

**FINANCE AND ADMINISTRATION TEAM**  
**Evangelical Friends Church – Eastern Region**  
**RECOMMENDED FINANCIAL POLICIES AND PROCEDURES**

**A. Organization**

1. *Starting up*

- a. Employer Identification Number- Obtained by applying at [www.irs-tax-id.org](http://www.irs-tax-id.org)
- b. Not Profit Corporation – see individual state secretary of state
- c. State Laws -see individual state for business registration
- d. Workers' Compensation – see individual state for obtaining coverage and who must be covered; In Ohio clergy must be named under elective coverage.

2. *Federal Tax-Exempt Status* – After Employer ID number is received, submit request to EFC-ER office for adding church to group exemption. This will link the non-profit and church status to Internal Revenue Service exemptions and the authority to provide charitable giving receipts.

3. *State Sales Tax Exemption on purchases* – This status varies from state to state. Consult individual state tax department. In Ohio, a form is given to the vendor stating the purpose of the exemption (i.e., sale to a church). Visit [www. tax.ohio.gov](http://www.tax.ohio.gov).

4. *Property/Real Estate Tax Exemption* - See individual state or county for requirements. In Ohio it is recommended that any additions/changes in usage be researched with taxing authorities

5. All other *local and state regulations* pertaining to the local church. This may include state and local income taxes, unemployment tax, zoning, permits, etc.

6. *By Laws* - Individual churches should have their own document which should be reviewed every one to two years to for current practice and compliance.

**B. Internal Controls**

1. *Separation of Duties*

a. *Receipt of Funds* – This includes offering counters and tellers who physically handle and deposit funds; and church financial secretary who records deposits and receipts individual contributors (Faith and Practice 332 a.ii.)

b. *Disbursement of Funds* – This includes treasurer and other authorized persons (Faith and Practice 332 a.iii.)

2. *Safe Handling of Funds*

a. *Securing of Offering* – Establish a procedure that includes two persons transporting funds and depositing in bank deposit drop, safe, etc.

b. *Petty Cash* – Establish a procedure for disbursing funds and reconciling fund balance with Treasurer.

c. *Funds received other than through offerings* – Establish a procedure for collection of monies such as through the mail or church office and securing them before counting/depositing of funds.

d. *On line or electronic giving* - Establish a policy and procedure for donors to give by way of electronic means. Several options and plans are available. Those responsible for stewardship should

adopt a secure and affordable plan, making it available for the financial secretary to process and being sure to promote and communicate the availability.

### 3. *Safe Guards*

- a. *Locked storage* – Establish a procedure for all hard copy documents including financial records, posted receipts, paid bills, bank reconciliations, tax returns, etc.
- b. *Passwords* – Determine a designated person to assign passwords, access restrictions and keeping a master log of same
- c. *Record retention*- Determine a policy for number of years records must be kept, in what locations, and access restrictions.

4. *Internal Audit and Review* – Establish a policy for periodic examination of financial records including specific records, who should examine, where, and how comprehensive the examination should be. (e.g., review, compilation, or audit). Establish a policy for other requests for financial review/information.

5. *Screening and Bonding* – Determine a policy for screening/and or bonding those handling funds and recording of funds.

## **C. Procedures**

### 1. *Checks and Balances*

- a. *Counting* – A written procedure should be established including number and authorization of persons, where counted, tallying of funds, audit trail with financial secretary and treasurer and making bank deposits. Care should be taken to accurately record categories of receipts and donors. Donors should be encouraged to use offering envelopes.
- b. *Bank reconciliation* – Establish a procedure for who reconciles which accounts. Preferably this should be a third person other than financial secretary or treasurer.
- c. *Authorization of expenses* – Establish a policy for payments (Faith and Practice 322 a.i.ii.)
- d. *Check Signers* - Determine policy for number of signers needed as well as who can sign. It is recommended there be at least two person checks with no checks signed in advance. Most banks will require minutes and resolutions from governing bodies of the church.

2. *Dual Status of Ministers/Clergy* – Churches should be aware that Ministers/Clergy have unique status when determining payroll taxes. Refer to Publication 517 for definitions of a minister, how employers should treat them as employees and what regulations need to be followed. “*Ministers are those who perform sacerdotal functions (sacraments), conduct religious worship and control, conduct, and maintain religious organizations that are under the authority of a religious body that is a church or denomination.*” Such persons may declare a housing allowance (which must be minuted by a church governing body) which is not subject to income tax but are also considered “self-employed” for social security tax and must pay the self-employed rate for salary and housing. Churches cannot deduct social security tax from compensation nor pay the employer share of social security. Churches as employers have definite legal responsibilities in this difficult area and churches may want to consult a tax professional. See separate Finance Team resource/document.

3. *Tax Returns* – Churches should be aware of all tax returns required especially payroll tax returns and different regulations of local and state authorities. Churches paying outside vendors for services may need to file Forms 1099 and 1096. Churches sponsoring schools are required Form 5578 annually. Churches should be aware of unrelated business income. Three criteria help determine liability: Is the income derived from a trade to business? Is the organization regularly engaged in the trade or

business? Is the activity unrelated to the organization's tax exempt purpose? See [www.irs.gov/charities-non-profits/unrelated-business-income-](http://www.irs.gov/charities-non-profits/unrelated-business-income-) defined

4. *Recordkeeping/Accounting* - An adequate system of keeping financial records consists of using a bookkeeping/accounting system that reflects general accounting principles, the intent of donors, and the unique situations of churches (e.g. fund accounting). This system should be developed for those working with funds including counters, financial secretary and treasurer and overseen by those responsible for stewardship in the local church. All electronic systems should be backed up and physical backup copies properly stored.

5. *Reporting and Interpreting Financial Statements* - Statements of financial performance and position should be prepared by the treasurer. Utmost accuracy should be given in data presented that reflect all receipts and disbursements. Different reports maybe presented to different groups such as elders, stewardship leaders and the congregation with goal of tying ministry to dollars. It is important for the treasurer to be able to present and explain reports as to giving patterns, correlation to budget, surpluses, deficits, etc.

6. *Receipting* – Individual statements detailing giving activity should be provided for donors at a frequency determined by those responsible for stewardship and should be at least annually or as requested by the donors. Care should be taken in that these statements conform to IRS guidelines. Such statements should also be used to communicate thank you and appreciation, accomplishments of the church by tying dollars to mission, etc.

*IRS Publication 1771 Written Acknowledgment Requirement A donor cannot claim a tax deduction for any single contribution of \$250 or more unless the donor obtains a contemporaneous, written acknowledgment of the contribution from the recipient organization. An organization that does not acknowledge a contribution incurs no penalty; but, without a written acknowledgment, the donor cannot claim the tax deduction. Although it's a donor's responsibility to obtain a written acknowledgment, an organization can assist a donor by providing a timely, written statement containing: 1. the name of organization 2. the amount of cash contribution 3. a description (but not the value) of non-cash contribution 4. a statement that no goods or services were provided by the organization in return for the contribution, if that was the case 5. a description and good faith estimate of the value of goods or services, if any, that an organization provided in return for the contribution 3 6. a statement that goods or services, if any, that an organization provided in return for the contribution consisted entirely of intangible religious benefits (described later in this publication), if that was the case It isn't necessary to include either the donor's Social Security number or tax identification number on the acknowledgment. A separate acknowledgment may be provided for each single contribution of \$250 or more, or one acknowledgment, such as an annual summary, may be used to substantiate several single contributions of \$250 or more. There are no IRS forms for the acknowledgment. Letters, postcards or computer-generated forms with the above information are acceptable. An organization can provide either a paper copy of the acknowledgment to the donor, or an organization can provide the acknowledgment electronically, such as via an email addressed to the donor. A donor shouldn't attach the acknowledgment to his or her individual income tax return, but must retain it to substantiate the contribution. Separate contributions of less than \$250 will not be aggregated. An example of this could be weekly offerings to a donor's church of less than \$250 even though the donor's annual total contributions are \$250 or more.*

**D. Designated Funds** (Faith and Practice 322 a.iii.)

A policy for designated funds outside the regular operating budget should be developed for those responsible for stewardship. Such policy should include approval only if in line with the church's missions and vision, how funds are disbursed, if there is shortage of funds for a specific project and what should be done with any excess/surplus. Designated funds should be kept at a minimum to not detract from the regular operating budget/general fund.

**E. Special Offerings** (Faith and Practice 322 a.iv.)

A policy should be developed for special offerings such as requesting in advance, who collects the offering, and how is it recorded and disbursed. An adequate paper trail/record should be required.

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