



**Brethren in Christ U.S.**

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# Church Treasurer 101

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# Presentation Overview

## Pastor

- Housing allowance and tax treatment
- Estimated Tax Payments
- Retirement savings for pastors and other church employees
- Church Salary Comparisons

## Church

- Overview of the fraud triangle and internal controls
- Practical tips for improving cash handling procedures
- Financial reporting and budgeting
- Payroll and online giving services
- Unrelated Business Income


# Housing Allowance

- Purpose
  - “Convenience of the employer”
    - Many ministers are required to live at or near the church to be available to those they serve.
    - Ministers are often expected to be available “at all hours of the day and night”
    - In many cases, ministers are expected to use their homes to serve the church.



# Housing Allowance

- Practical Tips
  - “Smallest of 3 amounts” rule
    - Amount officially designated as housing allowance
    - Amount actually used to provide a home (mortgage, utilities, repairs, etc.)
    - Fair rental value of the home, including furnishings, utilities, etc.
  - Designate housing allowance in advance (i.e. Nov or Dec prior to beginning of new tax year)
  - Utilize a resolution that is “open ended”
  - Use a worksheet to create an estimate

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Housing Allowance Worksheet for Pastors Owning/Renting Home

Expenses by Category:	Estimate	Actual
Down payment on a home	\$	\$
Mortgage payments for loans used to purchase or improve your home (include both principle and interest)	\$	\$
Rent payments	\$	\$
Real estate taxes	\$	\$
Property insurance for owners or personal property insurance for renters	\$	\$
Utilities (electricity, gas, water, sewer, trash pickup, local telephone charges)	\$	\$
Furnishings and appliances (purchase and repair)	\$	\$
Structural repairs and remodeling	\$	\$
Yard maintenance and improvements	\$	\$
Maintenance items (household cleaners, light bulbs, pest control, etc.)	\$	\$
Miscellaneous eligible expenses	\$	\$
Allowance for unexpected expenses (Default: 10%)	\$	-
<b>Total Housing Expenses</b>	<b>\$</b>	<b>\$</b>
Fair Market Annual Rental Value of Home (furnished)	\$	
Utilities (electricity, gas, water, sewer, trash pickup, local telephone charges)	\$	-
<b>Fair Market Annual Rental Value of Home (Furnished, including utilities)</b>	<b>\$</b>	<b>-</b>
<b>Housing Allowance Designated by Board</b>	<b>\$</b>	<b>-</b>

Explanation of the housing allowance: For federal income tax purposes, ministers are permitted to exclude from their church income a housing allowance designated in advance by the church (church board), to the extent that the allowance is used to pay for eligible housing expenses. This form can be used to estimate projected housing expenses for the coming year to help the church board designate an appropriate amount for the housing allowance. The amount needs to be approved and documented. We recommend consulting a tax professional for assistance with your state's tax treatment of housing allowances.

Note: Per IRS rules, the housing allowance exclusion allowed is the lowest of three amounts: (1) actual housing expenses for the year, (2) the fair market annual rental value of the home (furnished, including utilities), or (3) the amount officially designated by the church board

# Housing Allowance

- Tax Treatment
  - Exempt from Federal Income Tax
    - May result in a being in a lower tax bracket
  - Not exempt from Self Employment Tax (SECA)
    - Related to Social Security and Medicare
  - Not exempt from PA income tax but is exempt from local income tax



# Estimated Tax Payments

- 1040-ES – Quarterly Estimated Tax Payments
  - Based on your prior year income taxes
  - Don't forget to include self employment tax amounts
- Voluntary Tax Withholding Arrangement
  - Request congregation to withhold amount from your pay and remit to the IRS
  - Congregation is not able to remit FICA/SECA taxes on your behalf.
  - Increase federal income tax withholdings to make up for SECA amount
- PA-40 ES – PA Quarterly Estimated Payments



# Retirement Savings

- BIC 403b Retirement Fund
  - Pastors and staff are eligible to contribute to a retirement account even if their congregation does not contribute on their behalf
- Salary deferral (employee) contributions to 403b account reduce your federal taxable income
- Employer contributions to employee's 403b account is tax free
- For more information visit: <https://bicfoundation.org/403b-retirement-plan/>
- Housing Allowance in Retirement

# Church Salary Comparisons

- BIC U.S. can provide salary comparisons for your church based on attendance, annual budget and location
- Comparisons come from national survey conducted and compiled by ChurchSalary.com and salary information collected by BIC U.S. from BIC congregations

**Localized Salary Recommendation** for ABC Town, USA (12345) [Learn More](#) 5

Analysis of salaries based on a combination of similar churches as well as four variables unique to your location (similar region, population density, median household income, and cost of living index):

Churches Nationwide (Similar Budget & Size)			
\$250k-\$500k	Base Salary	Housing	Total*
101-200	\$32,270	\$15,531	\$40,233

Region†			
Mid-Atlantic	Base Salary	Housing	Total
	\$34,986	\$13,969	\$39,584

Cost of Living Index			
101.61%-104.88%	Base Salary	Housing	Total
	\$32,326	\$16,170	\$39,257

Population Density (people/sq. mile)			
414.8-1,221.5	Base Salary	Housing	Total
	\$33,163	\$14,406	\$40,302

Median Household Income			
\$55,938-\$61,144	Base Salary	Housing	Total
	\$30,304	\$13,149	\$41,048

Localized Salary (Average)

**\$40,269**

Localized Housing Ratio (Average)

**37.6%**

Localized Salary Range*				Salary Spread (50%)
Minimum	1st Qtr	Localized Midpoint	3rd Qtr	Maximum
\$32,215	\$36,242	\$40,269	\$44,296	\$48,322

\* Using the localized midpoint (adjusted average salary) a new range is calculated based on a salary spread of 50% for management/professional positions. Recommended salary range spans from first to third quartile not minimum to maximum values.

† Column averages are calculated based solely on pastors who receive that form of compensation. A discrepancy between the Total column and the sum of the Base and Housing average columns indicates a significant percentage of pastors did not receive (or report) a housing allowance.

Criteria used to generate this section: staff position, employment status, budget, size, region, cost of living, pop density, median household income

ChurchSalary.com Personalized Church Salary Report



# Fraud Triangle



- Pressure
  - Financial Pressure, Vice Pressure, Other Pressures
- Opportunity
  - Lack of internal controls, ability to circumvent internal controls, failure to discipline fraud perpetrators
- Rationalization
  - The church owes me, I am simply borrowing the money, it won't hurt anyone, I do all this work for free



# Why Do Churches Fall Victim to Fraud?

- Trust
- Limited capacity and expertise
- Ever changing environment
  - New employees
  - New software
  - Growth or shrinking of the organization
- Limited to no internal controls
- Tone at the top



# Internal Controls

- Definition from [Investopedia.com](https://www.investopedia.com)
  - Internal controls are the mechanisms, rules, and procedures implemented by a company to ensure the integrity of financial and accounting information, promote accountability and prevent fraud.
- Why?
  - Protect the assets and reputation of the church
  - Protect your people (staff and volunteers)
  - Provide reliable financial information
  - Detect mistakes
  - Detect (and deter) financial misconduct



# Internal Cash Controls

- When talking about churches, we are mostly focused on internal cash controls
  - How does cash get from the offering plate on Sunday morning, to the counting room, on to the bank and finally recorded in the accounting records?
  - How is cash disbursed? Who has signature authority? Who approves disbursements? Where are blank checks stored?
- Consideration should also be given to computer controls
  - Who has access to accounting software? Is access password protected?



# Practical Tips

- Write your procedures down
  - Track the dollar from the offering plate in the pew to the safe to the count team to the bank to the accounting records
  - Procedures for disbursing a check
- Offering Team and Count Team
  - Use the rule of twos
    - At least two unrelated people should collect and count the offering
  - Rotate members of count team
  - Avoid selecting members experiencing a financial crisis
    - Consider conducting credit checks for volunteers involved in handling church finances



# Practical Tips

- Counting Procedures
  - Count sheet
    - Signed by at least two members of count team
    - Multiple copies of completed count sheet
      - One should stay with bank deposit
      - One should be submitted to person who will record contribution in accounting software
      - One should be submitted to person in charge of reviewing bank reconciliation
  - Offering should be counted in secure room by at least two people
  - Consider stamping checks with “For Deposit Only” stamp or use a digital check scanner available through your bank
  - If cash is taken to bank by one person, deposit slip should be compared to count sheet held by other counter



# Practical Tips

- Disbursements
  - Make all disbursements by check or ACH
  - Establish who is authorized to approve disbursements
  - Only prepare disbursement (check or ACH) when someone has approved and there is supporting documentation
    - Use an accountable reimbursement plan
  - Separate role of signing checks from role of recordkeeping and preparing checks
  - Keep blank check stock in secure location
- Bank Reconciliations
  - Reconcile bank accounts monthly and have someone other than the preparer review and approve the bank reconciliation and bank statement
- Donor Statements - Establish rhythm of sending statements to donors, detailing dates and gift amounts received.



# Polling Question

- Does your congregation have its procedures for receiving and disbursing cash written down?
  - Yes
  - No





# Financial Reporting

- Statement of Financial Position (Balance Sheet)
  - Financial position at a point in time
  - Assets = Liabilities + Equity (Net Assets)
  - Most accounting software can prepare this report automatically
  - I recommend showing Current Year and Prior Year

Church Name			
Statement of Financial Position			
December 31, 2019			
	12/31/19	12/31/18	Inc/(Dec)
<b>ASSETS</b>			
Cash and Equivalents	\$ -	\$ -	\$ -
Accounts Receivable	-	-	-
Investments	-	-	-
Other Assets	-	-	-
Notes Receivable	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ -	\$ -	\$ -
Payroll Taxes Payable	-	-	-
<b>TOTAL LIABILITIES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>NET ASSETS - UNRESTRICTED</b>			
Undesignated Net Assets	\$ -	\$ -	\$ -
<b>TOTAL UNRESTRICTED NET ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL PERMANENTLY RESTRICTED NET ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL NET ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

# Financial Reporting

- Statement of Activities (Income Statement)
  - Income and Expenses over a period of time
  - Income - Expense = Net Income
  - I recommend showing Actual (year to date) and Budget
  - It may also be helpful to show prior year actuals
  - Most accounting software can show the CY and PY actuals automatically but the budget column may need to be added manually

Congregation Name			
Statement of Activities			
December 31, 2019			
Description	Actual YTD	Budget	Budget Variance
<b>REVENUE</b>			
<b>CONTRIBUTIONS</b>			
Unrestricted Contributions (Tithes and Offerings)	\$ -	\$ -	\$ -
Restricted Contributions	-	-	-
<b>TOTAL CONTRIBUTIONS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>OTHER INCOME</b>			
Investment Income (Loss)	\$ -	\$ -	\$ -
Registrations	-	-	-
Miscellaneous Income	-	-	-
<b>TOTAL OTHER INCOME</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL REVENUE</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>EXPENSES</b>			
<b>RETREATS</b>			
Youth Retreat	\$ -	\$ -	\$ -
Adult Retreat	-	-	-
Memorial Holiness Camp	-	-	-
<b>TOTAL RETREATS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>OPERATING EXPENSES</b>			
SALARY & BENEFITS	\$ -	\$ -	\$ -
TRAVEL EXPENSE	-	-	-
OFFICE EXPENSE	-	-	-
TRAINING & DEVELOPMENT	-	-	-
CONTRACTED SERVICES	-	-	-
UTILITIES	-	-	-
MORTGAGE	-	-	-
OTHER EXPENSES	-	-	-
RESTRICTED DISBURSEMENTS	-	-	-
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL EXPENSES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

# Financial Reporting

- Other Considerations
  - Reporting on Church Cash Flows
    - Churches are often operating week to week or month to month, so knowing your cash position is important
    - Up to date accounting records and bank reconciliations prepared on a timely basis are important
  - Restricted Funds
    - If your church has accepted restricted gifts, it is important that you track the outstanding balances as those restricted funds are used
  - Giving Analysis
    - It may be helpful to have your treasurer do periodic analysis of the churches giving
    - Important to be aware of large, one-time contributions vs. routine giving



# Budgeting

- Why do we need Budgets?
  - Plan
    - Support strategic growth and ongoing ministry
      - What work does God have for us and how can we steward resources to care for those needs?
    - Provide fundraising targets
  - Spend
    - Provide a plan for strategic spending throughout the year
  - Analyze
    - Compare the plan with actual events – spending and contributions
      - How did we spend the funds we had?
      - Was our spend consistent with our strategic plan?
      - How can we improve in the future?



# Payroll Services

- Payroll for a church can be complex and has a higher-than-normal potential for risk of error
- Finding a treasurer who wants to be responsible for payroll, may limit the number of volunteers
- Consider using an online payroll provider
  - MinistryWorks by Brotherhood Mutual ([ministryworks.com](https://ministryworks.com))
  - Gusto (<https://gusto.com/product/solutions/industry/church>)
  - Clergy Financial Resources ([clergyfinancial.com](https://clergyfinancial.com))



# Polling Question

- Does your congregation use a payroll service?
  - Yes – local accountant or payroll company
  - Yes – online payroll service
  - No – We use payroll module in our accounting software
  - No – We prepare payroll manually



# Online Giving

- Advantages
  - Helps to smooth giving week to week by encouraging donors to establish recurring gifts
  - Convenience – funds are automatically deposited into bank account and reduces the amount of time spent processing by staff and volunteers
  - Establish designated fund categories for donors to use (short term and long term)
- Disadvantages
  - Processing fees – pay attention to both fixed costs and per transaction fees.
  - Some donors may not feel comfortable giving online
  - May be difficult to switch platforms



# Online Giving

- Practical Tips
  - Request a breakdown of fees from provider at least annually. Most online donation platforms will compete for your business and may lower fees to keep you as a client
  - Explore ways to automate data entry into accounting system and giving database
  - Reconcile your giving database to your accounting records at least semi annually
  - Proactively share instructions on how to update their recurring giving
  - Encourage donors looking to make large year end gifts to contribute via check
    - Example: 2.2% fee on a \$30,000 contribution may make it worth the staff time to process a check at year end.





# Unrelated Business Income

- Income generated from a trade or business activity that is regularly carried on and that is not substantially related to one or more of the organization's exempt purposes
- Substantial unrelated business activity can jeopardize an organization's exempt status (the IRS has not defined a specific percentage)
- Certain activities are statutorily excluded from UBI rules even though they may meet the definition of an unrelated trade or business



# Unrelated Business Income Exclusions

- Volunteer labor
- Member's convenience
- Donated merchandise
- Conventions and trade shows
- Interest, dividends, and similar income
- Royalties
- Real property rental income
- Gains and losses from the disposition of property



# UBI – Debt-Financed Property

- Income derived from debt-financed property generally is included in unrelated business taxable
- 85% rule exception
  - 85% or more of the property is used for exempt purposes.
  - Property is not used for exempt purposes merely because income derived from the property is expended for exempt purposes.
  - If less than 85% of the use of property is devoted to exempt purposes, only that part of the property that is not used to further exempt purposes is treated as unrelated debt-financed property.



# UBI – Common Examples

- Rental income from parking lots
  - *Although rents from real and personal property are generally considered to be excluded from the computations to determine an organization's unrelated business income pursuant to section 1.512(b)-1(c)(2)(i) of the regulations, section 1.512(b)-1(c)(5) provides specifically that payments for the use or occupancy of space in parking lots, warehouses, or storage garages does not constitute rent from real property.*
- Rental income from communication towers on church property
  - *Rents received by charities for use of communications towers or antennae constructed on their property are subject to the unrelated business income tax.*



# BIC U.S. Resources

- Understanding Minister's Taxes
  - <https://vimeo.com/showcase/5965620/video/761170801>
- Understanding your Congregation's Legal Documents
  - <https://vimeo.com/showcase/5965620/video/465929111>
- Best Practices for Handling Church Finances
  - <https://vimeo.com/showcase/5965620/video/396538890>
- HR <sup>3</sup> – 3 Critical Church HR Policy Issues
  - <https://vimeo.com/showcase/5965620/video/297335952>
- Healthy Personal Finances
  - <https://vimeo.com/showcase/5965620/video/334503694>



# Other Tips

- Offerings and Disbursements Assessment
  - <https://www.brotherhoodmutual.com/resources/safety-library/risk-management-forms/offerings-and-disbursements-checklist/>
- How to Buy Church Insurance
  - <https://www.brotherhoodmutual.com/resources/safety-library/risk-management-articles/administrative-staff-and-finance/finances/how-to-buy-church-insurance1/>





# Questions?

# We love to help

- Mitch Martin – Director of Finance and Shared Services
  - [mmartin@bicus.org](mailto:mmartin@bicus.org)
  - 717-697-2634 ext. 5403
- Mark Templeton – Development Officer
  - [Templeton@bicus.org](mailto:Templeton@bicus.org)
  - 717-697-2634 ext. 5421
- Peter Guinther – Human Resources Administrator
  - [Pguinther@bicus.org](mailto:Pguinther@bicus.org)
  - 717-697-2634 ext. 5444







# Supplemental Slides

# Fiduciary Responsibilities

- The 3 duties of board members
  - **The duty of care** – to act in good faith, in a manner he or she reasonably believes to be in the best interests of the organization, and with the care an ordinarily prudent person would exercise in a like position under similar circumstances
  - **The duty of loyalty** – to act in the best interests of the organization rather than in their own interests or the interests of their associates
  - **The duty of obedience** – to comply with applicable laws and to act in conformity with the organization's governing and policy documents



# Cash Reserve Policy

- Is it ok to have cash reserves?
  - Cash reserves allow congregations to weather unexpected expenses
- How much should we have?
  - Varies based on circumstances but 3 months of operating expenses is a good starting place
- Is this the same as our building fund?
  - If your church is saving for building expansion, the reserve funds should be held separately



# Benevolence Fund Policy

- State purpose of benevolence fund – typically to assist persons in financial need
- Guidelines
- Control over use of funds
- How do you handle suggested recipients?
- Tax receipting
- Avoid pass through transactions
- Employee Benevolence



# Internal Controls: Practical Tips

- Dual Access, Drop Slot Safe



# Internal Controls: Common Pitfalls

- One person is responsible
  - Not only are you putting your church at risk, you are also putting your volunteer or staff member at risk of false accusation or place of temptation
- Corporate credit card misuse
  - Missing Receipts
  - Personal purchases on the corporate card
  - Unauthorized purchases
  - Consider establishing reasonable credit limits to limit exposure
- Use of debit cards
  - Loss of dual control if debit cards can be used to make ATM withdrawals
- When fraud or misuse is discovered, it is not properly handled



# Accountable Reimbursement Plan

- Why is this important?
  - Avoid creating additional taxable income for your pastors
  - Tax law changes in 2018 eliminated the deduction for unreimbursed expenses
- Requires: (1) a business purpose for the expenses, (2) employees to substantiate the expenses, (3) the return of any excess reimbursements
- If a church pays allowances to employees for professional expense items and does not require an accounting, these payments are part of a nonaccountable plan and should be included on Form W-2



# Online Giving

FUNDRAISING SOFTWARE	RECOMMENDED FOR	FAVORITE FEATURE	PRICING STARTS AT
Kindful	Donor management & CRM	Integrations	\$100/month 2.9% + \$0.30/transaction
Classy	Comprehensive & robust	Donation pages	\$299/month 2.2% + \$0.30/transaction
PayPal	Trust & affordability	Customized donation experience	\$0/month 2.2% + \$0.30/transaction
Handbid	Events & auctions	Integrated tools	\$695/year 3.5% + \$0.30/transaction
Qgiv	Flexibility	Giving kiosks	\$0/month 3.95% + \$0.30/transaction
Fundraise Up	Innovative online giving	Machine learning AI	\$99/month 2.2% + \$0.30/transaction
RaiseDonors	Insights	Giving dashboard	\$99/month 2.9% + \$0.30/transaction

