - The Congregation Treasurer shall make written report of all financial transactions to the Congregation Council monthly and to the Annual Congregation Meeting in the form of the following financial statements :

   a. Summary of Fund Activity (Budget Summary)

   b. Assets and Liabilities (Net Worth)

c. Receipts and Disbursements (Cash Flow)

2. FISCAL YEAR - Financial reporting for the Congregation shall be from July 1st through June 30th.

3. METHOD OF REPORTING - Financial reporting shall be on the cash basis, i.e. income is recognized when cash is received and expenses are recognized when cash is disbursed.

4. REVENUE CUTOFF

   a. The Congregation Financial Secretary shall record moneys received during the first week of January as either December or January receipts based upon postmark, check date, and/or other evidence of timing of the payment.

   b. The Congregation Treasurer shall record as a “deposit in transit” any moneys received during the first week in January determined to be December income.

5. EXPENDITURE CUTOFF - Moneys disbursed shall be recorded as of the check date.

G. INSURANCE

The Finance Committee in conjunction with the Property Committee shall procure and annually review property and liability insurance coverage and Board and Professional Liability coverage.

III. SOURCES OF INCOME

A. UNDESIGNATED RECEIPTS

Undesignated receipts shall be placed in the general fund.

B. PASSTHROUGH GIFTS

1. Passthrough gifts are those which have been designated by the donor to be passed along to another non-profit agency.

2. Passthrough gifts shall normally be paid monthly, in full, to the designees.

3. If the Congregation Treasurer has any question regarding the appropriateness of the Congregation collecting gifts for a particular designee, the Congregation Treasurer shall consult with the Congregation Council before forwarding those gifts.

C. DESIGNATED GIFTS

1. Designated gifts are those given to the Congregation for a special purpose.

2. Designated gifts for Congregation use with restrictive provisions shall be placed in a fund that the Congregation Treasurer has established for that purpose.

3. The Congregation reserves the right of acceptance or refusal of designated gifts. In the event that the Congregation Council decides not to accept the gift for the restrictive purpose, the Council shall direct the Financial Secretary to contact the donor(s) for instructions regarding the disposition of the gift.

4. Designated gifts given for items already in the Budget, (e.g. Building/Mortgage,) may be used in place of General Funds for that Budget item.

5. The status of Designated Gifts shall be reviewed regularly by the Finance Committee. Gifts that are not in keeping with current mission goals, congregational planning, or practicality may be referred to the Congregational Council for recommended action.

D. GIFTS-IN-KIND

1. DEFINITION - Gifts-in-kind are any gifts of goods and property other than cash or checks.

2. ACCEPTANCE - The acceptance of gifts-in-kind by the Congregation shall be reviewed by the Congregation Council on an individual basis. The intent of the Congregation is to accept all bona fide gifts that directly or through liquidation may be beneficial to the purpose of the Congregation. The Congregation shall consult with qualified person(s) within and/or outside the organization, as necessary, to determine the gift's potential benefit to the Congregation.

3. LIQUIDATION - Liquidation of gifts-in-kind shall occur as soon as reasonable unless, upon review by the Congregation Council, a different decision is made regarding a specific gift-in-kind as to its purpose, usefulness, and length of ownership. Paramount in any such evaluation and/or liquidation of a gift-in-kind shall be its usefulness in fulfilling the purpose of the Congregation.

5. ACKNOWLEDGEMENT - The Congregation Financial Secretary shall acknowledge gifts-in-kind with the date of and description of the gift. The Congregation shall not be involved in any manner with setting the monetary value to the donor of gifts-in-kind.

E. INVESTMENT INCOME

When practical, investment income shall be allocated to the fund generating the income. All other investment income shall be credited to the general fund.

F. EVENT INCOME

Special event income shall be credited to the same restricted fund as designated for the recording and control of event costs. Income and expenses from minor events may be offset within the general fund. Designated offerings received during an event shall be disbursed to the authorized designees.

G. MISCELLANEOUS INCOME

All other income, unless otherwise directed by the Congregation Council, shall be placed in the general fund.

IV. GENERAL FUND

A. SOURCES OF INCOME

The general fund shall receive all income not specifically allocated to another fund.

B. AUTHORIZATION OF EXPENDITURES

1. Expenditures from the general fund which are within the allocation in the budget approved by the Congregation shall have been made by an authorized party as listed below.

    a. Compensation and related taxes and benefits, contractual obligations, and benevolences are pre-authorized as budgeted.

b. Congregation Council may authorize expenditures for insurance, office equipment, furnishings, conferences and conventions, and other expenditures not otherwise designated.

c. Parish ministry committees may authorize expenditures to carry out the functions of their respective committees.

d. The Pastor may authorize expenditures for parish ministry committees, office supplies, substitute pulpit supply, special benevolences, and monthly mileage.

e. The Property Committee may authorize expenditures for compensation to the Custodian, utilities, maintenance, repairs, contracted services.

f. The Worship and Music Committee may authorize expenditures for altar supplies, accompanists, worship materials, printed music, and compensation for a Nursery Attendant.

g. The Parish Secretary may authorize expenditures for office supplies.

2. The weekly Offering Teller Sheet shall be considered authorization for expenditure of donor designated gifts, subject to the policies defined in Sections III.B and III.C.

3. Expenditures from the general fund which exceed the allocation in the budget approved by the Congregation shall require authorization as follows:

a. If the amount is up to $500, Congregation Council action shall be required.

b. If the amount exceeds $500, special Congregation action shall be required.

C. ORDER OF PAYMENT

In the absence of direction from the Congregation Council specific to the situation, commitments shall be paid in the order listed below.

1. Northwest Washington Synod/ELCA churchwide support

2. Donor designated gifts.

3. Compensation including payroll taxes

4. Reimbursement of out-of-pocket expenditures made on behalf of the Congregation

5. Contractual obligations

6. Mortgage payments

7. Individual bills when due

8. Budgeted designated benevolence

If funds are insufficient to pay the full budgeted monthly allocation, the unpaid portion shall be carried forward and added to the next month's budgeted allocation. The total amount paid for the year shall equal the amount budgeted.

D. GENERAL FUND BALANCE

CASH BALANCE - The general fund cash balance shall not fall below $00.00 (zero) at month end closing without the approval of the Congregation Treasurer and the Congregation President. If a negative position is created, it shall be reported at the next Congregation Council meeting.

E. DEBT

Debt shall not be incurred to pay Congregation expenses. However debt may be incurred to acquire assets or fund major expenditures approved by the Congregation.

F. LOANS

No loans shall be made from the general fund.

G. INVESTMENTS

1. INSURED ACCOUNTS - All moneys in the general fund shall be held in insured accounts unless the Congregation Council authorizations investment in a specific uninsured fund.

2. FINANCIAL INSTRUMENTS - The Congregation shall not hold securities or financial instruments in the general fund which bear a risk of loss of principal. Gifts of such instruments shall be liquidated as soon as possible.

V. OTHER FUNDS

Separate policies for memorial funds, capital improvement funds, endowment funds, etc. may be written as required.

VI. BUDGET DEVELOPMENT PROCESS

A. BALANCED BUDGET

The general fund budget proposed to the Congregation at its annual meeting shall be a balanced budget based on realistic income projections. Projected revenues shall equal anticipated expenditures, except where transfers to or from a contingency fund are included.

B. REQUESTS

All requests for general fund budget allocation shall be submitted in written form and signed by the requester. Data from the present and prior years shall accompany the request.

C. BUDGET DEVELOPMENT SCHEDULE

1. April – Congregation Treasurer shall announce in newsletters and bulletins:

   a. that budget submissions will be due on or about June 1st.

   b. the date and time of the June Congregation annual meeting as set by the Congregation Council.

2. May - Committees shall prepare requests for budget allocation using current year-to-date actual expenditures with projections for the remainder of the year and estimated requirements for new programs.

3. June - Finance Committee shall:

a. receive all requests for budget allocation from committees and other appropriate sources;

b. in conjunction with the Stewardship Ministry group, project income for the following year;

c. prepare a draft budget.

4. June - Finance Committee shall present to the Congregation Council a draft budget including projected income and all requests for budget allocation. The Congregation Council shall act upon the draft budget.

5. June – The Congregation Council shall move the adoption of the proposed budget at the Annual Congregation Meeting. The Finance Committee shall be prepared to present information relative to the proposed budget at that Congregation Meeting.

VII. ANNUAL AUDIT

A. AUDIT COMMITTEE

The Congregation Council shall appoint an Audit Committee of three members. At least one of the Audit Committee members shall be a member of the Congregation Council.

B. RESPONSIBILITY

The Audit Committee shall audit the records of the Congregation Treasurer and of all parish organizations handling funds for a 12-month period ending April 30th for that fiscal year. A report of these audits shall be made to the Congregation at the annual meeting.

C. PROCEDURES

The Audit Committee shall perform the audit procedures listed below together with such other tests and procedures as the Committee deems necessary. In performing the audit tests and procedures, the committee may use sampling techniques. The Committee shall:

1. Verify balances of all assets (e.g. cash) listed on the financial statements.

2. Verify balances of all liabilities.

3. Verify that the Treasurer's records of receipts are completely and accurately summarized in the financial statements, both in total and by individual fund or according to any restrictions.

4. Verify that all checks or other withdrawals from accounts are completely and accurately recorded in the financial statements, including the account to which the expenditure is charged.

5. Verify that all expenditures are appropriately authorized.

6. Verify math in all financial statements.

VIII. OTHER MISCELLANEOUS PROVISIONS

A. CONGREGATION EVENTS

When the Congregation sponsors an event, prior to such event, the committee planning the event shall estimate potential gains or losses and shall communicate this to the Congregation Council. Advance registrations shall be encouraged.

B. MULTI-CONGREGATION EVENTS

This Congregation with one or more other congregations may sponsor a joint event. Prior to the event, the joint committee planning the event shall agree on the basis for the distribution of estimated gains and potential losses. This Congregation’s representative(s) on the joint planning committee shall communicate the agreement to this Congregation’s Council and appropriate Committee. Advance registrations and payments shall be encouraged.

2. Internal Control

No accounting handbook would be complete without first touching on, or better yet, pounding on, the subject of internal controls. While the responsibility of establishing internal controls for a congregation resides ultimately with the church council, the congregational treasurer and financial secretary should help with the implementing and using of the controls. A strong system of internal controls not only protects the congregation, it also protects those individuals responsible for the financial record keeping.

What exactly is a system of internal control?

A system of internal control consists of all the measures taken by a congregation to:

- Safeguard assets from waste, theft or inefficient use.
- Prevent error or fraud.
- Promote accuracy and reliability in the accounting records and reports.
- Encourage compliance with established policies and rules.
- Evaluate the efficiencies of operations.
- Maintain the integrity of the individuals who deal with the congregation's finances.

In summary, the purpose of internal control is to promote the efficient operation of the congregation and provide assurance that everything is functioning as it should be.

Because most congregations typically handle substantial amounts of cash and checks, and since cash is the most liquid of assets and offers the greatest risk of misappropriation, internal controls over cash handling are very important in a congregation. The cash handling functions in most congregations consist of counting the offerings, endorsing checks, making deposits, signing checks, investing cash, and custody of cash, marketable securities and other negotiable assets. These functions should be integrated in such a way as to provide assurance that:

- All cash and checks that should have been received were in fact received and recorded promptly and accurately.
- Cash disbursements are made only for authorized purposes and are properly recorded.
- Cash balances are maintained at adequate, but not excessive levels.

General Rules

Some general rules for achieving internal control are as follows:

- Do not permit any one individual to handle a transaction from beginning to end.

- Separate cash handling from record keeping.
- Centralize receiving of funds as much as possible.
- Always have two or more individuals count the offering.
- Ensure that the offering is in the custody of the counting team from the altar to the deposit.
- Rotate the individuals doing the counting.
- Provide training for the individuals doing the counting.
- Provide for the prompt depositing of all money.
- Encourage the use of the envelope system for offerings.
- Encourage members to make offerings by check rather than cash.
- If checks are received in the mail during the week, provide the person who opens the mail with a "**For deposit only**" stamp.
- Record receipts immediately.
- Make sure that those individuals involved in counting the offerings do not have access to the checkbook.
- Make all disbursements by check, with exception of small expenditures from petty cash.
- Expense vouchers should be approved before routed to the treasurer for payment.
- Limit check-signing authority to only a few people.
- If deemed necessary, require two signatures on each check.
- Make arrangements for an additional check signer in the event of vacations or illness by the treasurer. At no time should the treasurer sign blank checks in advance of an absence.
- Have bank reconciliations prepared by someone not responsible for the issuance of checks or custody of cash.
- Use the annual budget and compare it to the actual income and expenditures. Look for deviations from the budget.
- Keep valuable property, notes, marketable securities and cash in a place safe from fire or theft.
- Maintain an inventory of assets, and review the list periodically to ensure that the equipment is still at the church. Keeping a copy of the list off-site is always prudent.
- Arrange for an annual audit to be conducted by a third party.
- Prepare written procedures that apply to cash handling.
- Make sure all employees having access to funds or the accounting records are bonded. Please note that the ELCA does not cover congregations under its blanket employee dishonesty bond and each congregation should be securing this coverage through their own insurance provider.

Separation of Duties

Many of our congregations make use of two persons to oversee the handling of the congregation's monies and to allow for greater separation of duties. In many instances a congregation may have a treasurer and a financial secretary. Some of our larger congregations may even make use of an office administrator to do some of the functions ordinarily carried on by the treasurer. Typically the job functions are such that the financial secretary is in charge of receipts while the treasurer handles disbursements and basically everything else. Briefly, the job descriptions can be laid out as follows:

Treasurer

- Serves as the 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 tax forms.
- Monitors the cash situation. Invests available funds as directed.
- Provides the congregation with any requested financial information.

Financial Secretary

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

As was said before, the separation of duties, that of having one individual handle the receipts while another handles disbursements, cannot be stressed often enough. If there is only one thing to remember from your reading of this manual, we hope it is this: 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.

3. Procedures for Processing Offerings

In most cases the responsibility of counting and depositing the offerings rests with the Financial Secretary rather than the Treasurer. The following are suggestions gleaned from the Northwest Washington Synod Finance Committee and may or may not be 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 the offerings.

1. Two-person teams shall be responsible for counting and depositing all offerings or other funds received by the church. Team members will include all members of the Congregation Council plus the Financial Secretary. Each person shall serve for two consecutive months. A new person will join the team on the first Sunday of each month. The person who is beginning the second month on the team is the team captain and is responsible for completing all requirements including training the person serving the first month on the team.

2. Both members of the team shall be available to process the offering immediately following each service at which an offering is received. The team shall separate all cash and checks from the offering envelopes. The amount of money in each offering envelope is to be compared with the amount written on the envelope. If the amount written on the envelope is incorrect or is not stated, the amount in the envelope is to be written in the appropriate space in red pencil to distinguish it from any markings made on the envelope by the contributor.

3. All amounts received in the church office during the week are to be listed on an Office Cash Receipts Form as they are received. All checks should immediately be endorsed for deposit with an endorsement stamp. The receipts should be kept in a safe place until the following Sunday. The completed form, receipts and any remittance advises are to be placed in the Financial Secretary's mail box in the church office in time to be included in the next Sunday's deposit. The offering team will pick up these receipts and process them with the rest of the offering.

4. The team shall count the cash using the Cash Count Work Sheet (see following) and prepare the bank deposit. All checks must be stamped for deposit with an endorsement stamp. Two copies of the Cash Count Work Sheet and three copies of the deposit slip are to be prepared.

5. The offering envelopes, the Office Cash Receipts form, one copy of the Cash Count Work Sheet and one copy of the deposit slip are to be placed in the Financial Secretary's mail box in the church office.

6. The original of the Cash Count Work Sheet and one copy of the deposit slip is to be placed in the Treasurer's mail box in the church office.

7. The team shall deposit the cash and checks with the original of the deposit slip in the bank using the night deposit. This shall be done no later than Sunday evening. The team captain is responsible for returning the night deposit key to the church.

8. **AT NO TIME SHALL THE DEPOSIT BE LEFT UNATTENDED AT THE CHURCH NOR TAKEN TO THE HOME OF ANY TEAM-MEMBER.**

9. The Financial Secretary is responsible for the proper performance of the duties assigned to the offering teams.

Instructions for Offering Counters

To Begin:

1. From the Office Work Room Cupboard, pick up:
   - A deposit bag
   - The key ring
   - The white office receipts envelope
2. From the chancel, pick up:
   - The offering plates
3. From the desk in the Sacristy, take out:
   - the calculator
4. From the desk in the Sacristy, remove:
   - Clipboard
   - Deposit slip book
   - Endorsement stamp
   - Pens
5. Check the clipboard to be sure it has three copies of the Cash Count Work Sheet, separated by carbon paper
   - Sign both your names
   - Write in day's date

Next Step

1. Remove everything from the white office receipts envelope.
2. Put all the office receipts in a pile
3. Set the yellow Office Receipts Form aside
4. Remove all the envelopes and loose checks from the offering plates. Leave the loose coin and currency in the plate.
5. Record the loose checks on the yellow Office Receipts Form. List name of giver, amount given and any designation written on the check.
6. Open all envelopes.

- **Members' Offering Envelopes** – Be sure the amount of the offering is written on the envelope. If it isn't, write it in.
- **Pew Envelopes** – Be sure the name of the giver and the amount of the gift is written on the envelope. If missing, write them in.
- Be sure to keep all cash from these envelopes completely separate from the loose offering left in the offering plate, with the following exception:
- If you find a Pew Envelope with no name written on it and the offering is in cash, set the envelope aside and put the contents in the offering plate with the loose offering.
- **Sunday School Offering Envelope** will be with the above envelopes. Open it at this time. Verify the offering count written on the envelope. Put this cash with the other cash from envelopes. Under no circumstances does it go with the loose offering.

Actual Counting

1. Have one person on the team responsible for counting the cash and the other responsible for totaling the checks.
2. <u>Checks:</u>
    a. Add the checks amounts on the calculator printing a tape.
    b. Repeat this step so that you have two identical tapes.
    c. Endorse the checks using the endorsement stamp on the back of each check. Verify that the checks that were in the Office receipts are already endorsed.
    d. On the Cash Count Work Sheet, write the total amount of the checks on the CHECKS line in the TOTALS column,
    e. Wrap one of the tapes around the checks and place them in the deposit bag.
3. <u>Cash from Envelopes:</u>
    a. Separate all currency by denomination.
    b. Count the number of bills in each denomination pile and record that number on the Cash Count Work Sheet on the correct denomination line in the NUMBER column under OTHER.
    c. Repeat this procedure with the coins and record them on the correct coins line in the NUMBER column under OTHER.
    d. Multiply the number by the denomination and write the total in the AMOUNT column under OTHER.
    e. Total the currency amount and coin amount columns under OTHER.
    f. Place all this cash in the deposit bag.
4. <u>Loose Cash:</u>
   Follow the same procedure as step 3 above but write the numbers and amounts in the column under LOOSE.
5. Add the totals on the Cash Count Work Sheet.
6. Complete the deposit slip.
7. Place the deposit bag with the checks, currency and coins, the originals of the deposit slip and the Cash Count Work Sheet.

To End:

1. Gather all the offering envelopes and put them in the white Office Receipts Envelope, together with a copy of the deposit slip and the Cash Count Work Sheet, the second calculator tape and the yellow Office Receipts Form.
2. Put the remaining copies of the deposit slip and the Cash Count Work Sheet together.
3. Lock the deposit bag.
4. Put fresh Cash Count Work Sheets on the clipboard and set up the deposit slip book for use next Sunday.
5. Return tools to appropriate desk drawers
6. Take the white Office Receipts Envelope and the remaining copies of the deposit slip and Cash Count Work Sheet to the Church Office.
    a. Put the copies of the deposit slip and the Cash Count Work Sheet in the Treasurer's box.
    b. Put the White Offering Receipts Envelope in the Financial Secretary's box.

Depositing the Offering:

1. One of the team takes the deposit bag and the key ring to the bank and makes the deposit in the night deposit box.
2. Return the key ring to the hook in the work room cupboard of the church.

DO NOT LEAVE ANY CASH IN THE CHURCH OFFICE OR SACRISTY!

____________________ Lutheran Church
Cash Count Worksheet
Date_____________________

	Loose		Other		
Currency:	**Quantity**	**Amount**	**Quantity**	**Amount**	
$100.00		**$**		**$**	
$50.00		**$**		**$**	
$20.00		**$**		**$**	
$10.00		**$**		**$**	
$5.00		**$**		**$**	
$1.00		**$**		**$**	
Total:		**$**		**$**	**$**
Coin:					
$.50		**$**			
$.25		**$**			
$.10		**$**			
$.05		**$**			
$.01		**$**			
Total:		**$**			**$**
Checks:		**(See attached tape)**			**$**
Total Deposit		**(Agrees with Deposit Slip)**			**$**

Offering Counted by:____________________________________

____

____

Date:____

4. Budgeting

What is a Budget?

A budget is a written plan for a stated time period (usually one year) which balances income and expenditures. It is a tool for ensuring that disbursements are not more than receipts. The basic functions of the budget are, first of all, to set goals for the coming year(s) and, second, to monitor the acquisition of these goals.

Objectives of a Budget

- To create a plan for the congregation that guides decisions during the year
- To be good stewards of the money that has been given to the church
- To solidify the goals of the church council and the various committees along with the needs of the congregation

Kinds 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 can be an obstacle to vision and development.

- **Unified Budget.** It pulls together all of the congregation's receipts and disbursements into one budget. Included in this one budget would be anticipated receipts and disbursement 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 program budget is a way of presenting the budget by putting all expenditures into various program categories, i.e., worship, education, 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 emphases more clearly than a line-item budget

- **Line-Item Budget.** A line-item budget is a simple listing of every line-item. It is not effective in communicating the overall plan of the congregation but is a much easier budget to develop.

- **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 only 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 their requested 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, taking into consideration any direction received from the congregation.

In an effort to expand participation 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 formally put into place, the important work of using and reporting on the budget must take 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, must be consistent from 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 those who have 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 comparisons made to the budget.
- The council must be prepared to take action when the actual compared to the budget shows a significant deviation.

5. Benevolence to Synod/Churchwide

Just as the members of each congregation share 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 securing 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 our office in the month of January. Our fiscal year stays open through January 31 to allow for this lag.

Statements

Every April 30, July 31, October 31, and January 31, which is the end of each quarter of our fiscal year (which tries to capture the quarters of the calendar year), we send out statements to each congregation. These statements are not a request from our office for more funds, but rather they are an opportunity for you to double check the accuracy of our handling of the monies that you remit to us. On occasion an input error occurs and maybe the gift gets credited to the wrong congregation or the wrong designated code. We ask that you review these statements and contact us if there is a discrepancy of any sort.

Where to Send

All benevolence checks should be made out ***in the name of your synod followed by "/Region 1 ELCA."*** The checks should be mailed to:

Region 1 ELCA
766 John Street, Suite B
Seattle, WA 98109

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 us are actually made up of two components: 1) that part which stays with your synod and goes toward the support of its ministries and 2) that part which gets forwarded to the churchwide office in Chicago and supports the more global endeavors. The percentage that gets forwarded on to the churchwide office ranges anywhere from 37% 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. We can take any gift for the following organizations:

Alaska Children Service
Lutheran Social Services of Alaska
Lutheran Community Services of Washington
Lutheran Community Services of Oregon
Lutheran Social Services of Montana
Alaska Christian Conference
Lutheran Compass Center
Washington Association of Churches
Columbia Pastoral Care Center

Lutherhaven
Lutherheights
Pacific Lutheran Theological Seminary
Luther Seminary
Concordia
Pacific Lutheran University
Trinity Lutheran College
Campus Ministries
LAMP
Northern Rockies Institute

These are the social ministry organizations that one or more synods support through their budgets, and as such we can also forward designated gifts to them. Any designated gifts such as those to local nursing homes, food banks and the like should **not** be sent to us but rather handled by the congregation directly. We can also take any designated gifts for special projects going on in each individual synod. For example the Alaska synod has Thorton Memorial (the Wales, Alaska congregation) that a number of other congregations support.

The other type of designated gifts that we can receive 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.

When we receive designated gifts at our office they stay with us only until the end of the month. At that time we close out all of our designated gift accounts and forward the monies to churchwide and the different organizations. This allows us to write only one check each month to each recipient. Each recipient also receives a listing with the check telling them who the money was actually from and the amount from each giver. So even though the check is from Region 1 it is very clear who gave the gifts.

Using the Remittance Form

Please use the remittance form that we provide you with to send in your benevolence. The form makes it easier for us to process, and it provides us with a hard copy trail after the check has been deposited. Feel free to make a copy for your records.

We will normally print your congregation's name and address along with the ID number on the supply of remittance forms you receive. Please double check that you have gotten the correct forms! We hope that most of the form is self-explanatory and easy to use. Line number one 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. Please don't feel like the listed organizations are suggestions or requests for dollars. Rather we printed some of the more common items to save us the work of looking up codes. Be as clear and descriptive as possible when using the last several lines of the form to list designated gifts. Please sure to total the gifts and make sure your remittance form equals the amount of the check you include. Please see the next page for a copy of a remittance form.

Alaska Synod of the ELCA
Remittance Form

	Dollar Amounts	ELCA Codes
Treasurer's Name/Number________________________		
1. ELCA/Synod Undesignated Benevolence	_____________	100
2. Designated Gifts-for Global Concerns		
World Hunger	_____________	2
Lutheran World Relief	_____________	4
Missionary Support for________________________	_____________	___________
Disaster Relief for____________________________	_____________	___________
Other_______________________________________	_____________	___________
Other_______________________________________	_____________	___________
3. Designated Gifts-for Regional & Local Concerns		
Campus Ministry for____________________Campus	_____________	___________
Continuing Education for______________________	_____________	701
Luther Seminary	_____________	703
Pacific Lutheran Theological Seminary	_____________	704
Pacific Lutheran University	_____________	705
Alaska Native Calling	_____________	105
Thornton Memorial/Wales	_____________	111
Seward Peninsula Endowment Fund	_____________	108
Lutheran Social Services of Alaska	_____________	114
Lutheran Vespers-Alaska	_____________	117
T.E.A.M.	_____________	116
Other_______________________________________	_____________	___________
Other_______________________________________	_____________	___________

TOTAL REMITTANCE _____________

FOR MONTH(S)________________________________

Make checks payable to: Alaska Synod/Region 1 FSO — Ck#__________________
Mail to: 766 John Street, Suite B, Seattle, WA 98109 — Ck date________________

Please make a copy for yourself. Please do not staple checks to the form.

6. Financial Compliance Review

What is a financial compliance review?

Generally a financial compliance review (also sometimes called an audit) 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 a financial compliance review?

- 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 principles.
- 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.
- To support the congregational treasurer in his duties and offer suggestions that promote effectiveness and efficiency

When to have a financial compliance review?

- When the fiscal year ends
- When a new treasurer is appointed
- When misuse of funds or dependability of the records is questioned
- Any other time the council or congregation deems necessary

Is an annual review required?

The churchwide office of the ELCA does not require that its congregations have a financial compliance review done every year, but it does highly recommend the practice. There is no stipulation concerning who performs that review, whether it be an outside auditor or a firm of auditors, or whether it be an internal audit carried out by a financial compliance review committee appointed by the church council. As a minimum please have the church council 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. An annual review by an internal committee need not be all-inclusive each year. Areas for review may be cyclical – one year the review may focus on cash disbursements; another year it may be an insurance review and another year cash receipts may be the area to target. The important thing is that there is this level of oversight and things are being reviewed on a periodic and regular basis. Having an outside auditor from a certified public accounting firm conduct the audit is of course another option and should seriously be considered in some instances.

Functions of the Financial Compliance Review Committee

The financial compliance review committee needs to be appointed by the church council and should be composed of at least two members. These individuals should of course not be the treasurer or financial secretary and should be individuals who have some familiarity with the terms, concepts and practices of the financial world. The financial compliance review can often be broken down into the areas of gathering information and testing the records.

Gathering Information

Obtain as much information and as many financial records as possible. Conduct interviews with those individuals involved in handling the finances to determine the type of bookkeeping system used, where the records are located, names of others involved and the magnitude of the task. Obtain copies of church council minutes, the previous year's audit, and the year-end financial statements. Review the procedures to account for offerings. Identify all bank accounts. Review and assess the internal controls.

Testing the records

Depending on the strength of the internal controls in place, records and accounts must be tested. If internal controls are quite strong, sample testing may prove adequate. When internal controls are quite weak, more testing of the records and accounts are needed. In addition to testing accounts and records, insurance coverage, overall documentation and timeliness and accuracy of tax and other filings with the government as well as contingent liabilities and budgets are normally reviewed.

Audit Procedures

1. **Cash Receipts.** Review the methods for handling receipts. Satisfy yourself that the internal controls are in place. Check that deposits are made in a timely fashion. Trace the amounts received to the cash receipts journal. Compare the entries in the cash receipts journal with the deposit slips, bank statements and offering count slips. Check the entries in the cash receipts journal for accurate account classification.

2. **Cash Disbursements.** Review the methods for handling disbursements. All checks should be accounted for in the cash disbursements journal. A sample testing of the checks should be traced back to the original invoices or vouchers, which in turn should be reviewed for proper payment approval as well as authenticity. The sample testing of checks would also trace them

forward to their posting to the appropriate account and to the financial statements.

3. **Petty Cash.** Determine that the disbursements had proper approval and that the disbursements were charged against the correct accounts. Should also review congregation's petty cash policy regarding maximum amounts of disbursements, how reimbursements are made to the fund, who has access to petty cash, for which items petty cash can be used as well as taking a physical count of petty cash.

4. **Payroll Records.** Trace the budget or council minutes which approve salaries to the payroll journals and the employee files. Compare payroll journals to the W-2s. Reconcile the W-2s, W-3, Form 941 and the budget. Make sure the necessary I-9 forms and W-4 forms have been filled out and that tax withholding is being done correctly. Make sure that all tax deposits have been made in a timely manner.

5. **Bank Statement Reconciliation.** The auditor or audit committee should prepare the year-end bank reconciliation. Inspect canceled checks for correct endorsements. Letters of confirmation are normally sent to the banking institutions asking them to confirm the amounts in savings accounts.

6. **Contributions.** A number of weeks should be tested to insure that the amount the counters reported was actually the amount posted to the contribution records as well as to the general ledger. If pledges are maintained, compare the reported pledge amount with the members' actual signed pledge cards.

7. **Insurance policies.** All insurance policies should be reviewed to make sure there is enough coverage and premiums are not excessive. Capital purchases made during the year should be traced from the general ledger to the policies.

8. **Investments.** Review all the securities and investments. Verify ownership and check that interest is being received and posted.

9. **Debt.** The auditor or audit committee should ask for letters of confirmation verifying the balance of each indebtedness. They should also review the terms of the loans to insure that the contract is current.

The follow pages show a sample financial compliance review program. This particular program breaks down the review into three distinct parts: 1.) An internal control questionnaire 2.)Obtaining information and 3) Testing transactions

1. The Internal Control Questionnaire (Each "yes" answer indicates strong internal controls. Each "no" answer indicates weak internal controls where further testing may be needed.)

General Information

1. Does the congregation have written financial policies in place? **___Yes ___No ___NA**
2. Have recommendations of prior reports on internal controls been implemented? **___Yes ___No ___NA**
3. Are important documents filed in a safe place? **___Yes ___No ___NA**
4. Does the church have a vault? **___Yes ___No ___NA**
5. Are restricted accounts set up only by church council action? **___Yes ___No ___NA**
6. Are restricted accounts documented and the reason for the restriction recorded? **___Yes ___No ___NA**
7. Are restricted accounts monitored and closed out after their purpose has been completed? **___Yes ___No ___NA**
8. Are endowment funds physically separate from other funds so they cannot be spent on general operations? **___Yes ___No ___NA**
9. Have the insurance needs of the congregation been reviewed recently? **___Yes ___No ___NA**
10. Are journal entries reviewed by someone other than the treasurer? **___Yes ___No ___NA**
11. Is there sufficient explanation for journal entries? **___Yes ___No ___NA**
12. Is a budget approved annual? **___Yes ___No ___NA**
13. Are changes to the budget authorized by the church council and reflected in the council minutes? **___Yes ___No ___NA**
14. Are financial reports prepared on a monthly basis? **___Yes ___No ___NA**
15. Are the reports presented in sufficient detail? **___Yes ___No ___NA**
16. Do the reports compare actual to budget? **___Yes ___No ___NA**

Cash Receipts

17. Are all employees who have access to cash bonded? **___Yes ___No ___NA**
18. Is the offering counted immediately after the worship service? **___Yes ___No ___NA**
19. Are there safeguards to protect the offerings from theft or misplacement from the time the collection is taken until the time the funds are counted and deposited? **___Yes ___No ___NA**
20. Do two or more unrelated individuals count the offering? **___Yes ___No ___NA**
21. Are the counters rotated periodically? **___Yes ___No ___NA**
22. Do the counters make use of a standard form for recording deposit information? **___Yes ___No ___NA**
23. Are the counter's sheets retained and reconciled with the actual deposits and are all discrepancies investigated? **___Yes ___No ___NA**
24. Is the bank deposit prepared as part of the counting process? **___Yes ___No ___NA**
25. Are all checks received endorsed "for deposit only" immediately upon receipt? **___Yes ___No ___NA**
26. Are the treasurer and financial secretary denied positions as counters? **___Yes ___No ___NA**
27. Do two or more people deposit the offering immediately following the counting? **___Yes ___No ___NA**
28. Is a copy of the deposit slip kept as a permanent part of the financial records? **___Yes ___No ___NA**
29. Do the counters sign the count sheet each week? **___Yes ___No ___NA**
30. Is the envelope system of receiving contributions encouraged? **___Yes ___No ___NA**
31. Are quarterly statements sent out to the donors? **___Yes ___No ___NA**

32. Do the quarterly statements contain proper IRS disclaimers? ___**Yes** ___**No** ___**NA**
33. Are "quid-pro-quo" statements prepared correctly? ___**Yes** ___**No** ___**NA**

Cash Disbursements

34. Is the treasurer bonded? ___**Yes** ___**No** ___**NA**
35. Does someone other than the treasurer approve vouchers or verify receipt of goods or services? ___**Yes** ___**No** ___**NA**
36. Are all disbursements made by check, except for small petty cash disbursements? ___**Yes** ___**No** ___**NA**
37. Are the checks safe from theft? ___**Yes** ___**No** ___**NA**
38. Are all checks pre-numbered and used sequentially? ___**Yes** ___**No** ___**NA**
39. Are voided checks properly canceled and retained? ___**Yes** ___**No** ___**NA**
40. Are all disbursements supported by original invoices? ___**Yes** ___**No** ___**NA**
41. Are invoices marked paid in order to prevent duplicate payment? ___**Yes** ___**No** ___**NA**
42. Are paid invoices filed in an easily accessible fashion? ___**Yes** ___**No** ___**NA**
43. Is more than one signature required on checks? ___**Yes** ___**No** ___**NA**
44. Is the signing of blank checks prohibited? ___**Yes** ___**No** ___**NA**
45. Is the use of signature stamp prohibited? ___**Yes** ___**No** ___**NA**
46. Were W-9 forms used to obtain social security number for those nonemployees who performed services for the congregation? ___**Yes** ___**No** ___**NA**
47. Were 1099MISC forms issued to those contractors who received $600 or more from the congregation? ___**Yes** ___**No** ___**NA**

Bank Reconciliations

48. Are all bank reconciliations reconciled promptly? ___**Yes** ___**No** ___**NA**
49. Is the bank reconciliation done by someone other than the treasurer or financial secretary? ___**Yes** ___**No** ___**NA**
50. Are cancelled checks and bank statements periodically reviewed by someone other than the treasurer? ___**Yes** ___**No** ___**NA**
51. Are outstanding checks of over 90 days reviewed for voiding or reissuing? ___**Yes** ___**No** ___**NA**
52. Are interest and service charges recorded promptly? ___**Yes** ___**No** ___**NA**

Petty Cash

53. Is the responsibility of the petty cash fund assigned to only one person? ___**Yes** ___**No** ___**NA**
54. Are vouchers written for every petty cash disbursement? ___**Yes** ___**No** ___**NA**
55. Do the vouchers plus the remaining cash always total the amount of the fund? ___**Yes** ___**No** ___**NA**
56. Is there adequate review of the vouchers before the fund is reimbursed? ___**Yes** ___**No** ___**NA**
57. Is the cashing of checks and loans to employees prohibited? ___**Yes** ___**No** ___**NA**

Payroll

58. Do Personnel Policies exist? ___**Yes** ___**No** ___**NA**
59. Are salary changes authorized by the church governing board? ___**Yes** ___**No** ___**NA**
60. Are housing allowances approved annually in advance? ___**Yes** ___**No** ___**NA**
61. Have employees filled out W-4 and I-9 forms? ___**Yes** ___**No** ___**NA**
62. Are there written records of the hours worked and approved by a supervisor for those employees paid on an hourly basis? ___**Yes** ___**No** ___**NA**
63. Are payroll taxes withheld according to the latest IRS withholding tables? ___**Yes** ___**No** ___**NA**
64. Are payroll taxes remitted to the Federal Reserve in a timely ___**Yes** ___**No** ___**NA**

fashion?

65. Have the quarterly 941 forms been filed in a timely fashion? ___**Yes** ___**No** ___**NA**
66. Have the W-2 forms been filed? ___**Yes** ___**No** ___**NA**
67. Have the W-2 forms been reconciled to the 941 forms? ___**Yes** ___**No** ___**NA**
68. Are vacation and sick days authorized and tracked? ___**Yes** ___**No** ___**NA**
69. Are policies enforced that require all employees to take vacations? ___**Yes** ___**No** ___**NA**
70. Are cash gifts from the employer treated as wages? ___**Yes** ___**No** ___**NA**
71. Is a separate bank account used for payroll? ___**Yes** ___**No** ___**NA**
72. Is the payroll account reconciled by someone other than the treasurer? ___**Yes** ___**No** ___**NA**
73. Are employees informed prior to their hiring as to their status with state unemployment? ___**Yes** ___**No** ___**NA**

Journal Entries

74. Is there appropriate explanation accompanying each journal entry? ___**Yes** ___**No** ___**NA**
75. Are journal entries approved by someone other than the person initiating the entry? ___**Yes** ___**No** ___**NA**
76. Is there adequate documentation to support each journal entry? ___**Yes** ___**No** ___**NA**

Investments

77. Are all investments held in the name of the church only? ___**Yes** ___**No** ___**NA**
78. Is authorization for sale or purchase of investments provided by the church council or investment committee? ___**Yes** ___**No** ___**NA**
79. Are investment instruments protected from fire, theft or misplacement? ___**Yes** ___**No** ___**NA**
80. Are the interest, dividends, gains and losses recorded? ___**Yes** ___**No** ___**NA**

Property & Equipment

81. Does the church council approve all additions of property? ___**Yes** ___**No** ___**NA**
82. Is an inventory of property maintained? ___**Yes** ___**No** ___**NA**
83. Is the inventory listing compared to the actual property, furniture and fixtures on a periodic basis? ___**Yes** ___**No** ___**NA**
84. Are there policies regarding the use of the facility? ___**Yes** ___**No** ___**NA**
85. Are there policies regarding the use of church property? (tables, chairs, etc)? ___**Yes** ___**No** ___**NA**
86. Are there policies regarding the disposal of church property? ___**Yes** ___**No** ___**NA**

Liabilities and Debt

87. Is all indebtedness authorized by the church council? ___**Yes** ___**No** ___**NA**
88. Are loan and lease agreements in writing and kept in a safe place? ___**Yes** ___**No** ___**NA**
89. Are all loan and lease agreements payments handled according to the terms stipulated? ___**Yes** ___**No** ___**NA**
90. Are all liabilities reflected on the balance sheet? ___**Yes** ___**No** ___**NA**

Computer Systems

91. Are current or duplicate backups of the operating system and programs stored off-site? ___**Yes** ___**No** ___**NA**
92. Are files backed up daily and stored off-site? ___**Yes** ___**No** ___**NA**
93. Is access to the system limited to authorized users? ___**Yes** ___**No** ___**NA**
94. Are adequate levels of security in place? ___**Yes** ___**No** ___**NA**
95. Is there adequate documentation available for all computer programs? ___**Yes** ___**No** ___**NA**

	Performed by	Date
2. Gathering Information		
1. Obtain the church council minutes.	____________	_______
2. Obtain the minutes of any committee authorized to disburse funds.	____________	_______
3. Obtain a listing and signature samples of authorized check signors.	____________	_______
4. Obtain the annual financial reports.	____________	_______
5. Obtain the interim financial reports.	____________	_______
6. Obtain a copy of the previous year's audit and internal control letter.	____________	_______
7. Obtain the Chart of Accounts.	____________	_______
8. Obtain the approved budget.	____________	_______
9. Obtain the general ledger and trial account balances.	____________	_______
10. Obtain the cash receipts journal.	____________	_______
11. Obtain the cash disbursements journal.	____________	_______
12. Obtain a listing of all property owned by the congregation.	____________	_______
13. Obtain a listing of all debts and mortgages.	____________	_______
14. Obtain a listing of all securities and investments.	____________	_______
15. Obtain a listing of all bank accounts.	____________	_______
16. Obtain the bank statements for the year (plus the last statement for the previous year and the first statement for the next year).	____________	_______
17. Obtain the cancelled checks for the year.	____________	_______
18. Obtain the deposit slips for the year.	____________	_______
19. Obtain a listing of outstanding checks and deposits in transit.	____________	_______

3. Testing the Records	Performed by	Date
Cash		
Obtain a listing of all bank accounts. Compare to last year's list and note any changes.	____________	_______
Trace any opening or closing of bank accounts to church council minutes.	____________	_______
Obtain the year-end bank statements and the 1st statement of the current year.	____________	_______
Reconcile the year-end statements to the accounting records and financial reports.	____________	_______
Verify that outstanding deposits from the last month of the fiscal year are shown as deposits on the following month bank statement.	____________	_______
Verify that outstanding checks from the last month of the fiscal year are shown as clearing on the following month bank statement.	____________	_______
Investigate any unusual reconciling items and note if there is proper documentation.	____________	_______
Investigate any older outstanding checks for possible voiding or reissuing.	____________	_______
Cash Receipts		
Select a sampling of Sundays. For each date chosen obtain the count sheets.	____________	_______
Verify the math on the selected count sheets.	____________	_______
Trace the amounts on the count sheet into the accounting records.	____________	_______
Trace the amounts to the bank deposit slip and the bank statement.	____________	_______
Select a sampling of contributors.	____________	_______
Compare their pledge amount with the original signed pledge card.	____________	_______
Trace the posting of contributions to the individual contribution records and the bank deposits.	____________	_______
Compare cash receipts from this year to last year. Note any significant deviations.	____________	_______
Investigate any significant deviations in individuals giving from prior years.	____________	_______
If warranted, send out a sampling of confirmation letters to congregational members asking them to confirm the amounts shown in the contribution records.	____________	_______
Cash Disbursements		
Verify the listing of check signers with the church council.	____________	_______
Select a selection of disbursements from the cash disbursements journal.	____________	_______
Review the sampling of cancelled checks selected. Note any irregularities about check signors, the number of signors and endorsements.	____________	_______
Review the supporting documentation. Note any irregularities about accuracy, approvals, and timeliness. Check the mathematical accuracy.	____________	_______
Determine the appropriate account to be charged and trace each item to the accounting records.	____________	_______
Scan the numerical sequence of checks. Investigate any missing numbers.	____________	_______
Examine all checks listed as void.	____________	_______
Compare expenditures with budget.	____________	_______

Investigate any significant over or under expended budget line items.	______________	________
Petty Cash		
Count Petty cash and reconcile the cash and receipts to the balance sheet.	______________	________
Review the receipts and determine if documentation is adequate.	______________	________
Determine that reimbursement to the fund is made in a timely manner.	______________	________
Verify that petty cash policies regarding fund amount, disbursement amounts and personnel are being followed.	______________	________
Payroll		
Select a sampling of employees.	______________	________
Examine the individual payroll files and note the presence of W-4s, I-9s, etc.	______________	________
Compare actual rates of pay with those authorized by the church council.	______________	________
Verify that the housing allowance is recorded and can be traced back to council minutes.	______________	________
Trace the payroll payments to the accounting records.	______________	________
Examine withholdings for accuracy.	______________	________
Examine any documentation authorizing voluntary deductions.	______________	________
Tie the sampling of the employees selected to their individual W-2s.	______________	________
Examine the quarterly 941s and tie them to the W-3.	______________	________
Verify that all tax deposits were made in a timely fashion.	______________	________
Verify payment of health insurance, pension and other fringe benefits.	______________	________
Investments		
Prepare a schedule of Investments.	______________	________
Compare the securities listed to the brokerage account. Tie the listing to both the balance sheet and the brokerage statements.	______________	________
Compare the book value of the investments to the market value and determine if any adjustments should be made to the books.	______________	________
Examine the investment documents and verify ownership is in the name of the church.	______________	________
Examine all transactions for verification of acquisitions and dispositions.	______________	________
Calculate an estimate of the annual interest earnings and compare to the interest shown in the financial statements.	______________	________
Property		
Compare the listing of property owned to the listing prepared for the previous year.	______________	________
Determine if additions or disposals were properly authorized.	______________	________
Do a physical inspection of new additions.	______________	________
Spot check to make sure older items are still present.	______________	________
Ensure that all property and equipment is adequately insured.	______________	________
If depreciation of property is recognized, review entries for accuracy.	______________	________
Debt		
Review the schedule of indebtedness.	______________	________
Review balances for reasonableness.	______________	________
Verify that all indebtedness was authorized by the church council.	______________	________
Verify, by direct communication with the lender, the outstanding		

indebtedness at the end of the year as well as the terms and conditions. Reconcile the debt shown on the balance sheet with the figure reported by the lending institution. ____________ _______

Insurance

Prepare a schedule of insurance that shows types and amounts of coverage. ____________ _______

Examine current insurance policies for dates and amounts to determine that adequate coverage exits. ____________ _______

Inquire as to whether there are any contingent legal actions facing the church. ____________ _______

7. Fund Accounting

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 Fund
2. Restricted Funds
3. Property, Plant and Equipment Funds
4. Endowment Funds
5. Designated Funds

General Fund

The general fund of a congregation is commonly called the operating fund. This is where all of the business and 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 funds other than their general 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 separate 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.

8. Chart of Accounts

The chart of accounts is a listing of all of the general ledger accounts within each fund. 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 be easy to use and understand.

In many cases the structure of your chart of accounts is defined by a computerized accounting system. These systems quite often have their own requirements for the account numbers you may use or how many digits your account numbers can be. The following is just a sample chart of accounts.

Quite often the first digit in your account structure will be a digit which represents the fund.

1 - General Fund
2 - Restricted Fund
3 - Property, Plant and Equipment Fund
4 - Endowment Fund
5 - Board Designated Fund

The next series of number can represent the different types of accounts.

1000 series - Assets
2000 series - Liabilities
3000 series - Fund Balances
4000 series - Revenues
5000 series - Expenditures

Each of these groups can be further broken down. The **assets** for example could be as follows:

1100 series - Current Assets
1200 series - Fixed Assets
1300 series - Other Assets

Current assets could be further broken down as follows. Our example uses liquidity as a means of further classification.

1110 series - Cash Accounts
1120 series - Short-Term Investments
1130 series - Accounts Receivable
1140 series - Other Current Assets

The fourth or final digit in our examples above would then be used for specific accounts within each group.

The expense accounts need the most extensive breakdown. In continuing with our example above, using the 5000 series for expenditures, the following is just one way classifying the disbursement accounts.

5010-5090 series - Payroll accounts
5100-5190 series - Payroll benefits accounts
5200-5290 series - Education accounts
5300-5390 series - Training accounts
5400-5490 series - Supplies accounts
5500-5590 series - Office & Admin accounts
5600-5690 series - Building & Utilities accounts
5700-5790 series - Equipment accounts
5800-5890 series - Mission accounts
5900-5990 series - Miscellaneous accounts

For congregations desiring further breakdown, another series of numbers can define their particular program areas. For example:

10 series - Worship
20 series - Education
30 series - Care/Fellowship
40 series - Evangelism
50 series - Resources
60 series - Community Relief
70 series - Youth
90 series - Administration

Using the process described above would give you an account number structure of X-XXXX-XX. In other words, Fund Number—Account Number—Program Number. Worship supplies could have an account number such as 1-5457-10, or 1545710, where the first digit represents the general fund, the second digit identifies it as an expenditure account, the third digit indicated that it is a supply type account, the fourth and fifth digits identifies the type of supply and the last two digits indicates that the expenditure was for the worship committee.

Some congregations find that switching the second series of numbers with the third series of number better suits their needs. That is they prefer to have the program number before the account number. Worship supplies would then have the account number of 1-10-5457.

The full chart of accounts might look something like the following:

ASSETS

1111	Petty Cash
1112	Cash-1st Interstate Checking
1113	Cash-USBank Savings
1121	Certificate of Deposit-Key Bank
1131	Accounts Receivable
1141	Prepaid Insurance
1142	Prepaid Expenses
1211	Land
1212	Buildings
1213	Furniture and Fixtures
1214	Office Equipment
1252	Accumulated Depreciation-Buildings
1253	Accumulated Depreciation-Furniture & Fixtures
1254	Accumulated Depreciation-Office Equipment
1311	Long-Term CD-1st Interstate
1312	ELCA MIF Certificate

LIABILITIES

2111	Accounts Payable
2112	Interest Payable
2113	Employees FIT Withholding Payable
2114	Employees FICA Withholding Payable
2115	Employees State Income Tax Withheld
2116	Employee Payroll Deductions Payable
2117	Deferred Revenues
2118	Long-term Debt-Current Portion
2210	Funds Held-Restricted
2311	Long-term Debt-1st Interstate Mortgage

FUND BALANCE

3111	Unrestricted Fund Balance
3211	Temporarily Restricted Fund Balance
3311	Permanently Restricted Fund Balance

SUPPORT AND REVENUE

4111	Undesignated Benevolence
4112	Designated Benevolence
4211	Interest Income
4311	Workshops/Events Income
4411	Rental Income

EXPENSES

5011	Salaries
5020	Wages-Hourly Individuals
5030	Housing Allowance
5040	Social Security Allowance
5110	Medical/Pension Benefits
5120	Continuing Education Benefits
5130	Worker's Compensation
5140	Employer's share FICA
5210	Pastor's Conferences
5230	Miscellaneous Seminars
5230	Computer Workshops
5310	Stewardship Training
5320	Worship Training
5330	Leadership Training
5410	Audio/Video Supplies
5420	Facilities Supplies
5430	Office Supplies
5440	Paper Supplies
5510	Shipping & Mailing
5520	Phone
5530	Printing & Duplicating
5540	Insurance
5550	Audit Fee
5610	Storage Rent
5620	Utilities
5630	Remodeling
5691	Depreciation-Building
5710	Maintenance & Repair
5720	Rental of Equipment
5730	Purchases less than $500
5740	Purchases more than $500
5792	Depreciation-Furniture & Fixtures
5793	Depreciation-Office Equipment
5810	Financial Support to Individuals
5820	Financial Support to Organizations
5830	Financial Support to Synod/ELCA

9. Accrual Accounting

Cash and accrual are two different accounting methods by which an organization can keep its books.

With cash-based accounting, a transaction occurs whenever cash changes hands. Revenue is recorded when cash is received. Expenses are recorded when cash is spent.

With accrual-based accounting, revenue is recorded when it has been earned regardless of when it is received. Likewise, expenses are recorded when they are actually incurred rather than when the cash is spent. As you can imagine, this would result in the posting of a great number of receivables and payables as well as deferred revenues and prepaid expenses.

In order to be in conformity with Generally 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.

For most congregations, however, the accrual method of accounting proves to be more complicated and time-consuming than is practical. Compliance with such principles become important only when the church has a need to publish its financial statements to outside parties. Records and financial statements based on cash accounting are often adequate and informative and may not be materially different from those records and financial statements which are based on the accrual method. For these reasons, many congregations choose to maintain their accounting records on a cash basis during the year and then convert to an accrual basis at the end of the year for the purpose of producing the annual financial statements.

10. Financial Reporting

After much work has gone into the budgeting process and you as the treasurer have spent hours processing transactions, now comes the fun job of capturing the financial data and transforming it into meaningful reports. Decisions about the life and direction of your congregation need to be made and these decisions will be based somewhat on the financial reporting that you provide.

- At the very minimum the financial statements should consist 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.

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.

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.

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 also 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 can handle more detail make sure the reports provide it in a format that doesn't overwhelm them.

Copies of sample reports follow.

Zion Lutheran Church
Balance Sheet
December 31, 2003

	General Fund	Restricted Fund	Plant Fund	Endowment Fund	Total All Funds
ASSETS					
Cash and Cash Equivalents	84,545	32,947	5,475	4,555	127,522
Accounts Receivable	1,768				1,768
Pledges Receivable			72,500		72,500
Other Current Assets	2,591				2,591
Land, Buildings and Equipment			627,000		627,000
Investments	10,000	65,000		255,000	330,000
Total Assets	98,904	97,947	704,975	259,555	1,161,381
LIABILITIES					
Accounts Payable	2,579			2,000	4,579
Payroll Withholdings	524				524
Deferred Revenue	10,000				10,000
Current Portion Long-Term Debt			10,000		10,000
Long-Term Debt			225,000		225,000
Total Liabilities	13,103	0	235,000	2,000	250,103
FUND BALANCE					
Unrestricted	85,801				85,801
Temporrily Restricted		97,947			97,947
Permanently Restricted				257,555	257,555
Net Investment in Plant			469,975		469,975
Total Fund Balances	85,801	97,947	469,975	257,555	911,278
Total Liabilities and Fund Balances	98,904	97,947	704,975	259,555	1,161,381

Zion Lutheran Church
Statement of Revenue and Expense
For Year To Date Ending 12/31/03

	General Fund	Restricted Funds	Plant Funds	Endowment Funds	Total All Funds
Support and Revenue					
Contributions	459,158	32,245	16,675		508,078
Interest Income	962	1,103	330	3,123	5,518
Workshops/Events Income	733				733
Bequests				72,000	72,000
Total Support and Revenue	460,853	33,348	17,005	75,123	586,329
Expenses (by Program)					
Worship	153,833	8,225		5,000	167,058
Education	15,755	2,156			17,911
Care/Fellowship	16,229	7,110			23,339
Evangelism	17,578				17,578
Resources	57,238				57,238
Community Relief	5,995	5,755			11,750
Youth	5,275				5,275
Administration	178,254		5,241		183,495
Total Expenses	450,157	23,246	5,241	5,000	483,644
Excess of Support and Revenue Over Expenses	10,696	10,102	11,764	70,123	102,685
Fund Balance at Beginning of Year	75,105	87,845	458,211	187,432	808,593
Fund Balance at End of Year	85,801	97,947	469,975	257,555	911,278

Zion Lutheran Church
Statement of Cash Flows
For Year To Date ending 12/31/2003

	General Fund	Restricted Fund	Plant Fund	Endowment Fund	Total All Funds
Operating Cash Flows					
Excess Revenues (Expenses)	10,696	10,102	11,764	70,123	102,685
Adjustments:					
Depreciation	2,479				2,479
Change in Prepaid Expenses	(945)				(945)
Change in Accounts Payable	1,003				1,003
Change in Payroll Withholding	155				155
Change in Deferred Revenue	(3,267)				(3,267)
Net Operating Cash Flows	10,121	10,102	11,764	70,123	102,110
Financing Cash Flows					
Proceeds from Borrowings					0
Repayment of Debt			(25,000)		(25,000)
Net Financing Cash Flows	0	0	(25,000)	0	(25,000)
Investing Cash Flows					
Fixed Asset Sales (Purchases)	(4,295)				(4,295)
Purchase of Investments	(10,000)	(35,000)		(130,000)	(175,000)
Proceeds of Investments		40,000		60,000	100,000
Net Investing Cash Flows	(14,295)	5,000	0	(70,000)	(79,295)
Net Increase (Decrease) in Cash	(4,174)	15,102	(13,236)	123	(2,185)
Transfers	(10,000)		10,000		0
Cash and Cash Equivalents:					
Beginning of Year	98,719	17,845	8,711	4,432	129,707
End of Year	84,545	32,947	5,475	4,555	127,522

11. Petty Cash Accounts

Petty Cash

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. The downside to a petty cash account is that cash offers the greatest risk of misappropriation unless it is closely monitored.

A petty cash 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 account 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 measure is 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. She also needs to fill out a voucher of sorts and have it signed by the payee. See the next page for an example.

At any time the total cash available in the petty cash fund when added to the total of the vouchers must equal the beginning petty cash fund balance. For example, if the beginning petty cash fund was $200.00 and three months later the fund is down to $24.00, then the vouchers must total the $176 which was disbursed. When the petty cash fund falls to a predetermined level, the petty cash treasurer summarizes the vouchers and fills out a check request which equals the total of the vouchers and brings the petty cash fund back to its original level. 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 Voucher

Date______________________________ **Paid to:**______________________________

Amount___________________________ **Payee Signature**_____________________

Account Code_____________________ **Treasurer's initials**__________________

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 reimbursements come in the petty cash treasurer verifies that the request is legitimate, collects any receipts and issues a check for reimbursement. He must also fill out a petty cash voucher.

Petty Cash Checking Voucher

Date______________________________ **Paid to:**______________________________

Amount___________________________ **Check number**_______________________

Account Code_____________________ **Treasurer's initials**__________________

At all times the amount of the balance of the petty cash checking account along with the checking vouchers must total the beginning petty cash balance. For example, if the petty cash checking account was opened with $1,000.00 and the balance of the account is down to $72.00 then the checking vouchers should total the $928.00 which was disbursed. When the petty cash checking account balance falls to a certain predetermined level, the petty cash treasurer totals up all vouchers, makes up a check request which tells the congregational treasurer the breakdown of the expenses, attaches all the vouchers and receipts 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 at the same bank) charging the appropriate expense accounts. The congregational treasurer or a 3rd party should be responsible for reconciling the bank statement of the petty cash checking account rather than the petty cash treasurer.

12. Employees and Independent Contractors

A congregation typically has a number of individuals 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 employee must comply with instructions about when, where and how to work.

2. **Training** – an employee must be trained to perform services in a particular manner whereas an independent contractor will normally use their own methods.

3. **Integration** – integrating a worker's services into the business operations indicates direction and control and means the worker is an employee.

4. **Services rendered personally** – a worker who must perform services personally suggests that the worker is an employee. A self-employed individual generally has the right to hire a substitute.

5. **Hiring, supervising, and paying assistants** – an employee works for an employer who hires, supervises and pays assistants. An independent contractor hires, supervises and pays his own assistants.

6. **Continuing relationship** – work performed at frequently recurring, although irregular, intervals suggests employee status.

7. **Set hours of work** – an employee works the times required by an employer whereas an independent contractor sets her own schedule.

8. **Full time required** - if full-time work is required, the worker is generally an employee. An independent contractor can choose when and for whom to work.

9. **Doing work on employer's premises** – an employee works on the employer's premises or at routes or locations designated by the employer.

10. **Order or sequence of work** – if a job must be performed in the order or sequence set by the employer, then control is demonstrated and employee status is suggested.

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, or month** - an employee is normally paid by the hour, week or month. Payment by job suggests independent contractor.

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. An independent contractor generally takes care of his own business and travel expenses.

14. **Furnishing of tools and materials** – an employee is furnished significant tools, materials and other equipment by an employer. An independent contractor must provide his or her own tools and equipment.

15. **Significant investment** - if all the necessary equipment and premises are furnished by the employer, this can suggest that the worker is an employee. An independent contractor has significant investment in the facilities he uses in performing services for someone else.

16. **Realization of profit or loss** - employees do not realize profits or losses on the services they perform. An independent contractor can make a profit or suffer a loss.

17. **Working for more than one firm at a time** - an employee typically works for only one firm. An independent contractor 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 independent contractors.

19. **Right to discharge** - the right to discharge is generally a right of the employer and indicates that the worker is an employee. An independent contractor usually cannot be fired as long as he is producing the results specified in the contract.

20. **Right to quit** - an employee can normally leave her employer at any time she wishes. An independent contractor, on the other hand, is usually legally obligated to complete the contracted job.

Please do take a look at the list of factors before making payment to anyone for services rendered. There are not a set number of factors required for the determination between employee or independent contractor status, but hopefully the 20 factors can provide some guidance. If a determination as to status is still not possible after applying these factors, an employer can file a Form SS-8 with the IRS and the IRS will determine if an employer-employee relationship exists. 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 W-2s and 1099s.

Independent Contractors

If after going through the definition of a common law employee and applying the 20 criteria stated above, 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, 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 strongly suggested that whenever the congregation has contract work done they request that the contractor give them a completed W-9 form so as to secure the social security number of this individual.

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 and medicare tax from the employees' wages. They also need to match the amount of social security and medicare 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 & medicare) 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 ministers 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 the purpose of social security reporting purposes.

The IRS Publication 517 states that in most cases ordained clergy are considered to be employees of the congregation. Page 3 reads as follows:

> Even though you are considered a self-employed individual in performing your ministerial services for social security purposes you may be considered an employee for income tax or retirement plan purposes. For income tax or retirement plan purposes, some of your income may be considered self-employment income and other income may be considered wages.
>
> **Common law employee.** Under common law rules, you are considered either 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. …If you are employed by a congregation for a salary, you are generally a common-law employee and income from the exercise of your ministry is considered wages for income tax purposes. However, amounts received directly from members of the congregation, such as fees for performing marriages, baptisms, or other personal services, are considered self-employment income.
>
> **Example.** A church hires and pays you a salary to perform ministerial services subject to its control. Under the 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
- State Unemployment coverage (Oregon)

The fringe benefits listed are some typical employee non-taxable benefits, but such things would never be given to a self-employed contract laborer. If your pastor is receiving any such 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.

13. Clergy Housing Allowance

One of the few significant tax advantages 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.

Who qualifies for the housing allowance exclusion?

- Must be employed by a church (or agency of the church)
- Must be ordained
- 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 and improvements

How much of the pastor's salary can be used as the Housing allowance?
The **lowest** of the following amounts:

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

How is the difference between the designated housing allowance and the actual expenditures 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 furnishings, repairs, utilities and other housing-related costs.

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 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 housing 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 informational box.

14. Cafeteria Plans

A cafeteria plan (also called a flexible benefits plan) is a benefits package in which the employer provides the same basic coverage to all employees and then allows them to select the other benefits they want from a number of options. It is a written plan established by the employer that allows the employees to choose between taxable compensation (cash) or a menu (hence the term cafeteria) of certain nontaxable benefits.

The basic elements of a cafeteria plan include:

- The plan must be in writing and must satisfy Internal Revenue Code Section 125
- The plan must not discriminate in favor of "highly compensated employees"
- Employers must meet the recordkeeping and reporting requirements. This means filing Form 5500 with the IRS (please note that filing the Form 5500 has been suspended indefinitely for certain filers at this point)
- Employers must give employees the opportunity to choose between taxable cash compensation or certain nontaxable "qualified" benefits. The benefits obtainable under a cafeteria plan most often include:
    - Employer reimbursement of medical expenses
    - Dependent Care Assistance Plans
    - Employer-paid medical insurance premiums
    - Employer-paid group term life insurance

The most common type of cafeteria plan makes use of what is known as Flexible Spending Accounts (FSAs) Flexible spending accounts are accounts individually allocated to an employee to pay for specified expenses not covered under the group benefit plan. These expenses can include medical, dental, vision or work-related dependent care costs.

The flexible spending accounts are paid for by either employer contributions or by employee salary reduction. Money goes into the accounts on a pretax basis and any reimbursements paid out of the accounts are not considered taxable income to the employee. A spending account is accessible during the entire plan year for reimbursement of eligible expenses.

According to Section 125 of the Internal Revenue Code, funds for a flexible spending account must be used during the plan year or else they are returned to the employer. Separate accounts need to be established for health and job-related dependent care. Crossover funding is not allowed. Employees must choose their options at the beginning of the plan year. Other restrictions and rules apply. Employees using the flexible spending account for dependent care expenses lose the IRS Schedule 2441 child care credit.

For illustrative purposes, let's assume that First Lutheran Church has adopted a cafeteria plan for their employees. First Lutheran already covers its employees through the ELCA Board of Pensions and cannot afford to pay out for any more benefits, but they have given its employees the opportunity to fund their own flexible spending accounts. Two employees of First Lutheran have read through the plan and decide it would be to their benefit to participate. Pastor Dave, who has a salary package comprised of $25,000 salary, $15,000 housing allowance and $3,000 SECA offset, has a daughter who will need orthodontia work done this year. Board of Pensions will cover some of the expense but Pastor Dave's dentist estimates that Pastor Dave will need to cover an additional $2,500 out of his own pocket. Jennifer, the church secretary, earns $22,000 and has two children in daycare. Jennifer knows that she and her husband will spend roughly $5,000 on daycare expenses this year. Both employees enroll during the December enrollment period. Pastor Dave signs up for a $200 per month medical reimbursement account and Jennifer signs up for a $400 per month dependent care assistance account. Starting with the January payroll, $200 is deducted from Pastor Dave's paycheck per month and put into a separate flexible spending account for him. Likewise, $400 is deducted each month from Jennifer's paycheck and put into an account for her. Jennifer submits copies of her daycare expenses every month and is reimbursed. Pastor Dave's account continues to build during the year until he finally received the $2,602 orthodontia bill in October. At that time he submits the billing and is reimbursed for the full $2,400 which was agreed on.

The tax savings for each of the employees can be summarized as follows:

	Pastor Dave	Jennifer
Original Salary (plus SECA offset)	28,000	22,000
Less FSA deduction	2,400	4,800
W-2 (Box 1) Taxable Income	25,600	17,200
Self-employment/FICA tax savings (15.3% self-employment rate for Pastor Dave and 7.65% FICA rate for Jennifer)	367	367
Federal Income Tax Savings (assumes the 15% tax bracket for Pastor Dave and the 25% tax bracket for Jennifer)	360	1,200
Total Savings	727	1,567
Less loss child care credit (20%)		960
Actual Tax Savings	727	607

Please note that even though the W-2 Box 1 amounts are significantly lower than what they would have been without the cafeteria plan, the employees did actually receive their original salaries – just that some of it was now in the form of reimbursement for medical and daycare expenses. The beauty of a cafeteria plans is that if you have the type of expenses that qualify under Section 125 and you can reasonably estimate these expenses you'll definitely save money in taxes. How much you save depends upon the amount of your expenses and your tax bracket. Savings are realized from both Federal Income Tax and FICA Tax (or self-employment taxes for clergy). Just remember that if the full amount which was designated under the cafeteria plan is not used by year end, it goes to the employer. The employee loses it. Plus it is necessary to keep in mind that using a cafeteria plan lowers ones income reported for social security tax purposes and may lower your social security income in retirement for certain individuals.

In many congregations cafeteria plans have not been offered to their employees simply because of the additional work involved for the church treasurer. One solution to this is to use a 3rd party plan administrator. The 3rd party administrator can provide the written plan, administer the accounts and file any necessary paperwork with the IRS. Administrative Resources Corporation (ARC) is the 3rd party administrator used by the ELCA Board of Pensions and the ELCA Churchwide office. ARC can be contacted directly at 1-800-588-2020 and the Board of Pensions web site has a booklet answering some of the most common questions about flexible spending accounts at www.elcabop.org/resources_tools/downloads/pdf/20_413_fsa.pdf.

15. Payroll Illustrations

Prior to doing any payroll-related tasks it is necessary to make sure the following issues have been addressed.

Employer Identification Number. Every congregation should have an EIN number. Most congregations will have had this number since they were formed. If you are a new mission start congregation and do not yet have an EIN number please call our office and ask for assistance in this process from Division for Outreach.

W-4 Forms. Each employee must complete a W-4 form for their employer. The form remains valid until a new one is furnished by the employee. Remember that if an employee claims 10 or more exemptions on the W-4 form, the W-4 form must be submitted to the IRS by the employer.

I-9 Forms. Each employee is required to fill out the federal I-9 Form put out by the US Department of Justice Immigration and Naturalization Service. This form requires the employer to have examined documentation regarding the employee's eligibility to work in the United States.

Payroll Authorization. Before doing the first payroll of the year make sure payroll amounts have been authorized by the appropriate governing body. Sometimes false assumptions or incorrect information can lead to misunderstandings or inaccurate payroll checks being issued.

Taxable Wage. We all know that salaries are considered taxable wages, but there are additional items to consider as well. Did you know that the IRS considers the following things taxable compensation?

- Bonuses
- Cash Christmas or retirement gifts
- Social Security offset amounts
- Forgiven debt
- Imputed interest on a low-interest or no-interest loan from the congregation
- Car or other allowances under a nonaccountable reimbursement arrangement
- Noncash compensation

Since the above items are all subject to federal income and social security (or self-employment taxes for clergy) its important to run these items through the payroll so that the correct withholding is calculated and the correct amount is reflected on the W-2.

Publication 15 (Circular E). The IRS will send you a new Publication 15 each year. Publication 15 gives you the current IRS federal income withholding tables. Please be sure to obtain and use Publication 15 to ensure the correct amount of taxes are being withheld.

For illustrative purposes let's assume that First Lutheran Church employs six individuals: a Lead Pastor, an Associate Pastor, a Youth Director, an Administrative Assistant, an Organist and a Custodian.

The salary packages for the six individuals are as follows:

- Lead Pastor John Swenson receives a salary of $30,000, a housing allowance of $20,000 and a social security offset amount of $3,250. Pastor Swenson has enrolled in the Optional Pension Plan with Board of Pensions and has $6,000 deducted from his paycheck during the year to add to his retirement savings.

- Associate Pastor Sally Nelson receives a salary of $28,000 and a social security offset of $2,900. Pastor Nelson lives in the church-owned parsonage which has a fair rental value of $12,500. Pastor Nelson has also decided to have $100 per month withheld from her paycheck to fund her flexible medical spending account.

- Heidi Johnson is the Youth Director. Ms Johnson is an Associate in Ministry and receives a salary of $27,000. Ms Johnson is contributing $3,000 to her optional Thrivent 403(b) plan this year.

- Susan Brown is the administrative assistant and receives a salary of $25,200. Ms Brown also will be participating in First Lutheran's cafeteria plan and wishes to have $125.00 per month withheld from her paycheck and put into a flexible medical spending account.

- Phil Smith is the part-time church custodian and receives a salary of $9,000.

- Robert Jones is the organist and receives a salary of $7,800.

First Lutheran Church has a valid EIN number and the above listed amounts were approved by First Lutheran's executive counsel. All of the above individuals are classified as employees as opposed to independent contract laborers and all have filled out W-4 and I-9 forms. Because of their clergy status, both Pastor Swenson and Pastor Nelson are exempt from any withholding. Pastor Nelson, however would like to enter into a voluntary withholding agreement with First Lutheran and on her W-4 form she requests that $600 per month be withheld as federal income taxes. Heidi Johnson claims single and no dependents on her W-4 form, as do Phil Smith and Robert Jones. Susan Brown claims married and 2 exemptions on her W-4.

Based on the above information, the monthly net wages for the above listed employees is as follows:

Pastor Swenson: $3,937.50 ($2,500.00 salary, $1,666.67 housing, $270.83 seca, less $500.00 which First Lutheran remits to the Board of Pensions on his behalf.)

Pastor Nelson: $1,875.00 ($2,333.33 salary, $241.67 seca, less $100.00 for the medical spending account and $600.00 for federal income taxes.)

Heidi Johnson: $1,509.37 (2,250.00 salary, less $250.00 withheld and remitted to Thrivent, $237.50 withheld for federal income taxes, $139.50 withheld for FICA taxes and $32.63 withheld for medicare taxes.)

Susan Brown: $1,744.74 ($2,100.00 salary, less $125.00 withheld and put into a flexible medical spending account for Ms Brown, $79.17 withheld for federal income taxes, $122.45 withheld for FICA taxes and $28.64 withheld for medicare taxes.)

Phil Smith: $639.70 (750.00 salary, less $52.92 federal withholding, $46.50 FICA withholding, and $10.88 medicare withholding.)

Robert Jones: $557.35 (650.00 salary, less $42.92 federal withholding, $40.30 FICA withholding and $9.43 medicare withholding.)

The Congregational Treasurer cuts payroll checks in the above amounts once a month. At the same time he issues a $500.00 check payable to Board of Pensions on behalf of Pastor Swenson and a $250.00 check to Thrivent on behalf of Ms Johnson. $100.00 is put into a flexible medical spending account for Pastor Nelson as is the $125.00 for Ms Brown. The congregational treasurer makes use of the Electronic Federal Tax Payment System and goes to www.eftps.gov to makes arrangements to have the payroll taxes transferred from 1st Lutheran's bank account by the 15th of the following month. The amount that he transfers is a total of $1,873.17. This is made up of $1,012.51 federal taxes, 697.50 FICA taxes (both employer and employee shares) and $163.16 medicare taxes (both employer and employee shares.)

Every quarter of the calendar year the congregational treasurer receives in the mail a new 941 form. These are due back to the IRS one month after the end of each calendar quarter. The congregational treasurer in our example sits down in early April to complete the 941 for the 1st quarter of the calendar year. The monthly detail per employee is listed below:

	Total Wages	Social Security Wages
Pastor Swenson	2,270.83	
Pastor Nelson	2,475.00	
Ms Johnson	2,000.00	2,250.00
Ms Brown	1,975.00	1,975.00
Mr Smith	750.00	750.00
Mr Jones	650.00	650.00

Line 1 asks for the number of employees and the treasurer puts in the number 6.

Line 2 asks for the total wages. This amounts to $30,362.49 for the first quarter. Please note that the housing allowance amounts are excluded from this.

Line 3 asks for the income taxes withheld. This amounts to $3,037.53 for the first quarter.

Line 6a asks for the amount of wages subject to social security tax. Never include the clergy wages when doing the computations in this section. In our illustration this amount was $16,875.00.

Line 6b asks you to multiply this number by 12.4% which in our example comes to $2,092.50

Line 7a asks for the amount of wages subject to Medicare which in most cases will be the same as line 6a. The instructions tell us to multiply the $16,875 by 2.9% which comes to $489.38.

Line 8 asks the treasurer to add lines 6a and 7 for a total of $2,581.88.

Line 9 allows for adjustments of social security and medicare taxes. Our treasurer has noted that line 7 came to $489.38 but because of the way the percentage calculates on the individual employees he has actually remitted a total of $489.48 in medicare taxes to the US Department of Treasury. The treasurer puts .10 on this line to force the balancing.

Line 10 asks the treasurer to add lines 8 and 9 for a total of $2,581.98.

Line 11 asks the treasurer to add lines 5 and 10 which amounts to $5,619.51.

Line 12 is 0.00 in this example.

Line 13 is again $5,619.51.

Line 14 is also $5,619.51.

Line 15 is 0.00.

Moving down to line 17, the treasurer fills in the amount $1,873.17 for each quarter and totals them to $5,619.51 for column d.

Please see the next page for the completed example.

To conclude our payroll illustration, let's assume that all six employees stayed at First Lutheran Church for the remainder of the calendar year. There were no bonuses or other types of compensation given to the employees and their wages stayed the same for the following three quarters. Our good treasurer sits down in January and completes the W-2s and W-3. Examples of the W-2 forms and the W-3 form can be found on the following pages.

Assume that four identical 941 forms were filed for the year. Please note how the various lines of the 941s, W-2s and the W-3 tie to each other.

- Lines 2 of the four 941s should equal box 1of the W-3 which equals boxes 1 of the six W-2s.

- Lines 3 of the four 941s should equal box 2 of the W-3 which equals boxes 2 of the six W-2s.

- Line 6a of the four 941s should equal box 3 of the W-3 which equals boxes 3 of the six W-2s.

- Likewise lines 7a of the 941s should equal box 5 of the W-3 which equals boxes 5 of the six W-2s.

- Line 6b of the four 941s should be approximately twice the amount of box 4 of the W-3 which equals boxes 4 of the W-2s.

- Line 7b of the four 941s should be approximately twice the amount of box 6 of the W-3 which equals boxes 6 of the W-2s.

Satisfied that the W-2s are filed correctly, the treasurer distributes them to the employees by the January 31st due date. The W-3 is filed by February 28th.

Form **941** (Rev. January 2003)
Department of the Treasury Internal Revenue Service (99)

Employer's Quarterly Federal Tax Return

▶ **See separate instructions revised January 2003 for information on completing this return.**

Please type or print.

Enter state code for state in which deposits were made **only** if different from state in address to the right ▶ (see page 2 of separate instructions).

Name (as distinguished from trade name): **First Lutheran Church**	Date quarter ended: **03/31/04**	OMB No. 1545-0029
Trade name, if any	Employer identification number: **91-9999999**	T / FF / FD / FP / I / T
Address (number and street): **766 John Street**	City, state, and ZIP code: **Seattle, WA 98109**	

If address is different from prior return, check here ▶ ☐ IRS Use

A If you **do not have to file** returns in the future, check here ▶ ☐ and enter date final wages paid ▶
B If you are a seasonal employer, see **Seasonal employers** on page 1 of the instructions and check here ▶ ☐

1	Number of employees in the pay period that includes March 12th . ▶	1	6			
2	Total wages and tips, plus other compensation			2	30362	49
3	Total income tax withheld from wages, tips, and sick pay			3	3037	53
4	Adjustment of withheld income tax for preceding quarters of **this calendar year**			4		
5	Adjusted total of income tax withheld (line 3 as adjusted by line 4)			5	3037	53
6	Taxable social security wages	6a	16875 00 × 12.4% (.124) =	6b	2092	50
	Taxable social security tips	6c	× 12.4% (.124) =	6d		
7	Taxable Medicare wages and tips	7a	16875 00 × 2.9% (.029) =	7b	489	38
8	Total social security and Medicare taxes (add lines 6b, 6d, and 7b). **Check here if wages are not subject to social security and/or Medicare tax** ▶ ☐			8	2581	88
9	Adjustment of social security and Medicare taxes (see instructions for required explanation) Sick Pay $ ____ ± Fractions of Cents $ +.10 ± Other $ ____ =			9		10
10	Adjusted total of social security and Medicare taxes (line 8 as adjusted by line 9)			10	2581	98
11	**Total taxes** (add lines 5 and 10)			11	5619	51
12	Advance earned income credit (EIC) payments made to employees (see instructions)			12	0	00
13	Net taxes (subtract line 12 from line 11). **If $2,500 or more, this must equal line 17, column (d) below (or line D of Schedule B (Form 941))**			13	5619	51
14	Total deposits for quarter, including overpayment applied from a prior quarter			14	5619	51
15	**Balance due** (subtract line 14 from line 13). See instructions			15	0	00
16	**Overpayment.** If line 14 is more than line 13, enter excess here ▶ $ ____ and check if to be: ☐ Applied to next return **or** ☐ Refunded.					

- **All filers:** If line 13 is less than $2,500, **do not** complete line 17 **or** Schedule B (Form 941).
- **Semiweekly schedule depositors:** Complete Schedule B (Form 941) and check here ▶ ☐
- **Monthly schedule depositors:** Complete line 17, columns (a) through (d), and check here ▶ ☐

17 Monthly Summary of Federal Tax Liability. (Complete **Schedule B (Form 941)** instead, if you were a semiweekly schedule depositor.)

(a) First month liability	(b) Second month liability	(c) Third month liability	(d) Total liability for quarter
1873.17	1873.17	1873.17	5619.51

Third Party Designee
Do you want to allow another person to discuss this return with the IRS (see separate instructions)? ☐ **Yes.** Complete the following. ☐ **No**
Designee's name ▶ **Phone no.** ▶ ( ) Personal identification number (PIN) ▶

Sign Here
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.
Signature ▶ **Print Your Name and Title** ▶ **Date** ▶

For Privacy Act and Paperwork Reduction Act Notice, see back of Payment Voucher. Cat. No. 17001Z Form **941** (Rev. 1-2003)

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 91-9999999		1 Wages, tips, other compensation 27249.96	2 Federal income tax withheld
c Employer's name, address, and ZIP code First Lutheran Church 766 John Street Seattle, WA 98109		3 Social security wages	4 Social security tax withheld
		5 Medicare wages and tips	6 Medicare tax withheld
		7 Social security tips	8 Allocated tips
d Employee's social security number 222-22-2222		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial John	Last name Swenson	11 Nonqualified plans	12a See instructions for box 12 E 6000.00
		13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐	12b
12928 47th DR NW Seattle, WA 98108		14 Other 30000.00 salary 20000.04 housing 3249.96 seca	12c
			12d
f Employee's address and ZIP code			

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2 Wage and Tax Statement** 2004

Copy D—For Employer.

Department of the Treasury—Internal Revenue Service

For Privacy Act and Paperwork Reduction Act Notice, see back of Copy D.

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 91-9999999		1 Wages, tips, other compensation 29700.00	2 Federal income tax withheld 7200.00
c Employer's name, address, and ZIP code First Lutheran Church 766 John Street Seattle, WA 98109		3 Social security wages	4 Social security tax withheld
		5 Medicare wages and tips	6 Medicare tax withheld
		7 Social security tips	8 Allocated tips
d Employee's social security number 666-66-6666		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Sally	Last name Nelson	11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐	12b
764 John Street Seattle, WA 98109		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2 Wage and Tax Statement** 2004

Copy D—For Employer.

Department of the Treasury—Internal Revenue Service

For Privacy Act and Paperwork Reduction Act Notice, see back of Copy D.

a Control number	Void ☐	OMB No. 1545-0008

b Employer identification number 91-9999999	1 Wages, tips, other compensation 24000.00	2 Federal income tax withheld 2850.00
c Employer's name, address, and ZIP code First Lutheran Church 766 John Street Seattle, WA 98109	3 Social security wages 27000.00	4 Social security tax withheld 1674.00
	5 Medicare wages and tips 27000.00	6 Medicare tax withheld 391.56
	7 Social security tips	8 Allocated tips
d Employee's social security number 111-11-1111	9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name Heidi Johnson 4513 E 53rd Street Kirkland, WA 98034-4479	11 Nonqualified plans	12a See instructions for box 12 E | 3000.00
	13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐	12b
	14 Other	12c
f Employee's address and ZIP code		12d

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** **Wage and Tax Statement** **2004**

Department of the Treasury—Internal Revenue Service

For Privacy Act and Paperwork Reduction Act Notice, see back of Copy D.

Copy D—For Employer.

a Control number	Void ☐	OMB No. 1545-0008

b Employer identification number 91-9999999	1 Wages, tips, other compensation 23700.00	2 Federal income tax withheld 950.04
c Employer's name, address, and ZIP code First Lutheran Church 766 John Street Seattle, WA 98109	3 Social security wages 23700.00	4 Social security tax withheld 1469.40
	5 Medicare wages and tips 23700.00	6 Medicare tax withheld 343.68
	7 Social security tips	8 Allocated tips
d Employee's social security number 999-99-9999	9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name Susan Brown 125 1st Ave W Seattle, WA 98102	11 Nonqualified plans	12a See instructions for box 12
	13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐	12b
	14 Other	12c
f Employee's address and ZIP code		12d

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** **Wage and Tax Statement** **2004**

Department of the Treasury—Internal Revenue Service

For Privacy Act and Paperwork Reduction Act Notice, see back of Copy D.

Copy D—For Employer.

a Control number	Void ☐	OMB No. 1545-0008

b Employer identification number 91-9999999	1 Wages, tips, other compensation 9000.00	2 Federal income tax withheld 635.04
c Employer's name, address, and ZIP code First Lutheran Church 766 John Street Seattle, WA 98109	3 Social security wages 9000.00	4 Social security tax withheld 558.00
	5 Medicare wages and tips 9000.00	6 Medicare tax withheld 130.56
	7 Social security tips	8 Allocated tips
d Employee's social security number 777-77-7777	9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial / Last name Phil Smith	11 Nonqualified plans	12a See instructions for box 12
547 W Elm Street Seattle, WA 98107	13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
f Employee's address and ZIP code	14 Other	12c
		12d

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** **Wage and Tax Statement** 2004

Copy D—For Employer.

Department of the Treasury—Internal Revenue Service

For Privacy Act and Paperwork Reduction Act Notice, see back of Copy D.

a Control number	Void ☐	OMB No. 1545-0008

b Employer identification number 91-9999999	1 Wages, tips, other compensation 7800.00	2 Federal income tax withheld 515.04
c Employer's name, address, and ZIP code First Lutheran Church 766 John Street Seattle, WA 98109	3 Social security wages 7800.00	4 Social security tax withheld 483.60
	5 Medicare wages and tips 7800.00	6 Medicare tax withheld 113.16
	7 Social security tips	8 Allocated tips
d Employee's social security number 555-55-5555	9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial / Last name Robert Jones	11 Nonqualified plans	12a See instructions for box 12
12349 34th Street SE Everett, WA 98208	13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
f Employee's address and ZIP code	14 Other	12c
		12d

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** **Wage and Tax Statement** 2004

Copy D—For Employer.

Department of the Treasury—Internal Revenue Service

For Privacy Act and Paperwork Reduction Act Notice, see back of Copy D.

16. Employee Business Expenses

Basically there are two methods being used for handling the reimbursement of employee business expenses. The first method is an accountable reimbursement arrangement. The second method would be a nonaccountable reimbursement arrangement.

Accountable Reimbursement Arrangement
Under the accountable reimbursement method the pastor or lay employee is reimbursed for such out of pocket expenses as mileage, out-of-town travel, and other miscellaneous expenses he may incur related directly to his employment. Normally the pastor submits a check request showing his back-up documentation supporting the expenses. The treasurer then issues him a check in reimbursement.

This method of handling employee business expenses is the most favored because the reimbursement is not seen as compensation. The reimbursement amounts do not show up on the W-2, nor does the pastor need to claim the deduction for them on his tax form.

Your reimbursement policy must be put in writing. The IRS allows only a certain amount per mile reimbursement. Certain other expenses may need caps or limits put on them. Other expenses may need prior council approval before your pastor incurs the expense. Also, the reimbursements must be made on a timely basis – usually thought of as within 60 days.

Nonaccountable Reimbursement Arrangement
Some congregations make use of a nonaccountable method for reimbursing their pastor's expenses. In this situation the pastor is given a monthly cash allowance for car expenses, book expenses, pastoral expenses or whatever. Call it what you like, but whenever a congregation hands money over to their employee without requiring any accounting for it, the IRS calls it taxable wage and requires that these allowances (with the exception of the housing allowance) be shown as wages on the W-2 form. The pastor can then deduct her expenses on Form 2106, but these now flow through to Schedule A and are limited by a floor of two percent of her adjusted gross income.

Hybrid Method
One other method for handling employee business expenses can occur which combines the two aforementioned methods. In this case the congregation gives the pastor a monthly allowance but then requires a periodic accounting of what this allowance was used for. If the total allowance can be substantiated or if only a portion of the allowance can be substantiated but then the unsubstantiated amount is paid back to the congregation (the pastor keeping funds for only the amount that can be documented), then the IRS views this as an accountable reimbursement method and the allowance

that the pastor actually received does not need to be shown on his W-2. If, however, he is not required to repay the unsubstantiated amounts of the allowance, the entire allowance is seen as taxable wage and must be shown on the W-2. The pastor can then claim the deduction of those business expenses on Form 2106.

This method may help the pastor out in that he need not be digging deep into his own pockets to pay for expenses that ultimately are the responsibility of the congregation. This method though may require a bit more work from the congregational treasurer and may mean that certain tax filing requirements cannot be accomplished until the final accounting for the allowances is complete.

Unreimbursed Expenses
Some congregations choose not to reimburse their pastor or lay employee for business expenses. This of course has direct impact on his personal income if he is constantly using a portion of his salary to do the church's business. This is not acceptable. There is very little tax relief in such a situation as now all employee business expenses can only be deducted on the Schedule A (which many taxpayers cannot file) and they can be taken only to the extent that they exceed 2% of the adjusted gross income of the pastor.

17. Charitable Giving

Contributions from its members make up the primary source of income for most congregations. And because ELCA congregations are recognized as 501(c)(3) charitable organizations this means your members are allowed a tax deduction for the gifts they give. To be deductible a contribution must meet the following conditions:

1. It must be a gift of cash or other property.
2. It must be made before the close of the year for which the contribution is claimed.
3. The gift must be unconditional and without personal benefit to the contributor.
4. It must be made to or for the use of a qualified organization.
5. The gift must not be in excess of the amount allowed by law.
6. The gift must be properly substantiated.

Gifts of Cash and Property

Most gifts that congregations receive are in the form of cash. Sometimes the gifts will be near-cash instruments such as stocks or bonds which are readily converted to cash. And occasionally gifts of real or personal property are given or left to the church. It's a good idea for a congregation's financial policies to address what kinds of real or personal property it might consider accepting – sometimes such gifts can be more of a burden than a joy. And remember that the value of person's time or services is never considered a tax deductible gift.

Timing of Gifts

A charitable gift is tax deductible only in the year the gift is given, regardless of when the pledge was received. A gift by credit card is considered given at the time of the charge not at the time of payment to the credit card company. Gifts by check at the end of the year are deemed made on the date the check is mailed or given to the congregation.

Unconditional and without Personal Benefit

To be tax deductible the amount given must be a gift. It cannot be payment for the use of the facility. It cannot be payment for books or other items. For congregations that offer promotional materials or other items as a means of encouraging contributions, the donor can take a tax deduction only for the excess of the amount he gave over the value of the items he received.

To or for the use of a qualified organization

To be tax deductible, gifts need to be given to qualified organizations. ELCA congregations meet this qualification because of their 501(c)(3) status. Gifts given to clergy or other individuals are never tax deductible. Likewise, a contribution given to a church with the stipulation that it be passed along to a particular individual will generally not be deductible. (The only time the deduction is allowed is if the gift is designated to a particular missionary and the congregation has control of the donated funds and discretion as to their use.)

Many congregations have established a Benevolent Fund to assist congregational or community members. This often just involves setting up a separate restricted account on the books, asking for donations to the fund and then determining who qualifies to receive any assistance. Either the church council or a separate committee should have the responsibility of making such determinations. Any gifts to the fund would be tax deductible. Donors to the fund need to know that they have relinquished control over the funds and that the amounts they give will not necessarily be given to a certain individual of their choosing. Individuals giving to the fund however, as well as other congregational members can submit anonymous suggestions to the committee which oversees the fund and the committee can then use these suggestions to assist them in identifying those individuals in need. In order to maintain the integrity of the Benevolent Fund and ensure the tax-deductibility of the gifts it is important:

- That everyone knows that the congregation retains full control of the gifts and discretion as to their use.
- That the donors understand that their recommendations about the use of funds directed into the Benevolent Fund are advisory only.

Not in Excess of the amounts allowed by law

Generally tax payers can get a tax deduction for their charitable gifts. Most are limited to a tax deduction of up to 50% of their Adjusted Gross Income. Sometimes other limitations apply in the case of gifts of capital-gain property or high-income taxpayers. Donors in such situations would be wise to seek the advice of a tax consultant.

Substantiation of Gifts

The Revenue Reconciliation Act of 1993 added new requirements for substantiating charitable contributions. The most important requirements are summarized below.

Cash Gifts of less than $250.00. Cash gifts of less than $250 require no substantiation by the organization receiving the gift. Instead the donor can provide proof of the gift by his cancelled check.

Cash Gifts of more than $250.00. Cash gifts of more than $250.00 require written acknowledgement from the charity receiving the gift before they can be deducted for tax purposes. The acknowledgment must contain the name of the donor, a statement to the effect that only intangible religious benefits were received in exchange for the gift, or if any goods or services were provided, the value of such must be stated. And the acknowledgement needs to be received by the taxpayer prior to his doing his tax return or by the due date of the return.

Quid Pro Quo cash contributions of $75.00 or less. Quid Pro Quo contributions are those contributions that are partly contributions and partly payment for goods or services. For instance, a donor attends a youth spaghetti dinner and contributes $30 and receives a $10 meal. Only the $20 which represents the amount paid less the value of the meal is considered a tax deductible charitable contribution. For Quid Pro Quo cash contributions of $75 or less there is no substantiation requirement on the part of the organization receiving the gift. The taxpayer is required to maintain his own documentation.

Quid Pro Quo cash contributions of more than $75.00. Quid Pro Quo contributions of more than $75.00 require written acknowledgment from the donee that includes an estimate of the value of the goods or services furnished to the donor and informs the donor that the amount of the tax-deduction is limited to the amount paid in excess of these goods or services. If for example your youth group hosted a slave auction and one contributor purchased a slave for $500.00. The acknowledgment from the organization would thank the donor for the $500.00, state the value of the services received of $80.00 and inform him that the tax deductible portion of the gift was limited to $420.00.

Non-cash gifts valued at less than $250.00. The organization receiving such a gift needs to provide written receipt that states their name, date and a description of the property. The congregation never states a value of such property. Determining the value of such gifts is left up to the donor. The taxpayer is required to maintain written records that provide:

1. The name and address to whom the property was given.
2. Date and location of the gift.
3. A description of the property.
4. The fair market value of the property at the time of the gift.
5. The cost or basis of the property.
6. The amount claimed as a tax deduction for the year.

Non-cash gifts valued at $250.00 or more. Gifts of property of $250.00 or more require written acknowledgment from the congregation. The acknowledgment must contain the name of the donor, a statement to the effect that only intangible religious benefits were received in exchange for the gift, or if any goods or services were provided, the value of such must be stated. And the acknowledgement needs to be received by the taxpayer prior to his doing his tax return or by the due date of the return. In addition, the acknowledgment must include a description of the property but not give a value to the property. Once again, the donor must maintain written records which document the six items listed above.

Non-cash gifts valued at less than $5,000.00 and more than $500.00. Gifts of property valued at less than $5,000.00 need the written acknowledgement described above and the donor needs to maintain the written records which document the six items listed above. In addition the following records are required by the donor:

- How the property was obtained (ie purchase, gift, inheritance, etc)
- The approximate date the property was received by the donor
- The cost or other basis of the property immediately preceding the date on which the gift was given.

The donor must also complete the front side of IRS Form 8283.

Non-cash gifts valued at more than $5,000.00. The congregation receiving gifts of property valued by the donor at more than $5,000.00 must:

1. Complete and sign Section B of Form 8283 for the taxpayer.
2. File Form 8282 if they sell or dispose of the donated property within two years of the date of the gift.

In addition to maintaining the written records as noted above, the taxpayer also needs to:

1. Obtain a qualified appraisal.
2. Prepare a qualified appraisal summary.

For more information about the record keeping requirements please refer to IRS Publication 526, *Charitable Contributions*. For more information on determining the value of donated property and obtaining a qualified appraisal, refer to IRS Publication 561, *Determining the Value of Donated Property.*

18. Insurance

The church council (or a committee) has the responsibility to secure adequate but not excessive insurance coverage to safeguard the assets of the church. Fires, accidents 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 ones that the congregational treasurer may have to be personally familiar with.

Worker's Compensation Insurance

Worker's Compensation (also often called Labor & Industrial insurance) is a mandatory insurance provided by the employer in the event of employees injured 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 (such as Washington) have state-administered programs. Other states (such as Alaska and Oregon) allow for the purchase of insurance coverage through private carriers. Some states (such as Washington) 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 of Labor & Industries for further details.

Unemployment Insurance

Churches are exempt from paying federal unemployment tax since they are IRC Section 501(c)(3) exempt organizations. Most unemployment taxes, however, are assessed by the individual states. In the states of Alaska, Washington, Idaho and Montana, church workers are not automatically eligible under state unemployment laws and hence congregations are not required to pay state unemployment premiums. In the state of Oregon, however, church workers (including ministers) are eligible for unemployment benefits and the employing congregation is responsible for paying premiums for this coverage. Please contact the Oregon Department of Revenue for further details. For those congregations outside of the state of Oregon please remember that in the event you let go of employees these individuals have no access to unemployment compensation through the state and the employer should take this into consideration when constructing the severance package.

Employee Dishonesty Bond

Because of the number and cost of the claims, the Evangelical Lutheran Church in America no longer provides the Employee Dishonesty Blanket Bond as it once did. It is necessary that each congregation secure its own fidelity bond to cover all individuals handling monies for the congregation.

Liability Insurance

Churches have become more vulnerable to lawsuits as individuals have turned to the use of litigation to resolve disputes. Just as it has always been prudent to have insurance policies in place in the event of fire and other disasters, it has become equally important to have insurance for Officers and Directors and sexual misconduct.

Please also remember that when hiring any contractor to perform services for your congregation you should ask for evidence of liability insurance coverage in order to protect your congregation in the event that the contractor's actions result in damages.

Also, it is wise to check with your insurance agent to determine the level of risk posed by letting other organizations have use of your facility.

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.

Charity First has a booklet available that explains and outlines the various coverages that should be examined by every congregation. This booklet is available through the ELCA Office of the Treasurer, Insurance Manager at 1-773-380-2403 or Charity First at 1-800-352-2761.

19. Taxes and Other Requirements

All ELCA congregations should be included in the blanket tax determination letter from the IRS and are exempt from income taxes as organizations described in Section 501(c)(3) of the Internal Revenue Code. For copies of the June 3, 1987 determination letter, the April 5, 1988 letter from the IRS recognizing subordinate organizations and the July 13, 1988 letter assigning the group exemption number, please call the Office of the Secretary of the ELCA at 1-800-638-3522 ext 2401.

The following are other tax requirements that congregations need to be aware of.

Tax Exemption

All ELCA congregations covered under the blanket determination letter as described above are exempt from state and federal income taxes. Your 501(c)(3) status is one of your most valuable assets – please use it appropriately! It means that contributions to your congregation are tax-deductible for the giver and tax-exempt for your congregation. This tax exemption is what allows the church to operate at a lower cost than would otherwise be possible.

Unrelated Business Income Tax

Unrelated business income can come from the following:

- A trade or business regularly carried on that is not related to carrying out the exempt purpose for which the organization exists. Unrelated business income does **not** include:

    1. Activities in which virtually all of the work is performed by unpaid volunteers.
    2. Activities carried on primarily for the convenience of the members.
    3. Selling merchandise which has been received as gifts.

- Rental income or corporate stock if such property is debt financed property.

    The exception to this rule is if as long as the exempt use of the property begins within 15 years or if 85% or more of a property is used for the church's exempt purpose, the property is not treated as "debt financed property."

If a congregation has unrelated business income that does not fit the exclusions as listed above, they must file Form 990-T. The first $1,000 of income is not subject to tax. Additional income is taxed at the corporate rate.

Annual Information Returns

Many tax exempt organizations are required to file IRS Form 990. Form 990 is an annual informational return which provides information to the IRS. All ELCA congregations are exempt from filing this form.

Donee Information Returns

In the event that a congregation receives property which is valued at $5,000 or more and the donor plans on claiming the charitable deduction, the congregation must complete and sign Part I, Section B of the donor's Form 8283 appraisal summary. Furthermore, in the event that the congregation sells, exchanges or otherwise disposes of the donated property within two years of receiving it, they must complete and submit IRS Form 8282.

Property Taxes

Normally congregations do not have to worry about paying property taxes on their sanctuaries, parsonages or a reasonable amount of surrounding land. There are however a couple of instances where the property tax exemption can be in doubt. The first situation is when the congregation owns a larger parcel of land than the state allows for exemption. Each state can have a certain limit on the number acres it allows nonprofit organizations to own before it imposes property taxes. If your congregation is looking to purchase property first find out from your state department of revenue how large of a piece of property would be exempt from property taxes in your state and then plan accordingly. Another instance that jeopardizes the exemption status would be the failure to renew the exemption. Please don't ignore the renewal notice that comes to you each year! If you haven't seen one please call your state department of revenue and check if this has been taken care of! The other instance of endangering the exemption status is when a congregation starts:

- using the property for a commercial use or
- allows use of the property by unqualified organizations or individuals for monetary gain or
- charges rent in excess of the organization's operation and maintenance expenses or
- ceases to use the property for an exempt activity.

State laws and rules restrict the manner in which property qualifying for exemption may be used and congregations need to adhere to these regulations or else they risk losing the property tax exemption. For further answers to specific questions about property tax exemptions for nonprofit organizations, please contact the Exempt Property Section of your State Department of Revenue.

State Sales Taxes

Many states exempt sales tax on sales made to congregations or other nonprofit entities. There is an application process to go through and the state grants a certificate of exemption and provides an exemption number for the congregation to use. Unfortunately the states in Region 1 – Washington, Oregon, Idaho and Montana do not allow this exemption. Please do keep this in mind however in the event you become a congregational treasurer in some other state.

Payroll Taxes

Just like other businesses, congregations are required to withhold social security tax from their lay employees and remit the employees' portion as well as the employer's portion along with any Federal Income tax withheld for the employee. Congregations are not subject to withholding, matching and remitting social security tax for their employees who are ordained ministers. The steps involved in complying with the withholding requirements are as follows:

1. Request that each employee fill out a W-4 form. (In the event that the employee claims more than 10 withholding allowances, a copy of the W-4 must be submitted to the IRS.) A federal I-9 form must also be filed by each employee and kept on file.
2. Compute each employee's taxable wage. This includes not only the salary but also any gifts, social security offsets given to clergy, imputed interest on low-interest (or no-interest) loans made to employees, personal use of a church-owned vehicle, any business expense allowance given under a nonaccountable allowance arrangement, bonuses and forgiven debts.
3. Withhold the correct amount of federal income tax. Most times this is determined by using the wage bracket tables located in IRS Publication 15 (Circular E). Make sure that you receive a new "Circular E" each year so that the correct amount of federal income tax is being withheld. Clergy are exempt from federal income tax withholding but they may enter into a voluntary withholding arrangement with the congregation.
4. Withhold the correct amount of social security/medicare tax. The current rate of social security/medicare tax is 7.65%. This percentage is withheld from each employee's gross wage. In addition the congregation matches this amount. Clergy are not subject to FICA and medicare withholding. Never withhold FICA and medicare from your pastor's salary.
5. The taxes must be deposited according to the rules laid out in publication 15 (Circular E).

    a. Monthly Depositor Rule – if the total taxes for the lookback period (the fiscal year from 07/01 through 06/30 of the previous year) are $50,000 or less you are a monthly depositor and can deposit payroll taxes by the 15th day in the following month.

b. Semiweekly Depositor Rule – if the total taxes for the lookback period (the fiscal year from 07/01 through 06/30 of the previous year) are $50,000 or more you are a semiweekly depositor and must deposit payroll taxes on the Wednesday following a Wednesday, Thursday or Friday payroll. For payroll done on Saturday, Sunday, Monday or Tuesday the payroll taxes must be deposited the following Friday.
c. Payment with Return – You may make a payment with Form 941 instead of depositing it if you accumulate less than a $2,500 tax liability during the quarter and you pay in full with a timely filed return

   Use the Federal Tax Deposit Coupon (Form 8109) to deposit employment taxes. Or go to www.eftps.gov to find out more about using the Electronic Federal Tax Payment System.

6. All employers subject to income tax withholding must file Form 941 quarterly.

7. The congregation must prepare a W-2 form for every employee. The W-2s must be given to the employees by February 1 of the following year.

8. The congregation must prepare a W-3 form and send this along with copies of the W-2s to the Social Security Administration before March 1 of the following year.

20. Records Retention and Archives

While it may not be written in your job description, often times congregational treasurers are expected to know how long various records are to be kept. What follows are some guidelines and suggestions from the churchwide office. The numerals indicate years, P indicates permanent, and S indicates safe deposit box.

Treasurer

Audit Reports	P
Bank Statements	6
Disbursement Journal	10
Cash Receipts Journal	10
Cancelled checks	8
General Ledger/Journals	P
Monthly Reports	P
Payroll Earnings Records	8
Payroll Time Cards	8
Vendor Vouchers	8

Administrative

Audit Report	P
Executive Correspondence	10
General Correspondence	3
Systems/Procedure Manual	P
Legal Correspondence	P

Financial Secretary

Designated Gifts	P
Weekly Distribution slips	3
Gift Book	P
Legacies Records	P
Offering Envelopes	3
Pledge Records/payments	6

Personnel

Employment Applications	6
Files (after termination)	P

Computer Software

General Ledger	P
Payroll	P
Word Processing	P

Corporate

By-Laws, Charter	P/S
Minute Books	P/S
Contracts/ Agreements	P/S
Deeds/Easements	P/S
Mortgages/Notes/Leases (after expiration	10/S
Property Surveys	P/S
Real Estate Records	P/S
Retirement/Pension	P/S

Insurance

Claims (after settled)	10
Disability Records	8
Inspection Reports	8
Policies (expired)	6
Unemployment Records	6

Minute Books

Standing Committees	P
Vacancy Committees	P
Executive Committees	P

Parish Registers

Baptisms	P
Burials	P
Confirmations	P
Membership Book	P
Transfers	P
Weddings	P

Computer Printouts

General Ledger	P
Payroll	8
Output	3

The following comes from the ELCA Office of the Secretary

Your records have a life cycle!

You create and maintain the records of your congregation in order to have the information you need--when you need it; in the format from which you can most easily retrieve it; and in such a way that partners working in your congregation, today and in the future, can readily find the information. As you set about preserving information for future reference, plan for the entire life cycle of the records you are creating. If you do this, you should never need to spend time purging files--going through old material--to determine the potential administrative or historical value.

Consistency is important in the care of records. Any records retention policy has validity, once accepted as the policy of the organization, only as it is uniformly practiced. It should be neither selectively implemented nor disregarded at the whim of the custodians of the records. Never purge records in the face of potential litigation. Information that is retained in hard copy or in electronic files is the property of the congregation. Such information is not the property of the pastor or of the officers of the congregation to be removed, retained personally, or destroyed at will. All staff members are custodians of the records they maintain.

Most of the records retained by a congregation--for its daily operation, legal protection, financial security, and responsibility to history--fit into one of the following categories. For the well-being of the congregation, each type of record has a specific life cycle and needs appropriate care.

(a) Parish Register
(b) *The Parish Register includes . . .*

- **Charter and/or Articles of Incorporation**
- **Constitution and bylaws**
- **Pastors of the congregation**
- **ELCA-rostered lay workers**
- **Other professional lay workers of the congregation, such as organists and choir directors**
- **Roster of officers of the congregation**
- **Permanent roll of members**
- **Baptisms**
- **Confirmations**
- **Marriages**
- **Funerals**
- **Communion participation**
- **Significant historical events**

(i) Care

According to the Model Constitution for Congregations the pastor is responsible for maintaining the parish register (*C9.12.). Please refer to the document, *"Maintaining the Parish Register."* A representative of the synodical bishop is required to verify that these records exist and are in good order at the time of a pastoral transition (S14.15) in the Constitution for Synods).

(ii) Retention

Do not leave your parish register vulnerable to destruction. The parish register should be kept in a fireproof file or safe. A duplicate copy of the parish register--such as a microfilm or photocopy kept in a secure off-site location, e.g., a bank safe- deposit box, or the synodical or churchwide archives--provides added protection for this permanent and vital record. If you microfilm your parish register, the original negative should be stored in an off-site location.

The parish register is a hard-copy record. You may use an electronic database program for managing the records that you maintain in the administration of your congregation. The database itself does not constitute a parish register. For legal and historical purposes, it is recommended that you:

1. Maintain the traditional parish register; or
2. Print out once each year, on acid-free paper, the necessary reports that constitute a parish register.

(c) Databases

(d) *In addition to using personal computers for word processing and creating publications, congregations use personal computers for maintaining databases for the tasks of parish administration such as . . .*

- **Membership and other directories**
- **Parish register**
- **General ledger**
- **Record of member giving**
- **Other financial data**

(e) *Two critical issues pertain to the SAFETY of electronically stored data . . .*

1. Restoration of current information in the event of system failure; and
2. Migration of entire databases to newer generations of hardware and software.

(i) Care

To ensure the easy restoration of your database in the event of system failure, natural disaster, or human mischief, back up your personal computer's hard drive at least once each week and store the disks at a location removed from the personal computer.

Limit access by means of password protection.

Make certain that the structure of each database is documented--identifying the software, computer language, and report form--so that you are prepared, when the time comes, to migrate to a new generation of software or hardware.

(ii) Retention

A database, such as a membership management or accounting system, is a constantly changing record. An early decision must be made as to which reports generated by your database are necessary as permanent legal or historical records of the congregation. These should be printed out annually (see "Parish Register" above).

As you update and purge information from your databases, consider which records (i.e., transferred members) should become part of a subdirectory permitting long-term storage and ease of access, and make certain that these directories migrate to software and hardware upgrades with the rest of the information in the database.

(f) Legal and Property Related Documents
(g) Vital legal and property related documents may include . . .

- **Charter or Articles of Incorporation**
- **Constitution and bylaws**
- **Tax-exempt status reports and documentation of the congregation's nine-digit federal employer identification number**
- **Deeds, titles, surveys, leases, mortgages, easements, and blueprints**
- **Current service contracts**
- **Insurance policies**
- **Copies of letters of call to the pastors and other ELCA-rostered church workers**
- **Other employment contracts**

(i) Retention

With the exception of service contracts, these are permanent records and should be deposited in the church's safe or in a bank safe-deposit box.

(h) Minutes and Reports
(i) Including . . .

- **Annual reports**
- **Minutes of regular and special congregational meetings**
- **Minutes of the Congregation Council and its Executive Committee**
- **Minutes or reports of committees and of auxiliary organizations for men, women, and youth**
- **Copies of yearly parochial reports sent to the synod office**

(i) Retention

These minutes and reports are permanent records with historical value. The minutes of congregational meetings and of the Congregational Council also may contain the record of actions that have legal importance.

(j) Financial Records
(k) Your financial records may include financial documents, such as . . .

- **General ledger**
- **Budgets and financial reports**
- **Annual audit reports**
- **Invoices**
- **Record of member giving**
- **Check register and canceled checks**
- **Certificates of deposit or other evidence of savings**

You may also have a financial management database that handles all of your bookkeeping transactions.

(i) Retention

"The Congregation Council shall ascertain that the financial affairs of this congregation are being conducted efficiently, giving particular attention to the prompt payment of all obligations and to the regular forwarding of benevolence monies to the synodical treasurer. The Congregation Council shall be responsible for this congregation's investments and it's total insurance program" (C12.05.e. and f.) in the Model Constitution for Congregations).

Retention of financial records refers to hard-copy documents.

Permanently. . .

- **The annual audit report** is a permanent records and should be included as an exhibit in the minutes of the Congregation Council.
- **While the general ledger** need not be a permanent record, you may wish to retain it for a long time to chart trends in the congregation's activity.

Seven Years. . .

Retention for six years beyond the current tax year should include. . .

- **Cancelled checks and check register**
- **Bank statements, deposit slips and bank reconciliations**
- **Payroll administration records, such as W-2, W-4 forms, and payroll registers**

  Because pastors normally remit their Social Security contributions as self-employed persons, according to the federal government's definition regarding ordained ministers for Social Security purposes, pastors are responsible for checking the accuracy of their records with the Social Security Administration. They should request a report of their contributions from the Social Security Administration at least once every five years.

- **Cash receipt journals**
- **Record of member giving**

  *All records related to congregational spending are **open**. All records related to member giving are **confidential** and should be secured.*

Three Years. . .

- **General invoices**

One Year. . .

- **Contribution envelopes**

Indefinitely. . .

- **Insurance related documentation**

  Should you need to file an insurance claim in the event of damage or theft, you are advised to retain invoices and receipts or cancelled checks for all furnishings and equipment, owned by the congregation, that may need to be documented for insurance purposes.

Additional guidance for congregational treasurers and financial secretaries regarding accounting systems and the care of financial records, is provided by the ELCA Office of the Treasurer.

(l) Personnel Files

(m) *Personnel files may exist for the pastor, employed staff, and registered seminary students. Right to privacy laws dictate that these files must be kept in strictest confidence.*

(n) *Personnel files may contain . . .*

- **Letters of application**
- **Resumes**
- **Documents related to compensation and benefits**
- **Health-related documents, such as worker's compensation**
- **Performance appraisals**
- **Letters of recommendation**
- **Continuing education documentation**
- **Correspondence**
- **Honors or clippings**

(i) Retention

(ii) Employee Files . . .

After termination, only biographical history and duration of employment should be retained. If information relates to a worker's compensation or other claim by the employee, this should be retained. Similarly, if information relates to a possible claim or lawsuit by others involving the employee's conduct or duties, that also should be retained.

(iii) Student Files . . .

As required, the student's file is sent to the seminary after he or she has signed for its release. It is not preserved in the congregation.

(o) Pastoral Care Files

(p) *When the pastor provides pastoral care to parishioners, such as marriage counseling or personal spiritual direction, the pastor may create a file containing . . .*

- **Date and time of consultation and persons present**
- **Observation notes**
- **Tests, such as personality inventories**
- **Correspondence**

(i) Care

These files must be kept locked and in strictest confidence as they involve a relationship at the highest level of trust and are usually subject to the clergy/penitent privilege. The parishioner to whom they pertain has the right to see them. The parishioner should sign a release if any information is to leave the file at any time. The pastor must use good judgment in establishing the nature of each relationship and in creating documentation of it. An understanding of the nature of this relationship will determine the appropriate disposition of the records.

(ii) Retention

If the relationship is understood to be that of care of souls, it may be better to create little or no record. Records retained are the property of the pastor and may be retained or destroyed at his or her discretion, but must never be left behind when the pastor resigns from a call to the parish. The principle of confessional confidences, which applies to all ordained ministers of this church, is specified by ELCA churchwide constitutional provision (7.45.).

"In keeping with the historic discipline and practice of the Lutheran Church and to be true to a sacred trust inherent in the nature of the pastoral office, no ordained minister of this church shall divulge any confidential disclosure received in the course of the care of souls or otherwise in a professional capacity, nor testify concerning conduct observed by the ordained minister while working in a pastoral capacity, except with the express permission of the person who has given confidential information to the ordained minister or who was observed by the ordained minister, or if the person intends great harm to self or others" (churchwide constitutional provision (7.45.) in the *"Constitution, Bylaws, and Continuing Resolutions of the Evangelical Lutheran Church in America"*).

In all states, suspected cases of child abuse are required to be reported to the authorities. Whether such reporting requirements apply to pastors may vary. Consult an attorney in your state for guidance on such matters.

(q) Correspondence
(r) *The pastor may have correspondence of various types . . .*

- **Ex officio as chief executive officer of the congregation**
- **Correspondence to and from the officers of the congregation or the bishop of the synod**
- **Personal correspondence**

(i) Retention

The pastor's ex officio correspondence and the correspondence to and from the officers of the congregation or the bishop of the synod should be kept for the tenure of the pastor; the files then should be appraised for permanent value. Only letters with historical significance need be kept for the archives of the congregation. The pastor's personal correspondence should be maintained separately and removed from the office by the pastor at the end of the pastor's tenure.

(s) Sermons
(i) Retention

Manuscripts of sermons are the property of the pastor, not the congregation. The pastor may choose to place manuscripts of sermons commemorating special occasions in the archives of the congregation.

(t) Printed Materials
(u) *Materials produced by the congregation to assist its programs and promote its activity document the life of the parish . . .*

- **Newsletters**
- **History booklets**

- **News releases and newspaper clippings**
- **Promotional materials**
- **Bulletins**
- **Membership directories with photographs**

(i) Retention

Copies of all of the above should be placed in the congregation's archives as a permanent record of its history.

(v) Photographs, Videotapes and Audio Tapes
(w) *Such media records the significant events in the life of a congregation. They also are a permanent record of its history . . .*

- **Photographs and negatives**
- **Videotapes**
- **Films**
- **Audiotapes**
- **Other electronic media**

(i) Retention

Place photographs and negatives, properly identified (date, event, names of persons), in the archives of the congregation. Films and videotapes should be identified carefully and retained in a manner that respects their fragility. Audiotapes of weekly worship services frequently are reused. Be sure to place sound and video recordings of special services in the archives of the congregation.

(x) Resource Materials
(y) *Including*

- **Resource materials received from the synodical or the churchwide office for the support of the activity or the parish**
- **Minutes of the synodical assembly**
- **Yearbooks of the Evangelical Lutheran Church in America**
- **Hymnals**
- **Curriculum**

(i) Care
(ii) Resource materials should be distributed to the members of organizations and committees who can benefit from them. Current materials may be filed by subject and kept in an accessible location. Such materials seldom have long-term value and the files should be culled annually.
(iii) Retention

The congregation may wish to include the minutes of the synod in its own archives. Samples of hymnals and parish education materials are important for recording the history of the congregation. Other resource materials may be discarded when they have been superseded by newer materials.

For advice on establishing a congregational archives, see "A Brief Guide for Archives of Congregations of the Evangelical Lutheran Church in America."

For Additional information contact . . .

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