You're a church treasurer.

Now what?

ECCU

Your ministry banking resource.℠

You've been praying for an area of service, and the Lord has opened the door. You've been asked to fill the role of treasurer at your church. Your title may vary—business administrator, CFO, accountant, controller—but the responsibilities may be the same. If you're a CPA with an extensive financial background, you don't need to read any further. But if you resonate with any of the following questions, you may find this resource valuable.

- What kinds of records need to be kept?
- What kinds of reports do I need to prepare?
- Will software do it all for me?
- When do I have to give a receipt to a donor?
- Is an audit by a CPA needed or desirable?
- What's GAAP? What are net assets?
- What about payroll, payroll taxes, and government reporting?
- What is a housing allowance?

Unfamiliar territory

Filling your new position may seem exciting, but at times, especially in smaller or newer churches, the faithful are put into unfamiliar positions and may not know where to find answers to their many questions. In the following sections, you will learn about some of the most common issues and responsibilities faced by church treasurers.

Managing the budget

Your ministry should set a budget (or spending plan) annually. How budgets are prepared and used differs depending on by-law provisions and leadership style. Usually the budget for the upcoming year is determined by looking at what was spent in past years, as well as at future goals and objectives. This historical view helps a ministry team develop realistic giving projections for the coming year. During the year, careful management of the budget ensures that money is not spent if it is not available, even if it was budgeted. If actual income is less than what was anticipated, spending will need to be limited as a result.

Budgeting can help clarify your organization's goals and objectives, create a plan for its activities, and help leadership allocate appropriate resources to accomplish the ministry's vision. A detailed budget can also help you control expenses.

Many tools are available to help you develop your budget. Recommended resources include Jack Henry's *Basic Budgeting for Churches* or Murray Dropkin's *The Budget Building Book for Nonprofits*.

Garbage in, garbage out

Keeping accurate financial records is essential for your ministry. Financial records can be kept manually in ledgers designed to capture all incoming funds, outgoing funds, assets, and liabilities. Even in small churches, however, computers are becoming more prevalent. Remember that computers simply automate some of the functions. Good records produce good reports and bad records produce bad reports. The "garbage in, garbage out" rule applies whether or not the process is automated.

Several software companies provide programs that may meet the needs of your ministry. The cost of these programs can vary from a few hundred dollars to $20,000 or more, depending on their capabilities and sophistication. The program you choose should include the capability to do all bookkeeping functions, maintain individual member contributions, and prepare monthly statements. You may also want a program that can prepare payroll. Other uses may include maintaining organizational records, membership rolls, and any other needs identified by the ministry. Be sure to get input from all areas of your ministry to identify software needs.

Communicating your financial position

One of the most important functions of a treasurer is to provide reports to the leadership and congregation (and maybe a lender or other third party) that communicate the financial position and results of operation of the ministry. Different reporting formats are usually appropriate for different users. Basic financial statements, a statement of financial position (balance sheet) and statements of activities and cash flows (income statement) should be prepared monthly. These statements should be compared to your budget. In addition, the treasurer should provide a report that identifies critical items. This may mean supplemental statements and charts are needed to best communicate the periodic results, especially to the congregation. Great care should be taken to prepare all reports from the same financial data so you don't relay conflicting information.

Your ministry should also seriously consider the value of engaging independent certified public accountants to review or audit your financial statements. At the very least, it may be wise to have an audit committee (congregation members not involved in the handling of the church's funds) perform an internal audit. An audit is intended to confirm that the treasurer is keeping adequate records, to determine that the reports presented adequately report the financial position and operations of the ministry, and to help protect the treasurer from any suspicion of financial mishandling. An audit should be taken seriously by the auditor(s) and should not be just a cursory review.

Rules for church contributions

Your ministry should only accept contributions for objectives that are consistent with the *organization's* purposes. Those purposes should be clearly communicated to donors, and contributions for other purposes should not be accepted. Policies should be written to deal with the following:

- The organization's obligation when the donor stipulates how the contributions should be used
- How amounts will be used that are in excess of what is needed to meet the stipulation
- Reservation of the right to redirect the amounts donated to other similar purposes
- Reservation of the right to determine the specific individual who will benefit from a particular contribution, to preserve the income tax deductibility for the donor (State laws vary from federal law in some cases, so be careful to follow any restrictions or special handling required by the state law where you are located.)
- How gifts other than cash will be valued

Donations of cash should be receipted to the donor if the amount is $250 or more. However, tax payers are responsible for demonstrating proof of all charitable donations for which they intend to claim deduction. Because of this requirement, your donors may request receipts for all donations to your ministry. Periodic statements (e.g., quarterly) will meet this requirement if the individual donations are shown separately. A cumulative statement for the year should also be provided to donors after the year is completed.

Donations of property are considered contributions to the ministry and should be receipted to the donor if the value of the property is over $250. In addition, if the fair market value of the property is over $5,000, and if the property is sold or disposed of within three years of the contribution, the church must complete and sign Form 8283 and file with the Internal Revenue Service (IRS) Form 8282.

The fair market value of the property is used to determine whether a receipt is required and is used as the amount deductible for the donor. Determining the fair market value of a donation is sometimes difficult and may require that the donor utilize the services of an independent appraiser. (It is not the church's responsibility to determine value, but it is the church's responsibility to acknowledge in writing what was donated.) The rules are certainly more extensive than this brief summary and they are subject to change at any time. For example, an IRS rule changed the value of donations of vehicles after December 31, 2004, to be limited to the amount for which the vehicle is sold by the ministry. Be careful to comply with the IRS rules so that the deduction is valid for the donor and your ministry is in compliance with the rules and regulations.

Delivery determines the timing of a donation. Thus, if a donation is delivered on December 31, it is a deduction on the donor's tax return as of December 31 and should be recorded as a receipt by the ministry on December 31. If a check is mailed to the ministry, the "delivery date" is determined by the postmark date. Personal service donated by individuals, while appreciated and needed in a ministry, and is sometimes recorded as revenue by the church, is not tax deductible for the donor.

Basic payroll and human resources

People who get paid by the church for their services are either employees or independent contractors. Generally, employees are those for whom the church has the legal right to control what they do and how they do it. The IRS has developed a list of 20 factors to consider when determining whether an individual is an "employee" (Revenue Ruling 87-41). Court cases have also helped to determine employment status. The tax court has issued rulings that have resulted in seven factors to consider and, separately, the Supreme Court listed 12 factors to consider.

As you can imagine, the issues to consider here are numerous and complicated. Also, the end result is still subject to interpretation and subsequent evaluation by the IRS. The safest decision is to classify people as employees. Employees have the advantage of qualifying to receive tax-free benefits such as health insurance, while outside contractors do not qualify to receive such tax-free benefits from the church.

Another area to consider is the criteria for determining whether an employee is exempt (generally, salaried) or non-exempt (hourly). State laws vary on this matter, but you need to confirm that you are justified in classifying an employee as exempt. If the employee is classified as non-exempt, your ministry could be opening itself up to a potentially large liability regarding overtime pay. The determining criteria are, again, numerous and vague, so you may want to get professional help in this area.

Payroll for non-ministerial employees is generally subject to the same rules and regulations that apply to for-profit organizations. Failure to withhold or deposit payroll taxes and follow the reporting rules can result in financial penalties to your ministry and, in some cases, criminal penalties to the ministry officers. Unless you or someone on your staff has payroll expertise, use of an outside payroll service may be the best option for preparing and maintaining payroll checks and records.

Ordained pastors are generally treated as employees for income tax purposes, but the federal tax code exempts them from federal income tax withholding, and they are classified as self-employed for Social Security reporting purposes (unless they have been approved to be exempted from the entire Social Security program due to the pastor's conscientious opposition based on religious grounds). This means that, even though Social Security taxes are not withheld from the pastors' pay and the church does not pay the employer's portion of Social Security taxes, pastors are considered to be employees of the church and are then able to receive benefits like employer-paid pension and medical coverage, and workers compensation insurance. This also means that the pastors should receive Form W-2s at the end of each year, not Form 1099s.

When your ministry does not provide housing for your pastor (parsonage), part of the pastor's salary can be considered a housing allowance. Generally, the pastor tells the church how much of his salary (up to 100%) should be housing allowance, and the church board or congregation passes a resolution to that effect. The resolution must be passed prior to the pastor's salary being paid (the designation cannot operate retroactively). It is up to the pastor to document the actual expenses that qualify as housing allowance, but the total of those expenses cannot exceed the amount designated by the ministry as housing allowance. The ministry has no obligation to determine the reasonableness of the portion of salary designated as housing allowance even if it is higher than the pastor can support on his or her tax return. It is up to the pastor to support the amount. Any amount that cannot be supported is reported as "other income" by the pastor on his or her tax return.

Taxable income to a ministerial employee includes the non-housing allowance portion of salary, love offerings, automobile or other allowances (unless paid under an "accountable reimbursement plan"), any allowances for taxes, and taxable fringe benefits. It does not include housing allowance (or the fair market rental value of a parsonage), 403(b) retirement plan contributions, business and expense reimbursements paid under an "accountable reimbursement plan," or any tax-free benefits such as health insurance premiums paid by the ministry.

Stewarding God's resources

It's not easy taking on an unfamiliar role, but with the right tools, you can be an effective treasurer for your church. Seek out other resources as well as mentors who have served as treasurers before you. Continue to learn about proper financial protocol. Finally, remember that you are not only serving the congregation, but more importantly, you serve God in your role.

Basic accounting terms and definitions

The following are basic accounting terms that you need to know. This list is not exhaustive, but it gives you a basic overview.

Accrual accounting

Income is recorded when it is earned, and goods and services purchased are recorded based on the time the liabilities arise rather than when payment is made (the liabilities normally arise when Title to Goods passes or when the services are received). The intent of the accrual basis of accounting is to relate revenues, expenses, gains, and losses to the proper period of time rather than only to when cash actually changes hands.

Cash accounting

Income is recorded when actually received, and goods and services purchased are recorded based on when payment is made, without regard to when Title to Goods passes or when services are received.

Revenues

Includes cash contributions as well as non-cash contributions (such as property or, in cases where they required specialized skills, services). Revenue should not include proceeds from loans.

Expenses

Costs incurred in carrying out program services and supporting activities. Expenses should not include repayment of the principal of loans, but should include the payment of interest on loans.

Generally Accepted Accounting Principles (GAAP)

Body of guidelines and practices that comprise accepted accounting practices; these change over time as new guidelines are developed and published.

Net assets

The difference between the entity's assets and its liabilities. Portions of the net assets may be permanently restricted or temporarily restricted, and those portions may only be used for the purposes designated by donor-imposed limits. Unrestricted net assets may be used for all purposes of the organization.

Restricted and unrestricted funds

When the donor places restriction on donations, the assets are restricted and can only be used for the designated purpose. If no restriction is placed on the donation, it can be used for any of the organization's purposes. Restricted Funds can be temporarily restricted or permanently restricted. Temporary restrictions expire with the passage of time or when a condition is met; examples include funds restricted for use until a certain year or restricted to be used for a certain project. Permanently restricted funds are not available for program expenses, payments to creditors, or other organizational needs; an example is an endowment gift where the principal is not available for spending even though the income from the principal may be used in current operations.

Additional resources

Evangelical Joint Accounting Committee, 2001. *Accounting and Financial Reporting Guide for Christian Ministries*,

Pollock, David R., 1996. *Business Management in the Local Church.*

Busby, Dan, 2006. *Church and Nonprofit Tax & Financial Guide*.

Hammar, Richard R., 2006. *Church and Clergy Tax Guide, 2005 Edition*.

Nuffer, Bruce, 2003. *Church Treasurer's Handbook*. Lifesteam Resources, Kansas City, Missouri.