

 GUIDELINES

# Finance

*Handling God's  
Money in the Church*

Philip D. Jamieson  
Janet T. Jamieson  
General Board of Discipleship

## FINANCE

*Copyright © 2012 by Cokesbury*

All rights reserved.

United Methodist churches and other official United Methodist bodies may reproduce up to 500 words from this publication, provided the following notice appears with the excerpted material: From *Finance 2013–2016*. Copyright © 2012 by Cokesbury. Used by permission.

Requests for quotations exceeding 500 words should be addressed to Permissions Office, Abingdon Press, P.O. Box 801, 201 Eighth Avenue South, Nashville, TN 37202-0801 or [permissions@umpublishing.org](mailto:permissions@umpublishing.org).

*This book is printed on acid-free paper.*

ISBN 978-1-426-73637-7

All Scripture quotations unless noted otherwise are from the New Revised Standard Version of the Bible, copyright 1989, Division of Christian Education of the National Council of the Churches of Christ in the United States of America. Used by permission. All rights reserved.

*Some paragraph numbers for and language in the Book of Discipline may have changed in the 2012 revision, which was published after these Guidelines were printed. We regret any inconvenience.*

MANUFACTURED IN THE UNITED STATES OF AMERICA

# Contents

<b>Called to a Ministry of Faithfulness and Vitality</b> .....	4
<b>Part One: Getting Started</b> .....	6
My Ministry in Finance	
Understanding the Theological Foundations	
Committee Members and Basic Responsibilities	
How Should We Start?	
<b>Part Two: Financial Vitality</b> .....	13
Financial Transparency	
Missional Budgeting and Fundraising	
Best Practices	
<b>Part Three: Position Descriptions</b> .....	31
The Treasurer	
The Financial Secretary	
The Chairperson of the Committee on Finance	
<b>Appendix: Laws and Regulations</b> .....	40
<b>Resources</b> .....	47
<b>General Agency Contacts</b>	<b>Inside Back Cover</b>

# Called to a Ministry of Faithfulness and Vitality

**Y**ou are so important to the life of the Christian church! You have consented to join with other people of faith who, through the millennia, have sustained the church by extending God's love to others. You have been called and have committed your unique passions, gifts, and abilities to a position of leadership. This Guideline will help you understand the basic elements of that ministry within your own church and within The United Methodist Church.

## Leadership in Vital Ministry

Each person is called to ministry by virtue of his or her baptism, and that ministry takes place in all aspects of daily life, both in and outside of the church. Your leadership role requires that you will be a faithful participant in the **mission of the church**, which is to partner with God to **make disciples of Jesus Christ for the transformation of the world**. You will not only engage in your area of ministry, but will also work to empower others to be in ministry as well. The vitality of your church, and the Church as a whole, depends upon the faith, abilities, and actions of all who work together for the glory of God.

Clearly then, as a pastoral leader or leader among the laity, your ministry is not just a “job,” but a spiritual endeavor. You are a spiritual leader now, and others will look to you for spiritual leadership. What does this mean?

*All* persons who follow Jesus are called to grow spiritually through the practice of various Christian habits (or “means of grace”) such as prayer, Bible study, private and corporate worship, acts of service, Christian conferencing, and so on. Jesus taught his disciples practices of spiritual growth and leadership that you will model as you guide others. As members of the congregation grow through the means of grace, they will assume their own role in ministry and help others in the same way. This is the cycle of disciple making.

## The Church's Vision

While there is one mission—to make disciples of Jesus Christ—the portrait of a successful mission will differ from one congregation to the next. One of your roles is to listen deeply for the guidance and call of God in your own context. In your church, neighborhood, or greater community, what are the greatest needs? How is God calling your congregation to be in a ministry of service and witness where they are? What does vital ministry look like in the life of your congregation and its neighbors? What are the characteristics, traits, and actions that identify a person as a faithful disciple in your context?

This portrait, or vision, is formed when you and the other leaders discern together how your gifts from God come together to fulfill the will of God.

## Assessing Your Efforts

We are generally good at deciding what to do, but we sometimes skip the more important first question of what we want to accomplish. Knowing your task (the mission of disciple making) and knowing what results you want (the vision of your church) are the first two steps in a vital ministry. The third step is in knowing how you will assess or measure the results of what you do and who you are (and become) because of what you do. Those measures relate directly to mission and vision, and they are more than just numbers.

One of your leadership tasks will be to take a hard look, with your team, at all the things your ministry area does or plans to do. No doubt they are good and worthy activities; the question is, “*Do these activities and experiences lead people into a mature relationship with God and a life of deeper discipleship?*” That is the business of the church, and the church needs to do what only the church can do. You may need to eliminate or alter some of what you do if it does not measure up to the standard of faithful disciple making. It will be up to your ministry team to establish the specific standards against which you compare all that you do and hope to do. (This Guideline includes further help in establishing goals, strategies, and measures for this area of ministry.)

## The Mission of The United Methodist Church

Each local church is unique, yet it is a part of a *connection*, a living organism of the body of Christ. Being a connectional Church means in part that all United Methodist churches are interrelated through the structure and organization of districts, conferences, and jurisdictions in the larger “family” of the denomination. *The Book of Discipline of The United Methodist Church* describes, among other things, the ministry of all United Methodist Christians, the essence of servant ministry and leadership, how to organize and accomplish that ministry, and how our connectional structure works (see especially ¶¶126–138).

Our Church extends way beyond your doorstep; it is a global Church with both local and international presence. You are not alone. The resources of the entire denomination are intended to assist you in ministry. With this help and the partnership of God and one another, the mission continues. You are an integral part of God’s church and God’s plan!

**(For help in addition to this Guideline and the *Book of Discipline*, see “Resources” at the end of your Guideline, [www.umc.org](http://www.umc.org), and the other websites listed on the inside back cover.)**

# Part One: Getting Started

## My Ministry in Finance

The ministry of the committee on finance is to nurture the financial vitality of the congregation. This is a comprehensive assignment that encompasses a variety of responsibilities, all of which are necessary if the congregation is to accomplish its vision for ministry. This Guideline provides a broad overview of the characteristics of financially vital congregations as well as the specific responsibilities of those serving on this important committee. This guideline should be used by the chairperson of the committee on finance, the treasurer, the financial secretary, and the church business administrator (if there is one).

### FINANCIALLY VITAL CONGREGATIONS

To begin, what are the distinctive characteristics of financially vital congregations? Notably, these congregations are transparent in their relationship with money, think missionally about budgeting and fundraising, and engage in certain financial best practices. In Part Two, specific steps will be described that your committee can follow to grow toward greater financial vitality, but first let's begin with expanding each of these distinctive characteristics.

**Financial transparency:** Money is perhaps the most powerful force in our lives. Secrecy generally serves to increase money's power. Financially vital congregations do not conduct their money matters under a cloak of secrecy, but rather purposefully cultivate a culture of openness and transparency by (a) sharing clear, easy-to-understand financial reports with members; (b) implementing a strong system of internal controls; and (c) providing for an annual audit of the financial reports.

**Missional budgeting and fundraising:** In many congregations, the focus from week-to-week is on whether there will be enough money to pay the bills. Financially vital congregations, however, have moved beyond a survivability mindset to think missionally about budgeting. Rather than thinking in terms of scarcity, these congregations have allowed God's great abundance to frame their approach to budgeting and to raising funds to support mission. They recognize that, perhaps more than anything else the church says or does, the annual budget is a statement of faith that reveals what is most important to the congregation. So before determining a budget, financially vital congregations first seek to discern what activities God is already about in their communities that God would invite them to join. The

role of the committee on finance is not to set the spending priorities of the church, but to facilitate this congregation-wide activity of discerning, planning, and budgeting for God's mission.

**Best Practices:** Financially vital congregations engage in practices that ensure their current financial health and long term sustainability. Among these are the ways in which these churches deal with risk, laws and regulations, restricted donations and non-cash gifts, related-party transactions, and apportionments.

As a leader within your congregation in the area of finance, your work is to understand these drivers of financial vitality, to determine your goals for the year in each area, to develop strategies to meet the goals, and to establish measures that evaluate if each goal has been met. (In Part Two, we will take a deeper look at each of the characteristics of financially vital congregations with more information on measures and evaluation.)

## Understanding the Theological Foundations

In many local churches, money talk is taboo. Churches are dependent upon the offerings of members and constituents. Yet, many people do not like to hear too much money talk in church. This stands in stark contrast to the Bible where money talk is both frequent and pointed. The Bible portrays money as a powerful force in life and ultimately, a contender against God for a person's primary loyalty.

The Bible discusses money within three basic categories. First, money is a blessing from God. Throughout the Old Testament, Israel is promised material blessing as it faithfully follows God. Still, the blessing is never an end in itself, but is meant to reveal the power of the true God. Furthermore, God's people are always blessed in order to be a blessing to others. This leads to the second important way that money is discussed; those who have been blessed by God are expected to care for those who are in need. Giving is not an option for God's people, but is foundational to the lives of disciples. Both Testaments speak frequently of giving in order to support God's mission. "Each of you must give as you have made up your mind, not reluctantly or under compulsion, for God loves a cheerful giver" (2 Corinthians 9:7). Finally, money is understood as a potential idol and a force of disruption against a person's ability to love God and neighbor. The most famous text for this aspect of money's identity is Matthew 6:24: "No one can serve two masters; for a slave will either hate the one and love the other, or be devoted to the one and despise the other. You cannot serve God and wealth."

Beyond all its other roles, the committee on finance serves at a primary place of Christian discipleship by asking the key questions of church members: “Whom do you serve?” “Does Christ or mammon rule your life?” The finance committee can make a great difference in helping a congregation fully embrace the reality of Christ’s lordship over money.

## JOHN WESLEY AND MONEY

John Wesley, the primary founder of the Methodist movement, frequently spoke about money and its relationship to our lives as followers of Christ. Regarding money, his most famous words to the early Methodists were to gain, save, and give all that one can. Perhaps less famous were his concerns that many Methodists were quite content to follow two-thirds of his advice; that is, many were gaining and saving, but few were truly giving as much as they could. Some things change very little. One of the key roles for the committee on finance is to encourage contemporary United Methodists to continue to take John Wesley’s complete message to heart. This can be done through verbal witness, but it is most effectively accomplished through the adoption of sound financial practices, which will be described below.

## STEWARDSHIP AS DISCIPLESHIP

Finally, building on the witness of Scripture and the United Methodist tradition, the committee on finance can help members of the congregation embrace the life of stewardship. The way in which the committee addresses money is crucial here. The Christian faith consistently lifts up the image of a steward regarding financial matters. Ultimately for Christians, all that we have is a gift from God. Therefore, no Christian has complete control over his or her money or possessions. For this reason, the finance committee can help United Methodists better understand money’s power and thus be more open to growing in Christ’s grace. Vital and effective financial leaders do not primarily understand themselves as the “business end” of the church. Instead, the committee on finance can play a key role in encouraging Christians to fully embrace their vocation as stewards of God’s many blessings. (See also the Stewardship Guideline.)

## Committee Members and Basic Responsibilities

In *The Book of Discipline of The United Methodist Church*, (§258.4) the committee on finance is charged with all of the following activities:

- overseeing stewardship
- compiling a budget annually
- raising sufficient income to meet the budget
- administering funds received by the church

- counting and depositing the offering
- disbursing funds
- establishing internal control policies
- annually reviewing and reporting on the adequacy and effectiveness of internal controls
- providing for an annual audit of the church financial statements
- reporting to the annual charge conference on the audit
- recommending proper depositories for church funds
- using contributions in accordance with donors' intent
- annually reporting to the church council all designated funds that are separate from the church budget

Lots of responsibility to take on, isn't it? The good news is that you are part of a team! At its best, the team functions in such a way that the whole becomes greater than the sum of the parts. The directions, membership, and responsibilities of the committee on finance are included in the *Discipline*, (§258.4).

The *Discipline* provides for the committee on finance to be made up of persons who, by virtue of other leadership responsibilities, link the committee to other areas of congregational life, and others who are nominated in recognition of their commitment and witness of personal stewardship. The *Discipline* calls for the following members of the committee:

- chairperson
- pastor(s)
- lay member of the annual conference (one)
- chairperson of the church council or board
- chairperson or representative of staff/pastor-parish relations committee
- representative of the trustees (selected by the trustees)
- chairperson of the ministry group on stewardship
- lay leader
- financial secretary
- treasurer
- church business administrator
- others as determined by the charge conference

If any of these persons are paid (other than the pastor), such as the financial secretary or business administrator, they serve without vote. As a member of the committee on finance, you serve in a fiduciary capacity and as such, must always strive to act in the best interest of the congregation, rather than in any personal interest in which you might profit. The congregation has placed its confidence and trust in you to make decisions for them regarding

the use of money they have contributed to the church. This is a position that requires the highest standard of care and complete loyalty to the interests of the church.

## How Should We Start?

**Begin by reading this Guideline** to familiarize yourself with the characteristics of financially vital congregations, the specific responsibilities of your position, and the importance of setting goals and measuring how well those goals have been met. Ideally, each member of the committee should read this Guideline; at a minimum the chairperson of the committee on finance, the treasurer, the financial secretary, and the pastor should become familiar with the material. If your district offers a training event at the beginning of the year, encourage all committee members to attend.

**If you are newly elected** to the position of treasurer, financial secretary, or chair of finance, meet with the person who held your position previously. Your predecessor will have financial records, reports, meeting minutes, important documents, and plenty of good advice to offer that will be helpful in establishing a starting place for your work. You should meet as soon as possible after your election at charge conference, and prior to the first meeting of the committee on finance.

**The chair of the committee on finance** should contact committee members and set up a time for the initial meeting. Unless addressed in other ways, it is wise to invite the previous treasurer, financial secretary, and/or chairperson to this transitional meeting.

**At the first meeting**, pray and begin to reflect together about the goals that you hope to accomplish through the finance activities within your congregation during the coming year. How might your committee nurture the financial vitality of the congregation to enable it to accomplish its vision for ministry? Which characteristics of financially vital congregations still need work and will be priority areas within your church? Since this discussion will take more time than you will have at your first meeting, you will need to schedule a special meeting to fully address these questions (see below). Also at the first meeting, be sure to address the following matters:

- **Evaluate and update your policies** related to internal controls, check-signing, bill-paying, securing and counting the offering, expense reimbursements, gift acceptance, the pastor's discretionary fund, and any benevolence fund your congregation might have, as described in this Guideline.

- **Designate or reaffirm the designation of certain individuals** to sign checks, authorize and approve cash disbursements, reconcile bank accounts, count and deposit the offering, and investigate any discrepancies identified by donors between giving statements and their records. As described in detail in this Guideline, care must be taken to separate these duties to prevent internal control weaknesses.
- **Make provision for conducting the annual audit** (if it is not already done). You will need to discuss arrangements at your first meeting (see Part Two for helpful information about the audit). Verify that all year-end tax filing requirements will be met on time and that the annual giving statements will be distributed to donors as soon as possible after year end (as detailed in the Appendix).
- **Deal with the ongoing business of the church**, such as reviewing the prior month's income and expenses and determining the current and projected cash situation of the church.

**Conduct a special meeting** to further consider your goals for nurturing financial vitality within your congregation during the coming year. If your church is facilitating a congregation-wide day for goal-setting, your meeting can take place at that time. Once **goals** have been set, the committee can develop **strategies** to meet the goals, and then establish **measures** to quantify and qualify how well those goals have been met and how fruitful the specific activities have been in accomplishing the vision and mission of the church. (See the section entitled *Measures* starting on page 26.)

**Determine how often to meet.** Your committee should meet often enough to accomplish the responsibilities placed under your care. For many congregations this will mean monthly, while the committees of other churches can meet bi-monthly. At a minimum, you should plan to meet once a quarter.

**During each meeting**, begin with prayer, thanking God for abundantly blessing and providing for the needs of the congregation and asking for God's guidance in the matters before the committee. In addition

- Review the prior month's income and expenses as reported by the treasurer.
- Determine the adequacy of cash to meet spending needs for the coming months.
- Discuss the status of giving to the church as reported by the financial secretary.
- Be sure that monthly remittances of benevolent and administrative funds have been made to the conference treasurer.

- Evaluate your progress on achieving your goals by examining the results of your measures.

**At the April, July, October, and January meetings** check that:

- Quarterly payroll-related tax returns have been prepared and filed by the treasurer.
- Quarterly giving statements have been prepared and mailed by the financial secretary.

**Throughout the year**, be sure to remember to address the following matters; some of these may be ongoing issues that will need continual attention:

- A strong system of internal control is mandated by the *Discipline* and financial transparency is a key characteristic of financially vital congregations. Throughout the year, your committee may need to assess your financial transparency and the effectiveness of your current controls. Are there areas in which your church is not transparent? Can steps be taken and processes changed that would serve to strengthen and improve internal controls? See the section on Financial Transparency in Part Two for suggestions about internal controls.
- The committee on finance has the duty of compiling the annual budget and raising sufficient income to meet the budget. If your church has a ministry area dedicated to stewardship, begin working with that group early in the year to insure that plans are on track to implement a successful stewardship campaign. If this task falls to the finance committee, consider creating a subcommittee to handle this important undertaking. Do not wait until fall to begin the planning for your annual giving campaign. See the section on Missional Budgeting and Fundraising in Part Two for some helpful suggestions on how to tackle this task.

**At the end of the year:**

- Review the annual reports prepared by the treasurer for accuracy and adequate transparency. Provide these reports to the church council. Be sure to include a report on activity in all designated funds.
- Make arrangements for the annual audit. Remember that the audit must cover the financial reports, all organizations and accounts of the church, and the internal controls of the church. Refer to the section on Financial Transparency in Part Two for more information.
- Finalize the annual budget and submit it to the church council for approval.

# Part Two: Financial Vitality

As described earlier, there are certain indicators of financial vitality that provide a framework for the many responsibilities of the committee on finance. This section will more fully describe characteristics of financial vitality and specific tasks assigned to the committee.

## Financial Transparency

Financially vital congregations conduct their money matters in daylight, open to all. They purposefully cultivate a culture of openness surrounding church finances that helps to diminish the powerful role that money often assumes. In this section, we will discuss practices for transparency.

### CLEAR, EASY-TO-UNDERSTAND FINANCIAL REPORTS

One important role of the committee on finance is to *measure* the church's progress in reaching its financial goals and to *report* on that progress in a way that is clear and helpful in making decisions. These financial reports should be easy for users to follow, provide enough information to present an accurate picture of the financial condition of the church, and be available on a timely basis. If you have seen financial statements before, you may notice some major differences from the reports prepared by your church. It may be beneficial to note several important distinctions between the accounting methods used by for-profit businesses and those used by a church. The accounting method used determines the way in which things are *measured* and how that information is *reported* on financial reports.

**Fund Accounting:** First, churches, like other nonprofits, use funds to keep track of contributions, since not all contributions are the same. Some contributions are restricted by the donor to be used for a specific purpose. For instance, if a donor earmarks a contribution to be used for the youth mission trip, the church must use it only that way, not for other bills or expenses.

The *donor* determines if a contribution is unrestricted, temporarily restricted, or permanently restricted. Most of the Sunday offering is *unrestricted* since the donor has not specified how it should be used. These contributions can be used to pay for the normal operating expenses of the church.

When the church asks for donations to a specific project, however, donations to that project are *temporarily restricted*; they must be spent for a specific purpose, like activities related to the youth mission trip discussed above. A *permanent restriction* generally indicates that the church is limited in its use of the donation, frequently to spending the income earned on the

donation for a specified purpose. It is important to remember that only the donor can remove a restriction from a gift.

Unlike a donor *restriction*, the church council *designates* a contribution. They may choose to designate, or set aside, funds for a particular use. And since the church council designates, they can also un-designate. The committee on finance should keep careful records of restricted gifts and of any designations placed on funds by the administrative council.

A fund is used to keep track of both the income and expenses associated with a restricted gift, like the youth mission trip. There is no need to open a separate bank account to handle these transactions since the necessary segregation can be accomplished through the use of a fund. Your church should have as many funds as necessary to keep restricted gifts separated (but can very likely get by with just one bank account). At the end of the year, the income and expense accounts associated with the fund are closed out to net assets (described below). Any balance left in the fund is available the next year, but the restrictions originally placed on the donations still exist.

**Net Assets:** Unlike for-profit businesses that have owners' equity, churches have net assets. Assets equal liabilities plus net assets in the church, (assets = liabilities + net assets). Net assets signify the balance in the fund at the end of the period, and can be restricted or unrestricted, based on the donor intent. Ideally, the financial reports of the church should clearly identify the balances of unrestricted and restricted net assets at year end.

**Cash Basis:** Finally, unlike most businesses, churches are not required to use the accrual basis of accounting. They may, but most choose the cash basis because it is simpler to use. Congregations using the cash basis record contributions and expenses only when the cash has actually been received or disbursed, and they generally do not capitalize property or equipment as assets. In addition, since property and equipment are not capitalized, no depreciation is recorded annually. The committee on finance should select the accounting basis that will produce the clearest, simplest financial reports.

**Financial Reports:** The accounting basis used by the church will determine the financial reports that must be prepared. Under the cash basis, the treasurer should prepare at least two reports monthly for the committee to review: a *Statement of Cash Receipts and Disbursements* and a *Fund Activity Report*. More information about these reports is included in Part Three. Modified cash or accrual basis accounting require more complex financial reports,

which are beyond the scope of this Guideline, but several excellent references are provided in Resources.

**Sharing Financial Information:** In financially vital congregations, the treasurer prepares clear, thorough, easy-to-understand financial reports each month for review by the committee on finance. The church council also uses these reports at its regular meeting to assess progress and make decisions. To enhance financial transparency, these committees also share this information in summary format with the congregation, perhaps by way of the monthly newsletter. At the end of the year, the financial reports are audited (more information about the audit is included below) and the financially vital congregation openly shares this information with members.

## A STRONG SYSTEM OF INTERNAL CONTROLS

Financially vital churches have procedures and activities in place that safeguard their assets and ensure their efficient use. Rather than choosing to simply trust volunteers and church employees, these congregations have put systems in place to protect assets against theft or accidental loss, promote efficient use of church assets, and provide sound financial information for use in reports. These controls serve to shield employees and volunteers from false accusations as well as temptation, and they protect and honor the gifts of donors. Controls eliminate secrecy and create an atmosphere of openness in which transparency can thrive.

Essential controls that all churches should implement fall into six broad categories, described below. A handy checklist of basic necessary controls is included in the *Local Church Audit Guide* provided on the General Council on Finance and Administration website ([www.gcfa.org](http://www.gcfa.org)). It is also important to note that certain controls are mandated in the *Discipline* (§258); mandatory controls are noted below with the section of paragraph 258.

**Physically securing assets**, including cash and checks collected in the offering, computer hardware and software, financial data, blank checks, and the building and equipment. Some controls to consider:

- Keep the offering securely locked and out of sight at all times between its collection and deposit into the bank.
- Promptly deposit funds received (.4a).
- Use password-protected software programs.
- Locate the computer system in a place that is secure and not visible to casual traffic.
- Adequately bond the treasurer and others who deal with assets (.4b).
- Limit the distribution of keys and maintain a log of who has keys to the church.

**Segregation of duties**, which delegates certain key financial activities to different, unrelated people with the objective of preventing a single person from both perpetrating and concealing fraud.

- The position of treasurer and financial secretary should not be combined and held by one person, and the persons holding these two positions should not be immediate family members (.4).
- At least two persons, not of the immediate family residing in the same household, shall count the offering under the supervision of the financial secretary (.4a).
- Counters should be rotated regularly.
- Counters should not record deposits into the accounting system; instead, the counters should give a record of all funds received to the financial secretary and treasurer (.4a).
- Checks should be signed by someone other than the person who writes the check.
- The checking account should be reconciled by someone other than the person who writes checks and records cash transactions.
- All employees who deal in any way with church finances should be required to take at least one (preferably two) continuous weeks off per year, since fraudulent activity generally necessitates constant attention.
- Volunteers who handle money should not hold their positions for more than three consecutive years.

**Authorization procedures** to clearly identify who has the right to perform various functions, such as making a purchase, transferring cash between accounts, or making changes to software:

- Checks should be written only for *authorized* purchases.
- Payroll checks or electronic payroll transactions should only be initiated for pay that has been authorized.
- Pay rate changes should only be made after they have been authorized by the church council or charge conference.
- Transfers of cash between accounts, cash investments, or purchases/sales of certificates of deposit should only be performed by someone with proper authorization.

**Documentation** provides a written or electronic trail of support for each financial transaction. This evidence is what is used by those performing the annual audit of the church to authenticate the transaction.

- Each check issued by the church is supported by written documentation. The documentation should indicate that the bill has been paid (to avoid duplication of payment) and be initialed by the person who has the authority to authorize the payment (see authorization above).

- Every offering and other receipts of cash is counted using a formatted count sheet that documents the details of the deposit. The count sheet should be signed by the counters.
- Donors are encouraged to use preprinted giving envelopes, which are kept with the count sheets to provide documentation of the offering.
- Time sheets are used to document hours worked by hourly employees.

**Reconciliation** of what actually occurred with what was recorded in the financial records is an important control step that is often overlooked. This should be performed by someone independent both of physical access to the asset and the process of recording it.

- After the offering has been taken to the bank, someone independent of the count compares the count sheet to the deposit slip and to the amount that eventually is recorded on the bank statement by the bank.
- Quarterly giving statements are provided to donors, and donors are encouraged to reconcile the giving statement to their records and report discrepancies to someone who is not involved in counting the offering or recording contributions.
- Counters reconcile the contents of each offering envelope with the amount written on the envelope and record any discrepancy.

**Well-trained volunteers and employees** are a critical component of internal control since they are often the ones who carry out the control. The purpose of the control should be explained when volunteers or employees are trained so that they understand the reason for the safeguard. Failure to understand is often an excuse to not perform a control.

- Detailed job descriptions should be provided to employees and committee members. These manuals should include written procedures for performing the job, as well as the internal controls that have been designed into the system.
- Ushers should be taught how to take the offering, and particularly what to do with the offering if they leave the sanctuary with it.
- Counters should be trained how to count the offering, compare giving envelopes with content, prepare a deposit slip, and take the deposit to the bank.
- Volunteers working with fund-raising dinners and events should be instructed how to handle the cash collected and paid out for the event.

The committee on finance should develop written financial policies to document the internal controls of the local church. These policies should be reviewed for adequacy and effectiveness annually by the committee on finance and submitted as a report to the charge conference (.4c). The

suggestions provided above are general and may not cover specific situations in your church. The development of policies and internal controls precisely suitable for your congregation can be a formidable task. If necessary, the committee on finance should consider requesting that a CPA firm be engaged to perform this task. Also as a part of the annual audit, the actual compliance with written procedures should be examined, as described below.

## ANNUAL AUDIT OF FINANCIAL RECORDS

The *Discipline* assigns responsibility for the annual audit of financial records to the committee on finance. The committee “shall make provision for an annual audit of the financial statements of the local church and all its organizations and accounts. The committee shall make a full and complete report to the annual charge conference” (258.4d).

The goal of an audit is not simply to comply with the requirements of the *Discipline* however, but to increase the financial transparency of the church, which is a critical element of financial vitality. *The Local Church Audit Guide for United Methodist Congregations*, prepared by the General Council on Finance and Administration and available on their website ([www.gcfa.org](http://www.gcfa.org)), is an excellent handbook to assist in this important role. The guide states “Conducting an audit is not a symbol of distrust. It is a mark of responsibility. It is good stewardship demonstrated for all to see. It is a message to local church donors that you care about their gift” (page 5).

As the *Local Church Audit Guide* notes (page 5), there are a number of excellent benefits that normally result from the annual audit, most importantly: (a) protection from unwarranted charges of careless or improper handling of funds is provided for those working in financial roles within the church, and (b) trust and confidence is built with donors as to the handling of their money.

So what exactly is required for a local church audit? The *Discipline* states, “A local church audit is defined as an independent evaluation of the financial reports and records and the internal controls of the local church by a qualified person or persons (.4d).” In the *Discipline*, a brief description is provided about *who may perform* the local church audit, *what is to be audited*, and *how the audit is to be performed*.

**Who may perform the local church audit:** The *Discipline* clearly states the need for independence on the part of those conducting the annual audit, and it provides two options as to who can perform the work.

- One, the audit can be conducted by an independent certified public accounting (CPA) firm, accounting firm, or the equivalent, or

- Two, the audit can be performed by an audit committee composed of persons unrelated to the treasurer, financial secretary, pastor(s), finance committee chair, business manager, those who count offerings, or church secretary. The key to using an audit committee made up of persons within the church is *independence*.

***Independence*** is generally understood to encompass both *fact* and *appearance*. *Independence in fact* implies that those performing this important task truly have no bias that would prejudice their judgment. *Independence in appearance* suggests that the persons performing the audit will be perceived as independent by others, therefore, those performing the audit must not be related to those serving in a financial role, as described above.

Also critical in using an audit committee made up of persons within the congregation is *expertise*. Persons serving in this important role must be knowledgeable enough about church financial matters to understand the task before them. One helpful option may be to exchange services with another congregation in your community by offering your finance team to perform their audit in exchange for their finance team performing your audit.

If your church has never had an audit or if there has been any incident of mis-appropriation of funds or fraud, the committee on finance should strongly consider hiring a CPA firm to perform an independent audit. While this is a costly alternative, it may be money well spent to establish the congregation on a firm financial footing for the future.

**What is to be audited:** The *Discipline* is quite clear that not just the financial statements and records, but also the internal controls are to be audited. Furthermore, all organizations and accounts of the church should be included in the audit. Annually, a report must be submitted to the charge conference on the financial statements of the church and its organizations (.4d) as well as on its internal controls (.4c). To be clear, the audit includes:

- The financial statements of the church.
- All the organizations and accounts of the church. The *Local Church Audit Guide* (p. 10) interprets this to mean that all separate bank accounts held by groups within the church and using the same tax identification number as the church must be included in the audit; such as trustees, United Methodist Men, pastor's discretionary fund, youth group, local church foundation or endowment, memorial funds, Sunday School funds, and any others. The only exception is United Methodist Women; that audit does not need to be included in the general church audit.
- The internal controls of the church.

**How the audit is to be performed:** The *Discipline* outlines three basic purposes for the local church audit:

1. Reasonably verifying the reliability of financial reporting
2. Determining whether assets are being safeguarded
3. Determining compliance with local law, local church policies and procedures, and the *Book of Discipline*

It is important to note that the *Discipline* does not state that the audit must prove that *absolutely every* financial transaction conducted by the church during the year was *completely* accurate. Instead, the requirement is to “reasonably verify the reliability of financial reporting.” While the auditors must be given access to *all* financial records and transactions, they do not necessarily need to examine one hundred percent of the activity. Auditing implies selecting and examining, on a test basis, transactions that are representative of the financial activities of the church. These samples provide assurance as to the reliability of the financial reporting system upon which the auditor can base his or her opinion.

If, however, the church has little or no internal controls in place, the risk increases dramatically and the auditor must greatly increase the number of transactions that are tested. In addition, if there has been any incident of misappropriation or financial irregularity, the auditor should also expand testing. Once again, if your church finds itself in this situation, the committee on finance should strongly consider the possibility of hiring a CPA firm to conduct an independent audit.

The *Discipline* lists the following specific procedures that should be included in the audit:

1. A review of the cash and investment reconciliations
2. Interviews with the treasurer, financial secretary, pastor(s), finance committee chair, business manager, those who count offerings, church secretary, etc., with inquiries regarding compliance with existing written financial policies and procedures
3. A review of journal entries and authorized check signers for each checking and investment account
4. Other procedures requested by the committee on finance

As noted before, the *Local Church Audit Guide* provides an excellent resource that covers all of the four areas specified above. The *Guide* includes checklists that can be used to guide the audit procedures and tests of internal controls, an excellent explanation of accounting in the church, samples of confirmation letters, and guidelines for writing the audit report.

# Missional Budgeting and Fundraising

The *Discipline* gives the committee on finance the duty of compiling annually a complete budget for the church and submitting it to the church council for review and adoption. Additionally, “the committee on finance shall be charged with responsibility for developing and implementing plans that will raise sufficient income to meet the budget adopted by the church council.” While these appear to be clear-cut, unambiguous tasks, the *way* in which the committee goes about these duties is critical:

- Financially vital congregations focus on God’s great abundance rather than bemoaning the fact that people don’t give like they used to and worrying about what to cut from the budget if pledges are not adequate for desired expenses.
- These congregations start the annual budgeting process with a period of time dedicated to discerning God’s plans for the coming year instead of assuming that they know what the budget should include.
- The committee on finance opens up the process of budgeting to the entire congregation rather than setting the budget in a secretive, exclusive, behind-closed-doors manner.
- Financially vital congregations seek to develop stewards rather than to see members as donors.

## MISSION FIRST

The process of budgeting needs to be undertaken annually in order that the church can have a sound financial plan for the year. For many businesses and other entities, budget-setting may be described as routine, mundane, mechanical, and often tedious. But within a church, a budget is far more than simply a set of numbers; it reveals the true mission and purpose of the congregation. Only those things that the members are willing to fund are really of value to them. When the mission statement of the church declares a set of priorities that are inconsistent with how funds are actually allocated and spent, a significant contradiction exists that can undermine the vitality of the congregation.

Because of the connectional nature of our denomination, every United Methodist Church shares a common **mission**: to make disciples of Jesus Christ for the transformation of the world. This task of making disciples includes four major elements: *reaching out* to members and non-members to receive them; *nurturing* them in the faith with information, experiences, and practices that relate them to God; *equipping* them to perceive their own call from God that lives out the gifts and strengths that God has given; and *sending* them into the world to use those gifts for the transformation of the world.

With that in mind, your church council should have determined the **vision** of your particular congregation by answering the question “What does a disciple of Christ look like formed and nurtured in our church?” Establishing this vision should be the work of your pastor, church council, and other leaders of the church. The answer to your “disciple” question will reveal the results you hope to achieve through a ministry of finance; for example, “one characteristic of a disciple in our congregation is cheerful giving in proportion to one’s spiritual gifts and assets.”

## THEN DISCERN

After considering the mission and your unique understanding of disciples and discipleship in your context, the process of annual budgeting continues with a period of discernment that is undertaken by the entire congregation. Before setting budget, the question must be asked: “What work is God already doing in our community that God would invite us to join this year?” God’s plans for the church for the coming year must be discerned before money can be determined. The pastor should lead in this critical process since this is a spiritual, not a fiscal, matter. Encourage participation from as broad a cross-section of the congregation as possible. This activity should take place well in advance of budget-setting to allow time for all members to engage in prayer and conversation about where God is leading.

## SET GOALS AND STRATEGIES

Once the members have voiced all that God has laid upon their hearts for the year, **you are ready to set specific goals and plans** that are connected to the drivers of financial vitality. Remember: financial vitality is not an end in itself, but must be tied to an overarching understanding of disciple formation. Therefore, what are the goals that will enable you to make disciples within your congregation and also to reach out to those who do not yet know Christ as Savior and Lord?

A constructive way to set goals may be to begin by asking questions that are related to the outcomes you desire. For instance, you will consider issues related to the intent and impact of your mission:

1. Does your budget reflect the intent of your mission? (The desired outcome: persons who participate in a budgeting and giving ministry that reveals the mission of the Church . . .)
2. Are the members and constituents of your church able to understand the annual operating budget as a primary confession of what you believe God is calling you to do? (The desired outcome: persons who understand the budget. . . .)

3. Does the budget show an increasing or decreasing commitment to making disciples for the transformation of the world?
4. What percentage of the operating budget funds ministry outside the walls of the church? Is this more than or less than last year's budget?
5. Related to your stewardship ministry, what is the impact of giving on the persons who give as well as on those who receive?

You will also consider practical administrative issues:

6. What are the detailed objectives and outcomes of each goal?
7. How will progress on the goal be measured and reported to the congregation?
8. What specific steps toward the goal would God ask us to undertake this year?
9. How much will the steps cost to accomplish? Frequently there are more viable plans than there will be resources available, so the congregation will need to consider prayerfully which missional goals should be given priority.

With desired outcomes stated and goals set, the committee can next develop the unique **strategies** to meet your goals in your particular context.

Reflecting upon the first question above, one strategy might be to develop a communication and interpretation plan.

## NOW YOU CAN BUDGET

So how does a congregation develop a budget that aligns with its mission? With a list of missional goals in hand, the committee on finance can set about matching resources to mission. At this point, invite the heads of various committees and ministries within the church to submit their funding requests. Ask each head to also provide a narrative description of each spending category so that there will be no misunderstanding regarding the purposes for the funding being requested. Even in a small membership church, where leaders may hold more than one position, the act of writing down a description of what you want to do, why, and what it will contribute to the mission of the church can be quite illuminating. It will require that everything is considered thoughtfully. This description should contain a timetable for the proposed expenditures and the expected outcomes or deliverables from those expenditures. Each ministry area should prioritize the various spending categories in order of their importance in fulfilling that area's ministry responsibilities.

Inviting involvement from a wide cross-section of members creates openness and transparency in the budget-setting process. This participative style dissolves the secrecy that often contributes to a perception of power that

might surround the committee on finance. It communicates the message that the committee understands its proper role, that of supporting the mission of the church and not of dictating that mission. A budget that is determined from the bottom-up, involving a high level of participation by the congregation, is more likely to be supported by members than one that is created top-down by an exclusive, powerful finance committee.

**Incremental, zero-based, or program budgeting:** When all funding requests are received, the committee can prepare a preliminary budget. Spreadsheet software can be quite helpful in providing a basic budget. Many budgeted items are routine expenses necessary to operate a church, like utilities and insurance, to name two. Generally, the committee can examine what was spent on each of these in prior years and adjust them up or down, as necessary. This method of budgeting is frequently referred to as *incremental* budgeting, since line items are increased incrementally.

One criticism of incremental budgeting is that established expenditures are rarely examined, reasoning that if a given amount was budgeted last year, it should be budgeted this year. However, prudence dictates that the finance committee should question, at least periodically, the appropriateness of routine and ordinary expenses. One approach to this is to use a *zero-based* budgeting approach occasionally, which means that each line of the budget must be built from zero each year. This can be quite time consuming, so you could consider a rotation of reviewing a different portion of the budget each year.

Another method that can be used is *program* budgeting. With this method, each ministry area or activity has its own budget; all these budgets, when combined, make up the master budget of the church. In program budgeting, shared costs, such as facilities or salaries, must be allocated to each program budget. This allocation can be difficult and somewhat arbitrary to make. However, this method allows the church to see clearly how much a specific ministry or ministry activity costs to operate.

Whichever method is chosen, budgeted expenses for both general operating activities and the missional goals are finalized. But before moving on, it is important to consider a cash budget.

## CASH BUDGET

While the operating budget just described is usually prepared annually, it is important from a planning perspective for the committee on finance to consider monthly cash flows. When is it anticipated that contributions will be

received, and when do bills need to be paid? Many churches find that giving increases around Easter and Christmas, but that it may decline significantly during the summer. Expenses may occur more evenly, although certain bills like insurance may be due in a large lump sum once a year. In order to plan so that adequate cash is on hand when needed to pay bills, a monthly cash budget can easily be prepared by analyzing giving patterns and expenditures.

Using spreadsheet software, begin with an estimated anticipated cash balance at the beginning of the year. To that, add projected cash receipts for the first month of the year and subtract estimated cash disbursements for that month. The ending balance, which hopefully is positive, becomes the beginning cash balance for the next month. This simple tool allows the committee to plan in advance for any potential shortfall of cash throughout the year.

## **FUNDING THE BUDGET: STEWARDS RATHER THAN DONORS**

The stewardship ministry may be conducted by a separate ministry team, a subgroup of the committee on finance, or a task group that reports to the church council. However your church chooses to handle this important ministry, it is critical that those involved have a good understanding of the character of a Christian steward. Giving to the church is an important part of stewardship, but it is only a part. The Guideline on *Stewardship* provides a rich resource for those in positions of stewardship leadership in your congregation. (See Resources.)

The committee on finance must understand the importance of focusing upon God's abundance rather than what may seem to be the congregation's scarcity of assets. Budgeting needs to be realistic; that is, aware of past giving patterns. At the same time however, the committee must challenge the local church to focus upon God's vision for them and the community of which they are a part. God has plans and a way of providing for them. The finance committee occupies the key position of reminding the church of this central reality.

The committee must help church members better understand themselves to be stewards. That is, central to their identity is to look for ways to use faithfully the assets with which God has blessed them. United Methodist church members are not primarily donors. They are not in a position to decide how much of *their* money they wish to donate. Instead, they are stewards seeking to discern how much of *God's* money with which they are entrusted they

should offer on a regular basis. As stated before, the finance committee is a primary participant in helping Christians fully embrace what it means to be a disciple of Jesus Christ who is growing in grace.

**Narrative Budgets:** In the section above, the budgeting process was described. That process produces a *line-item budget* that can be used by the committee on finance to manage income and expenses. But is that line-item budget an effective way to ask members to give? Some stewardship leaders have found that the best way to communicate the church's financial needs to givers is through a *narrative budget*. A narrative budget is a simple, clear description of what the church would like to accomplish in each area of ministry, and the spending that will be necessary to achieve each goal. The narrative budget does not take the place of the line-item budget, but supports it. The total dollars for each should be the same. Narrative budgets are strong and effective communication tools that both educate and inspire giving. They can help shape the imagination of church members, moving them from a vision of scarcity to one of abundance. The General Board of Discipleship provides resources on preparing a narrative budget ([www.gbod.org/stewardship](http://www.gbod.org/stewardship) in the tab "Budgeting").

## MEASURES

One of the most frustrating aspects of Christian ministry is the attempt to measure it. How exactly does one quantify a faithful response to the Gospel? Does God's peculiar choice of *weak* and *foolish* things (1 Corinthians 1:27) confound our normal emphasis upon *more* and *greater*? That being said, there are more ways to measure the financial vitality of the church than numbers.

After visioning, considering mission, setting expectations, establishing strategies, and devising the appropriate budget for different ministry endeavors, the committee needs to establish **measures** to *quantify* and *qualify* how well those goals have been met and how fruitful the specific activities have been in accomplishing the vision and mission of the church. You will **not** be the primary evaluator for the specific ministries you fund, though your feedback may be helpful. You will measure and evaluate how well you have done with your own strategies for nurturing the financial vitality of the congregation. Returning to question 4 on page 23, for example, the committee can measure, *quantitatively*, whether there is an increasing percentage of the operating budget that is dedicated to mission beyond the walls of the local church. To determine if there is an increasing or decreasing commitment to making disciples (question 3) you would examine the strategies designed to increase commitment.

The *qualitative* measures are perhaps harder to determine because they are not primarily related to numbers. Question 5, on the *impact* of the financial ministry, relates to people's attitudes, values, and behaviors. To measure this, look at the stories people tell about themselves or that can be observed. Are their lives changing in relation to money, giving, and a sense of generosity? How do they express this or demonstrate it?

While the finance committee may not engage in "front line" ministry, like evangelism or missions, you are all important and valued partners in carrying out the mission of the church. Through their work on the finance committee, members should have their vision of ministry enlarged. They may begin to understand God's concern for every aspect of our lives including the financial facets. At the same time, the committee can help members and constituents of the local church come to realize how crucial a prayerful and reflective approach to money and giving is to being a disciple of Jesus Christ. The only potential rival to serving God that Christ explicitly mentioned was money (Matthew 6:24). What greater gift can anyone give to one's brothers and sisters in Christ?

## Best Practices

As described in Part One, financially vital congregations undertake certain practices that set them apart. These include:

- Placing the mission and interests of the church above personal interests
- Understanding the connectional nature of apportionments
- Honoring donor restrictions
- Establishing and following a gift acceptance policy
- Managing risk through insurance and training
- Understanding and complying with all laws and regulations

## MISSIONAL INTERESTS ABOVE PERSONAL INTERESTS

Financially vital congregations see the mission and interests of the church as above their personal interests. Rather than seeing the church as an extension of themselves or their families, members of these congregations give to and work for the church out of grateful response to God.

The financial leaders in these congregations model this best practice by understanding their role as that of a fiduciary, called always to act in the best interest of the congregation. As such, the committee on finance avoids engaging in financial transactions on behalf of the church that in any way would benefit them or their business personally. To avoid conflicts of interest, either real or perceived, a closed competitive bid process

is used in awarding any contracts entered into by the church. In addition, any significant related party transactions are disclosed to the congregation annually.

Members of financially vital congregations do not put their own interests above the interests of the church, nor do they personally profit from being a member.

## **THE CONNECTIONAL NATURE OF APPORTIONMENTS**

Financially vital congregations understand and embrace the connectional nature of The United Methodist Church. This means that they are able to interpret the way in which a local church relates to the district, annual conference, and denomination. One important aspect of those relationships is the payment of apportionments. Apportionments are assigned by the annual conference through an agreed-upon formula set by the annual conference.

The finance committee can help the local church realize that apportionments are not taxes levied by the annual conference, but rather are a key way in which the local church shares in the larger ministry of The United Methodist Church. The ministry of each local church is expanded and multiplied through apportionments. No matter how small or large the local church, payment of apportionments enables the local congregation to support ministries that it never could on its own.

The finance committee should prioritize timely payment of apportionments. This is normally done monthly. The finance committee best understands the cash flow of the local church. This empowers it to set an informed schedule for apportionment payments that will promote its fulfillment of this aspect of connectional life.

## **HONORING DONOR RESTRICTIONS**

An important best practice observed in financially vital congregations is a commitment to use cash contributed to the church in accordance with donor intent. The financial leaders in these congregations are knowledgeable about the binding nature of certain donor restrictions and seek to administer funds faithfully in accordance with those wishes. Additional information about donor restrictions can be found on page 13.

Perhaps of greatest importance, these committees on finance are unwilling to borrow from restricted funds to pay for ongoing daily operations. At some point, your church may find that cash in the operating fund runs low

while there is plenty of cash in a restricted fund. It is tempting to use the restricted cash to get through the difficult time. Remember that the restriction has been placed on the donation by the donor, and only the donor can change or remove the restriction. Using restricted donations may provide a short-term solution but often creates another, bigger, long-term problem, since the borrowed cash must be restored.

There is always the risk of a large, unexpected building repair or a sizeable unanticipated downturn in giving. Rather than turning to restricted funds for the cash, financially vital congregations have created an emergency fund to protect against this type of risk. If your church is in a position to build such a fund, the committee on finance should suggest the possibility to the administrative/church council. To build a contingency fund successfully, the congregation must include it in the budget. Over time, the reserve can accumulate a safety net adequate to offset the perceived risk of a potential emergency.

## A GIFT ACCEPTANCE POLICY

As a best practice, financially vital congregations establish and follow a gift acceptance policy. The financial leaders in these congregations are well aware of the risk connected with the acceptance of some non-cash gifts. Some gifts, they know, may be more costly to administer than the value of the gift. To protect against this risk, these committees on finance work with their church council and board of trustees to establish policies and procedures surrounding the acceptance of gifts.

The *Book of Discipline* places responsibility on the board of trustees for receiving and administering all bequests made to the church and for investing gifts held in trust, unless that power is delegated by the charge conference to an endowment committee. In conjunction with the board of trustees and the church council, the committee on finance should encourage the development of a gift acceptance policy to protect the church from noncash gifts or restricted gifts that would not be in the best interest of the congregation to accept. The policy identifies who has authority to accept a gift on behalf of the church. One important component of such a policy should be to provide the church with a process for removing a restriction placed on a gift by a donor, in the unlikely event that such an action becomes necessary. The policy should also address how any excess contributions to a capital funds campaign might be redirected by the charge conference. Your conference foundation or treasurer's office may have sample gift acceptance policies available for use.

## MANAGE RISK THROUGH INSURANCE AND TRAINING

An important best practice observed in financially vital congregations is a commitment to managing risk of all types. The financial leaders in these congregations are knowledgeable about the diverse nature of risk encountered by churches, and they faithfully seek to protect the assets, personnel, and reputation of their church against loss.

The risk of loss due to catastrophe, lawsuit, crime, sexual misconduct, or employee dishonesty exists for a church just as it does for any other entity. Insurance is the primary way to mitigate this risk. By *Discipline*, the board of trustees has responsibility to review annually the adequacy of property, liability, and crime insurance coverage for all church property and equipment. They are also directed to review the adequacy of personnel insurance. The church treasurer and others dealing with cash are to be bonded to protect the church against losses resulting from fraud or theft.

Most annual conferences, as well as the General Board of Discipleship and the General Council on Finance and Administration, provide excellent support in the way of training, policies and procedures, and other resources that can assist congregations. Safe Sanctuaries® is a denomination-wide initiative to manage risk in order to help children, youth, and adults experience God's love. All local churches are strongly encouraged to develop Safe Sanctuaries® policies in conversation with the annual conference. The finance committee may help to advocate for the development of such policies in coordination with the pastor and trustees.

## UNDERSTANDING AND COMPLYING WITH LAWS AND REGULATIONS

Financially vital congregations have financial leaders who work to develop a foundational level of knowledge of the laws and requirements that apply to their church. "We didn't know" is not an excuse used by these congregations; rather their committees on finance embrace the challenge of leading the church through what can often be complex areas.

To help your leadership develop competency in this best practice area, the Appendix provides an overview of various tax laws that relate to churches. Much of what is included there will be of specific interest to the treasurer, but all members of the committee on finance can benefit from becoming more knowledgeable of what is required of churches. Not all laws may apply to your specific congregation.

# Part Three: Position Descriptions

The key financial leadership roles within most congregations include the treasurer, the financial secretary, and the chairperson of the committee on finance. This section provides a description of each of these positions. A valuable resource that provides a more in depth description of the responsibilities of each position is *The United Methodist Church Financial Records Handbook*, published each quadrennium by The United Methodist Publishing House.

## The Treasurer

As treasurer of the church, you have the unique responsibility of carrying out most of the financial decisions made by the committee on finance. The *Discipline* (§258.4b) charges you with broad responsibility for the following three general areas:

- **Disbursing funds:** The church treasurer(s) shall disburse all money contributed to causes represented in the local church budget, and such other funds and contributions as the church council may determine.
- **Reporting:** The church treasurer shall make regular and detailed reports on funds received and expended to the committee on finance and the church council.
- **Making monthly remittances to the conference treasurer:** The treasurer(s) shall remit each month to the conference treasurer all World Service and conference benevolence funds then on hand. Contributions to benevolence shall not be used for any cause other than that to which they have been given.

More specifics on each of these areas are provided below, but first a word about how you interact with others in positions of church leadership.

### RELATIONSHIPS

As treasurer of the church you will be working with a number of people and groups within and outside the church to make your ministry more effective—and enjoyable. As treasurer you will:

- Be a member of the charge conference, the church council or board, and the committee on finance.
- Work with the financial secretary. You will receive from the financial secretary a deposit slip indicating the amounts deposited, along with a statement summarizing the sources of all cash received and the purposes for which they were given.
- Work with the chairperson of the committee on finance. Any questions about policies or procedures in handling funds should be cleared with

the chairperson. You will provide a regular report to the committee, and that becomes the basis of the report from the committee on finance to the church council or board.

- Work with the treasurer of the annual conference. Immediately after election as treasurer of your church, correspond with the conference treasurer to clarify your responsibility in transmitting funds to the annual conference.
- Work with your pastor, who is responsible for all phases of the work of the local church.

## DISBURSING FUNDS

The way you manage the money within your care will either build up or tear down the trust of those who give to the church. You symbolize the financial management system of the church. Careful record keeping, investment of unused funds, and timely remittance of special collections will encourage givers to trust the church by giving more. Work with the committee on finance to establish procedures for payment of bills (which bills to pay in what order), investment of “idle” funds, and remittance of special offerings. Specifically, you are responsible for:

- Preparing, but not signing, checks to pay the bills of the church. The bills should be approved for payment by someone else, frequently the person who is authorized to sign checks. All disbursements should be supported by adequate documentation that clearly establishes the legitimacy of the payment to be made. Invoices should include a description of the goods or services obtained or provided, including the names of the person or persons initiating the purchase. Purchase orders should be used for major purchases (level to be set by the committee on finance) with the appropriate signature of the individual authorized to approve such a purchase.
- Preparing, but not signing, all payroll checks. The individual who signs the payroll checks should also approve the amount of pay. As described in the Appendix, federal taxes and Social Security (FICA) are to be withheld and paid on all employees except your pastor(s). *IRS Publication 15 (Circular E) Employer’s Tax Guide* provides withholding tables and explains procedures for withholding and remitting payroll taxes. If state and local taxes are to be withheld from employees’ wages, be certain that you have the proper information and follow the recommended procedures.
- Keeping track of all disbursements using accounting software, a spreadsheet, or a manual system to do so, and maintaining an organized filing system for backup documentation.

- Supervising cash balances to ensure that adequate cash is maintained in the checking account and recommending to the committee on finance that any excess cash is invested.
- Preparing and filing all payroll related tax returns, including 941s, W-2s, state and local withholding taxes, 1099s, etc. As described in the section on tax filing in the Appendix, your church may need to pay and file tax returns to a variety of entities. *IRS Publication 15* also provides guidance on the filing requirements and preparation of tax returns.
- Promptly remitting on a monthly basis to the conference any conference benevolence funds on hand.

## REPORTING

Regular reporting of all receipts and disbursements that flow through your books in an accurate and easily interpreted way is one of the most important responsibilities of the treasurer. Generally, this reporting includes two primary statements, the **statement of cash receipts and disbursements** and the **fund activity report** (described below). You report to the committee on finance and, if requested, to the church council or board. In addition, you may need to report to outside agencies, such as the IRS, as described in the Appendix.

Specifically, you are responsible for:

- Maintaining an adequate system to file and store documentation and receipts related to disbursements.
- Receiving summary cash deposit information related to contributions from the financial secretary.
- Preparing and presenting to the committee on finance each month a report that summarizes **cash receipts and disbursements** for the month and year-to-date. Beginning cash on this report must be the same as ending cash on the prior month's report. Ending cash for each account on this report must agree to the bank reconciliation(s), (prepared by someone other than you). If possible, prepare this report to provide a comparison with prior year(s) and with amounts budgeted. Note that if your church uses the accrual basis of accounting, you will prepare different reports, as described in Part Two.
- Preparing and presenting to the committee on finance each month a report on the **cash activity that took place in each fund**. This report should include the beginning balance of each fund, the amounts of receipts and disbursements in the fund, any transfers between funds, and the ending balance in the funds. The ending balance for all funds should agree to the

total ending cash presented on the report summarizing cash receipts and disbursements. Note that if your church uses the accrual basis of accounting, you will prepare different reports, as described in Part Two.

- Preparing and presenting to the committee on finance an annual **statement of cash receipts and disbursements** at year end and an annual **fund activity report**. If possible, prepare this report to provide a comparison with prior year(s) and with amounts budgeted. Note that if your church uses the accrual basis of accounting, you will prepare different reports, as described in Part Two.
- Establishing and maintaining a system to retain financial records in accordance with government regulations as described in the Appendix.
- Report to all appropriate government agencies as described further in the Appendix.

## WHAT'S NOT YOUR JOB?

It is also important to be aware of what is *not* included in your role as treasurer. As treasurer, here are some key tasks that you are *not* to do:

- Be personally involved in counting or depositing the offering or other cash
- Reconcile any church bank account(s)
- Sign checks
- Approve expenditures for payment
- Be involved in the annual audit
- Serve as the financial secretary of the church

## The Financial Secretary

The position of financial secretary is one of the most important and sensitive offices in the church. You were nominated to this position by the committee on nominations and leadership development and were elected by the charge conference. The information you compile about contributions to the church is important to both donors and to the church. Donors rely on you for accurate data to include on their tax returns. The church, and particularly the treasurer, depends on you to report correctly both the amount and the purposes for which each gift was given so that the donor's intent can be honored.

The *Discipline* charges you with broad responsibility for the following three general areas:

- Supervising the offering count
- Promptly depositing cash from offerings in the bank in accordance with procedures established by the committee on finance, and giving a record of each deposit to the treasurer
- Keeping records of contributions

More specifics on each of these areas are provided below, but first a word about how you interact with others in positions of church leadership.

## RELATIONSHIPS

As financial secretary of the church you will be working with a number of people and groups within the church to make your job more effective—and enjoyable. As financial secretary, you will:

- Be a member of the committee on finance; if you are a paid employee, you serve on this committee without a vote. You will report to the committee each month as to the status of giving to the church.
- Work with the treasurer. You will give the treasurer a deposit slip that indicates the amounts deposited to the bank each time the offering is received, along with a statement summarizing the sources of all cash received and the purposes for which donations were given.
- Work with the chairperson of the committee on finance. Any questions about policies or procedures in handling contributions should be cleared with the chairperson.
- Work with the congregation by providing them with accurate data about their giving. This normally takes the form of quarterly and annual giving statements.
- Work with your pastor, who is responsible for all phases of the work of the local church.

As financial secretary, you cannot also serve as the treasurer or be closely related to the treasurer.

## SUPERVISING THE OFFERING COUNT

You are responsible for ensuring that the offering is accurately counted. An important part of this is making sure that the offering is kept intact and secure until it is ready to be counted. In many churches, the offering is taken on Sunday but the count does not occur until Monday. With help from the committee on finance, you need to develop a process that makes sure that the offering is safeguarded from the point where it leaves the sanctuary until it is deposited into the bank. Here are some internal control suggestions to consider as you develop the process:

- If the offering leaves the sanctuary during the service, it should be carried by two unrelated ushers to the church office and immediately locked in a safe.
- Under no circumstances should you or anyone else take the offering home.
- Instead, the offering should remain locked in a safe at the church until the count takes place and then until it is ready for deposit.

The committee on finance will appoint at least two persons (preferably more), not related to you or to each other, to assist in counting and depositing.

- Counters cannot be related to the treasurer, to each other, or to you.
- The count should never be conducted by just one counter. There should always be at least two unrelated persons performing the count.
- Preferably, the counters should be rotated from one week to the next.
- Preferably, the count should take place in a secure location at the church as soon as possible following the offering.
- Checks made out to the church should be restrictively endorsed.
- Counters should be trained in how to perform the count accurately.
- A preformatted count sheet should be used to help the counters accurately record the details of the offering.
- Offering envelopes have long proven their value and are used by many congregations. They provide privacy to the contributor, a dated reminder to encourage regularity in giving, a basis for posting contributions to individual records, and a record for reference when a question arises about individual contributions.

## DEPOSITING CASH PROMPTLY

As soon as the count is accurately completed, the offering should be deposited intact in the bank. In addition, a record of the deposit must be provided to the church treasurer.

- Deposit the entire offering intact. While it is tempting to pay for minor church expenses out of the offering, it is not a good idea to do so. Rather, expenses should be paid by the treasurer with a check.
- It is best for two unrelated people to take the deposit to the bank. If only one person drops off the deposit, that person should not have access to the count sheet or deposit summary, and a second unrelated person should reconcile the deposit slip from the bank with the count sheet to ensure that the amount counted agrees with the amount deposited.
- Give a summary of the deposit to the treasurer. This needs to include detail about how much was contributed to the operating (or general) fund, how much was given to the building fund, etc. The summary is not to include how much each donor gave, since that information is not shared with the treasurer.

## KEEPING RECORDS OF CONTRIBUTIONS

A critical part of your job is to keep an accurate record of the amounts contributed to the church. A variety of prepared forms are available from Cokesbury to simplify this task. Some churches design their own forms and have them printed to fit their specific needs. You must also communicate to

donors by providing them with giving statements, usually on a quarterly basis. IRS requirements for reporting to donors are in the Appendix.

- Keep a separate giving record for each donor.
- Post each contribution made by the donor to their giving record as soon as possible after the offering is taken. Update the giving record using the information appearing on the offering envelope or check.
- Quarterly, if possible, provide a giving statement to each donor to recap their giving for the period. This statement should provide as much detail as possible. For internal control purposes, donors should be instructed to direct any questions about discrepancies between the giving statement and their personal records to someone other than you. The committee on finance should select someone to investigate such concerns on behalf of the church.
- At the end of the year, provide an annual giving statement to each donor to recap their giving for the year. This should be distributed to donors as soon as possible after year end to expedite the preparation of their income tax returns. As described above, donors should direct disagreements to someone other than you.

## WHAT'S NOT YOUR JOB?

It is also important to be aware of what is *not* included in your role as financial secretary. As financial secretary, here are some key tasks that you are *not* to do:

- Reconcile any church bank account(s)
- Sign checks
- Approve expenditures for payment
- Be involved in the annual audit
- Serve as the treasurer of the church

## The Chairperson of the Committee on Finance

The chair of the committee on finance has the broad responsibility of leading the financial direction of the church. The *Discipline* charges you and the committee with oversight of all of the following areas, most of which have been described in depth in Part Two:

- Compiling an annual budget
- Developing and implementing plans to raise sufficient income to meet the budget
- Administering the funds received according to instructions from the church council
- Guiding the treasurer and financial secretary by following directions established by the church council

- Designating counters to work with the financial secretary in counting the offering
- Providing for bonding for the treasurer (and others dealing with cash)
- Establishing written financial policies to document internal controls
- Reviewing the adequacy and effectiveness of internal control policies annually
- Making provision for an annual audit of the financial statements of the church and all its organizations and accounts
- Providing a report to the annual charge conference on the audit
- Recommending to the church council proper depositories for the church's funds
- Using contributions as the donor intended
- Reporting to the church council annually on all designated funds that are separate from the operating budget

Other duties are detailed below, but first a word about how you interact with others in positions of church leadership.

## RELATIONSHIPS

As the chairperson of the committee on finance you will be working with a number of people and groups within the church to make your ministry more effective—and enjoyable. As chair you will:

- Be a member of the charge conference and the church council or board.
- Work with the financial secretary answering questions and providing guidance.
- Offer leadership and direction to the treasurer.
- Work with your pastor, who is responsible for all phases of the work of the local church.

Other tasks not listed above that should be considered by the committee on finance include:

- Designating the person or persons who can sign checks on behalf of the church. Your bank should be informed as to who has been given this authority. Neither the treasurer nor the financial secretary should be an authorized check signer.
- Determining the person or persons who can authorize and approve cash disbursements. Neither the treasurer nor the financial secretary should approve expenses.
- Authorizing an individual to perform the monthly reconciliation of all bank accounts on a timely basis. Neither the treasurer nor the financial secretary should reconcile the bank accounts.

At monthly meetings, the committee on finance should perform the following tasks:

- Check the treasurer's *report on cash receipts and disbursements* to see that the beginning cash balance on the current month's report is the same as the ending cash balance on the prior month's report, to ensure that the report is complete and includes all transactions.
- Compare the reconciled bank balance to cash as presented on the *report on cash receipts and disbursements*.
- Compare current period cash receipts with both year-to-date receipts and with receipts in the same month in the prior year, and evaluate for reasonableness. Also compare current period cash receipts with budgeted receipts for the period.
- Inspect each line of current period cash disbursements with both the year-to-date amount and with the same month in the prior year, and evaluate for reasonableness. Also compare current period cash disbursements with budgeted disbursements for the period.
- Evaluate the monthly ending cash balance and compare it with the cash budget. Based on budgeted cash requirements for the coming months, assess the adequacy of cash for the future.
- Examine the *fund activity report* provided by the treasurer and discuss any transfers that took place between funds, disbursements out of restricted funds, and any funds with negative balances.

Though it has been stated already, the financial ministries of the church are *ministries* first. You have a sacred trust to envision and encourage a church in an attitude of abundance and a practice of responsible stewardship.

# Appendix: Laws and Regulations

Financially vital congregations understand the laws and regulations that apply to them and endeavor to comply with these requirements. To help your committee develop competency in this best practice area, this appendix provides an overview of various tax laws that relate to churches. Not all laws may apply to your specific situation. Your church may wish to consult a tax professional for additional guidance.

## TAX STATUS

Your church is tax exempt under Section 501(c)(3) of the Internal Revenue Code as a subordinate organization of the greater United Methodist Church. You do not need to do anything for this status since all local United Methodist churches are covered by a group tax exemption ruling. This means that contributions to your church are tax deductible by the donor. If you are a new congregation, your district office will assist you in completing paperwork to request inclusion in the UMC group tax exemption.

## EMPLOYER IDENTIFICATION NUMBER (EIN)

Your church should have an EIN issued by the IRS. This nine-digit number is required to open a bank account, file tax returns, or participate in the group tax-exemption ruling discussed above. If your church does not have an EIN, you can request one from the IRS by completing form *SS-4 Application for Employer Identification Number*.

## FEDERAL FORM 990

There are a number of tax filing requirements that may or may not apply to your congregation. IRS *Publication 1828, Tax Guide for Churches and Other Religious Organizations*, provides an excellent resource for determining which requirements apply to your church.

- One return that is **not** required is the **Form 990**. Most non-profit entities are required annually to file a federal *Form 990 Return of Organizations Exempt from Income Tax* (or a shorter version of the Form 990), but churches are specifically exempt from this requirement.
- **Form 990-T Exempt Organization Business Income Tax Return** is **most likely not** required to be filed by your church. It does apply to churches that generate gross income of \$1,000 or more per year from an unrelated business. If your congregation continuously conducts an activity that could be considered a trade or business that is not substantially related to the church's exempt purpose, you should consult with a tax advisor to determine if this qualifies as unrelated business income.

## STATE AND LOCAL SALES TAX

The fact that your church is federally tax exempt does not necessarily mean that it is exempt from all sales tax. Forty-five states collect statewide sales and use tax, and many cities and local governments add local sales tax. Check with your conference office or with your state, since each state has different rules about whether and when a church is exempt from paying sales tax.

States that exempt churches from *paying* sales taxes on purchases normally require some type of sales tax exemption certificate, and also require that the item be purchased directly by the church using a church check rather than by a representative of the church using personal funds. Furthermore, not all items purchased by the church may be exempt from sales tax by your state. Many states exempt items purchased by the church that are used in conducting ministry, but do not exempt items purchased for the parsonage, for example. If you are located in a sales tax state, be sure to obtain a sales tax exemption certificate, as it may save your congregation money.

It is also important to remember that *paying* sales tax is very different than *collecting* sales tax. Sales taxes are collected by the seller when the sale is made. Many states require churches to have a sales tax permit and to collect sales tax on the sale of tangible property, which might include the sales of items at a fundraiser or auction, food at a church dinner, books for a Bible study, or CDs during a concert. Once collected, the church must prepare and file a state sales tax return and remit the sales tax to the state in accordance with the filing requirements of the state. Check with your conference office or with the state to determine the rules that apply to your congregation.

## EMPLOYMENT TAXES

While the details of the compensation packages of your pastor and church staff are the responsibility of the Staff Parish Committee, usually it is left to the treasurer to prepare paychecks and file any necessary employment tax returns. Clergy employment taxes are a very complex area of tax law that demands your familiarity.

***Employment taxes for your pastor(s):*** You are not required to withhold federal or state income taxes for your pastor, but you can do so to assist him or her. You will likely only do so if you have other church employees for whom you are withholding income taxes. If you do withhold income taxes for your pastor, include those amounts on the forms that you file quarterly for your other employees. You are not required to withhold and match FICA tax (Social Security and Medicare) for your pastor. Your pastor pays

this tax as a self-employed person, paying both the employee and the employer share.

At the end of the year, prepare a Form W-2 for your pastor. In box 1 (Wages, Tips, and Other Compensation), include the amount that you paid your pastor in compensation, but not any amounts that you paid to him or her for a housing allowance. It is highly recommended that you report the amount paid for housing in box 14 (Other). If you have chosen to withhold federal income tax for your minister, that amount goes in box 2 (Federal Income Tax Withheld). Boxes 3 through 6 should be left empty since the pastor pays his or her own FICA.

*IRS Publication 517 Social Security and Other Information for Members of the Clergy and Religious Workers* can answer many questions about the rules that apply to your pastor. Additionally, several excellent resources are listed at the end of this volume that provide more information about this complex area.

***Employment taxes for all non-ordained employees:*** Your church may have other employees, such as a church secretary, janitor, and organist. If so, you must prepare and file on their behalf all returns required of any other employer, except for FUTA (Federal Unemployment Tax Act), since churches are specifically exempt from FUTA. This includes:

- Federal income tax withholding
- FICA (Social Security and Medicare): Half of this tax is withheld from the employee and half of it is paid by the church.
- State and local income tax withholding: Not all states and cities have income taxes, so this may not apply to your church.

Just like for any other employer, you must remit these withheld taxes on a timely basis to the proper taxing authority and file the appropriate tax returns both quarterly and at the end of the year. *IRS Publication 15 (Circular E) Employer's Tax Guide* provides withholding tables and explains procedures for withholding and remitting payroll taxes.

## FORM 1099-MISC

If your church pays an unincorporated entity \$600 or more in any calendar year for rent, prizes or awards, fees, or compensation to non-employees, you may be required to furnish that individual or entity with a Form 1099-MISC by January 31 of the following year and file the appropriate copies to the Internal Revenue Service by February 28. Care must be exercised in determining whether the individual providing services to the church is an employee (who should be included in all payroll tax filings described

above) or self-employed (and should receive a Form 1099-MISC at year-end). Several factors are considered in determining whether a worker is an employee. For more information and examples of the common law employer-employee relationship, see *IRS Publication 15-A, Employer's Supplemental Tax Guide*.

### **GOOD SAMARITAN/BENEVOLENCE FUND**

If your congregation wants to support needy individuals within the community, perhaps with money for utilities or food, it should establish a Good Samaritan/Benevolence Fund for this purpose. A written policy for handling requests from needy individuals should be established by the committee on finance. Without an approved policy, donations given by church members to support this purpose might be considered nondeductible by the IRS. It is important to prohibit donors from specifying or controlling payments from the benevolence fund. See a sample policy and information on this and on discretionary funds at GCFA ([www.gcfa.org](http://www.gcfa.org)).

### **PASTOR'S DISCRETIONARY FUND**

Your congregation may provide the pastor with funds to be used at his or her discretion, either through the operating budget or through special offerings. Typically, this money is used by the pastor confidentially to support needy individuals. In order to administer this fund correctly and to ensure that it has no tax consequence to the pastor, a written policy and sound internal controls should be developed by the committee on finance. Most importantly, the pastor must document how the funds are spent (without providing names of individuals), must never spend the funds personally, and must limit the amount given to the needy based on your policies. This fund must be included in the annual church audit, and the treasurer should require a signed request form when replenishing the fund.

### **ACCOUNTABLE EXPENSE REIMBURSEMENT PLAN**

Establish an accountable reimbursement plan to cover the church expenses that pastor and staff pay for personally. These are *church* expenses that, for whatever reason, the clergy person or staff has paid for personally and which should be reimbursed to them. The way in which these expenses are paid back is critical, since reimbursements under a non-accountable plan can result in the payment of unnecessary taxes. Fortunately, the rules applying to churches for expense reimbursement are the same as those that businesses must follow, so if your place of employment has such a plan, you may be familiar with how it functions. The website of the General Council on Finance and Administration ([www.gcfa.org](http://www.gcfa.org)) provides excellent resources on this topic, including several sample plans.

To summarize, without an accountable plan, amounts reimbursed to your pastor or other employee for business-related expenses may be considered by the IRS to be additional compensation and subject to income tax. With an accountable reimbursement plan in place, however, there are no tax consequences to the employee that result from reimbursement. The IRS defines an accountable reimbursement plan as meeting three requirements: (1) the expense is related to the church; (2) the church requires the pastor or other employee to substantiate expenses incurred; and (3) the church requires the pastor or other employee to promptly return any excess amounts.

The plan should be a written policy that specifies the types of church expenses that will be reimbursed, provides guidelines for the kind of documentation that must be provided, and stipulates a timeline for submission of receipts for reimbursement. Either the committee on finance or the staff parish relations committee should establish the plan and consult the General Council on Finance and Administration guidelines to ensure compliance with IRS requirements, when doing so. Expenses related to mileage and local transportation can be complex. A special document relating to local transportation for both single and multiple-point charges is available on the GCFA website. In addition, the standard mileage rate, published annually (and sometimes bi-annually) by the IRS, is applicable to clergy and staff.

Once an accountable plan is in place, the process for implementing it is simple. Each year during the budgeting process, the anticipated amount of clergy/staff business expenses should be estimated in conjunction with the staff parish relations committee and included in the budget. Throughout the year, clergy and staff submit their receipts for reimbursement. To increase internal control, it is wise to have reimbursement requests submitted to the staff parish relations committee for authorization rather than directly to the treasurer. Once a request has been authorized as a legitimate expense with adequate documentation, the treasurer can prepare a check to reimburse the pastor or staff person.

It is important for both the staff-parish relations committee and the committee on finance to recognize that if they are unwilling to reimburse the pastor and staff for church-related expenditures, they are asking these individuals to pay church expenses out of their own pocket. This is unfair to your minister and members of your staff. It also results in an inaccurate representation of how much the operations of your church truly cost.

## **RECORDKEEPING REQUIREMENTS**

Churches are required by the IRS to maintain accounting records that substantiate activity. Generally this includes official documents, minutes, prop-

erty records, general ledgers, receipts and disbursements journals, payroll records, banking records, and invoices. Most experts agree that accounting records and contribution data should be maintained a minimum of seven years while property records, licenses, permits, minutes, and annual reports and financial statements should be retained permanently.

## CHARITABLE GIFT ACKNOWLEDGMENTS

Your church must issue appropriate written acknowledgment of charitable gifts made by donors; likewise, your church must *not* provide a gift acknowledgement for something that does not meet the IRS definition of a charitable gift. To be a charitable gift, the transfer of cash or property to your church must be unconditional, cannot be made to benefit a specific individual, and cannot personally benefit the donor.

For example, if a parishioner makes a cash contribution to your church as part of a tornado relief offering and insists that the gift be given to a specific family, it does not qualify as a charitable contribution. When members purchase tickets to a church fundraising dinner, it does not qualify as a donation. If the price of the dinner ticket is greater than the fair market value of the dinner, however, the excess paid is a contribution. IRS *Publication 1771, Charitable Contributions: Substantiation and Disclosure Requirements* provides an excellent resource on the requirements surrounding donations.

The church needs to provide donors with timely, written acknowledgement of gifts. In order to deduct a charitable contribution on their tax return, donors who make a monetary donation must have substantiation by either a bank record (such as a cancelled check) or a written communication from the church showing the name of the church, the date of the contribution, and the amount. When a single donation is \$250 or more, the donor must have a written acknowledgment from the church. This written document should include the church's name and provide the following data:

1. The name of the donor.
2. The date and amount of each contribution of \$250 or more during the year.
3. If no tangible goods or services were provided to the donor in exchange for the contribution, a statement to that effect should be included. Churches normally do provide "intangible religious benefits" through their ministry, such as Communion on Sunday. These benefits do not reduce the amount of the charitable contribution to the donor.
4. If any tangible goods or services were provided to the donor in exchange for the contribution, the written statement must inform the

donor that the amount of the contribution is limited to the excess of the donation above the value of goods or services from the organization and provide the giver with a good faith estimate of the fair market value of the goods or services.

The IRS does not provide or require a specific form for the written acknowledgment, but does mandate that it be provided to the donor on a timely basis. Most churches typically provide annual giving statements no later than January 31. The statement need not include the donor's social security number and may be provided to donors electronically.

Examples of a giving statement might include the following:

- “Other than intangible religious benefits, no tangible goods or services were provided to the donor in exchange for the contribution detailed above.”
- “Thank you for your cash contribution of \$50 for the Annual Food Pantry Fundraiser on November 1. In exchange for your contribution, you received our annual Food Pantry Cookbook with an estimated fair market value of \$10.”

## **NON-CASH DONATIONS**

Some non-cash donations to the church might be encouraged (such as items donated to a rummage sale) whereas others should be discouraged or refused. An important best practice described in Part Two of this guide is that of a gift acceptance policy, to protect the church against unwanted non-cash donations.

When non-cash donations are accepted, the church should provide a receipt to the donor if the items are valued at \$250 or more. The receipt should acknowledge that all items received were in good condition. It is important to note that the responsibility for valuing the donated property rests with the donor, not the church. Property donated to the church with a claimed value of greater than \$5,000 present additional requirements, including a qualified appraisal by the donor and acknowledgement of the gift by the church on IRS Form 8283, which the donor must attach to his or her tax return. Any accepted vehicle donation also has additional acknowledgement requirements. Your conference may be able to provide guidance on these processes.

# Resources

\*\*Indicates our top picks

\*\**2012-2015 United Methodist Church Financial Records Handbook*, published each quadrennium by The United Methodist Publishing House. Search in “Supplies” at [www.cokesbury.com](http://www.cokesbury.com).

\*\**Beyond the Collection Plate: Overcoming Obstacles to Faithful Giving*, by Michael Durall (Nashville: Abingdon Press, 2003. ISBN: 978-0-687-02315-8).

*Faith & Money: Understanding Annual Giving in Church*, by Michael Reeves and Jennifer Tyler (Nashville: Discipleship Resources, 2003. ISBN: 978-0-88177-410-8).

*Funding Your Ministry*, by Scott Morton (Colorado Springs: NavPress, 2007. ISBN: 978-0-972-90237-3).

\*\**Giving to God: The Bible’s Good News About Living a Generous Life*, by Mark Allan Powell (Grand Rapids: Wm. B. Eerdmans, 2006. ISBN: 978-0-80282-9269).

*The Local Church Audit Guide*, available from the resource section of the General Council on Finance and Administration. For more information, visit: <http://www.gcfa.org/forms>.

*Measures Evaluation Tool* at [www.umvitalcongregations.org](http://www.umvitalcongregations.org) in the “Setting Goals” tab.

\*\**Ministry and Money: A Practical Guide for Pastors*, by Janet T. and Philip D. Jamieson (Louisville: Westminster/John Knox Press, 2009. ISBN: 978-0-66423-1989).

*Simple Rules for Money: John Wesley on Earning, Saving, and Giving*, by James A. Harnish (Nashville: Abingdon Press, 2010. ISBN: 978-0-687-46616-0).

\*\**A Spirituality of Fundraising*, by Henri Nouwen with John S. Mogabgab (Nashville: Upper Room Books, 2011. ISBN: 978-0-835-81044-9).

*Stewardship: Nurturing Generous Living*, by Betsy Schwarzentraub (Nashville: Cokesbury, 2012. ISBN 978-1-426-73639-1) in the series *Guidelines for Leading Your Congregation*.

*\*\*Whose Offering Plate Is It? New Strategies for Financial Stewardship*, by J. Clif Christopher (Nashville: Abingdon Press, 2010. ISBN: 978-1-42671-0131).

*Zondervan 2011 Church and Nonprofit Tax and Financial Guide*, by Dan Busby (Grand Rapids: Zondervan Publishing House, 2010. ISBN: 978-0-31049-2290).

## IRS PUBLICATIONS

Go to [www.irs.gov](http://www.irs.gov) and search by publication number.

*Publication 15, (Circular E) Employer's Tax Guide* (Internal Revenue Service, 2011).

*Publication 517, Social Security and Other Information for Members of the Clergy and Religious Workers* (Internal Revenue Service, 2010).

*Publication 1771, Charitable Contributions: Substantiation and Disclosure Requirements* (Internal Revenue Service, 2010).

*Publication 1828, Tax Guide for Churches and Other Religious Organizations* (Internal Revenue Service, 2009).