

# Financial Best Practices for Congregations



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# Separation of Financial Duties

- Keep **written policies and procedures** for key responsibilities (not person-specific, but duty-specific)
- Avoid **conflicts of interest**
- Responsibilities for **handling/recording church income** should be separated from handling disbursements
- An individual not otherwise directly involved in banking activities should **reconcile the bank account**
- Suggested responsibilities for a person other than the treasurer:
  - Overseeing counting and recording offerings
  - Depositing receipts
  - Reporting income/gifts from individuals



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# Safeguarding offerings

- **Dual custody** at all times
- **Rotating** basis for **counters**
- Cash **deposited immediately** after counting
- **Log** of cash and check activity, including purpose (signed by two persons)
- Copies of deposit slips given to treasurer and financial secretary
- Regular **reporting** of offerings to members (quarterly)
- Maintain **confidentiality** (pastor, financial secretary and stewardship committee as have need to know)



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# Designated and restricted gifts

- Acknowledge gift purpose on **gift receipt**
- **Separate accounting** and/or tracking in the accounting system from undesignated gifts
- Maintain a **sufficient bank balance** to cover designated/restricted funds
- **Honor donor intent**
  - Congregation has the right to refuse any gift, including if it believes donor intent cannot be honored
  - Create and communicate a general policy for circumstances when purpose can't be fulfilled
- **Grant** accountability and reporting; unused or misused funds might be subject to return of funds to grantor



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# Charitable Deductions

- Meeting IRS requirements for charitable contributions
  - Cannot deduct
    - Contributions to individuals
    - Contributions from which donor benefits
    - Services, but can deduct unreimbursed, out of pocket expenses directly connected with the services (not living expenses)
- Substantiation
  - Cash: written acknowledgment (over \$250, no goods or services provided in exchange for the gift)
  - Non-cash gifts:
    - Fair market value
    - Form 8283 to be completed by charity for more than \$500
    - Generally, qualified appraisals for gifts of more than \$5,000



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# Handling expenditures

- **Avoid sales tax** by requiring use of exemption letter
- Use standard **vouchers** or expense forms
- Require **written approval/support** for payment (including original invoices, receipts, etc.)
- **Checks should be prepared by someone other** than those with authority to approve expenditures
- Keep **authorized check signatures** on file at the bank; dual signatures recommended
- **Secure blank checks** at the church
- **Consider electronic billing and payments** if have appropriate security and access
- **Credit cards** might be appropriate for a limited number of individuals
- **Petty cash** should be safeguarded and counted regularly



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# Accountable Reimbursement

- Decide when to **reimburse** business expenses on an actual-cost basis **rather than** providing an **expense allowance**
- Establish a **budget and create a timing cutoff** (e.g. 90 days) to submit expenses for reimbursement
- Require **documentation** of business purpose and original receipts
- If providing **cash advance**, require reconciliation and substantiation of each payment
- Under account reimbursement, **no reporting of W-2** income is required
- **Congregation retains ownership** of all purchases



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# Employee vs. self-employed

- Twenty factors as developed by IRS, including:
  - Individual must comply with instructions
  - Individual must provide services personally (no substitutes)
  - Services are integral part of organization's operation
  - Continuing relationship between individual and organization
  - Set hours of work
  - Full-time required
  - Working on organization's premises
  - Paid by hour, week or month (as opposed to by the job)
  - Payment of business expenses, benefits
  - Working for only one organization at a time
  - Right to terminate
- Clergy have dual tax status treatment- employee for income tax and self-employed for social security



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# Housing Allowance

- **Excluded from federal income**
- **Established annually** before beginning of tax year
- **Approved** by congregation council
- Applies to ordained, commissioned or licensed;  
**administers sacraments and conducts worship**
- **Allowable expenses:**
  - Mortgage/rent/real estate taxes/property insurance
  - Utilities
  - Furnishings and appliances(purchase and repair)
  - Remodeling and repairs
  - Yard maintenance and improvements
- Amount – fair market value, actual expenses (as long as less than amount previously designated)
- Housing equity allowance



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# Payroll (IRS Pub. 15, Circular E)

- Upon hiring, contracting – Form W-4, W-9
- Taxable wages (includes cash gifts, spouse's travel, personal use of church-owned vehicle, nonaccountable reimbursements; imputed interest on loans from employer; social security offsets)
- Quarterly – Form 941 (to report Social Security, Medicare and income taxes withheld and paid); Form 8109 (federal tax deposit form)
- Annually – Form W-2 or 1099-MISC (to employee) and coordinating forms to IRS
- Housing allowance included on W-2 (box 14)
- No Form 990 required for churches (unless unrelated business income over \$1,000 requires Form 990-T)



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# Accounting System/ Financial Reporting

- Choose the **basis for accounting**: cash basis, accrual basis, modified accrual
- **Utilize accounting software** whenever possible
  - Dual entry bookkeeping
  - Fund accounting
- Provide **regular reporting** to church council
  - Balance Sheet
  - Statement of Revenue and Expenses
  - Statement of Cash Flows (sometimes excluded)
  - Other Management Reports, as requested
- Establish a **records retention** policy and process
- Conduct internal **audits** annually and external audits, if desired



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# Data Security

- **People are the best security**
- Ensure adequate **IT security** for internet, e-mail and network (including virus scans and firewalls)
- Provide security for **portable media devices** (flash drives, CD, laptops, cellular phones, etc.)
- Ensure **confidential paper files** are kept in a locked, limited access location
- Be aware of Personal Identity Information (**PII**):
  - Names and addresses
  - Social security numbers
  - Credit card information
  - Documents with any financial information
- Ensure access to data is commensurate with duties;  
**review user access** regularly



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# Resources

- [www.elca.org](http://www.elca.org) (found in Resources/Financial/Congregations tab)
  - Congregational Treasurers' and Bookkeepers' Financial and Accounting Guide
  - Internal Control Best Practices
  - Program Budget Presentations
  - Congregational Audit Guide
  - Accountable Reimbursement Policies
  - Data Security Education
  - Contingency Planning
- Administration Matters e-newsletter and blog (subscribe under <https://blogs.elca.org/adminmatters/>)
- [www.irs.gov](http://www.irs.gov) (Publication 1828 - Tax Guide for Churches and Religious Organizations)



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