Church Finances & Related Best Practices

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Questions and Answers

Employed

Serve in Finance or Leadership Position

Give and/or Attend
One size doesn’t fit all, but some principles do…

What’s the Purpose of the Organization?
We Are Provided Resources So We Can……..

**Church**

- Love God, Love Others (Greatest Commandment)

- Reach Others for Christ (Fishers of Men)

- Equip God’s People to Do The Above – Make disciples who make disciples (Ephesians 4:12)

- Provide Financially for our Teachers/Leaders (1 Timothy 5:17-18 & 1 Corinthians 9:8-18)
Governance

Board / Elders

Staff

Finance Team

Body

Good Stewardship

The Tension

**Faith and Vision**
- God’s sovereignty
- He will supply our needs
- His plan will be accomplished

**Financial Planning**
- Our responsibility
- Shrewd stewardship of resources
- Plan for the future
Imperative Churches have Strong Finance Committees

Responsibility

- God
- Finance Committee
- Donors
Attributes and Responsibilities of a Finance Committee Member

- Active (meet regularly) & Knowledgeable (of non-profit/church operations)
- Committed, loyal and puts best interests of entity first
- Review and approve significant finance decisions
- Assist staff in strategic planning regarding Finances
- Leads Budget process from beginning to end
- Monitors results as a control but also for financial success
- Assists in assuring proper controls and oversight are in place
- Fill knowledge gaps as needed / resource for staff
- Helps plan for Stewardship Training

Finance – Actively Engaged
CHARITABLE CONTRIBUTIONS

Posted by on Feb 18, 2016

MAKE SURE YOUR CHURCH AND OTHER CHARITABLE CONTRIBUTIONS WILL BE ALLOWED BY THE IRS.

The IRS is repeatedly and often referring to a tax court case (Burden v. Comm. T.C. Memo, 2012-469) in which charitable contributions were disallowed even though the taxpayer had a receipt from the church. The receipt that the organization provided its contribution did not state that “the taxpayer received no goods or services from the charitable organization.” In this case, the taxpayer did not receive any goods or services. The deduction was disallowed!

FOR TAXPAYERS

You need to ask your charitable organization to add this to their receipts for charitable contributions if it is not already stated on the receipts. Be certain to get a new receipt before a return is filed. You will need this receipt before the return is filed.

FOR NONPROFITS

Since the phrase “the taxpayer received no goods or services from the charitable organization” is standard on most charitable donation receipts for most organizations, it is sometimes easy to leave off when doing a receipt in special situations, many times involving noncash gifts. It is very important that all nonprofit organizations make sure this statement is on all receipts/letters where this is truly the case.

For charitable organizations, this statement needs to be added to the receipts/contribution statements that you provide to contributors for charitable contributions if it is not already stated on the receipts. This receipt is needed by the contributor before he or she files a return.

“The taxpayer received no goods or services from the charitable organization.”

When are monies something other than unrestricted?

When are monies something other than unrestricted?
Internal Controls

• Budgeting/Monitoring Procedures

• Other Internal Controls

• If necessary, Agreed-Upon Procedures performed by a CPA or someone else outside of the organization

Budgeting Controls

• Usually cash basis, important to budget for capital improvements, debt & reserves

• Usually prepared based on prior years' results, or zero based (start from scratch).

• Participation by department heads and others is essential

• Approval process with buy in along the way.

• Monitoring - the budget should be compared to actual results on a periodic basis by Staff and Finance, usually monthly. Unexplained variances should be examined.

• Cost/benefit should always be considered in developing the budget process given the resources, size and complexity of the organization.

• Finance provides oversight, not necessarily decide specifically how money will be spent - set guardrails
Budgeting 2016

June 2015
- Staff/Ministries prepare Dept Budgets
- Finance compiles initial Budget
- Communicate
- Set Revenue Expectation

Nov. 2015
- Finance Approves Budget
- Elders Approve Budget
- Finance works with Staff to Balance Budget

Dec. 2015
- Congregation Approves Budget
- Finance/Staff Monitor Budget Monthly

All 2016

Budgeting - Staff Involvement
- Staff/Ministries prepare 1 pagers
Budgeting 2016

- June 2015:
  - Set Revenue Expectation

- Finance:
  - Approves Budget
  - Works with Staff to Balance Budget
  - Compiles initial Budget

- Staff/Ministries:
  - Prepare Dept Budgets

- Finance:
  - Approves Budget

- Elders Approve Budget

- Congregation Approves Budget

- Monitor Budget Monthly

Monitoring of Giving to Budget

<table>
<thead>
<tr>
<th></th>
<th>Budget</th>
<th>ACTUAL</th>
<th>Variance</th>
<th>ACTUAL</th>
<th>ACTUAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>JAN</td>
<td>160,000</td>
<td>158,662</td>
<td>(1,338)</td>
<td>144,756</td>
<td>170,234</td>
</tr>
<tr>
<td>FEB</td>
<td>200,000</td>
<td>199,478</td>
<td>(522)</td>
<td>172,125</td>
<td>186,369</td>
</tr>
<tr>
<td>MAR</td>
<td>240,000</td>
<td>242,440</td>
<td>2,440</td>
<td>229,164</td>
<td>222,277</td>
</tr>
<tr>
<td>APR</td>
<td>205,000</td>
<td>213,907</td>
<td>8,907</td>
<td>223,857</td>
<td>190,527</td>
</tr>
<tr>
<td>MAY</td>
<td>185,000</td>
<td>181,580</td>
<td>3,420</td>
<td>217,075</td>
<td>217,075</td>
</tr>
<tr>
<td>JUN</td>
<td>234,000</td>
<td>224,421</td>
<td>9,579</td>
<td>232,978</td>
<td>232,978</td>
</tr>
<tr>
<td>JUL</td>
<td>174,000</td>
<td>186,986</td>
<td>13,186</td>
<td>166,277</td>
<td>166,277</td>
</tr>
<tr>
<td>AUG</td>
<td>229,000</td>
<td>234,791</td>
<td>5,791</td>
<td>164,247</td>
<td>164,247</td>
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<tr>
<td>SEP</td>
<td>175,000</td>
<td>182,799</td>
<td>7,799</td>
<td>214,906</td>
<td>214,906</td>
</tr>
<tr>
<td>OCT</td>
<td>285,000</td>
<td>295,937</td>
<td>10,937</td>
<td>252,444</td>
<td>252,444</td>
</tr>
<tr>
<td>NOV</td>
<td>260,000</td>
<td>301,259</td>
<td>41,259</td>
<td>278,763</td>
<td>278,763</td>
</tr>
</tbody>
</table>

- Projected 12-31-15

- 2014 ytd: 861,153
Budgeting Operating Reserves

Cash Flow Fluctuation
+ Unplanned Events
+ Potential Opportunities
= Reserves Balance Target

ECFA has developed a series of best practices which encourage organizations to strive for even higher levels of excellence.

ECFA Best Practices (PDF)
ECFA Best Practices - customized for churches (PDF)
Other Internal Controls

- All cash received is deposited daily and all deposits require participation by at least two persons.
- Cash disbursements are permitted only by check and never made out of offerings or other cash receipts.
- Checks are prepared only when approved supporting documentation is received.
- Reconciled Bank Statements and Debt Statements are reviewed monthly.
- Donor records are maintained and reconciled to financial statements.
- Individual receipts or statements are mailed to donors.
- Monthly financial statements are prepared timely for review by finance committee.

Basic Accounting Records to be Maintained

- Good Accounting Software (FCC – Shelby)
- Bank Accounts and Timely Reconciliations to GL not just checkbook
- Detail Listing of Property and Equipment
- Inventory of salable products
- Accounts payable detail listing
- Debt schedules and related statements from lender
- Detail gift/donations report
- Pledges receivable detail report
- Employee's expense report
Fraud in the Church?
No Way !!!

Should my Organization have an Audit?

Agreed Upon Procedures

Contributions:
Mail confirmation to donors representing contributions amounts of $5,000 or more for the year ended December 31, 2010.

On a test basis, weekly collection sheets will be traced to the bank statements and reviewed for completeness, authorized signatures, mathematical accuracy, and timeliness of deposit.

On a test basis, individual contributions of $500 or more will be traced from the weekly contribution reports to the original contribution envelope.

The year-to-date contribution listing will be footed and compared to receipts posted to the general ledger.

Distributions:
On a test basis, individual cash disbursements will be reviewed for proper approval, support, and classification.
### Table 11-3

<table>
<thead>
<tr>
<th>COMMON ERROR</th>
<th>CORRECT REPORTING PROCEDURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Treating ministers as self-employed for income tax</td>
<td>Most ministers are employees for federal income tax reporting purposes.</td>
</tr>
<tr>
<td>2. Treating ministers as employees for Social Security</td>
<td>Ministers always are self-employed for Social Security with respect to ministerial services (except some chaplains).</td>
</tr>
<tr>
<td>3. Withholding taxes from ministers' pay without authorization</td>
<td>Ministers are exempt from income tax withholding, whether they report their income taxes as employees or self-employed; ministers who report their income taxes as employees can receive voluntary withholding by submitting a Form W-4 to the church.</td>
</tr>
<tr>
<td>4. Withholding payroll taxes from ministers who report their income taxes and Social Security taxes as self-employed</td>
<td>Do not withhold payroll taxes from self-employed persons.</td>
</tr>
<tr>
<td>5. Filing Forms W-2 on self-employed ministers</td>
<td>Provide self-employed workers who are paid $600 or more during the year with a Form 1099-MISC, not a Form W-2.</td>
</tr>
<tr>
<td>6. Failing to provide Forms 1099-MISC to nonemployee recipients of $600 or more of annual compensation</td>
<td>A Form 1099-MISC must be issued to such persons.</td>
</tr>
<tr>
<td>7. Church employers failing to pay self-employment taxes if their employing church exempted itself from the employers share of FICA taxes by filing a Form 8967</td>
<td>Such employees are treated as self-employed for Social Security with respect to their church compensation and must pay the self-employment tax.</td>
</tr>
<tr>
<td>8. Not filing Forms 941</td>
<td>These forms must be filed quarterly by a church with one or more nonexclusive employees (for a minister who elects voluntary withholding).</td>
</tr>
<tr>
<td>9. Not issuing Forms W-2 or 1099-MISC</td>
<td>A Form W-2 must be issued to each employee, and a Form 1099-MISC must be issued to each nonemployee who received compensation of at least $600 during the year.</td>
</tr>
<tr>
<td>10. Not complying with payroll tax deposit requirements</td>
<td>Submit deposits to the IRS payroll taxes of less than $5,000 at least weekly; require quarterly deposits for accumulated payroll taxes of at least $5,000 or more at the end of any calendar quarter with Form 941; if accumulated payroll taxes are $2,500 or more at the end of any month, deposit with a bank by 15th day of next month.</td>
</tr>
</tbody>
</table>

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### Compensation of Ministers

**Staff - Sample W-2**

**Wage and Tax Statement**

*Department of the Treasury—Internal Revenue Service*

**Copy B—To BeFiled With Employee's FEDERAL Tax Return.**

This information is being furnished to the Internal Revenue Services.
Compensation of Ministers

Minister - Sample W-2

Understanding Clergy W-2 Forms

Clergy Financial Resources
www.clergytaxnet.com
Transparency

Full Disclosure - we have nothing to hide!

Transparency through our Websites

Elevation Church
Charlotte, NC

2014 Annual Report
Current Issues to Consider

- Paperless/Cloud Software/Use of Portals
- TV/Radio vs. Internet opportunities
- Dashboard Reporting
- Endowments
- When was your last Long Range Plan done?

E-Giving Opportunities

Auto Bank Transfers
Debit Cards
Credit Cards

Financial reporting on website
Current Issues to Consider

• Down economy or slow to recover economy
  – Contributions ↓ while Demand for Programs ↑

• Membership Increasing or Decreasing

• Group over age 65 to increase 35% over next few years (attendance up? Planned giving?)

• Financially dependent on few major donors

Going Digital / Less Paper
Best Practices

- Finance Committee – Active & Knowledgeable
- Good accounting and internal control systems
- Comprehensive Budget process from beginning to end
- Timely reporting, monitoring and transparency
- Invests in training & technology
- Stewardship training
- Benchmarking

Weaknesses We’ve Noticed

- Little or no oversight by a Qualified Finance Committee or Board
- Lack of Internal controls – especially separation of duties
- Payroll – properly accounting for ordained ministers wages
- Understanding of restricted funds, net assets & related donor records
- Support or documentation for disbursements before paid
- Level of Accounting knowledge by staff due to lack of training
In the End…

• **Successful Corporate Stewardship is based on:**
  • An understanding that it all belongs to God,
  • A foundation of management integrity,
  • Good accounting and internal control systems
  • Investing in training & technology
  • Budgeting, reporting, monitoring and transparency
  • Persons charged with governance
  • Planning for the Future…

Other Questions?

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Resources

**Zondervan Minister’s Tax & Financial Guide**
By Busby, Martin, & Van Drumen

**Zondervan Church & Nonprofit Financial Guide**
By Busby, Martin, & Van Drumen

**Church & Clergy Tax Guide**
By Richard Hammar

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**Resources**

**ECPA Church Finance presentation**

**Charitable Receipts article**
http://www.bcs CPA.com/bcsblog/charitable-contributions-2/

**Clergy W-2 website**
https://www.clergytax.net.com/
Resources

GuideStone Financial Resources
http://www.guidestone.org/

Church Admin Pro
http://churchadminpro.com/

The Church Network
http://www.nacba.net/Pages/Home.aspx

IRS – Tax Info for Churches