Today’s Presenters

Dan Busby, President, ECFA

Mark Jones, Vice President and Senior Banking Consultant, Evangelical Christian Credit Union

John Van Drunen, Vice President and General Counsel, ECFA

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Why Cash Reserves Are Needed for Operations

Cash Flow Fluctuation

Potential Ministry Opportunities

Unplanned Expenses and Events

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Cash Balance Variation
Calculating Operating Reserves

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

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The Tension

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

Financial Planning
• Our responsibility
• Shrewd stewardship of resources
• Plan for the future

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Definition: Establish and maintain appropriate accountability to those who have been placed in authority (government, board, leadership and donors) over the ministry and its financial resources through proper systems, standards, policies and controls with the purpose of protecting the reputation and witness of the ministry and those involved.

“For we are taking pains to do what is right, not only in the eyes of the Lord but also in the eyes of men.”
2 Corinthians 8:21 (NIV)
Examples of Weak Controls

- Only one person counts the offering
- No rotation of individuals count the offering
- Individuals who count the offering are related
- Only one person takes the offering to the safe
- One individual has access to the safe by himself or herself
- The offering tally sheet is not reconciled with the deposit
- The person who prepares the deposit also makes the deposit

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Examples of Weak Controls

• Contribution records are not reconciled with accounting/bank records

• Person reconciling bank statement:
  – Has signing authority
  – Does all bookkeeping/accounting entries
  – Does processing of incoming revenues

• Documentation for substantiation of reimbursements not received or reviewed

• Ministry leader approving own expense reimbursements
Financial Integrity Guidelines

• Segregation of Duties

  – Appropriate separation of duties allows for the review by a second, unrelated individual

  • Counting and receipting, recording and reconciling

  • Disbursement request, authorization and check/payment signer

  • Record keeping review - bookkeeper, budget area manager, leadership and board

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Financial Integrity Guidelines

• Dual control – principle of two
  – Use when handling incoming revenues and unrecorded cash

• Confidentiality agreements

• Conduct periodic audits

• Adopt policies and procedures

• Balance accountability and confidentiality

• Reconcile accounts timely
Financial Reporting

- Have a budget, realistically spread by month
- Utilize accounting software
- Provide budget to actual monthly reports
- Give authority but maintain accountability
Focus for the Next Segment

• Reportable compensation for church employees
• Proper treatment of the clergy housing allowance
• Applying the proper type of social security
• Business expense reimbursements
• Issuing charitable gift acknowledgments
Four Special Clergy Tax Provisions

1. The housing allowance and parsonage exclusions;

2. Exemption from Social Security coverage (if several conditions are met);

3. Self-employed status for Social Security (if not exempt); and

4. Exemption from income tax withholding.
Who qualifies for Clergy Purposes in a Church Setting?

Ministers of the Gospel who are:

• Ordained
• Commissioned
• Licensed

And meet certain other tests
Balanced Test for Clergy Tax Treatment

- Performing sacerdotal functions
- Considered to be a religious leader
- Conduct religious worship
- Have management responsibility
• Cash compensation paid to employees, exclusive of a cash clergy housing allowance is reportable as compensation on Form W-2 for income tax purposes

• What else is reportable as compensation?
**Other Compensation Reportable on Form W-2**

<table>
<thead>
<tr>
<th>Category</th>
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<tbody>
<tr>
<td>Spousal travel not bona fide business</td>
</tr>
<tr>
<td>Social security reimbursement</td>
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<tr>
<td>Medical expense reimbursement without proper plan</td>
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<tr>
<td>Church-facilitated love offerings</td>
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Form W-2

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Other Compensation Reportable on Form W-2

- Whole-life insurance premiums
- Discretionary fund without proper accounting
- Forgiveness of debt
- Allowances or reimbursement without substantiation

Form W-2

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Clergy Compensation Reporting

Cash Compensation

Housing Allowance

Other Cash Compensation

Schedule SE

Form W-2

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Housing Allowance and the Church Treasurer

• Church formally and prospectively designates a housing allowance with respect to cash compensation paid to clergy

• Treasurer reports housing allowance on Form W-2, Box 14, or in a separate statement – the housing allowance should NOT be included on Form W-2, Box 1

• Accounting for the housing exclusion limitations is the responsibility of clergy
Social Security Issues

Two types of social security

- FICA for non-clergy
- SECA for clergy

FICA is withheld and matched by the church.

SECA is calculated on Schedule SE and paid by clergy with Form 1040 unless they have opted out of social security.
Accountable/Nonaccountable Expense Reimbursement Plans

- **Accountable Plan**
  - Tax-free Reimbursements

- **Nonaccountable Plan**
  - Taxable Payments

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Complying with an Accountable Plan

- **Substantiation**
  - Why
  - When
  - Where
  - What
  - Who

- **Timeliness**
  - 60 Days
  - 120 Days
Business vs. Commuting Miles

- Temporary Work Location
- Home
- Permanent Work Location

Business

Commuting/Personal
 Contribution Receipts

• What should be on a receipt for a gift made by cash or check?
  ➢ Donor’s name
  ➢ Amount (are there dollar limitations?)
  ➢ No goods or services statement (and quid pro quo value, if appropriate)
  ➢ Dates (of donation and of receipt)
Contribution Receipts

• When should a church provide gift receipts?
• May gift receipts be provided electronically?
• Some gift acknowledgments should not include a valuation of the gift
  ➢ Gifts of property
  ➢ Gifts of out-of-pocket expenses

• Some gift acknowledgments are not required to include a valuation of the gift
Contribution Receipts

• Some gifts require filing special forms
  ➢ Gifts of autos, board, airplanes
  ➢ Gifts of certain property disposed of within 3 years of gift
Contribution Receipts

• Some gifts do not qualify for a gift acknowledgment (only qualify for appreciation)
  ➢ Gifts of time
  ➢ Gifts of rent-free use of property
Contribution Receipts

• Some payments to a church are not gifts and do not qualify for a gift receipt

  ➢ Ticket sales for a church banquet/concert

  ➢ Sale of tapes of church service

  ➢ Tuition payments for a student in a church-related school

  ➢ Payments that are intended to benefit a specific individual
Q & A Time!

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Watching for the release of this new resource in 2013!

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<td>Clergy Housing Exclusion and Love Offerings</td>
<td>Mike Batts, Michael Mosher</td>
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<td>May 21</td>
<td>Hot Topics for Churches</td>
<td>Cathi Linch and others</td>
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<td>June 18</td>
<td>Update on Health Care Reform Issues</td>
<td>Danny Miller</td>
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