

# Financial Integrity

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## 1. Purpose of this Document

Churches face continuing challenges in establishing financial guidelines and systems for four main reasons.

1. The complexities of government regulations, reporting requirements and administrative practices make it very difficult to know what is required. Without qualified accounting professionals within the church community the church may feel overwhelmed.
2. The various roles of people and groups within the church often create frustration. Who is responsible for what? The following questions should be addressed:
  - Should the elders maintain control of the budget?
  - Deacons historically have looked after matters that are more secular in nature. (Acts 6) What is their role?
  - What is the role of the Treasurer?
  - If there is a Finance Team how do they operate?
  - When should the congregation be involved?

This document is designed to help the local church leaders work through this process. It is recommended that the church develop a “policy and procedure” document (brochure) for distribution to interested attendees showing how the financial matters of the church are handled.

3. There have often been two extremes in churches that have caused difficulty in the management of the resources of the church. One extreme is a disregard of the basic elements of financial integrity. When this occurs there can be serious results:
  - The church is vulnerable to penalties resulting from improper or late filings of government documents.
  - When money is not carefully handled, the likelihood of fraud increases.
  - Reports are not available for the review of the financial affairs of the church by the persons responsible, creating a disturbing sense of concern.

The other extreme is an over-zealous, legalistic fanaticism, so that the church is paralyzed with fear lest they do something wrong. When this happens the following results:

- Power rests with those who “know” the rules. Often power struggles ensue.
- Usually very complex and unworkable programs result.
- People are fearful of legitimate spending on programs which extend God’s kingdom.
- People are afraid to get involved in this very important ministry because they might not do it right.

Neither extreme is Godly. Care should be taken to make sure that people involved feel affirmed and have a sense that they play a significant role in extension of God’s kingdom on earth.

Building financial integrity into the life of the church is not a difficult process. A few simple rules, forms, and a basic understanding of what is required, is all that is needed. We hope this document provides that kind of framework.

## 2. Roles of Treasurer, Finance Team, and Elders

### a. Treasurer

The Treasurer is the servant of the church. He or she would be responsible for the following:

- a. Financial integrity of the financial matters of the church including the following:
  - All expenditures are within the budget.
  - Abnormal expenditures (i.e. not in budget) are properly approved in writing.
  - Timely and accurate reporting to government agencies.
  - Timely payment of all disbursements
  - Internal control is effective (see “Features of Internal Control” below)
- b. All disbursements of cheques in payment of accounts, subject to second signature on cheques.
- c. Supervision of preparation of monthly and annual financial statements.
- d. Liaison with the auditors and Finance Team
- e. Assist the Finance Team in the preparation of the annual budget in cooperation with the Heads of Ministries.
- f. Ensure that the bank deposits correspond with money counts, performed and signed by persons other than the Treasurer.
- g. Make sure that the total of the offerings agrees with the total of Registered Charitable Receipts given to the donors.
- h. Assist the Finance Team as directed and ensure that their policies and directives are carried out.

Features of Internal Control:

- Division of duties (see 2b below)
- Two signatures on all cheques
- Blank cheques are not signed in advance
- Comparison with budget is done monthly
- Record keeping is always up to date
- Procedures are well documented in writing
- Proper approval of invoices for payment
- Work done by different persons is connected

## b. Finance Team

It might be helpful to see the Treasurer as a separate function from the Finance Team in that the Treasurer is responsible for the day-to-day financial activities, whereas the Finance Team, of which the Treasurer would be a member, is responsible more for financial policies and overall integrity of the financial operations of the church. Because of this overall responsibility the following responsibilities would belong to the Team.

- a. Liaise with heads of ministries to compile the annual budget
- b. Submit budget to Leadership Team (elders) for approval
- c. Submit the budget to the congregation for approval
- d. Review the validity of any “not in budget” proposed expenditures and make recommendations to the Leadership Team
- e. Supervise the preparation and analysis of monthly financial statements
- f. Establish financial forecasts, fundraising
- g. Establish financial policies

## c. Leadership Team (Elders)

The Leadership Team will be engaged as follows in the financial management of the church:

- a. Approve the annual budget, that has been designed by the finance team in accordance with the overall directives of the Leadership Team
- b. Review monthly financial statements
- c. Affirm and encourage the Finance Team

## d. Congregation

The congregation will approve the following:

- a. The annual budget
- b. Major expenditures over a predetermined amount
- c. The annual financial statements

### 3. Weekly Offerings and Other Cash Receipts

- a. In order to ensure financial integrity of the church the following functions should be done by separate persons:
  - Disbursing of cheques
  - Counting of cash and deposit of funds
  - Maintenance of accounting records.
  - Maintain track of donations by using envelopes with numbers assigned to each family unit.
- b. The weekly offerings should be counted by two people who would complete and sign a “Cash Count” sheet. (Exhibit A)
- c. Prepare a tape of the envelopes and make sure the total agrees with “Envelope Total” on the Count Sheet.
- d. Stamp all cheques “For Deposit Only to the credit of \_\_\_\_\_ Church.”
- e. The “Envelope Secretary” should make sure that the total of the weekly amounts entered for each family unit agrees with the Count Sheet.
- f. Miscellaneous receipts should be deposited separately by using a Deposit Slip other than the one used for the weekly offering.
- g. The Deposit slip should be made up at the same time and be taken to the bank immediately. Use a Night Deposit bag if possible. It is not wise to keep funds at home overnight.
- h. The Treasurer should check to ensure that the “Count Sheet” and the Deposit Slip are in agreement and that the totals agree with the monthly bank statement received from the bank.

Exhibit A – Weekly Cash Count Sheet

\_\_\_\_\_ Community Church

Date \_\_\_\_\_

**CASH COUNT**

_____	X	\$ 100	_____
_____	X	50	_____
_____	X	20	_____
_____	X	10	_____
_____	X	5	_____
_____	X	2	_____
_____	X	1	_____
_____	X	.50	_____
_____	X	.25	_____
_____	X	.10	_____
_____	X	.05	_____

**TOTAL CASH**

\_\_\_\_\_

**CHEQUES**

Attach adding machine tape or record

\_\_\_\_\_

TOTAL CASH AND CHEQUES

\_\_\_\_\_

**RECONCILIATION:**

Total of envelopes

\_\_\_\_\_

Total of money not in envelopes

\_\_\_\_\_

TOTAL (To agree with cash count)

\_\_\_\_\_

Signed by counters \_\_\_\_\_

\_\_\_\_\_

## 4. Budgeting Process

The annual budget is an important tool for the management of the local church for several reasons:

- It provides a framework for communicating to the congregation the required targets for
  - weekly, monthly and annual revenues.
- It identifies the limits of spending for Ministry leaders.
- It allows for a measurement of how the church is meeting its targeted revenue and budgeted expenses.

### a. Budget Preparation Process

1. 3 months before the beginning of the next fiscal year the Finance Team will ask the ministry leaders to prepare a budget prepared in two ways
  - a. Essential requirements for doing ministry
  - b. Additional costs related to their “wish list.”
2. The Finance Team, assisted by the Treasurer, will prepare a budget for the administrative costs of the church.
3. By collecting all the information from the ministry leaders, the Finance Team will formulate the overall budget, showing the required revenue in each of the scenarios in 1 above presented by the ministry leaders.
4. There should be a line item on the budget for each ministry.
5. The Team will together fine-tune the numbers.
6. When the Finance Team is satisfied with the budget, it is then presented to the Leadership Team for final amendments and approval.
7. The Budget is then presented to the congregation at a congregational meeting and it is official approved by them. There should be a proper motion approving the budget.
8. A copy of the final budget is then given to every member of the congregation.
9. The monthly financial reports from the Treasurer will show the budget for the period as compared with the actual revenue and expenditures. Any significant variations will be explained.
10. A sample budget is attached marked (Exhibit B).

Exhibit B – Sample Budget

\_\_\_\_\_ Community Church

**YEAR ENDED DECEMBER 31, 2002**

Donation revenue		\$ 135,000
Other revenues		<u>1,500</u>
<b>TOTAL REVENUES</b>		<b><u>\$ 136,500</u></b>
<b>EXPENSES</b>		
Ministry expenses		
Sunday School	\$ 3,000	
Sunday Worship Service	1,000	
Life Group Ministry	2,000	
Missions (Note 2)	10,000	
Library	1,000	
Youth Ministry	2,000	
Women’s ministry	1,500	
Men’s ministry	1,500	
Sound Team	<u>3,000</u>	
Total ministry expenses		25,000
Facility Costs		
Rent	\$ 18,000	
Utilities	3,000	
Insurance	600	
Repairs and maintenance	<u>2,000</u>	
Total facility costs		23,600
Administrative costs	\$ 70,000	
Salaries and benefits		
Conferences	1,000	
Vehicle expenses	2,400	
Telephone	3,000	
Office supplies	2,000	
Bulletin	1,000	
Postage	<u>500</u>	
Total administrative expenses		79,900
Missions (see Note 2)		5,000
Capital expenditures (See note 1)		<u>2,000</u>
Total expenses		<b><u>\$ 135,500</u></b>
<b>EXCESS OF REVENUE OVER EXPENSES FOR YEAR</b>		<b><u>\$ 500</u></b>



**Examples of amplifying notes:**

	\$ 500
1. Proposed purchase of Photocopier	
Addition of neck mics	600
Computer	<u>900</u>
Total	<u>\$ 2,000</u>
2. Missions:	
Support of _____	\$ 1,800
Support of _____	1,500
Mission Organizations	
_____	300
_____	200
Mission committee discretion for special needs	<u>1,200</u>
<b>Total</b>	<u>\$ 5,000</u>

## 5. Example of an Account Structure for Record Keeping

Account numbers will be assigned to the following:

### Balance Sheet

Petty cash fund (for small cash expenditures – fixed amount of cash and vouchers on hand at all times)

Bank accounts (to be reconciled monthly)

- General fund
- Facility fund

Investments

Amounts receivable

Prepaid expenses

Capital assets:

- Land
- Building
- Equipment
- Sound equipment
- Vehicles
- Accumulated amortization

### Revenues

Donations supported by envelopes (to agree with record of donations by individual family)

Cash and loose change for which no receipt will be issued

Goods and Services Tax rebates

Interest revenue

Miscellaneous income

### Expenses

Facility costs

- Office rent
- Facilities rent
- Utilities
- Repairs and maintenance
- Insurance on facilities
- Other facilities costs

## Expenses (continued)

### Ministries

- Sunday School
- Nursery
- Sunday services
- Communion supplies
- Men's ministry
- Women's ministry
- Leadership Team (Elders)
- Special outreach events
- Missions
- Library
- 

### Administrative costs

- Bank charges
- Internet costs
- Liability insurance
- Office supplies
- Postage
- Advertising and promotion
- Miscellaneous expenses
- Printing costs

### Pastoral expenses

- Salaries
- Benefits
- Professional Development
- Group insurance
- Other pastoral expenses

### Capital

- Purchases
- Amortization of capital assets

## 6. Auditing Process

- a. For larger congregations, an auditing firm of Professional Accountants who can maintain independence and objectivity should perform an audit of the accounts and report to the members on the results of that audit.
- b. For smaller congregations two people who are not involved in either the handling of revenues, the disbursement of funds or the record keeping of the church should do a review of the accounting records.
- c. An internal review of the accounting records would include the following:
  - Ensure the agreement of the sum of the donation receipts with the “Donation Revenue” account balance.
  - Test supporting invoices to disbursement amounts
  - Ensure the timely filing and reporting to Government bodies.
  - Make sure the total salaries agree with the approved amounts.
  - Investigate and note reasons for any significant deviations from budget.
  - Ensure that all capital expenditures have been appropriately approved.
  - Ensure that internal controls are operating.
  - Ensure that people performing the tasks indicate completion by their signature.
- d. Prepare a report for the congregation that is attached to the financial statements that are issued after the fiscal year has ended. The following is a proposed format of the report:

To the members of \_\_\_\_\_ Church:

We have reviewed, but not audited, the Statement of Revenue and Expenses, the Balance Sheet, the Statement of Cash Flows and the accompanying Notes to the Financial Statements for the fiscal year ended \_\_\_\_\_ for both the General and Facilities Funds.

Our review consisted of the following procedures:

- 
- 
- 
- 

Based on our review, we have concluded that the attached financial statements of the General and Facility Funds reflect fairly the revenue and expenses and cash flows of the church for the year ended \_\_\_\_\_ and its financial position as at that date.

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Review Committee

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Review Committee

## 7. Other Legal and Income Tax Considerations

### a. Donations in “kind”

Donation receipts may be made for non-cash donations subject to the following basic rules:

- An independent valuation, by a person qualified to value the donated property is placed on the donated goods and the receipt cannot exceed the fair market value.
- There must be no strings attached to the donation. (Example: I will give you this land if my children can go to your Christian School Without paying the fees.)
- Receipts should not be issued for consumables or assets of little value. (e.g. used clothing, etc.)
- Where large donations are being contemplated, such as land and building, or significant equipment, significant tax issues should be addressed. It would be wise to engage the services of a qualified tax advisor to ensure that the valuation, paper work and reporting forms are properly completed.
- Where legitimate church expenses are paid by a member of the congregation who wishes simply to donate the money to the church, the following process would be best:
  - The individual submits the receipts to treasurer.
  - Treasurer issues a cheque to reimburse the person.
  - The individual issues a personal cheque in the same amount to the church.
  - The Treasurer ensures that the individual’s donation record is updated.
- Receipts cannot be issued for donations of labor, unless the person is paid for the labor contributed, with the appropriate T4 return completed, and a donation of a like amount is made to the church. There would therefore be no tax benefit to the donor.

### b. Avoiding Benefits to Members

The general rule is that a church member may not derive a personal benefit from the church activities or its revenues. Reasonableness should govern the decisions. These guidelines might help.

It would be wise for the individual to pay for such items as are listed below and payment should not come from Church revenues, otherwise a benefit would likely result.

- Church dinners (pot lucks would not fall into this category).
- Fees for use of church facilities for such personal use events as anniversaries, family events, birthdays, etc.?
- Etc.

The following types of expenses would not likely constitute a benefit:

- Refreshments served at church services or committee and board meetings.
- Not requiring volunteer youth sponsors to pay for their weekend away?
- Etc.

### c. Benevolent Giving

Many churches and charities engage in benevolent giving to assist people in need, both within and beyond the congregation. The following framework guides the church in deciding whom to assist, what kind of assistance to provide, and under what conditions to offer such assistance.

#### 1. *Define a Benevolence Committee*

This committee may be the Elders team (Leadership team), or another small team assigned by them. Decisions about who will receive the gift must be made objectively by this committee (not by an individual, since that person could be seen to be biased). The role of this committee is to investigate the need and recommend a gift. Typically, the Elders team (Leadership team) approves the payments.

#### 2. *Provide guidance to the committee* to ensure their decisions are made fairly, and that the giving is in line with the biblical purpose of the church. This guidance may be as simple as this Benevolent Giving section. Or it may be more extensive, as in the sample Benevolence Fund Policy document available from CCCC.

#### 3. *Record any gift, and retain that documentation*

Record the purpose, amount, and date of the gift.

The decision maker (i.e. the committee) must be named along with the reason for the gift.

### d. Recommended (or Designated) Gifts

Gifts recommended for a specific project or person by the donor may be receipted providing the following conditions are met:

- The recipient is under the guidance of the church's governance.
- The recipient is engaged in "Church" activities.
- Where there is a specific fund set up for a specific project and not all the funds are spent, there should be a fundraising policy that allows the church to use the excess funds for other church expenses. The policy, approved by the Leadership Team (elders) could read as follows:

Funds designated for a specific project or ministry will be used as designated, but if the project or ministry does not require all the funds or it cannot be implemented, the excess funds can be used for other church activities, at the discretion of the Leadership Team.

### e. Relationship with Canada Revenue Agency (CRA)

Timely filing of reports is necessary to maintain good relations with CRA. These would include the following.

- Monthly payroll remittances (by the 15<sup>th</sup> of the month following)
- Annual T4 returns for employees (by February 28 of the following year)
- T3010 Return for Charitable Organizations (due 6 months after the year end)
- Regular filing of sales tax GST/HST Refund forms

## 8. Resource Material

- a. Charities Handbook (Canadian Council of Christian Charities)
- b. Financial Issues for Churches (Canadian Council for Christian Charities)

## 9. Revision History

Revision Date	Author	Change Description
2019-01-16	R Cummings	Partial revision to the following sections: <ul style="list-style-type: none"><li>• Added Section 7c Benevolent Gifts, incorporating concepts previously provided in 7b Avoiding Benefits to Members</li><li>• Updated terminology in Section 7d (recommended or designated gifts)</li><li>• Updated terminology in Section 7e (CRA, GST/HST)</li><li>• Updated style, adding revision date and revision history</li></ul>