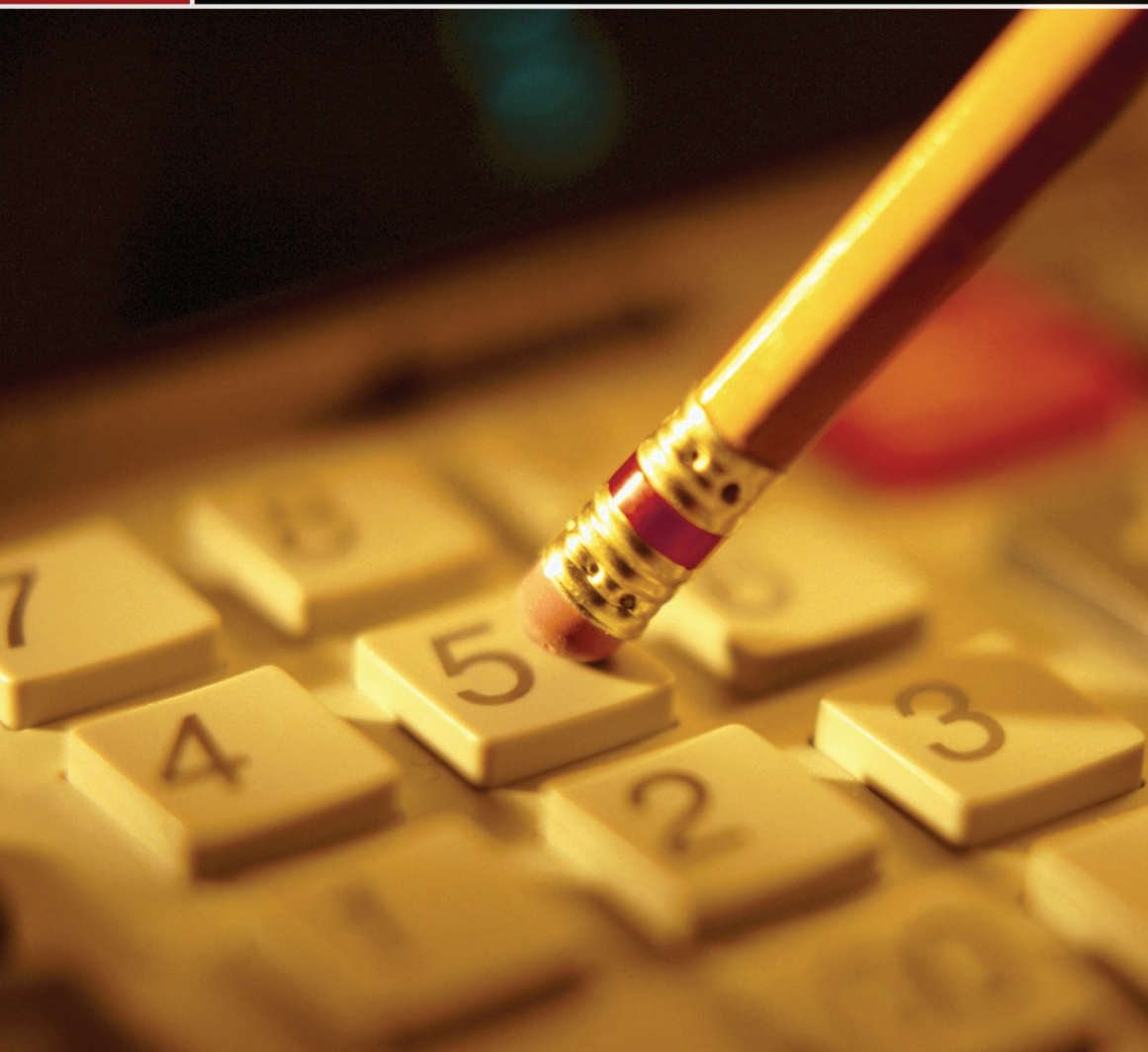




G U I D E L I N E S



# Finance

Handling God's Money in the Church



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**Handling God's Money in the Church**

Janet T. Jamieson, Philip Jamieson, and Ken Sloane

Discipleship Ministries

## FINANCE

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# Blessed to Be a Blessing

If you are reading this Guideline, you have said yes to servant leadership in your church. You are blessed to be a blessing. What does that mean?

By virtue of our baptism by water and the Spirit, God calls all Christians to faithful discipleship, to grow to maturity in faith (see Ephesians 4). The United Methodist Church expresses that call in our shared mission “to make disciples of Jesus Christ for the transformation of the world” (*The Book of Discipline of The United Methodist Church*, or the *Discipline*, ¶120). Each local congregation and community of faith lives out that call in response to its own context—the wonderful and unique combination of God-given human and material resources with the needs of the community, within and beyond the congregation.

The work of servant leaders—your work—is to open a way for God to work through you and the resources available to you in a particular ministry area, for you are about God’s work. As stewards of the mysteries of God (see 1 Corinthians 4:1), servant leaders are entrusted with the precious and vital task of managing and using God’s gifts in the ongoing work of transformation.

In The United Methodist Church, we envision transformation occurring through a cycle of discipleship (see the *Discipline*, ¶122). With God’s help and guidance, we

- reach out and receive people into the body of Christ,
- help people relate to Christ through their unique gifts and circumstances,
- nurture and strengthen people in their relationships with God and with others,
- send transformed people out into the world to lead transformed and transforming lives,
- continue to reach out, relate, nurture, and send disciples . . .

Every ministry area and group, from finance to missions, engages in all aspects of this cycle. This Guideline will help you see how that is true for the ministry area or group you now lead. When you begin to consider all of the work you do as ministry to fulfill God’s mission through your congregation, each task, report, and conversation becomes a step toward transforming the world into the kingdom of God.

Invite Christ into the process to guide your ministry. You are doing powerful and wonderful work. Allow missteps to become learning opportunities; rejoice in success. Fill your work with the fruit of the Spirit: love, joy, peace, patience, kindness, goodness, faithfulness, gentleness, and self-control (Galatians 5:22-23).

God blesses you with gifts, skills, and experience. You are a blessing when you allow God to work through you to make disciples and transform the world. Thank you.

(Find additional help in the “Resources” section at the end of this Guideline, in *The Book of Discipline*, and through <http://www.umc.org>.)

# Offer H.O.P.E.

One of the key ways we develop new leaders is through the core process for carrying out our mission, as stated in ¶122 of *The Book of Discipline*:

We make disciples as we:

- proclaim the gospel, seek, welcome and gather persons into the body of Christ;
- lead persons to commit their lives to God through baptism by water and the spirit and profession of faith in Jesus Christ;
- nurture persons in Christian living through worship, the sacraments, spiritual disciplines, and other means of grace, such as Wesley's Christian conferencing;
- send persons into the world to live lovingly and justly as servants of Christ by healing the sick, feeding the hungry, caring for the stranger, freeing the oppressed, being and becoming a compassionate, caring presence, and working to develop social structures that are consistent with the gospel; and
- continue the mission of seeking, welcoming and gathering persons into the community of the body of Christ.

To better remember and understand the core process as written in ¶122, think in terms of **H.O.P.E.**—**H**ospitality, **O**ffer Christ, **P**urpose, and **E**ngagement. Through these discipleship paths of H.O.P.E., new disciples are made and sent out to reach even more people to bring into the body of Christ. We go into the world through outreach and mission, offering hope through proclamation of the gospel, seeking, welcoming, and gathering, as we offer **hospitality** to those not yet in the body. We **offer Christ** by providing opportunities for people to commit their lives to God through baptism by water and Spirit and profession of faith. We nurture people in Christian living to help them find a true sense of **purpose** in life, learning what it means to live out their belief through acts of piety and acts of mercy, Christian conferencing, regular participation in the sacrament of Holy Communion, and other means of grace. Through **engagement**, we send out these grace-filled followers of Jesus Christ who are putting their faith into action, helping to transform the surrounding community and offering **hospitality** in the name of Jesus Christ. Thus H.O.P.E. cycles back around.

Ask yourselves and the leadership of your congregation how your church might become a place of hope. Whether your church is small, medium, or large, it is essential

to have an intentional discipleship system like H.O.P.E. in place. No matter which system you decide to use, the components of the core process should be established in every local church as we make disciples and develop leaders to accomplish the church's mission to make disciples of Jesus Christ for the transformation of the world. After all, it's all about hope.

# Part One: Getting Started—Your Ministry in Finance

**T**he 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. If you are the church business administrator, chairperson of the committee on finance, the treasurer, the financial secretary, or a member of the committee on finance, you will find this Guideline to be a great asset.

## Financially Vital Congregations

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. Part 2 of this Guideline describes specific steps that your committee can follow to grow toward greater financial vitality, but 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. Instead, they 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 survival mind-set 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 church's budget is a statement of faith that reveals what is most important. 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. We will discuss these more later, and you can always contact your conference treasurer’s office if you have questions.

As a leader within your congregation in the area of finance, your work is to understand these key factors 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 2, we will take a deeper look at each of the characteristics of financially vital congregations with more information on measures and evaluation.

## Understand the Theological Foundations

In many local churches, money talk is taboo. Churches depend on the offerings of members and constituents; however, 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 to support God’s mission. “Everyone should give whatever they have decided in their heart. They shouldn’t give with hesitation or because of pressure. 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. Either you will hate the one and love the other, or you will be loyal to the one and have contempt for 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 money 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 they could. 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 United Methodists to continue to take John Wesley's complete message to heart. This can be done through teaching or personal testimony, 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 advance their understanding of stewardship beyond "fundraising to pay the church's bills" to fully embrace their vocation as stewards of God's many blessings. (See also *Guidelines: Stewardship 2017–2020*.)

### **Committee Members and Basic Responsibilities**

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

- oversee stewardship,
- compile a budget annually,
- raise sufficient income to meet the budget,
- administer funds received by the church,
- count and deposit the offering,
- disburse funds,
- establish internal control policies,
- review and report annually on the adequacy and effectiveness of internal controls,
- provide for an annual audit of the church financial statements,
- report to the annual charge conference on the audit,
- recommend proper depositories for church funds,
- use contributions in accordance with donors' intent,
- report annually 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 so 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 people 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 people 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 You 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 chairperson (as applicable) 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? How can your committee work cooperatively with other groups such as the stewardship team or the trustees to promote faithful stewardship in all areas of congregational life? 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, take care 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 2 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: Laws and Regulations).
- **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. If your church doesn't do so already, consider a reporting method that allows you to compare income and expenses with the same month in previous years.
- **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 Measures section, starting on page 25).

**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 bimonthly. At a minimum, you should plan to meet once a quarter, but if there is a financial issue that is present (like a shortfall in giving), waiting three months to address it might mean climbing out of a much deeper hole.

**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 where your church is not transparent? Can steps be taken and processes changed that would serve to strengthen and improve internal controls? Know that every church that has been devastated by financial misconduct believed that it would never happen in that church. See the section on “Financial Transparency” in part 2 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 ensure 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 2 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 2 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 the use of our personal money, we exercise some power and control. We make decisions based on our personal priorities. When people are asked to serve God and the church in financial leadership, they need to avoid situations where one person asserts personal power and control over church assets. 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.** Churches use "named funds" (operating fund, building fund, memorial fund, maintenance fund, etc.) to keep track of contributions, since not all contributions are the same. A donor may specify that some contributions 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 a donation for a specified purpose. In agreeing to accept these kinds of gifts, the church is agreeing to the restrictions. It is important to remember that only the donor (or heirs) can remove a restriction from a restricted gift.

Unlike a donor restriction, the church council *designates* a contribution. It may choose to designate, or set aside, funds for a particular use. And since the church council designates, it can also un-designate.

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.

The committee on finance should keep careful records of restricted gifts and of any designations placed on funds by the administrative council.

**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 these 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 3. Modified cash or accrual basis accounting requires more complex financial reports that are beyond the scope of this Guideline, but several excellent references are provided in the Resources section.

**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. 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 do not suggest a lack of trust of volunteers and church employees; they 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)) as well as on the stewardship page ([www.umcdiscipleship.org/stewardship](http://www.umcdiscipleship.org/stewardship)) of Discipleship Ministries. It is also important to note that certain controls are mandated in the *Discipline* (§258.4); mandatory controls are noted below with the related section of §258.

**1. Segregation of duties** delegates certain key financial activities to different, unrelated people with the objective of preventing a single person from both perpetrating and concealing fraud. It is especially important that the treasurer, financial secretary, and chairperson of finance understand and believe in the importance of these separations to not only protect the church but also themselves and their reputations.

One of the most basic controls is clear separation between the income side of church finances (primarily contributions made and tracked) and the expense side (how bills get paid and payments get made). The income side is assigned to the financial secretary, the expense side to the church treasurer. The position of treasurer and financial secretary should not be combined and held by one person, and the people holding these two positions should not be immediate family members (§258.4).

There are three tasks not specifically assigned to either of the two positions or to the chairperson of the committee on finance by the *Discipline*. Keeping these responsibilities separate is also essential in maintaining segregation of duties. These three tasks are:

1. approval of payments for expenditures
2. signing of checks
3. reconciliation of bank accounts



While the treasurer and financial secretary may be authorized to do any one of these tasks, *no person should be authorized to do more than one*. For example, if the treasurer is authorized to sign checks, then someone else must approve bills for payment and reconcile bank accounts. If the financial secretary reconciles bank accounts, then someone else should approve payments and sign checks. No persons related to one another should perform any two or more of these three tasks.

Further controls include the following:

- Rotate counters 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 (§258.4a).
- All employees who deal in any way with church finances should be required to take at least one week (preferably two 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.

**2. 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 (§258.4a).
- 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 (§258.4b).
- Limit the distribution of keys and maintain a log of who has keys to the church.

**3. 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:

- Write checks for *authorized* purchases only.
- Initiate payroll checks or electronic payroll transactions only for pay that has been authorized.
- Make pay rate changes only after they have been authorized by the church council or charge conference.
- Only someone with proper authorization should perform transfers of cash between accounts, cash investments, or purchases/sales of certificates of deposit.

**4. Documentation** provides a written or electronic trail of support for each financial transaction. Those performing the annual audit of the church use the documentation to authenticate the transactions.

- Support each check issued by the church with written documentation. The documentation should indicate that the bill has been paid (to avoid duplication of

payment) and should be initialed by the person who has been designated to authorize payments (see authorization above).

- Count offerings and other receipts of cash using a formatted count sheet that documents the details of the deposit. The counters should sign the count sheet.
- Encourage donors to use preprinted giving envelopes, which are kept with the count sheets to provide documentation of the offering.
- Use time sheets to document hours worked by hourly employees.

**5. 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 of both 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.

**6. 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.

- Provide detailed job descriptions to employees and committee members. These should include written procedures for performing the job, as well as the internal controls that have been designed into the system.
- Teach ushers how to take the offering and what to do with the offering if they leave the sanctuary with it.
- Train counters how to count the offering, compare giving envelopes with content, prepare a deposit slip, and take the deposit to the bank.
- Instruct volunteers working with fundraising dinners and events 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 (§258.4c).

The suggestions provided above are general and may not cover specific situations in your church. The development of policies and internal controls 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, a review of how well these policies are being followed should be included, as described below.

## Electronic and Online Giving

If your church is providing the option of electronic giving, there are a few important concerns that should be included in your financial policies:

- If donors set up their donations personally online, you should have written assurances from the vendor of this service that their information is secure and not used for any other purpose.
- If donations/transfers are set up by someone in the church office on behalf of donors, this information must be stored at all times in a secure way.
- Fees that are charged by the vendor providing online giving services should be charged against the church budget as an operating expense, not deducted from the amount of the donation credited to the donor. If you offer donors the option of additional giving to cover these costs, they should be credited with the full amount of their donation and the additional amount donated.

## Annual Audit of Financial Records

The *Discipline* assigns responsibility for scheduling and recruiting a team to conduct 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*, 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,” which has recently been updated by the General Council on Finance and Administration ([www.gcfa.org](http://www.gcfa.org)), is an excellent handbook to assist in this important role.

A recorded webinar on conducting an audit—“AUDIT is Not a Four-Letter Word!”—along with links for downloading “The Local Church Audit Guide” and accompanying FAQs (frequently asked questions) can be found at [www.umcdiscipleship.org](http://www.umcdiscipleship.org) under the webinar archive.

“The Local Church Audit Guide FAQ 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 gifts” (page 1). It goes on to remind us of a number of excellent benefits that normally result from the annual audit, most important: (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” (§258.4d). 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.

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

The audit can be performed by an audit committee composed of people 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 people 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 people 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 people within the congregation is *expertise*. People 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 that church's audit in exchange for their finance team performing your audit.

The "Local Church Audit Guide" suggests that for churches with between \$500,000 and \$1 million in receipts, "a financial statement audit conducted in accordance with generally accepted auditing standards (GAAS) should be completed and reported on by an external Certified Public Accountant (CPA) every three years" (page 5). For those with higher-level receipts, a CPA-led audit is suggested.

If your church has never had an audit, or if there has been any incident of misappropriation 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 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 (§258.4d) as well as on its internal controls (§258.4c). 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" 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 is the audit 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 *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” (§258.4d). While the auditors must be given access to all financial records and transactions, they do not necessarily need to examine 100 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 few 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 (§258.4d).

As noted before, the “Local Church Audit Guide” provides an excellent resource that covers all four of these areas. It 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” (§258.4) 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 as 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 so 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 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. The task of making disciples includes four major elements, which are found in ¶122 of the *Discipline*. These elements are explained in more detail on page 5 of this Guideline, using the letters of the word *HOPE*: **Hospitality** (reaching those beyond our walls), **Offering Christ** (providing an opportunity and invitation for people to commit their lives to following Christ), **Purpose** (nurturing people in the faith so that they might discover their true purpose in life, living out their faith in Christ), and **Engagement** (sending people out into the world as grace-filled followers to transform the world around them).

With that in mind, your church council determines the *vision* of your particular congregation by answering the question "What would a congregation of grace-filled disciples of Christ, engaged in the world, look like in this ministry setting?" Establishing this vision is the work of the pastor(s), church council, and other leaders of the church. The clarity of the vision will steer your congregation to the results you hope to achieve through a ministry of finance!

### **Then Discern**

After considering the mission and vision of your church, and your unique understanding of what it means to be living out discipleship in your context, the process of annual budgeting continues with a period of discernment that is undertaken by the entire congregation. Before setting a 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 discerned and voiced God's leading 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. 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 begin setting goals may be to ask 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?
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?
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 (outreach)? Is this more than or less than last year's budget? How does the portion related to mortar (buildings) compare with the portion related to mission?
5. Related to your stewardship ministry, what is the impact of giving on the people who give as well as on those who receive?
6. What are the detailed objectives and outcomes of each goal?
7. How will progress on each goal be measured and reported to the congregation?
8. What specific steps toward each goal does God's leading 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 match resources to mission. At

this point, invite the leaders of various committees and ministries within the church to submit their funding requests. Ask each leader 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 be 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, such as utilities and insurance. 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. 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, such as insurance, may be due in a large lump sum once a year. In order to plan to have adequate cash 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

Stewardship ministry may be conducted by a separate ministry team or a task group that reports to the church council. If that is the case, the stewardship team leader is an important person to have on the committee on finance, and the team members are important partners in your work. 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. *Guidelines: Stewardship 2017–2020* provides a rich resource for those in positions of stewardship leadership in your congregation (see the Resources section). If there is not a separate stewardship team, those responsibilities fall to the committee on finance, which may appoint a subcommittee to carry out this critical task.

All who lead the church in finance and stewardship must understand the importance of focusing upon God's abundance rather than on what may seem to be the congregation's scarcity of assets. Budgeting requires awareness of past giving patterns. At the same time, finance and stewardship leaders must challenge the local church to focus upon God's vision for them and the community of which they are a part. "Realistic budgeting" includes trust in God's plans and provision. The finance committee occupies the key position of reminding the church of this central reality.

The committee must help church members better understand themselves as 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 will 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 disciples of Jesus Christ, who are 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; it 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. Discipleship Ministries provides resources on preparing a narrative budget at [www.MinistryGuidelines.org](http://www.MinistryGuidelines.org) or [www.umcdiscipleship.org/stewardship](http://www.umcdiscipleship.org/stewardship).

## 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? In what ways does God's peculiar choice of *weak* and *foolish* things (1 Corinthians 1:27) confound our normal emphasis upon *more* and *greater*? There are more ways than numbers to measure the financial vitality of the church.

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 are *not* the primary evaluator for the specific ministries you fund, though your feedback and participation will be helpful. You will measure and evaluate how well you have done with your own strategies for nurturing the financial vitality of the congregation. The committee can measure, *quantitatively*, whether there is an increasing percentage of the operating budget dedicated to mission beyond the walls of the local church (see question 4, page 22). 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 such as evangelism or missions, all are important and valued partners in carrying out the mission of the church. Through 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 mentions is money (see Matthew 6:24).

## **Best Practices**

As described in part 1, 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 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 members of the committee on finance avoid engaging in financial transactions on behalf of the church that in any way would benefit them or their businesses personally. To avoid conflicts of interest, either real or perceived, use a closed competitive bid process in awarding any contracts entered into by the church. In addition, disclose to the congregation annually any significant related party transactions.

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

### **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. Rather, they are a key means by 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 initiate on its own.

The finance committee should prioritize timely payment of apportionments. This is normally done monthly, though many churches find paying one-tenth at a time gives them the option of not making payments in months when giving may be lower. The finance committee best understands the cash flow of the local church and, therefore, can set an informed schedule for apportionment payments that will promote the fulfillment of this aspect of connectional life.

### **Honoring Donor Restrictions**

An important best practice observed in financially vital congregations is in reporting and expensing monetary gifts 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 are committed to administer funds faithfully in accordance with those wishes. Additional information about donor restrictions can be found on page 13.

Perhaps of greatest importance, committees on finance do not 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 a difficult time. Remember that the donor has placed the restriction on the donation, and only the donor can change or remove the restriction. Using restricted donations may seem to provide a short-term solution, but this 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 create 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 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 related to 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 non-cash 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 the responsibility to review annually the adequacy of property, liability, and crime insurance coverage for all church property and equipment. This board is also directed to review the adequacy of personnel insurance. The church treasurer and others dealing with cash should be bonded to protect the church against losses resulting from fraud or theft.

Most annual conferences, as well as Discipleship Ministries 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. One example is Safe Sanctuaries®, 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: Laws and Regulations," 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 about what is required of churches. Not all laws may apply to your specific congregation.

Your conference treasurer, conference council on finance & administration (CF&A) and the United Methodist Foundation that serves your conference are valuable resources for information regarding state and local laws and regulations that may have relevance for committees on finance.

# 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 in three general areas:

- **Fund Disbursement.** “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.”
- **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 (see “The Connectional Nature of Apportionments” in part 2, page 26). 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 the treasurer interacts with others in positions of church leadership.

## Relationships

As treasurer of the church, you will work 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, watching the performance of invested 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 the authorization and payment of bills (which bills to pay in what order), investment of “idle” funds, and remittance of special offerings. Specifically, you are to:

- prepare checks to pay the bills of the church. Ideally, you should not be a signer of these checks at all, but minimally should not be the “single signer.” Someone else, frequently the person who is authorized to sign checks, should approve the bills for payment. 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.
- prepare all payroll checks (again, you should not be a signer of these checks at all, but minimally should not be the “single signer”). The payroll checks should also be approved to ensure the amount of pay is correct. As described in the “Appendix: Laws and Regulations,” 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.
- keep track of all disbursements using accounting software, a spreadsheet, or a manual system to do so, and maintain an organized filing system for backup documentation.
- supervise cash balances to ensure that adequate cash is maintained in the checking account and recommend to the committee on finance that any excess cash be invested.
- prepare and file 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 remit on a monthly basis to the conference any apportioned or other mission funds on hand (see “Connectional Nature of Apportionments,” page 26).

## 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**. 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 to:

- maintain an adequate system to file and store documentation and receipts related to disbursements.
- receive summary cash deposit information related to contributions from the financial secretary.
- prepare and present 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 with the reconciled bank statements. If possible, prepare this report to provide a comparison with prior year(s) and with amounts budgeted.
- prepare and present to the committee on finance each month a report on the cash activity that took place in each fund. This **fund activity 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.
- prepare and present 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, all of these reports mentioned will be different, as described in part 2.)
- establish and maintain 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:



- Do not be personally involved in counting or depositing the offering or other cash.
- Do not serve on the committee conducting the annual audit.
- Do not serve as the financial secretary of the church.

Further, if you—as treasurer—have been authorized to perform any one of these tasks, you are not to do the other two:

- approve payments for expenditure,
- sign checks,
- reconcile bank accounts.

## 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 and elected by the charge conference with the conviction of your fellow members that you have the special gifts for this position. 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, particularly the treasurer, depends on you to report accurately both the amount and the purposes for which each gift was given so that the donor's intent can be honored. The pastor relies on you to provide insights when people stop giving or dramatically change their pattern of giving, and what pastoral attention might be needed in those situations.

The *Discipline* charges the financial secretary with broad responsibility for three general areas:

- **supervise the offering count;**
- **promptly deposit cash from offerings** in the bank in accordance with procedures established by the committee on finance, and give a record of each deposit to the treasurer;
- **keep records of contributions.**

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

### Relationships

The financial secretary of the church works with a number of people and groups within the church to make the 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 about 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 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.

### **Supervise 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 received 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 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.
- 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 people (preferably more) to assist in counting and depositing.

- Counters cannot be related to the treasurer, to one another, or to you.
- The count should never be conducted by just one counter. There should always be at least two unrelated people 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.
- Congregations that offer electronic giving will want to provide a way for those who opt to give in that manner to participate in the offering. A card that indicates that an attendee has “given electronically” can be available in the bulletin or in pews. Full color “I’m a UMC e-Giver” cards are a free download at <http://www.umcdiscipleship.org/resources/im-a-umc-e-giver-cards>.

## Deposit 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, the treasurer should pay expenses 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 details about how much was contributed to the operating (or general) fund, how much was given to the building fund, and so on. The summary does not include how much each donor gave.

## Keep 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 contributions made by donors to their giving records as soon as possible after the offering is taken. Update the giving records using the information appearing on the offering envelope or check.
- Quarterly, if possible, provide a giving statement to each donor to recap his or her giving for the period. This statement should provide as much detail as possible. For internal control purposes, donors should be given a contact person who can answer questions about discrepancies between the giving statement and their personal records. The contact person should be someone other than you. The committee on finance should identify someone to investigate any concerns that are not easily resolved.
- At the end of the year, provide an annual giving statement to each donor to recap his or her giving for the year. This should be distributed to donors as soon as possible after year-end, ideally before the last day of January, to expedite the preparation of income tax returns.

## 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:

- Do not serve on the annual audit committee.
- Do not serve as the treasurer of the church.

As financial secretary, if you are authorized to perform any one of the three tasks below, you are not to do the other two:

- approve payments for expenditures,
- sign checks,
- reconcile bank accounts.

## **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 2:

- compile an annual budget;
- develop and implement plans to raise sufficient income to meet the budget;
- administer the funds received according to instructions from the church council;
- guide the treasurer and financial secretary by following directions established by the church council;
- recruit and assign counters to work with the financial secretary in counting the offering;
- provide for bonding for the treasurer (and others dealing with cash);
- establish written financial policies to document internal controls;
- review the adequacy and effectiveness of internal control policies annually;
- make provisions for an annual audit of the financial statements of the church and all its organizations and accounts;
- provide a report to the annual charge conference on the audit;
- recommend to the church council proper depositories for the church's funds;
- use contributions as donors intend;
- report 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 work 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 those that follow. (Remember that these three tasks are not specifically assigned by

the *Discipline*, and the guidance given is that whoever is given authority to perform any one of these tasks should not do either of the other two: approval of payment for expenditures; signing checks; reconciling bank accounts.)

- Designate the people who can sign checks on behalf of the church. (It is important to have more than one person.) Your bank should be told who has this authority.
- Designate the person or persons who can authorize and approve disbursements.
- Designate an individual to facilitate the monthly reconciliation of all bank accounts on a timely basis.

At monthly meetings, the committee on finance should perform the following tasks in addition to other new business that may be before the committee:

- 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 year-to-date receipts and with receipts in the same month in the prior year, and evaluate for accuracy. 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.

As was suggested on page 12, when planning your first meeting, make sure each meeting begins with a spiritual foundation: a prayer or a short devotion. Frame your meeting in a reflection on God's abundance, not on issues of scarcity. Deal honestly and openly with challenges your church faces, but be positive about a God who provides—not for everything we want, but for everything we need.

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

**F**inancially 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.

## Taxes

### 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 a “group tax exemption ruling” covers all local United Methodist churches. 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 **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 because it may save your congregation money.

It is also important to remember that *paying* sales tax is different from *collecting* sales tax. The seller collects sales taxes when the sale is made. Many states require churches to have a sales tax permit and to collect sales taxes 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 it has collected taxes, 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/pastor-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 do so only 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 Guideline 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. Prepare and file:

- 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.

Like 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. Exercise care 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.”

## **Special Funds**

### **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. The committee on finance should establish a written policy for handling requests from individuals in need. 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.

### **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, the pastor uses this money confidentially to support persons in need. To administer this fund correctly and to ensure that it has no tax consequence to the pastor, the committee on finance should develop a written policy and sound internal controls. Most important, the pastor must document how the funds are spent (without providing names of recipients), must never spend the funds personally, and must limit the amount given based on the church's 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(s) and staff pay for personally. These are church expenses that, for whatever reason, the clergyperson or staff have paid for personally and that 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 (<http://www.gcfa.org/gcfa-resources>) 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/pastor-parish relations committee should establish the plan and consult the district superintendent or conference treasurer to ensure compliance with IRS requirements.

Once an accountable reimbursement 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/pastor-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/pastor-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 the staff/pastor-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 pockets. This is unfair to your pastor 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, property 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, the purchase 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 written acknowledgment from the church. This written document should include the church’s name and provide the following data:

- the name of the donor.
- the date and amount of each contribution of \$250 or more during the year.

- 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.
- 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, which has 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 2 of this Guideline is the creation of a gift acceptance policy to protect the church against unwanted non-cash donations.

When non-cash donations are accepted, the church should provide an acknowledgement to the donor if the items are easily valued at \$250 or more. The receipt should acknowledge that all items received were in good condition. It is important to remember 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 presents 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 treasurer may be able to provide guidance on these processes.

# Resources

*2017–2020 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: 9780687023158.

*The Church Money Manual: Best Practices for Finance and Stewardship* by J. Clif Christopher (Nashville: Abingdon Press, 2014), ISBN: 9781426796579.

*Faith & Money: Understanding Annual Giving in Church* by Michael Reeves and Jennifer Tyler (Nashville: Discipleship Resources, 2003), ISBN: 9780881774108.

*Funding Your Ministry* by Scott Morton (Colorado Springs: NavPress, 2007), ISBN: 9780972902373.

*Giving to God: The Bible’s Good News About Living a Generous Life* by Mark Allan Powell (Grand Rapids: Wm. B. Eerdmans, 2006), ISBN: 9780802829269.

*Guidelines: Stewardship 2017–2020* by Ken Sloane (Nashville: Cokesbury, 2016).

“The Local Church Audit Guide,” available from the resource section of the General Council on Finance and Administration. For more information, visit [www.gcfa.org](http://www.gcfa.org).

*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: 9780664231989.

*Propel: Good Stewardship, Greater Generosity* by Clayton L. Smith (Nashville: Abingdon Press, 2015), ISBN: 9781630883683.

*Rich Church, Poor Church: Keys to Effective Financial Ministry* by J. Clif Christopher (Nashville: Abingdon Press, 2012), ISBN: 9781426743368.

*Simple Rules for Money: John Wesley on Earning, Saving, and Giving* by James A. Harnish (Nashville: Abingdon Press, 2010), ISBN: 9780687466160.

*A Spirituality of Fundraising* by Henri Nouwen with John S. Mogabgab (Nashville: Upper Room Books, 2011), ISBN: 9780835810449.

*Whose Offering Plate Is It? New Strategies for Financial Stewardship* by J. Clif Christopher (Nashville: Abingdon Press, 2010), ISBN: 9781426710131.

## UMC Agencies & Helpful Links

General Board of Church and Society, [www.umc-gbcs.org](http://www.umc-gbcs.org), 202-488-5600; Service Center, 1-800-967-0880

General Board of Discipleship (d/b/a Discipleship Ministries), [www.umcdiscipleship.org](http://www.umcdiscipleship.org), 877-899-2780; Discipleship Resources, <http://bookstore.upperroom.org>, 1-800-972-0433; The Upper Room, [www.upperroom.org](http://www.upperroom.org), 1-800-972-0433; email: [info@umcdiscipleship.org](mailto:info@umcdiscipleship.org)

General Board of Global Ministries, [www.umcmmission.org](http://www.umcmmission.org), 1-800-862-4246 or 212-870-3600; email: [info@umcmmission.org](mailto:info@umcmmission.org)

General Board of Higher Education and Ministry, [www.gbhem.org](http://www.gbhem.org), 615-340-7400

General Board of Pension and Health Benefits, [www.gbophb.org](http://www.gbophb.org), 847-869-4550

General Commission on Archives and History, [www.gcah.org](http://www.gcah.org), 973-408-3189

General Commission on Religion & Race, [www.gcorr.org](http://www.gcorr.org), 202-547-2271; email: [info@gcorr.org](mailto:info@gcorr.org)

General Commission on the Status & Role of Women, [www.gcsrw.org](http://www.gcsrw.org), 1-800-523-8390

General Commission on United Methodist Men, [www.gcumm.org](http://www.gcumm.org), 615-340-7145

General Council on Finance and Administration, [www.gcfa.org](http://www.gcfa.org), 866-367-4232 or 615-329-3393

Office of Civic Youth-Serving Agencies/Scouting (General Commission on United Methodist Men), [www.gcumm.org](http://www.gcumm.org), 615-340-7145

The United Methodist Publishing House, [www.umph.org](http://www.umph.org), 615-749-6000; Curric-U-Phone, 1-800-251-8591; Cokesbury, [www.cokesbury.com](http://www.cokesbury.com), 1-800-672-1789

United Methodist Communications, [www.umcom.org](http://www.umcom.org), 615-742-5400; EcuFilm, 1-888-346-3862; InfoServ, email: [infoserv@umcom.org](mailto:infoserv@umcom.org); *Interpreter Magazine*, [www.interpretermagazine.org](http://www.interpretermagazine.org), 615-742-5441

United Methodist Women, [www.unitedmethodistwomen.org](http://www.unitedmethodistwomen.org); 212-870-3900

**For additional resources, contact your annual conference office.**