

Chapter 24: Accounting Applications

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24.100: Journals and Ledgers

Every accounting and bookkeeping system consists of a balanced set of records called journals and ledgers. A journal is a book of original entry and tracks transactions in a chronological order (cash receipts journal, cash disbursements journal, payroll journal, etc.). The General Ledger is a summary by account of all the financial transactions of the congregation, posted from the books of original entry (the journals). Financial Statements are prepared from the balances in the General Ledger.

The size and complexity of the organization will determine how these records are used, but each must be adaptable to the specific organization's financial reporting needs. In some organizations, these ledgers and journals may consist only of a checkbook, in some an elaborate set of manually posted records, and in others a computerized system of bookkeeping and financial statements.

Many congregations use some sort of computerized bookkeeping system such as a comprehensive church management software (e.g. Shepherd's Staff) or an off-the-shelf bookkeeping software (e.g. QuickBooks Pro). A computerized bookkeeping system creates the journals and ledgers as transactions are entered.

■ General ledger:

A summary by account of all the financial transactions of the congregation, posted from the books of original entry (the journals).

■ Subsidiary ledger:

The detailed totals of a given general-ledger account.

■ Cash receipts journal:

A record of all receipts of the organization, including the amount deposited into the checking account, the date of the deposit and distribution to the respective accounts, usually the income accounts. The monthly summarized totals are posted to the general ledger.

■ Cash disbursement journal:

A record of all checks written, usually in check number sequence by month. The journal is an expansion of the checkbook register. In smaller organizations, the checkbook register or the check stubs may serve as the journal with the summary distribution posted to the general ledger.

This journal includes the check number, date written, payee, amount of the check, description of the transaction (optional) and distribution of the transactions by account. Any non-check disbursement, e.g., bank service charges or automatic payments, should also be included in this journal.

The monthly total of the checks and the account distribution totals are posted to the general ledger.

■ Payroll record:

A record of all payroll transactions of the organization; summarized posting of the monthly gross payroll

allowances; income, Social Security, and Medicare tax withheld; and net paycheck. The payroll record may be a part of the cash disbursements journal if there are several employees in the organization.

■ Adjusting journal entries:

A record of all correcting or adjusting entries to the general ledger that are not recorded in the other journals. A journal entry consists of account title and number, the amount of the debit and credit, and the description or reason for the entry. All journal entries should be posted monthly. Journal entries, for example, are used to allocate and post depreciation.

■ Count form (weekly offering):

A report to record the count and deposit of the Sunday offering. The totals of this report are posted to the cash receipts journal.

■ Payment voucher:

A voucher to approve the payment of any expenditure on behalf of the congregation. Every check written should be supported by a voucher and supporting documentation and approved by the appropriate person or board.

24.200: Sample Filled-in Records

The following pages are selected sample forms of First Lutheran Church for January, those that might typically be used even with a computerized accounting system.

Exhibit Title and Description

A. Count Form (Weekly Offering)

This form reports the collection and distribution of the Sunday offering and is to be completed each time a collection is made at the church. The form should be completed and signed by two counters, neither of whom is the treasurer or financial secretary. A copy of the form should be given to the treasurer and financial secretary every time a count is made.

B. Payment Voucher

This form must be completed before a check can be issued. The form authorizes the treasurer to pay a bill of which he or she may have no knowledge. This voucher should be attached to the check copy or filed alphabetically or numerically with the invoice or statement.

C. Payroll Record (Card)

This reports the detail of each employee's payroll check. A sheet (card) should be maintained for each employee, including the minister.

COUNT FORM-WEEKLY OFFERING

FIRST LUTHERAN CHURCH
ST. LOUIS, MISSOURI

Date January 4, 20XX

	Coins	Currency	Checks	Sub Total	Total
GENERAL FUND					
Plate	\$ 3.64	\$ 29.00	\$ 10.00	\$ 42.64 ^(B)	
Envelope		319.00	1,775.00	2,094.00 ^(A)	\$2,136.64
BUILDING FUND		90.00	210.00		300.00 ^(C)
ORGAN FUND					
AGENCY FUNDS					
American Bible Society		5.00	25.00		30.00 ^(E)
Lutheran Hour					
World Relief		85.00	30.00		115.00 ^(F)

OTHER RECEIPTS					
Sunday school:					
Plate	13.55	2.00		15.55	15.55 ^(D)
Envelope					

TOTAL SOURCE/DEPOSIT	17.19	530.00	2,050.00		2,597.19 ^(G)

Counted by: Fred Johnson Date: 1-4-XX
Counted by: Mike Campbell Date: 1/4/XX

Exhibit 24-A

AUTHORIZATION FOR PAYMENT VOUCHER

Vendor _____ Date of Request _____
Address _____ Date Needed By _____

Invoice No. (s) _____ Date of invoice _____

Special Instructions _____

Explanation _____

Amount \$ _____ Account No. _____ Program _____

☐ Authorized by Church Council Date _____

☐ Budget expenditure

Requested by _____

Approved by _____ Date paid _____ Check No. _____

----- CUT HERE -----

AUTHORIZATION FOR PAYMENT VOUCHER

Vendor _____ Date of Request _____
Address _____ Date Needed By _____

Invoice No. (s) _____ Date of invoice _____

Special Instructions _____

Explanation _____

Amount \$ _____ Account No. _____ Program _____

☐ Authorized by Church Council Date _____

☐ Budget expenditure

Requested by _____

Approved by _____ Date paid _____ Check No. _____

Exhibit 24-B

INDIVIDUAL PAYROLL RECORD

Employee Name Wany Kelly Social Security No. 342-02-1234 Marital Status M Exemption Allowance(s) 1 Year 20xx
 Address 789 Main Street Position Secretary Exempt from federal income tax withholding? Yes X No
St. Louis, MO 63122 Phone No. 314-826-1000 Rate: Hourly \$ Weekly \$ Monthly \$ 800.00

Period Ending	Earnings			Deductions				Advance	Net Paid	Check No.
	Gross Salary	Housing Allowance	Auto Allowance	Christmas Gift	Total Earnings	Federal Withheld	Social Security Tax	Medicare Tax	State Withheld	Other
1-31-xx	800.00				800.00	60.00	49.60	11.60	21.00	2.80
2-28-xx	800.00				800.00	60.00	49.60	11.60	21.00	2.80
3-31-xx	800.00				800.00	60.00	49.60	11.60	21.00	2.80
Total 1st Qtr.	2,400.00				2,400.00	180.00	148.80	34.80	63.00	8.40
4-30-xx	800.00				800.00	60.00	49.60	11.60	21.00	2.80
5-31-xx	800.00				800.00	60.00	49.60	11.60	21.00	2.80
6-30-xx	800.00				800.00	60.00	49.60	11.60	21.00	2.80
Total 2nd Qtr.	2,400.00				2,400.00	180.00	148.80	34.80	63.00	8.40
7-31-xx	800.00				800.00	60.00	49.60	11.60	21.00	2.80
8-31-xx	800.00				800.00	60.00	49.60	11.60	21.00	2.80
9-30-xx	800.00				800.00	60.00	49.60	11.60	21.00	2.80
Total 3rd Qtr.	2,400.00				2,400.00	180.00	148.80	34.80	63.00	8.40
10-31-xx	800.00				800.00	60.00	49.60	11.60	21.00	2.80
11-30-xx	800.00				800.00	60.00	49.60	11.60	21.00	2.80
12-20-xx	500.00			50.00	550.00	60.00	3.10	7.73	27.00	2.80
12-31-xx	800.00				800.00	60.00	49.60	11.60	27.00	2.80
Total 4th Qtr.	2,400.00			50.00	2,450.00	180.00	151.90	35.53	63.00	8.40
Annual Totals	9,600.00			50.00	9,650.00	720.00	598.30	139.93	252.00	33.00

Exhibit 24-C

24.300: Record Retention

The following is the recommended retention period for records. The actual length you decide to keep records may depend on your particular circumstances. Retention periods should be periodically reviewed with state and federal laws endure proper compliance.

Corporate Records	Permanent	Years
Articles of Incorporation	X	
Constitution and Bylaws (including all revisions)	X	
Deeds and Copies of Deeds	X	
Long-Term Contracts and Agreements	X	
Legal Correspondence	X	
Minutes—Council Meetings/Voters	X	
Reports—Board and Committee		3
Titles and Mortgages	X	
Title Insurance Policies	X	
Financial Records		
Annual Reports	X	
Asset Records	X	
Audited Financial Statements	X	
Bank Statements and Reconciliations		7
Budgets		2
Cash Remittance Vouchers		3
Cash Receipt Records		7
Cash Receipts Journals		7
Cash Disbursement Vouchers		3
Canceled Checks		7
Check Record-Check Stubs		5
Correspondence Files		3
Deposit Slips		3
Employee Files	X	
Expense Reports		3
Information Returns—Form W-2s and 1099s		6
Insurance Policies (expired)—Liability Policies	X	
Invoices after Payment		3
Journal Entries	X	
Ledgers—General	X	
Ledgers—Other		7
Loan Files	X	
Offering Envelopes		4
Offering Envelope Reports		3
Payroll—Earnings Records		10
Purchase Orders		3
Reports—Monthly		3
Reports—Government		6
Reports—Subsidy Requests		3

24.400: Accounting Applications

It should be quite apparent that the editors of the *LCMS Congregational Treasurer's Manual* strongly encourage the use of internal controls by every congregation. Chapter 20 of this Volume 2 is dedicated to the introduction of internal controls and Chapter 25, Financial Review, includes tests for the existence and adherence to the congregation's internal control system.

The balance of Chapter 23 contains discussions on various accounting applications, including internal control considerations. Some sample journal entries are also included for transactions that may be outside the day-to-day operations of the congregation and/or which are normally entered into the accounting records through adjusting journal entries.

24.500: Assets

24.510: 11000 Cash and cash equivalents

All liquid investments with a maturity of three months or less at the date of acquisition are generally considered to be cash equivalents.

24.511: 11011 Cash in bank

The balance in this account represents money on deposit in the bank or in transit. A separate account number should be assigned for each bank account maintained. All cash received by the congregation should be deposited intact daily. All disbursements should be made by check, on-line, or by credit card.

INTERNAL CONTROL CONSIDERATIONS

1. A reconciliation of each bank account should be prepared upon receipt of the monthly bank statement. This reconciliation should be prepared by an individual independent of the cash receipting and disbursing process.
2. The individual responsible for completing the monthly bank reconciliation should receive the bank statements unopened.
3. Compare the dates and amounts of deposits on the bank statements to the cash receipts journal or general ledger. List any deposits that do not appear on the bank statement as deposits in transit. Amounts listed on the prior reconciliation as "in transit" should be analyzed for timeliness of deposit after the end of the month. Any unusual time lapses or amounts should be investigated.
4. A list of outstanding checks should be prepared by comparing the canceled checks (in numerical order) to

the disbursement journal or check register. The checks should be placed in numerical order and all must be accounted for, including those which have not been returned by the bank. A listing of outstanding checks must be prepared.

5. Any charges or credits noted on the bank statement should be analyzed. A journal entry should be made for all appropriate items such as check printing charges, interest earned and service charges. Any unusual items should be investigated.
6. The ending balance on the bank statement and the adjusted general ledger balance must agree with the reconciliation.
7. All voided checks should be reviewed and filed with the canceled checks.

**Steps 8 through 10 do not need
to be performed on a regular basis but may be
used randomly or when circumstances require.**

8. On a test basis, canceled checks should be compared with the disbursement journal as to check number, date, payee and amount.
9. Canceled checks should be examined for authorized signatures, irregular endorsements and alterations to ensure that they have been properly executed on a test basis.
10. Checks outstanding for more than 90 days should be periodically investigated. Stale checks should be handled in accordance with the local escheat laws.

24.512: Cash receipts

The handling and recording of receipts requires a high level of attention to detail to ensure items are classified properly and consistently in interim and annual financial statements. Equally as important, though, is the protection of the congregation's most valuable and liquid asset, cash. The following procedures should be used as a guideline and modified appropriately for individual circumstances. A common element of most internal controls is the separation of duties between employees/volunteers. Budgetary constraints and the structure of small organizations may hinder this goal, but congregations should attempt to separate these duties and formalize procedures to the greatest reasonable extent. Additional control procedures should be considered if these are not possible. It is important that the first person in a congregation that handles cash receipts should have no access to any general or subsidiary ledgers.

1. Worship service offerings should be counted or securely stored immediately following the worship service by two or more individuals. If the offering is to be stored before processing, all loose cash should be counted and a notation made of the amount of loose "plate

offerings” and the offering should remain secured until at least two individuals are available to process the offering.

2. Daily Processing of Cash Receipts

- a. Daily, all mail that is suspected of having cash or checks enclosed should be opened by a designated person who does not have access to the general or subsidiary ledgers.
- b. As mail/offering envelopes are opened, checks should be logged including the remitter’s name and the amount. At this time, all checks should be restrictively endorsed for deposit only in the congregation’s bank account.
- c. Checks should be assembled for deposit at the bank.
 - (1) If required by the bank, list all checks on the deposit slip or prepare an adding machine tape or computer printout of all checks and attach to the bank deposit slip.
 - (2) Deposit should then be delivered to the bank and the deposit receipt should be attached to the cash receipts journal.
 - (3) All undeposited receipts should be kept in a safe place.
- d. The financial secretary should enter each receipt, based on the logs created in step two, into the cash receipts journal or similar module of the general ledger recording, at a minimum:
 - * The remitter’s name
 - * The date of posting of the remittance
 - * The amount of the receipt
 - * The account number to be credited
 - * A brief description
3. A proofing list should be generated, reviewed, compared against the copy of the log and, if all is in order, the batch should be posted to the general ledger. Documentation supporting the nature of any material receipts and the mail listing should be filed with the cash receipts journal.

24.513:

Cash disbursements

Approval of Supporting Documentation

1. When general invoices or recurring bills are received, they should immediately be forwarded to the treasurer. Invoices that are specific to a particular ministry should be forwarded the appropriate individual for approval and account distribution; then forwarded to the treasurer. Expense reports should be completed with supporting documentation attached, appropriate account distribution and approval; then forwarded to the treasurer. The treasurer should then complete the following steps:
 - a. Review the documents for mathematical accuracy.
 - b. Review for approvals from the appropriate officials.
 - c. Review for appropriate account distribution.
 - d. Compare amounts to be paid against amounts ordered, contracts, congregation policies, discounts, sales tax, etc.

- e. Determine whether adequate amounts are budgeted for the proposed account distribution.
- f. Compare invoice to purchase order (if applicable).
- g. Ascertain that the invoice received is an original invoice, and not a copy to prevent duplicate payment.
- h. A check request should be used for all disbursements where other substantiation is not available.
2. All documents should be canceled or defaced to avoid duplicate payment.
3. Unless the checks are manually signed by the treasurer, he/she should approve disbursements by initialing or signing the documents.
4. Check copies, attached to the appropriate supporting documentation should be filed alphabetically, by payee.

Other Considerations

1. The check should be pre-numbered two-part (minimum) document with the carbon copies clearly marked “non-negotiable.”
2. The negotiable check should contain the term: “**VOID AFTER (30, 60, OR 90) DAYS**” on its face.
3. Blank check stock as well as keys to a check signing machine should be stored in a secure place when not in use.
4. Any check that has been prepared and recorded should be distributed or mailed, not held for future distribution.
5. All voided checks are to be marked “VOID” in bold letters on the face of the check and also in the signature area of the check. The voided check is to be filed numerically with canceled checks from the bank.

24.514:

Business Expense Reports

1. All expense reports with appropriate accounts noted must be signed by the preparer and approved by the individual’s immediate supervisor or a designated official.
2. The expense report should clearly define the nature of the business for which the expenses were incurred and names of individuals involved.
3. All expenses must be substantiated by a receipt showing the date, the reason for the expense, the amount, and to whom paid.
4. The report is checked for mathematical accuracy and account distribution.
5. Congregation Business Expense Reports should comply with the IRS requirements for an accountable plan as adopted by the Church Council.

6. The congregation may authorize credit card use for staff to cover automobile, lodging, meals and other travel expense.
7. Personal expenses should not be charged on credit card(s) authorized by the congregation.

24.515:

11015 Petty cash

This account represents a fixed amount of money (imprest balance) set aside to make immediate cash disbursements for small purchases or services. The total of the fund must always be accounted for by cash on hand plus signed vouchers for the amount expended. The fund is replenished periodically by an amount equal to the total amount of petty cash vouchers. Each time the fund is replenished, charges are made to appropriate expenditure accounts. The petty cash fund must be kept separate from the cash receipts.

INTERNAL CONTROL CONSIDERATIONS

1. Petty cash transactions should be kept to a minimum.
2. The petty cash custodian should be an individual separate from the cash receipting and disbursing functions.
3. All disbursements from the petty cash fund must be supported by a receipt or recorded on petty cash vouchers. The voucher should contain the reason for the use of the funds, the signature of the individual using the funds, the initials of the petty cash custodian and the general ledger account to be charged.
4. When the petty cash is at an amount below the minimum to be held, a request from the petty cash custodian for a replenishment check should be made to the order of the custodian, recording the appropriate expenses, and physically added back to the fund.

5. The treasurer should periodically review the cash and receipts on hand in the fund and should approve the posting of the replenishment request.

24.520:

12000 Investments

These accounts shall include the value of all investments owned by the congregation. Investments should be recorded at market value. Investments received through gifts should be initially recorded at the fair value on the date of receipt. Fair value may be obtained from the Wall Street Journal stock or bonds listing, on the internet from various sources (such as Google), or any other quoted price source. Generally, all gains or losses on investments are unrestricted, unless governed by state law or a donor's statement to the contrary.

INTERNAL CONTROL CONSIDERATIONS

SAFEKEEPING

1. Marketable securities should be adequately protected, stored in a safe, safety deposit box, or on deposit with a trustee or financial institution. Photocopies should be made and stored for quick reference.
2. A board resolution should limit the physical access to marketable securities to a few responsible individuals (president, business manager, treasurer).
3. All investments should be registered in the name of the congregation and utilize the congregation's mailing address and Federal Employer Identification Number.
4. The Board, through formal resolution, should authorize a list of individuals to conduct investment transactions. This list should be reviewed regularly and may be needed by banks or investment companies in order to open accounts or execute transactions.

Sample Journal Entries	Account	Debit	Credit
Petty cash	11015	100	
Cash — First National Bank	11011		100
To record establishment of petty cash fund.			
 Office supplies	 51020	 18	
Maintenance and repairs	51174	15	
Cash — First National Bank	11011		33
To record replenishment of petty cash for amounts disbursed			

RECORDING

1. Detailed records should be maintained of all investments that should include the date of acquisition and purchase price (or fair market value at date of donation).
2. When monthly, quarterly or annual investment statements are received, fluctuations in market values should be accounted for in a separate "market valuation" investment account.
 - * Investigate applicable state laws regarding the appreciation of permanent endowments. Most states have adopted the Uniform Management of Institutional Funds Act which states, absent donor instructions to the contrary, gains carry the same restrictions as regular investment income. Other states follow trust law, which states the appreciation becomes part of principal. Based on the applicable state law where the congregation is incorporated, appreciation on endowment assets should be recorded as noted.
 - * All other realized gains and losses are unrestricted and should be recorded as such.
3. As investment income or account statements are received, these should be immediately recorded as cash, accrued interest receivable, or principal purchases and as investment income as the case may be.
4. Investment earnings should be recorded in the proper class of net assets based on the presence or absence of donor restrictions.
5. The governing board should regularly review and determine the use of income from investments and proceeds in compliance with any restrictions.

24.530:

13000 Receivables

These accounts are used to record accounts receivable from all sources (such as school tuition, promises to pay, etc.).

A related account, Allowance for estimated uncollectibles, should be established if some of the receivables are expected not to be collectible. This account would be a contra account to the receivable account and would carry a

credit balance. This estimate allowance will require adjustment as estimates change.

INTERNAL CONTROL CONSIDERATIONS

The totals of the individual accounts in each subsidiary ledger must be reconciled with the general ledger control account at the end of each accounting period.

Periodic detail aging (monthly, quarterly, etc.) schedules of subsidiary accounts receivable should be prepared showing name, unpaid balance, date of charge, date of last payment and number of days past due. These schedules should be used as part of a diligent follow-up program to ensure prompt collection of past due accounts.

At least annually, all receivables (accounts, promises to give, accrued interest, and notes and contracts) shall be reviewed for collectability.

An allowance for estimated uncollectible accounts should be created if, in management's opinion, there is a doubt as to future collectability of the receivable.

Each congregation should establish a policy for authorization of write down or write off of receivables. The Church Council should authorize any material write off and receive annually a report of accounts written off.

24.531:

13010 Accounts receivable

This account represents amounts due the congregation from fees and other day-to-day operations, such as tuition.

24.532:

13020 Promises to give receivable

This account is used to record unconditional promises to give including grants, pledges, irrevocable trusts, split interest agreements from donors and funds held by third party trustees.

24.533:

13030 Accrued interest receivable

This account represents the amount of interest earned from cash deposits or investments earned in one accounting period and received subsequently in another accounting period.

Sample Journal Entries	Account	Debit	Credit
Receivables	13000	3,000	
Tuition—Members	43010		3,000
To record amount due from families for tuition.			
Cash — First National Bank	11011	3,000	
Receivables	13000		3,000
To record receipt from families for tuition.			

24.534:

13040 Notes and contracts receivable

These accounts are used to record any loan receivable by the congregation from other parties.

INTERNAL CONTROL CONSIDERATIONS

1. Review the following documentation for new loans to determine if loans are adequately secured:
 - a. The nature of the loan
 - b. Signed promissory note
 - c. A registered mortgage, deed of trust or similar security
 - d. Title insurance/attorney's opinion or an abstract
 - e. Evidence of casualty insurance coverage

24.540:

13200 Inventories

This account shall include the cost of all merchandise and supplies on hand at the close of the fiscal year.

In order to determine actual cost of goods sold, physical inventories shall be taken at the close of the fiscal year. The inventories should be priced at the lower of cost or market and the respective inventory accounts should be adjusted accordingly.

24.550:

14000 Prepaid expenses

This account is used to record prepayment for services that extend beyond the current accounting period. Periodic adjustments should be made so that the balance of the account reflects the prepaid amount.

24.560:

Fixed assets

All fixed assets purchased or acquired by the congregation or its controlled entities are recorded in the fixed asset accounts of the congregation.

INTERNAL CONTROL CONSIDERATIONS

1. The congregation should establish a capitalization policy based on the following example:
 - a. All purchases of individual pieces of equipment in excess of \$_____ with an estimated useful life of more than one year are to be capitalized and recorded in the respective fixed asset account.
 - b. All purchases of equipment (i.e., desks, chairs, calculators, etc.) which individually cost less than \$_____, but in aggregate cost in excess of \$_____ are to be capitalized and recorded in the respective fixed asset account.
 - c. All purchases of equipment less than \$_____ are to be expensed and charged to the appropriate account.
2. An expenditure for maintenance or repair of real or personal property which is ordinary and incidental in

nature and which neither materially adds to the value of the property or appreciably prolongs its life, but keeps it in ordinarily efficient operating condition, is to be treated as a current operating expense and recorded under maintenance and repair.

Examples include:

- a. Painting
 - b. Equipment maintenance agreements or repairs
 - c. Plumbing repairs
 - d. Parking lot repairs
 - e. Replace broken windows
 - f. Automobile repairs
3. An expenditure greater than the amount specified in the capitalization policy and intended to benefit future periods, increase the capacity, efficiency, economy, or prolong the normal life, is to be treated as a capital expenditure, subject to depreciation, and recorded under the respective asset account.
Examples include:
 - a. New roof
 - b. Cost of rebuilding boilers
 - c. Office improvements
 4. All donated or purchased fixed assets greater than the capitalization policy are to be recorded at cost or fair value in the appropriate Fixed Asset General Ledger and Subsidiary Ledger account. The Subsidiary Ledger will record:
 - a. Date of acquisition
 - b. Check number or journal voucher number
 - c. Name and address of vendor or donor
 - d. Cost or fair market value of donated assets
 - e. Description of property
 - f. Department charged with custody
 - g. Location
 - h. Method of acquisition
 - i. Estimated life
 - j. Method of depreciation
 - k. Date, method and authorization of disposition
 - l. Accumulated depreciation
 5. All equipment must be labeled or identified as congregation property.
 6. A physical inventory of fixed assets should be performed annually.
 7. Any obsolete or unusable equipment is to be sold or disposed of and properly removed from the ledgers.
 8. A depreciation convention (usually straight line) should be established as well as useful lives of fixed assets. A salvage value should be considered for real property. Examples of useful lives follow:

ASSET	LIFE IN YEARS
Church/school/office buildings	25-40
Improvements	20
Office equip/furniture/fixtures	5-8
Computer hardware	3
Computer software	3

Automobiles, vans, or pickups	3-5
Leasehold improvements	(life of lease, including renewal periods or life of building, whichever is less)

9. All Fixed Assets should be adequately insured against any damage or loss at replacement cost not book value. Additions or deletions of assets should be reported by the congregation to the insurance company for possible adjustment of coverage, as appropriate. (See Chapter 26 for information on insurance.)
10. Detailed depreciation schedules should be kept for all fixed assets and should include purchase date, useful life, salvage value, annual depreciation expense cost, and accumulated depreciation. The depreciation schedule should be reconciled regularly to the general ledger and inventory listings.
11. If the congregation regularly sells old fixed assets to its employees or related parties (automobiles, computers, etc.) a policy should be enacted ensuring the transactions are executed at arms' length for fair value.
12. All donated or purchased fixed assets should be recorded at fair value or cost, respectively.
13. The structure of the fixed asset accounts should resemble the presentation in the financial statements (land, buildings, equipment, etc.). When fixed assets are purchased or otherwise acquired, they should be recorded in the appropriate accounts. If a purchase consists of more than one type of asset, such as land and buildings, a value should be placed on each item and recorded separately.
14. Donated assets should be valued by a professional such as an appraiser or insurance agent.
15. Detailed records of all fixed assets owned by the congregation should be maintained and a physical inventory should be conducted periodically. Items no longer in fixed asset inventory should be investigated and written off the books.

16. Periodic reviews and appraisals should be made to ensure fixed assets are insured for their replacement value and adequate liability insurance is maintained.

24.561:

15010 Land

This account should be used to record the historical value of land acquired by the congregation. The recording value of the land should be the cost of acquisition, including purchase price, fees, commissions and other incidental costs relating to acquisition.

Acquisition of land by gift should be recorded at the fair market value of the land at the time of receipt. Land is not to be depreciated.

24.562:

15020 Buildings

This account should be used to record the cost of building structures as well as all fixtures and equipment permanently attached to and made part of the building. If the building is recorded by gift the building should be valued at its fair market value at the time of receipt.

The following expenditures should be part of the building cost: architect's fees, boilers, furnaces, HVAC equipment, wiring, plumbing and the like.

24.563:

16000 Furniture & equipment

This account should be used to record the cost of furniture, furnishings, and equipment acquired by the congregation through purchase or gift.

The cost of equipment should include the net purchase price, expenses of transportation, labor employed in the installation, and any other pertinent expenses necessary to place the equipment in operation. Equipment received by gift should be recorded at the fair market value at the time of acquisition.

Sample Journal Entries	Account	Debit	Credit
Depreciation expense—Building	51176	2,000	
Depreciation expense—Equipment	51054	500	
Accumulated depreciation—Building	15070		2,000
Accumulated depreciation—Equipment	16070		500
<i>To record monthly depreciation of office building and equipment.</i>			

24.564:**15070/16070 Accumulated depreciation**

These accounts are used to record all depreciation charged for office buildings and equipment.

24.600: Liabilities

24.610:**21000 Accounts payable**

This account is used to record unpaid invoices for purchases of merchandise or services. An obligation is incurred when goods are received or services are rendered, regardless of whether or not an invoice has been received. An obligation should be recorded when incurred.

At the end of each accounting period a detail schedule of accounts payable should be prepared and reconciled with the general ledger.

See Section 23.513 for internal control considerations related to Accounts payable.

24.620:**22000 Accrued payroll**

This account is used to record accruals for compensation and compensated absences, including accrued vacation time.

24.630:**23000 Payroll taxes withheld**

This account is used to record accruals for payroll taxes withheld from employee payroll checks and the payroll tax liabilities assessed to the congregation (match FICA taxes).

24.640:**24000 Promises to give payable**

These accounts are used to record unconditional promises to give (pledges, grants, etc.) to district or other agencies or ministries. Under GAAP, promises to give are recordable as a liability when the promise is made.

24.650:**25000 Agency funds payable**

A congregation regularly receives contributions for a charity or organization other than itself. These funds, on receipt, are a liability to that organization and are referred to as agency funds. The congregation should keep a separate accounting for each organization's funds.

24.660:**26000 Mortgages and notes payable**

These accounts are used to record other short-term and long-term indebtedness of the congregation.

24.700:

Net Assets (Fund Balance or Equity)

Net assets represent the difference between assets and liabilities. They are classified based on the presence or absence of donor-imposed restrictions as either 1) net assets with donor restrictions, or 2) net assets without donor restrictions. Net assets with donor restrictions are those whose use has been limited by donor-imposed time restrictions or purpose restrictions or are net assets required by donor restriction or by law to be maintained by the organization in perpetuity. Interest derived from the perpetual net assets may become restricted and should be used as per the donor's restriction. Net assets without donor restrictions are all other net assets that do not meet the net asset with donor restrictions definitions.

Even congregations that don't present their financial statements in accordance with GAAP should understand these various asset classes and the legal ramifications of accepting restricted donations.

RESTRICTED GIFTS AND ENDOWMENTS

Documentation

A permanent file shall be established for each donor restricted gift.

1. Donor Restricted Gifts (non-Endowment)
 - a. Donor's name and address
 - b. The amount of the gift
 - c. The date gift is received
 - d. The donor's restrictions or stipulations on the use of the gift. The donor's original correspondence or documentation used should be included.
 - e. The name(s) of the person(s) responsible for the recipient ministry.
 - f. An acknowledgement of the gift to the donor.
 - g. Periodic report(s) to the donor on the gift's use.
2. Donor Restricted Gifts (Endowments)
 - a. Donor's name and address
 - b. The principal amount of the gift
 - c. The date funds are received
 - d. Terms and restrictions on the investment of principal
 - e. The restriction on income
 - f. The name(s) of the person(s) responsible for the recipient ministry.
 - g. An acknowledgement of the gift.
 - h. Periodic reports (if required) to the donor.

NON-CASH GIFTS

Valuation of non-cash gifts shall be established by the current fair value at the date of the gift.

24.710:**31000 General Fund (unrestricted) —
Net Assets Without Donor Restrictions**

Receipts not restricted by the donor regarding time or manner of use are recognized as unrestricted (undesignated) donor support in the period in which they are received. These assets may be expended for any purpose in performing the primary objectives of the organization. In the general fund are typically revenue from sales, fees and other income, and all unrestricted gifts, grants, and contributions.

24.720:**32000 Net Investment in Property
and Equipment — Net Assets Without
Donor Restrictions**

This fund represents the equity in fixed assets owned by the congregation. It consists of the book value of fixed assets (land, building and equipment) net of accumulated depreciation, less debt specifically associated with the acquisition of those fixed assets. Net investment in property and equipment does not include equity in surplus property, property held for sale and advance sites.

24.730:**33000 Board Designated Funds —
Net Assets Without Donor Restrictions**

The governing board (Church Council or Voters Assembly) may designate a portion of net assets without donor restrictions for a specific operating purpose. For example, the Church Council (by resolution) may designate a certain amount of net assets without donor restrictions to be used to fund future roof repairs. These designations are not considered “restricted” because only external third-party donors can restrict funds. Any board designation can be reversed by the board or governing body. The board may not designate funds if the net asset without donor restriction is in a deficit position.

INTERNAL CONTROL CONSIDERATIONS

1. All board designated net asset accounts should have a board action retained on file which states how the funds must specifically be used.

2. The Church Council should, at least annually, review all board designated net assets and assess the validity of the continued designation.

24.740:**34000 Temporarily Restricted Funds — Net
Assets With Donor Restrictions (temporary)**

Temporarily restricted support, revenue and gains are items of income that have been directly or indirectly restricted by the **donor**. Internal designations by management or the Church Council are not restrictions and are not to be reflected as temporary restrictions. Direct or express restrictions by a donor include notations on the face of a check, an accompanying letter or note, a donation for a campaign with specific purposes, or other verifiable documented evidence the donor is restricting the use of the gift to a specific purpose. Instructions in an endowment agreement as to how the income from the endowment must be spent are also restrictions.

Indirect, or implied restrictions by a donor are not stated and do not restrict the use of a gift to a specific purpose. Rather, when support is received by a not-for-profit organization in the form of a promise to give, the gift has an implied time restriction that will expire when the promise is fulfilled with cash or other securities. The only exception to rule of implied time restrictions is when a donor specifically states the gift is to be used for operations in the current fiscal period.

In states that follow a form of the Uniform Management of Institutional Funds Act, a donor’s restrictions on interest and dividends earned on permanent endowments also extend to gains on those investments.

INTERNAL CONTROL CONSIDERATIONS

1. All material temporarily restricted gifts should be supported by documentation from the donor.
2. Separate records should be maintained for each temporarily restricted gift to provide assurance that the gifts are utilized for the intended purpose.
3. When qualifying expenditures are incurred, the temporarily restricted item must be released in equal value or entirely.

Sample Journal Entries	Account	Debit	Credit
General Fund (unrestricted)	31000	5,000	
Board Designated Funds	33000		5,000
To record board action to set aside roof repair funds.			
Maintenance and Repairs	51174	5,000	
Cash — First National Bank	11011		5,000
To record payment of roof repair.			
Board Designated Funds	33000	5,000	
General Fund (unrestricted)	31000		5,000
To release board designated net assets for expenditures meeting the designation.			

4. Unexpended temporarily restricted net assets must be held as such until qualifying expenses have occurred.
5. If a temporarily restricted gift is received after the start of a fiscal year, previous qualifying expenses for that same fiscal year may be utilized to offset the gift.
6. If two or more temporarily restricted gifts are received for the same purpose, management has the discretion to release one gift over another.
7. Only investment income specifically restricted by the donor should be recorded as temporarily restricted. If not so restricted, all investment income on temporarily restricted net assets is classified as unrestricted.
8. If financial statements are presented in conformance with GAAP, all expenses of the congregation should be recorded as unrestricted per SFAS 117. Additionally, any unrestricted expenses that meet the restrictions of any temporarily restricted net asset accounts will cause those temporarily restricted net assets to be reclassified to unrestricted revenue-net assets released from restriction. The business manager or other individual with a good understanding of both the expenditures and temporarily restricted net assets should review both each month and release the temporarily restricted net assets accordingly.
9. A congregation may not “borrow” from temporarily restricted net assets. That is, for all temporarily restricted net assets (excluding promises to give and split interest agreements) the congregation must have cash or liquid investments to meet those restrictions. The business manager should regularly review temporarily restricted net assets and determine whether adequate cash and cash equivalents exist to fulfill those restrictions.

24.750: **35000 Endowment Funds — Net Assets** **With Donor Restrictions**

Permanently restricted net assets, Endowment Funds, are contributions received with donor-imposed restrictions that mandate perpetuity of the asset but permits the congregation to expend part or all of the interest income (or other economic benefits) derived from the donated assets. Caution: The Church Council or management must evaluate the potential liabilities prior to the acceptance of gifts, especially as it relates to non-cash gifts.

INTERNAL CONTROL CONSIDERATIONS

1. Permanently restricted net assets must be recorded at their original or historical cost with potential subsequent earnings.
2. Unless required by donor stipulation or state law, earnings from permanently restricted net asset are

classified as unrestricted. When otherwise noted, the earnings will either be classified as temporarily restricted for a given purpose, or permanently restricted (a combination of the two) if the donor requests that the asset should grow over time. Permanent records should be maintained for each permanently restricted gift to ensure proper handling, recording, and reporting of the gift as noted by the donor’s stipulations.

3. All permanently restricted net assets should have a file containing the information obtained from the donor relating to the specifics of the restriction on the corpus as well as the restriction, or lack thereof, on the income earned on the endowment, including gains.
4. Permanently restricted endowments are to be invested in a manner that will allow the congregation to fulfill its fiduciary duty to the donor.
5. Investments and permanently restricted net assets should be reviewed, at least annually, to ensure all funds are fully invested.

24.800: **Support and Revenue**

INTERNAL CONTROL CONSIDERATIONS

1. Gift or support income (not earned income) should be classified according to the presence or absence of donor wishes and classified as unrestricted, temporarily restricted or permanently restricted. Board designations or resolutions should have no effect on the initial classification.
2. Unconditional promises to give to the congregation should be recognized at the net present value of the future cash flows. Promises to give that can never be spent should be classified as permanently restricted support and all others (gifts that have purpose restrictions and gifts that are unrestricted) should be classified as temporarily restricted support. When cash is received, the temporarily restricted net assets must be reclassified to unrestricted revenue-net assets released from restriction. The congregation business manager should monitor ongoing fundraising campaigns, trusts held by foundations, congregational pledges, specific grants and any other sources of unconditional promises to give for proper recording and valuation.
3. Documentation should be retained for all material gifts received by the congregation, regardless of restrictions. Photocopies of checks are acceptable documentation for smaller gifts.
4. Records should be maintained for financial statement disclosure when individuals make promises to give to the congregation that are conditioned on the occurrence of future events.

5. Files should be maintained for all trusts and split interest agreements for which the congregation is a beneficiary including documentation supporting any restrictions. Periodic payments from the trustees should be recorded in accordance with those restrictions.
6. Revenue is income that is **earned** by the congregation. Examples are tuition, fees for events, rental income etc. Generally, all revenue to a congregation is unrestricted except for investment earnings and gains that have been restricted by the donor. Because revenue is earned, the congregation is obligated to provide services or goods, but not to spend the amounts received. The treasurer should routinely review re-occurring and unique sources of revenue to determine proper classification.
7. Congregation personnel should ensure all revenue is appropriately matched with expenses or the occurrence of events. Any amounts received but not yet earned should be reflected as deferred revenue. Examples would be conference fees collected for events that have not yet taken place, etc. The treasurer should review material sources of revenue at annual and interim reporting dates to ensure only receipts that have been **earned** are recognized as revenue.
8. Contributed services will be recognized if the services received, (a) create or enhance non-financial assets or (b) require specialized skills, and are provided by individuals possessing those skills, and would (c) typically need to be purchased if not provided by donation.
2. An approved listing of salaries for salaried workers and hourly rates for hourly workers must be provided to the payroll department indicating the effective date, the name of the worker, the salary amount and the department employing the individual and the payroll distribution. Any changes to the above salary listing must be submitted two weeks prior to the effective change.
3. Hourly workers must report their hours worked on the form provided from the business office. This form must be approved by the head of the department employing the individual.
4. The payroll journal must be approved before the preparation of payroll checks.
5. Payroll checks should be distributed by a person other than the person preparing the payroll checks.
6. Payroll tax deposits and returns are prepared and filed on a timely basis.
7. Housing and/or furnishing allowances must be approved by and documented in the minutes of the Church Council or governing body prior to payment.
8. Access to personnel records and computerized payroll records should be limited to those with needs for access.

EXPENSES:

1. Expenses should be recognized on the accrual basis. The business manager should review expenses at annual and interim reporting dates to ensure expenses incurred but not yet paid are recorded as accounts payable and disbursements made that apply to future periods are recorded as prepaid expenses.
2. Expenses should be classified by major functions of the congregation such as Missions, Worship, etc. Expenses such as interest and depreciation need to be allocated to the functional reporting areas.
3. If presenting financial statements in accordance with GAAP, all unconditional promises to give made by the congregation should be recorded as expense in the period the promise was made, including annual commitments to the district and to other ministries for future support. The business manager should monitor budgets and board actions to ensure these promises are recorded when made.
4. See also Sections 23.513 and 23.514 for additional internal control considerations on disbursements.

24.900: Expenses and Losses

Expenses and Losses are to be reported as decreases in unrestricted net assets. Since expenses are based upon decisions of management, commissions or boards about the activities to be carried out, the source of funds used to finance the specific expense cannot change the character of the expense to make it donor restricted. In addition, revenues and expenses shall be reported as gross amounts (not net) except in the case of peripheral or incidental transactions (ex: sale of land and buildings).

INTERNAL CONTROL CONSIDERATIONS

PAYROLL:

1. An employee file for each worker shall be maintained. This file will include:
 - a. An employee signed W-4
 - b. A completed payroll authorization form
 - c. A copy of the enrollment for Worker Benefit Plans
 - d. A completed form I-9
 - e. Other information relating to pay or deductions