

# Financial Guidelines and Policies

St. Paul's Evangelical Lutheran Church

## Responsibilities of the Congregational Treasurer

- ☒ Serves as financial officer of the congregation
- ☒ Is responsible for payment of all bills, invoices and charges
- ☒ Prepares the monthly financial reports for the church council
- ☒ Files or insures to be filed, all of the required Federal and State tax forms
- ☒ Monitors the cash position of the congregation, and reports monthly to the Finance Committee Chairman, Council President, Senior Pastor, the church CPA, one copy for the master file in the office and one copy for the Treasurer's reports
- ☒ Provides the congregation financial information deemed appropriate by the church council
- ☒ Assists in the preparation of the Annual Budget for the Church Council
- ☒ Attendance is required at the monthly church council meeting

## Duties and Responsibilities of the Financial Secretary

- ☒ Oversee and participate in the counting of money
- ☒ Oversee and participate in the creation and depositing of all receipts
- ☒ Insure that two people are always present for any counting procedures
- ☒ Submit a weekly report to Treasurer, Finance Committee Chairman, Senior Pastor, Stewardship Chairman, the church CPA, one copy for the record in the office and one copy for Financial Secretary's records
- ☒ Train those individuals who are involved in the offering counting process
- ☒ Report back to the treasurer the total offerings each week with the breakdown of offerings as designated for special purposes
- ☒ Oversee the recording of all contributions to the individual member's record
- ☒ Report to the Church Council, Stewardship Chairman and congregation levels of giving quarterly, or by request of the financial committee chairman
- ☒ Provide quarterly statements to the contributors by mail
- ☒ Insure that after the 1st service, lock the cash bag in the safe
- ☒

## Substantiation of single contributions of \$250 or more:

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

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

- ☒ The receipt is in writing.
- ☒ The receipt identifies the donor by name.
- ☒ For donations of property, the receipt describes the property but does not state the

value of the property.

- ☒ The receipt shows separately each individual contribution of \$250 or more.
- ☒ The receipt states whether or not the charitable organization provided any goods or services to the donor in exchange for the donation, and if so, the receipt includes an estimate of the value of those goods and services.
- ☒ If the charitable organization provides no goods or services to the donor in exchange for a contribution, or if the only goods or services the organization provides are “intangible religious benefits,” then the receipt must contain a statement to that effect. An appropriate statement would be “No goods or services were provided to you by the church in connection with any contribution, or their value was insignificant or consisted entirely of intangible religious benefits.”
- ☒ The donor must receive the receipt, or before the date the donor files a tax return.

### **Gifts Other Than Cash Acceptance Policy**

In the case of a gift to the congregation other than cash, the Senior Pastor will accept a proposal of an offer of the gift from the donor(s) and confer with the Council President. A recommendation will be brought to the council for a vote on the acceptance of the gift.

For example: If the gift of a vehicle is offered, consideration must be given to the expense that might be incurred in maintaining, licensing and insuring the vehicle. A need must be established for the gift, and a budget set up so that the congregation can take ownership of such a contribution. Also, the worth of the gift must be established.

If the gift is accepted, letter of acceptance will be sent to the donor, and a value will be placed on the gift so that the donor may claim a gift to charity.

### **Handling of Church Income**

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

The following suggestions should not be interpreted as a lack of trust in the financial officers or a congregation. Rather, they offer protection for their reputations. No person with this kind of responsibility should be placed in a position where any suggestion of mishandling of funds must be defended by the word of one person against that of another. This system is intended to provide verification and support of sound practices at every step. This is important for the church as a trustee of “public” funds.

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

“Dormant” bank accounts should be carefully monitored and preferably closed.

## **Income Handling Principles**

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

1. No individuals should be required or allowed to handle the congregation's income alone at any time.
2. It is preferable for several people to be involved on a rotating basis in handling income.
3. All income transactions (receipts and disbursements) should be properly recorded and verifiable.
4. It is suggested that the pastor should not serve in the position of Treasurer and pastor should not have check signing authority over any church account.

## **Steps in Handling Income**

☒ Immediately following the first service, two persons transfer the contents of the offering plates to a bank bag. This bag is then placed in the church safe located adjacent to the church office. After the second service, two persons transfer the contents of the offering plates to a bank bag. This bag is then placed in the church safe. The bags are opened by the Financial Secretary and designated counters for counting the following day.

☒ Church funds/offerings should never be taken to a private home for counting.

☒ The envelopes are immediately opened by at least two persons. Offering amounts and names of the giver are recorded in a ledger. Also entered in the ledger is the intent and purpose of the gift, if for other than undesignated offerings.

☒ Balances between envelope totals and cash/check totals are reconciled.

☒ A summary report outlining the various accounts income is to be credited, prepared and initialed by two persons.

☒ The Financial Secretary prepares a deposit slip and at least two persons bring the deposit directly to the bank.

☒ A copy of the deposit slip and the summary report are given to the Treasurer, Finance Committee Chairman, Senior Pastor, the church CPA Stewardship Chairman, one copy for the record in the office and one for the Financial Secretary's records.

☒ The term of office, served by the treasurer, should be limited to a specific period of time. The successor to the treasurer should not be from persons of the same family nor should this office be rotated between the same individuals serving as financial secretary and treasurer.

☒ Persons involved in handling income should not be involved in any way in the handling of expenditures.

Funds collected from other activities (fundraisers, special events, etc.) should be directed to those responsible for recording and making bank deposits of these funds. A copy of the deposit slip and summary report is given to the treasurer and financial secretary.

## Steps in Handling Expenditures

- ☒ Bills and obligations should be approved for payment. The person responsible should indicate this approval in writing.
- ☒ In larger congregations, a purchase/approval form may be used to approve payment and identify the account to be charged. In all cases, original invoices and/or receipts, not photocopies, should support expenditures.
- ☒ Check is prepared.
- ☒ Persons authorized under the bank account agreement sign check. Dual signatures are required. The pastor should not be an authorized signer. Blank checks should never be signed in advance, under any circumstances.
- ☒ Check number is written on invoice/support document to prevent duplicate payment and check is mailed.
- ☒ At least three persons should be involved in the above four steps.

**Bank Reconciliation** The accounts are to be reconciled monthly by the Treasurer.

**Employee Dishonesty Bond** All persons elected or appointed to handle money in the congregation and all its auxiliaries are covered under an employee dishonesty blanket bond.

**Establishment of Fund Recording Procedures** The Treasurer and Finance Committee should be aware of funds held in all bank accounts. These accounts should be arranged so that a monthly financial report is readily available to the congregation. The Treasurer and Finance Committee should review each separate fund account to be certain that each bank resolution and associated signature cards are current and express the interest of the congregation.

**General Operating Fund** This is where all of the business activity of operating the congregation takes place. The general fund accounts for and accumulates all monies, except restricted gifts and payments.

**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

This fund is to record the cost of a congregation's fixed assets in a separated fund. A separate fund for fixed assets is helpful for keeping track of capital items for insurance purposes as well as for historical cost and depreciation purposes.

**Endowment Funds** An endowment is typically a gift received in which the donor has stipulated that the principal is to be maintained in perpetuity and only the income from the investment activity may be expended. Most endowment gifts stipulate that the income be used for specific purposes such as scholarships or some other restricted use.

**Designated Funds** Also called Quasi-Endowments, board-designated funds are those funds which the church council, rather than 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.

## Setting Financial Goals, the Budget

**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. Provisions may be made in the budget for a **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.

### **The Budget**

#### **Process**

- ☒ The various committees must be aware of the requirements timeline and for submitting an estimate of their budget to the Finance committee.
- ☒ The committees determine their financial need for the coming year.
- ☒ The committees forward their budgets to the Finance Committee.
- ☒ The financial secretary, in conjunction with the Stewardship Committee, and the Finance Committee determines and estimates next year's income.
- ☒ A representative from each committee meets with the Finance committee to review the budget submitted by that committee. Discussion to keep or remove certain budget items is presented at this time.
- ☒ The Finance Committee compares all the budgets submitted with the anticipated income and prepares a balanced budget, which it presents to the council. The council reviews the budget, makes any adjustments it deems necessary and presents the budget to the congregation.
- ☒ A budget forum is held the Sunday before the annual congregational meeting.
- ☒ The budget is presented, discussed and approved by the congregation. In the event that the budget is not approved, the budget goes back to the Finance Committee for further evaluation.
- ☒ Once the budget has been approved, the implementation of the budget commences.

#### **For a budget to be effective, the following must be present**

- ☒ The congregation should have clear policies by which it operates and goals that are consistent with them.
- ☒ These policies and goals then need to be stated in dollar amounts.
- ☒ The budget must be well thought out, having been prepared by someone who has been given that responsibility, and approved by the council and congregation.
- ☒ The budget needs to be owned by every member of the congregation.
- ☒ Participation in the process by as many people as possible is critical for support.
- ☒ Financial statements must be prepared on a timely basis and comparison made to the budget.
- ☒ The council must be prepared to take action when the actual compared to the budget shows a significant deviation.

#### **Create a Chart of Accounts for Each Fund**

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

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

Depending upon the type of accounting system you feel will best suit the needs of your congregation, a chart of accounts may use a system whereby each account designation is

assigned a number or you may use the actual account name designation. A computerized software system will allow you to use either the alpha numeric or the account name arrangement.

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

If a fund is created to serve a particular purpose a timeline shall be set for the lifetime of that fund, and a minimum balance shall be set. Any money left should have an end fund designation.

### **The Petty Cash Account**

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

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

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

Setting up the petty cash fund:

- ☒ A dollar amount is determined to be the petty cash beginning balance.
- ☒ An individual is appointed as the petty cash treasurer.
- ☒ A lockbox or locking file cabinet or other such security measures are developed.
- ☒ The cash is transferred from the church's checking account to the petty cash fund.
- ☒ The journal entry would be a credit to the church's checking account and a debit to an asset account called "Petty Cash."

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

At any time, the total cash available in the petty cash fund when added to the total vouchers must equal the beginning petty cash fund balance. For example, if the beginning petty cash fund was \$75 at the beginning of the month and at the end of the month the cash is down to \$24, then the vouchers must total the \$51, which was used during the month. When the petty cash account falls to one third of the starting amount, it will be replenished. The petty cash treasurer adds up the vouchers and fills out a check request for the total amount of the vouchers which will bring the petty cash account back up to the original balance. The church treasurer takes the check request and issues a check payable to petty cash, charging the

appropriate expenses for which the petty cash was used.

Inappropriate use of a petty cash fund would be:

- ☒ Travel expenses
- ☒ Employee salaries or “day worker” pay
- ☒ Personal use
- ☒ Loans to employees or members

## **The Housing Allowance**

### **Who qualifies for the Housing Allowance?**

- ☒ Must be employed by the church (or agency of the church)
- ☒ Must be ordained, commissioned, or licensed
- ☒ Administers the sacraments
- ☒ Conducts religious worship
- ☒ Has management responsibilities in the church or denomination
- ☒ Considered to be a religious leader
- ☒ The benefit is made available to the minister as compensation for services

### **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.)

## **Preparing for Payroll Tax Obligations**

**1. Employer Identification Number (EIN).** Every congregation should have one. If you happen to be a new congregation then you must secure an EIN from the Internal Revenue Service. To obtain one, your congregation must complete Form SS-4, Application for Employer Identification Number, available from your local IRS office. Once you are assigned a number your congregation should automatically begin receiving:

- ☒ Form 941, Employers Quarterly Federal Tax Return
- ☒ Form 8109, Federal Tax Deposit Form

☒ IRS Publication 15, Circular E – Employer’s Tax Guide

2. Determine whether each worker is an employee or self-employed. In most cases, individuals who perform services for a congregation are considered employees of the congregation. If in doubt, congregations should treat workers as an employee since penalties can be assessed against a church for treating a worker as self-employed who the IRS later reclassifies as an employee. The IRS has developed 20 criteria to assist in classifying a worker as self-employed or an employee. Generally a self-employed person typically is engaged in a specific trade or business and offers his/her services to the general public. A self-employed worker would not be subject to the control of an employer with respect to how a job is to be done.

3. Have each employee complete a W-4 Form. Have each self-employed individual complete a W-9 Form. The W-4 Form for employees will give the congregation the necessary social security number, address of the employee, and the information required to withhold the correct amount of federal income tax. Remember that any W-4 forms which claim more than 10 withholding allowances needs to be reported to the IRS. The W-9 Form for self-employed individuals will give the congregation the address and social security number of the individual. This information is needed when filing 1099s for these individuals at year-end. If a self-employed worker performs services for your congregation and earns at least \$600 for the year, but fails to provide you with his/her social security number, then the congregation is required by law to withhold 31% of the amount of compensation as “backup withholding.”

4. Employee files will be kept in a locked file cabinet. Employees have access to their files at all times. In their individual files the following will be kept:

- ☒ W-4 Form
- ☒ Proof of Citizenship
- ☒ Drivers License copy
- ☒ Emergency Contact Information
- ☒ Evaluations
- ☒ Annual Leave requests and approvals
- ☒ Job Descriptions
- ☒ Continuing Education Certificates
- ☒ Commendations, or letters of appreciation
- ☒ A Bio for media presentation, with permission to release from staff

5. Compute each employee’s taxable wages. This of course means each employee’s salary taxable wages also include the following:

- ☒ Cash Christmas gifts from the congregation
- ☒ Social security offsets given to any clergy employees.



- ☒ Imputed interest on low-interest (or no-interest) loans that the congregation might make to any employee.
- ☒ Personal use of a church-owned vehicle.
- ☒ Any business expense reimbursement given under a no accountable business expense reimbursement arrangement. For example: a car allowance is given to an employee every month, but the congregation requires no record keeping or accounting for how the car allowance was spent. The total given, as car allowance is considered taxable wage and at year-end would be included on the W-2.
- ☒ Bonuses or any cash gifts
- ☒ Forgiven debts
- ☒ Most reimbursements of a spouse's travel expenses.

5. Determine the amount of taxable income to withhold. IRS Publication 15 (Circular E) gives you two ways to calculate the correct amount of income tax to withhold. One way is called wage bracket method in which you use the withholding tables in the Publication 15. The other way is the percentage method in which the number of allowances claimed by the employee is multiplied by an appropriate value given in Publication 15. Make sure to secure a new Publication 15 each year so that you have the most up-to-date withholding tables and percentages. Normally federal income taxes are withheld only on the wages of the non-clergy. Clergy are exempt from withholding. A clergy can however ask to have federal income taxes withheld (but not FICA). To do this a clergy needs to fill out the W-4 giving you a certain dollar amount that he would like to have withheld.

6. Withhold FICA taxes from non-minister employees' wages. Congregations must withhold 7.65% of each employee's wage and also match this amount with their funds. This 7.65% rate is composed of two items: (1) a Medicare hospital insurance tax of 1.45% on all taxable wages and (2) an "old-age, survivor and disability" tax of 6.2% - refer to your current year's tax guide to determine what the maximum taxable wage is for this category. The Congregation must deposit the taxes it withholds. As pointed out above, there are three components of federal payroll taxes: (1) federal income taxes withheld from the employee's wages (2) the employees' share of FICA taxes and (3) the employer's share of FICA taxes. These dollars must be deposited according to the deposit status that the IRS determines for each congregation. In November of each year, the IRS notifies every employer of his or her deposit status for the next year. The different rules are as follows:

☒ If withheld taxes are less than \$500 at the end of any calendar quarter, the congregation need not deposit the taxes, but rather send them directly to the IRS with each quarterly 941 form. If withheld taxes were \$50,000 or less during the most recent look-back period the taxes are deposited monthly – by the 15th day of the following month.

☒ If withheld taxes were more than \$50,000 during the most recent look-back period the taxes are deposited semi-weekly. This means that for paydays falling on Wednesday, Thursday or Friday, the payroll taxes must be deposited on or by the following Wednesday. For paydays on Monday or Tuesday the taxes must be deposited on the Friday following the payday. Withheld taxes of \$100,000 or more must be deposited by the next banking day.

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

☒ All employee subject to income tax withholding, social security taxes or both, must file Form 941 each quarter. The 941 reports the amount of FICA taxes and the withheld income taxes that are payable. This total amount of tax should of course agree to the amount deposited or accumulated for that particular quarter. The Form 941 is due by the last day of the month following the end of each calendar quarter.

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

congregation. Generally, reimbursements are taxable income unless they are made under an accountable plan as defined by the IRS and documented under IRS regulations. For more information, please consult IRS publication 463.

**Benevolence Remittance to Synod and Churchwide**Just as members of each congregation share of their resources with their

local church, so too each congregation is invited to share with their synod and the churchwide organization.

**Fiscal Year**As mandated by the constitution of the Evangelical Lutheran Church in America, both the synod and the churchwide bodies have fiscal years running February 1 through January 31. This was done for the purpose of capturing the receipts of the calendar year from the congregations. Thus the monies that you receive in December and pass on proportionally in January are actually booked in the synod/churchwide offices in the month of January. The fiscal year stays open through January 31 to allow for this lag in recording income for the calendar year.

### **Statements**

Every April 30, July 31, October 31 and January 31, which is the end of each quarter of the fiscal year (which tries to capture the quarters of the calendar year), statements are sent out to each congregation. These statements are not a request from the synod office for more funds, but rather are an opportunity for the congregation to double check the accuracy of the handling of the monies that had been remitted to the synod. On occasion an input error and maybe a gift gets credited to the wrong congregation or the wrong designated code. You are asked to review these statements and contact the appropriate synod office if there is a discrepancy of any sort.

### **Where to send**

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

### **Undesignated Gifts**

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

### **Designated Gifts**

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

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

The synod office can take any designated gifts for special projects going on in each individual synod. The other type of designated gifts that the synod office can process is those that need to be forwarded to the churchwide office. These would include gifts for such things as

World Hunger and Lutheran World Relief as well as any missionary sponsorship or any type of project that churchwide has communicated to you that it is collecting funds for.

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

### **Using the Remittance Form**

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

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

### **Financial Reports to the Congregation**

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

- ☒ At the very minimum the financial statements should 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.

### **Income and Expense Report**

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 always keep in mind the needs of the user. Financial reports that do not communicate and do not get used are not doing the job. If your audience needs simple reports, keep them simple but highlight the critical information. If your audience should handle more detail, make sure the reports provide it in a format that doesn't overwhelm them.

### **Insurance Coverage and the Treasurer**

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

#### **Worker's Compensation Insurance**

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

#### **Unemployment Insurance**

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

#### **Employee Dishonesty Bond**

A climate of personal trust is usually assumed in the congregational setting. This is healthy and proper. However, some systems of handling money place individuals in a position in which their honesty can be questioned or in which they may be tempted to sin. Prudent and consistent practices in handling money are needed to maintain a trustful climate. It is recommended that all persons and all its auxiliaries be covered under an employee dishonesty bond.

### **The Audit Procedure**

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

An audit committee can often discover weak spots in your system of internal controls or discrepancies in the financial records. Having an outside auditor from a certified public accounting firm conduct periodic audits can be beneficial in providing an outside assessment of the congregation's financial management process. St. Paul's recommends that an Audit Committee and periodic audits by an accounting firm do an internal audit each year every year.

### **Functions of an Audit Committee**

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

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

The audit committee:

- ☒ Examines and reviews all accounts and records
- ☒ If an outside accounting firm is hired to audit the church, the audit committee will oversee and exercise supervision of the work.
- ☒ Examines all insurance policies and prepares a schedule of the insurance coverage.
- ☒ Inspects and examines securities and investments.
- ☒ Prepares a schedule of the securities and investments for review by the finance committee.
- ☒ Reports its findings in writing to the church council with supporting schedules and recommendations for change and improvements.
- ☒ Verifies that the congregation complies with Federal & State tax laws and regulations.

### **Procedures:**

1. Review the recording of cash receipts
  - a. Trace deposits from the counter's reports in the financial secretary and treasurer's records. Compare these to the entries recording such deposits so they agree with the deposits recorded by the bank.
  - b. Check on the timeliness of the deposits.
2. On a sample basis, check the account distribution in the cash receipts journal, being especially alert for funds designated for specific purposes.
3. Verify check accounting
4. Inspect the cash expenditures record in the cash disbursement journal, which should show the date, check number, name of payee, amount of check and account distribution for each check written.
5. Check mathematical accuracy of entries.
6. Examine the authority for writing a check such as approval on invoices; pastor's call, including current salary and housing arrangements; employee salaries, contract agreements; actions of council reported in minutes, and actual receipts for tangible goods.
7. Examine canceled check to verify that disbursements were actually paid to the proper parties.
8. Accounts for all checks, used and voided.
9. Prepare a statement of expenditures for comparison with the adopted budget for the year and analyze variances.
10. Prepare a tabulation of benevolence payments to the synod and compare with

statements received from the synod. Compare this total with the expected response for the year.

11. Analyze expenditures, noting proper capitalization of major improvements, refurbishing, new equipment, and proper designation for employees vs. independent contractors.
12. Reconcile bank accounts
13. Inspect, on a sample basis, endorsements on the canceled checks.
14. Request banks, savings and loan associations, and other investment agents to confirm in writing the balances held in accounts.
15. Confirm authorized signatures for check writing with the financial institutions. Compare signatures of those on card with those currently used on checks.
16. Prepare of statements of reconciliation between bank balances and balances shown on the books. The reconciliation should begin with the bank's balance. Add to that figure deposits shown on the books but not yet credited on the bank statements. Subtract the outstanding checks (those which have not year cleared the bank) to prove the balance shown on the books. Someone who does not process receipts or disbursements should perform the statement of reconciliation.
17. Examine petty cash funds to determine that: Disbursement vouchers have proper approval and receipts. Maximum figure for individual payments has been established and followed.
18. Examine individual member records
19. Compare "pledge amount" with the signed pledge.
20. On a sample basis, check the financial secretary's posting of contributions to the members' records.
21. Inspect insurance policies and prepare a schedule of insurance in effect to show Effective and expiration dates Kind and classification of coverage Maximum amounts of each coverage Premium amounts and terms Comparison of insurance coverage with the insurance appraisal or other supporting cost data. Does insurance coverage provide adequate replacement value for church building and personal equipment such as: organ, pews, hymnals, computers, printers, etc.

Upon completion of the audit report, it is suggested that the following certification be completed and made a part of the congregations' records that a review of the financial records has been performed. **Mileage Rate Reimbursement** Effective January 1, 2001, the IRS will be increasing its' standard mileage rate for business travel to 34.5 cents per mile. Therefore, all mileage incurred on or after January 1, 2001, reimbursed under the ELCA Corporate Travel Policy, will be paid at that rate.