# Chapter 25: Financial Review

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## Financial Review Letter to the Congregation

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**25:100:**
**Introduction and Purpose**
The purpose of a financial review of the congregation’s books of original entry is:
A. To support the congregational treasurer in his/her duties;
B. To help the treasurer to perform his/her duties effectively and efficiently through suggestions generated while in the financial review process;
C. To verify that the financial records are being maintained in an acceptable and consistent manner;
D. To verify that cash receipts and disbursements are posted consistently, correctly, and reconciled with the bank;
E. To verify that the financial reports that have been issued to the congregation are in agreement with the official records (general ledger) of the congregation.

The results of the financial review should be shared with elders, pastor and church council before it is presented to the congregation.

**Caution!**
If you are not trained as a certified public accountant and you do not otherwise have the skills necessary to perform a certified audit, do not call this procedure an audit or refer to the congregation as having had an audit. The legal implications are significant. Do not place yourself in a position of having to defend the “audit” when you did not perform an audit.

Please . . . call the procedure a “financial review.”

**25.105:**
**When Should a Financial Review Be Performed?**
A financial review should be performed when:
A. A new treasurer is elected or appointed;
B. The fiscal year ends;
C. Misuse of funds is suspected; or
D. Any other time the congregation’s appropriate governing board so requests.

**25.110:**
**The Time Involved to Perform a Financial Review**
A. Depends upon the scope of the review and the size of the congregation;
B. Areas targeted for review may be cyclical, i.e., one year, cash receipts; another year, cash disbursements; and still another year, an insurance adequacy review. Perhaps one year might be investments and another year special accounts of a restricted nature.

**25.115:**
**Independent Certified Public Accounting Firms**
The congregation may be large enough to justify a compilation, review or audit by a CERTIFIED PUBLIC ACCOUNTANT (CPA). Congregations may wish to have an independent audit performed. However, an audit by a CPA can be expensive. Congregations could also consider independent CPA review or compilation services. Consider obtaining fixed bids from CPA firms to evaluate the cost/benefit of having an independent audit, review, or compilation engagement. An audit would be a verification of the financial reports of the congregation with a written report as to the audit findings.

Review or compilation services, while less expensive, do not provide the level of assurance associated with a complete audit. The audit, review, or compilation by a CPA does not give assurances that all transactions have been reviewed or that no misuse of funds took place.

**25.120:**
**Use of Retired Consultants**
The congregation may appoint a committee of retired accountants and business professionals to complete the enclosed forms and perform a financial review. Many retired business professionals have the time and ability to aid the congregation in this task.

**25.125:**
**Scope**
This chapter is very detailed in scope and a congregation should determine how deep to go into each area. The committee should be encouraged to proceed with the review and not be overwhelmed by the number of pages of the Internal Control Review and the Financial Review that follow. Depending on the size of the congregation and the depth of the scope, many pages may not apply.
25.200: Congregational Internal Control Review

_________________________________________________________________________________________________

(Legal Name of Congregation)

_________________________________________________________________________________________________

(Street Address)

_________________________________________________________________________________________________

(City, State and ZIP Code)

Enter the year or period of time of the financial review  ____________________________ 20 ________

Date review completed ___________________________________________________________ 20 ________

The Financial Review Committee:

__________________________________________________________________________

__________________________________________________________________________

__________________________________________________________________________
25.205:
General Information

Bank Accounts (list all accounts including auxiliaries):

Name of bank ________________________________________________________________

Account number ______________________________________________________________

List the name(s) of the authorized signers on the account:

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

How many signatures are required? _____________________________________________

Name of bank ________________________________________________________________

Address   ___________________________________________________________________________

Account number ________________________________________________________________

List the name(s) of the authorized signers on the account:

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

How many signatures are required? _____________________________________________

Name of bank ________________________________________________________________

Address ____________________________________________________________

Account number ______________________________________________________________

List the name(s) of the authorized signers on the account:

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

How many signatures are required? _____________________________________________

Does the congregation rent a safety deposit box? _________________________________
List name of authorized signers

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

Name of bank ________________________________________________________________

Address ____________________________________________________________

Who is the custodian of the key(s)? ____________________________________________

____________________________________________________________________________
____________________________________________________________________________

What are the contents? _________________________________________________________
How many signatures are required to enter? _________________________________
## 25.210: Important Document Inventory

List on this page all evidences of ownership and liabilities of the congregation and its auxiliaries.

<table>
<thead>
<tr>
<th>Description/ID No.</th>
<th>Location of Document (Financial institution, safe deposit box, vault)</th>
<th>Original Cost</th>
<th>Date Acquired/Issued</th>
<th>Date of Disposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash, CDs, Investments:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and Accounts Receivable:</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Land and Buildings – (Title and Deeds):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Property, Vehicles (titles):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities &amp; Loans and Mortgages Payable (loan and mortgage documents):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative Documents:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Tax Exemption Certificate</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Income Tax Exemption</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonprofit Corporation Report</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Articles of Incorporation</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Constitution including amendments</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Bylaws</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Voter’s minutes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance Policies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust and Endowment Agreements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
25.215:
Insurance

<table>
<thead>
<tr>
<th>Date of Expiration</th>
<th>Company</th>
<th>Coverage</th>
<th>Annual Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Enter the date of the last insurance review for adequacy of coverage with the agent ________________.

25.220:
Cash Receipts
Each “no” answer is a possible weakness in internal control.
Write a brief description of the procedure for handling cash from the time of collection plate passing to making the bank deposit. Be certain to note the number of people involved in each step. If possible, include a flow chart and a timetable for both receipts and disbursements.

Cash Receipts:

1. Is cash counted immediately following the worship service? Yes No
   If not, how is it stored and secured? ______________________

2. Do two or more individuals count cash? ______ ______

3. Is the bank deposit prepared as part of the counting procedure? ______ ______

4. Is the treasurer denied a position as a counter? ______ ______

5. Do two or more people take the deposit to the bank immediately following the count? ______ ______

6. Is a copy of the deposit slip kept as a permanent part of the financial records? ______ ______

7. Is the person who posts the contributions to the individual contributors’ ledger denied being a part of the counting process? ______ ______

8. Are quarterly individual contribution records sent to individual congregation members? ______ ______

9. Is a count sheet used as part of the counting process? ______ ______

10. Is the count sheet reconciled to the bank deposit? ______ ______

11. Are signatures required at the bottom of the count sheet as to who prepared it? ______ ______

12. Are the counters bonded? ______ ______

13. Are questions from congregational members about differences between congregational individual giving records and their own records handled by someone other than the treasurer? ______ ______

14. Do weekly contribution envelopes agree with the weekly tally sheets? ______ ______

15. Do contribution statements contain proper disclosures required by IRS? ______ ______

16. Are “quid-pro-quo” contributions acknowledged within the time frame required by IRS? ______ ______
25.225:
Cash Disbursements
Each “no” answer is a possible weakness in internal control. Write a brief description of the procedure for handling cash disbursements from the time an order is placed, received, and prepared for payment through to the mailing of the check. Again, note the people involved in each step.

Cash Disbursements:

1. Is someone responsible for counting and signing for the receipt of goods and services? ______ ______
2. Is the treasurer given proof of the receipt of goods and services? ______ ______
3. Is a voucher system used? ______ ______
4. Are blank checks kept in a secure place? ______ ______
5. Are purchase orders used? ______ ______
6. Is a budget used? ______ ______
7. Are all checks reviewed by two or more people? ______ ______
8. Is a bank reconciliation prepared on a timely basis for all bank accounts by someone independent of the receipting and disbursing process? ______ ______
9. Are checks prepared for payment only from documentation that is approved by an authorized official? ______ ______
10. Are all checks properly filled out prior to being signed? ______ ______
11. Is more than one signature required on a check? ______ ______
12. Is the invoice marked paid with a date and check number to prevent duplicate payment? ______ ______
13. Are all check numbers accounted for? ______ ______
14. Are paid invoices filed in a logical manner including all supporting documentation and authorizations? ______ ______
15. Are voided checks defaced and permanently retained? ______ ______
16. Is a copy of the check kept in numerical sequence? ______ ______
17. Does the treasurer have term limits? ______ ______
18. Are all invoices or services (other than petty cash items) paid for by check? ______ ______
19. Is a list prepared for each council meeting that reports all unpaid invoices, dates, and amounts? ______ ______
20. Is care exercised that discounts are taken on invoices when offered? ______ ______
21. Were Social Security or taxpayer identification numbers obtained prior to making taxable disbursements to individuals or organizations? ______ ______
22. Are IRS Form 1099 Information Returns prepared and distributed in a timely manner? ______ ______
23. Is petty cash controlled by one custodian who logs all activity for recording and replenishment? ______ ______
24. Does the treasurer review and approve the petty cash log prior to posting to the general ledger? ______ ______

25.230:
Journal Entries
Each “no” answer is a possible weakness in internal control.

General Journal Entries:

1. Are journal entries approved by someone other than the preparer? ______ ______
2. Are general journal entries kept on file? ______ ______
3. Are the explanations for the entries adequate? ______ ______
4. Are journal entries properly indexed and referenced in ledgers and journals? ______ ______
5. Are standard journal entries used for monthly closings? ______ ______
25.235:

**Payroll and Personnel**

Each “no” answer is a possible weakness in internal control.

Write a brief description of the procedure of adding an individual to the payroll and how an individual is deleted from the payroll. Take care to identify when forms are filled in for Concordia Plans, withholding (if applicable), housing allowance, tax-sheltered annuity and other payroll information. Where is this information filed, and who has the responsibility to keep it updated? Who authorizes employment? How are rates of pay determined?

<table>
<thead>
<tr>
<th>Payroll:</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Is a payroll journal prepared and balanced?</td>
<td></td>
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</tr>
<tr>
<td>2. Are all payroll disbursements made by check or direct deposit?</td>
<td></td>
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<tr>
<td>3. Are employee time records kept and reviewed by a supervisor?</td>
<td></td>
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<tr>
<td>4. Are all pay rates authorized by the governing board of the church and in compliance with Federal or State minimum wage laws?</td>
<td></td>
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<tr>
<td>5. Is housing allowance approved annually by the governing board of the church in advance of the payment to the worker?</td>
<td></td>
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<tr>
<td>6. Is payroll confidentiality maintained?</td>
<td></td>
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<tr>
<td>7. Are payroll taxes withheld and paid in a timely manner to the various taxing authorities?</td>
<td></td>
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<tr>
<td>8. Are all deductions from pay for tax-sheltered annuities (TSA), loan payments, etc., authorized in writing by the employee?</td>
<td></td>
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<tr>
<td>9. Are all the payroll tax forms filed on time?</td>
<td></td>
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</tr>
<tr>
<td>10. Has Form W-2 been used to report all the worker’s wages and compensation?</td>
<td></td>
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<tr>
<td>11. Does the individual worker receive a schedule explaining the computation of the amount reported on Form W-2?</td>
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<tr>
<td>12. Is a personnel file maintained for each employee?</td>
<td></td>
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<tr>
<td>13. Are records maintained of earned and used vacation?</td>
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<tr>
<td>14. Does a personnel policy manual exist?</td>
<td></td>
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<tr>
<td>15. Are records maintained of sick or personal days earned and used?</td>
<td></td>
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</tr>
<tr>
<td>16. Is there an enforced policy that requires all workers to take a vacation?</td>
<td></td>
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</tr>
<tr>
<td>17. Do you inform the prospective employee in advance of his/her employment that the church is not a participant in unemployment tax? (i.e., He/she would be denied a claim for unemployment in the event he/she resigns or is terminated, and is that understanding verified in writing?)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18. Is a separate bank account used for payroll?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19. Does the annual payroll journal agree with Form W-2s?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20. Are gifts, bonuses, honoraria, etc., approved by the governing board?</td>
<td></td>
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</tr>
<tr>
<td>21. If a separate payroll account is used, is it reconciled by someone other than the person who prepares payroll?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22. Have new hire reports been submitted?</td>
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</tr>
</tbody>
</table>
25.300: General Financial Review Program

(Legal Name of Congregation) ____________________________________________________________
(Street Address) _______________________________________________________________________
(City, State and ZIP Code) _______________________________________________________________________

Enter the year or period of time of the financial review _______________________________________________________________________
Date review completed _______________________________________________________________________

The Financial Review Committee
_____________________________________________________________________________________
_____________________________________________________________________________________
_____________________________________________________________________________________

Prepare a summary of exceptions to all of the following tests.
Performed by: _____________________________________
Date: _________________________

25.305: General

1. Are all individuals who handle cash or checks bonded? ______ ______
2. Has a budget been adopted by the governing board? ______ ______
3. Are actual results compared against budgeted amounts on a periodical basis? ______ ______
4. Does the congregation follow a numeric chart of accounts? ______ ______
5. Do individuals such as the treasurer, bookkeeper and counters have complete job descriptions? ______ ______
6. Are monthly financial statements prepared including a balance sheet that lists all assets, liabilities and net assets, as well as a statement of activities that lists all sources of revenue and all expenses? ______ ______
7. Are all financial and budgeting decisions clearly documented in the governing board’s minutes? ______ ______
8. Is documentation accompanying restricted gifts retained? ______ ______

25.310: Loans Receivable

1. Are loans granted to individuals approved by the governing board or voters assembly? ______ ______
2. Are there signed promissory notes for all loans receivable including interest rates and repayment terms? ______ ______
3. Are all loans adequately secured with a registered mortgage, deed of trust or lien? ______ ______
4. Does a responsible official monitor monthly balances to ensure prompt payments? ______ ______
5. Is proof of insurance required designating the congregation as the loss payee? ______ ______
25.315: Loans Payable

1. Are all loans payable approved by the governing board or voters assembly? __ Yes __ No
2. Are loan balances per the general ledger periodically reconciled with statements from lenders? __ Yes __ No

25.320: Land, Buildings and Equipment

1. Does the congregation maintain a fixed asset ledger listing all land, buildings, autos and equipment owned and recorded at historical cost? __ Yes __ No
2. Are inventories periodically taken to ensure this ledger has included/excluded all items? __ Yes __ No
3. Are records kept of any items removed from the church property? __ Yes __ No
4. Has the governing board adopted a policy whereby all items purchased with a cost in excess of $______ and a useful life in excess of ______ years will be capitalized (Congregation should determine a capitalization policy)? __ Yes __ No
5. Is depreciation properly calculated and recorded in the proper expense accounts? __ Yes __ No
6. Is the sale or other disposal of property approved by the governing board? __ Yes __ No
7. Are all fixed assets registered to the congregation? __ Yes __ No
8. Is insurance coverage reviewed annually to ensure:
   a. All properties owned or rented by the congregation are listed? __ Yes __ No
   b. Adequate replacement coverage is in force? __ Yes __ No
   c. Adequate liability coverage is in force? __ Yes __ No

25.325: Investments

1. Has a written investment policy been adopted establishing guidelines, objectives and limitations? __ Yes __ No
2. Are detailed records of investments maintained in a secure place and reconciled to the general ledger periodically? __ Yes __ No
3. Are all investments recorded in the name of the congregation? __ Yes __ No
4. Are investment income, gains and losses posted to the general ledger when statements or checks are received? __ Yes __ No
5. Are any marketable securities stored in a secure vault? __ Yes __ No

Investments:
1. Prepare a schedule of investments listing opening balances, purchases, redemptions and ending balances for all individual investments.
2. Trace ending balances to the general ledger.
3. Count and examine all securities or statements for the period and:
   a. Determine all investments are registered in the name of the congregation.
   b. Determine the market value of all investments and determine whether investments have been written up or down to market.
   c. Determine total interest and dividend income and compare these to amounts recorded in the general ledger.
4. Determine if any accruals of investment income at the end of the period have been recorded as receivables in the general ledger.
25.330: Information Technology Controls

Congregation Name ________________________________________________________________
Financial Statement Date ______________________________________________________________________

COMPUTER INFORMATION
Type of Hardware______________________________________________________________________
______________________________________________________________________
______________________________________________________________________

Type of Software Version and Date Purchased
• General Ledger ______________________________________________________________________
• Word Processing ______________________________________________________________________
• Other ______________________________________________________________________
______________________________________________________________________

Review:
Yes No
1. Does a written policy and procedure manual exist? ______ ______
2. Review procedures in place for the evaluation and approval of computer equipment and
   software packages prior to acquisition and implementation? ______ ______
3. Do user manuals exist for all applications and include a description of the application,
   procedural requirements, sample reports, source documents required, etc.? ______ ______
4. Do current computer operating instructions contain set-up instructions, operating
   system requirements, restart, recovery, and emergency procedures, and a listing
   of program messages, responses, etc.? ______ ______
5. Are hardware components covered by a maintenance contract? ______ ______
6. Is insurance coverage adequate to replace the computer system at the current market value? ______ ______
7. Is the computer area accessible only to authorized personnel? ______ ______
8. Does the terminal sign-off after a period of inactivity? ______ ______
9. Are power surge protectors being used? ______ ______
10. Is data backed up on a regular basis? ______ ______
11. Is a disaster recovery plan in place? ______ ______
12. Are personnel authorization accesses reviewed for reasonableness? ______ ______
13. Is the listing of all passwords kept secure? ______ ______

Prepared by: ______________________________________________________________________
Reviewed by: ______________________________________________________________________
25.335:
Cash

Cash in the bank:

<table>
<thead>
<tr>
<th></th>
<th>Performed By</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Obtain the year-end bank reconciliation</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Obtain the bank statement with canceled checks for the final month of the period.</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Compare the final balance on the bank statement with the balance per the bank listed on the bank reconciliation.</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Verify that the deposits in transit on the bank reconciliation are recorded in the general ledger for the period under review.</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Using the subsequent month bank statement, indicate on your copy of the bank reconciliation the date the deposits in-transit were recorded by the bank.</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Compare the outstanding check list to the outstanding checks per the reconciliation.</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Use the subsequent month bank statement to verify the clearing of the outstanding checks. Watch the dates of the checks and note the date the checks cleared the bank.</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Checks that have not cleared for two months should be investigated.</td>
<td></td>
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<tr>
<td>9.</td>
<td>Determine that the adjusted bank balance on the reconciliation agrees with the bank balance on the financial report or in the general ledger.</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Review and ensure that other reconciling items are appropriate.</td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>Compare check signatures with list of authorized check signers.</td>
<td></td>
</tr>
</tbody>
</table>

NOTE: Use this same procedure for additional bank accounts.

25.340:
Petty Cash

Petty Cash:

<table>
<thead>
<tr>
<th></th>
<th>Performed By</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Review the petty cash log and ensure there are receipts or explanations equal to the total reimbursements.</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Count the cash and compare it to the general ledger account or the imprest fund balance. Investigate differences.</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Review postings of petty cash activity to the general ledger and determine if it was approved by someone other than the petty cash custodian.</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Review a sample of receipts/explanations and determine:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. Is this an appropriate expense of the congregation?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Should this disbursement have been made by check?</td>
<td></td>
</tr>
</tbody>
</table>
25.345:
Income

Income:

<table>
<thead>
<tr>
<th>Performed By</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Compare the contribution income from the financial statements to the individual contribution records. Reconcile these two records.

2. Were any discrepancies noted when the year-end statements were mailed out? If so, were they resolved?

3. Are other types of income properly recorded as to source and type?

4. Compare all income items to budgeted amounts and investigate significant fluctuations greater than 10 percent.

5. If gross receipts for unrelated business activities exceed $1,000, has an IRS Form 990-T been filed?

25.350:
Expenses

Expenses:

<table>
<thead>
<tr>
<th>Performed By</th>
<th>Date</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>

1. Compare expenditures with the approved budget for the period and investigate significant fluctuations greater than 10 percent.

2. Compare all salary, wage and housing allowance totals in the payroll journal to the total salary, wage and housing allowance accounts in the general ledger.

3. Prepare recommendations to the budget committee for areas not in agreement with budgeted amounts.

25.356:
Receivables and Advances

Receivables and Advances:

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<tr>
<th>Performed By</th>
<th>Date</th>
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</table>

1. Through discussion with the treasurer and/or bookkeeper as well as review of supporting statements, determine whether the following accruals have been recorded in the general ledger:

   a. Interest or dividend income earned but not received.

   b. Cash advances made to employees.

   c. Expenses paid by the congregation for which it is to be reimbursed.

   d. Unconditional promises made by individuals to give to the congregation.

   e. Revenue such as rental or usage fees earned but not yet collected.

2. Review the age of these items to determine if they are still collectable.

3. Generally, the older a receivable is, the less likely it is to be collected. Consider sending a confirmation letter to the owing party for large accounts.
### 25.357: Loans and Notes Receivable

**Loans and Notes Receivable:**

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<th>Performed By</th>
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</table>

1. Obtain a schedule of any loans, notes, contracts or other long term receivables showing opening balances, advances, repayments and ending balances.

2. Trace ending balances to the general ledger.

3. Send letters to borrowers asking them to confirm ending balances, interest rates and other important terms.

4. Review payments to determine whether they have been properly split between principal and interest.

5. Using the interest rate in the promissory note, recalculate interest income and compare it to the amount recorded in the general ledger.

6. Review mortgages, deeds of trust, etc., to ensure the congregation has an adequate security interest.

### 25.358: Land, Buildings and Equipment

**Land, Buildings and Equipment:**

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<th>Performed By</th>
<th>Date</th>
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</table>

1. Prepare a schedule of all fixed assets owned by the congregation listing opening balances, purchases, disposals and ending balances. This schedule should list all land, buildings, improvements, equipment and autos owned by the congregation.

2. Trace the ending balances to the general ledger.

3. Determine whether any disposals and resulting gains or losses were properly recorded in the general ledger.

4. Review expense accounts to determine whether any items were expensed that should have been capitalized.

5. Obtain a depreciation schedule and verify the following:
   a. Land is not being depreciated.
   b. Useful lives of fixed assets are reasonable.
   c. No depreciation expense or accumulated depreciation exists for assets that have been disposed of.
   d. The calculated depreciation expense is correct and has been recorded in the general ledger.

6. Review property insurance to determine whether there is adequate casualty and liability coverage.
25.359:
Other assets

Other Assets:

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<th>Performed By</th>
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</table>

1. Through review and inquiry, determine whether the congregation has any of the following assets that should be recorded in the general ledger:

   a. Deposits such as security deposits for rented facilities or deposits for retreats.

   b. Life insurance policies the congregation owns and is the beneficiary of should be recorded at the cash surrender value of the policies.

25.360:
Loans Payable:

Loans Payable:

<table>
<thead>
<tr>
<th>Performed By</th>
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</table>

1. Prepare a schedule of all loans and notes payable listing opening balances, loan advances, principal repayments and ending balances.

2. Trace the ending balances to the general ledger.

3. Trace ending balances to statements provided from lenders.

4. Insure that any accruals of interest at the balance sheet date have not been paid and are recorded as accrued interest payable.

25.361:
Accounts Payable and Other Accruals:

Accounts Payable and Other Accruals:

<table>
<thead>
<tr>
<th>Performed By</th>
<th>Date</th>
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</table>

1. By discussion with the treasurer and bookkeeper and by review of cash disbursements after the balance sheet date, determine if any of the following accruals should be made:

   a. Interest accrued but not yet paid on loans payable should be recorded as accrued interest payable.

   b. Operating expenses such as utilities that have been used but not yet paid should be recorded as accounts payable

   c. If the balance sheet date falls in the middle of a payroll period, payroll expense, from the last pay date to the balance sheet date, should be recorded as accrued wages payable. Also record the value of any vacation that has been earned by the employees but not yet taken as of the balance sheet date (“Accrued Vacation Payable”).

   d. Any payroll withholding including state, local, federal and FICA taxes, as well as voluntary withholding should be recorded as accounts payable if it has not been remitted at the balance sheet date. This should also include the employer’s portion of FICA.

   e. When the congregation accommodates a third party by accepting funds from them and forwarding them to another third party, this is referred to as an agency transaction with the congregation being the agent. Any amounts collected but not yet forwarded to third parties should be recorded as agency accounts payable.
25.363:
Net Assets
The equity of a congregation is referred to as its net assets. In not-for-profit accounting there are two types of net assets and they are based on the existence or absence of restrictions placed on their use by donors. The two categories are net assets without donor restrictions and net assets with donor restrictions, temporarily restricted net assets and permanently restricted net assets.

Net assets without donor restrictions can further be broken down into, undesignated, board-designated, and net investment in property and equipment. Undesignated net assets are the cumulative revenue less expenses of the congregation from inception to the balance sheet date. Board-designated net assets are amounts the governing board has set aside from undesignated net assets for specific purposes. Because these amounts are still unrestricted, what the board has designated, the board can undesignate at its own will. Board designated net assets are not to be confused with restricted net assets where the use has been restricted by a donor. Net investment in property and equipment is equity in fixed assets owned by the congregation.

Net assets with donor restrictions (temporary or permanent) are gifts or interest that has been restricted by a donor for a specific purpose or time period less any restrictions that have been met. Financial Accounting Standards require use of temporarily restricted net assets prior to using unrestricted resources if an expense meets the donor’s restriction.

Permanently restricted net assets are gifts made by donors that the congregation may never spend. Generally these are endowments that the congregation invests and has use of the interest, but the principal is unavailable.

25.364:
Testing Net Assets

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<tr>
<th>Performed By</th>
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</table>

1. Prepare a schedule showing prior net assets without restrictions (undesignated, board-designated, and net investment in property and equipment) adding all unrestricted revenue and subtracting all unrestricted expense.

2. Trace this amount to net assets without restrictions per the general ledger. If the amounts do not agree, there has been revenue or expense charged to the net asset account that must be reclassified for the financial statements to “roll forward.”

3. Review any transfers between board-designated and undesignated net assets and trace the authorizations to resolutions in the minutes of the governing board’s meetings.

4. Prepare a schedule of net assets with restrictions (temporarily restricted) listing for each account, the opening balance, gifts and interest added, net assets released from restriction and ending balances.

5. Trace ending balances to the general ledger.

6. Select a sample of gifts and review any accompanying documentation to ensure the amounts were, in fact, donor-restricted.

7. Select a sample of expenses and review documentation to ensure they were spent in accordance with the donor’s wishes.

8. Review temporarily restricted net assets to ensure that net assets were properly released from restriction if program restrictions have been satisfied or time restrictions have lapsed (see Sections 23.740 and 26.363).

9. Prepare a schedule of permanently restricted net assets listing opening balances, gifts and ending balances (there should be no deductions).

10. Trace ending balances to the general ledger.

11. Review all gifts to determine they have been permanently restricted by the donor.

12. If endowments have been created in permanently restricted net assets determine whether that amount has been invested by the congregation and the interest is being properly spent.
25.400:
The Financial Review Program
(Test of Transactions)

(Legal Name of Congregation) __________________________________________________________
(Street Address) _______________________________________________________________________
(City, State and ZIP Code) __________________________________________________________________________
Enter the year or period of time of the financial review __________________________________________ 20 ________
Date review completed ____________________________________________________________________  20 ________
The Financial Review Committee

__________________________________________________
__________________________________________________
__________________________________________________

25.405:
Test of Transactions —
Proof of Cash Worksheet
The proof of cash worksheet provides a tool to help you prove the cash transactions for a given period of time. When completed, the worksheet will total down and across to prove that the elements of cash for a given month recorded by the bank agree with the same period of recording within the records of the church. See 25.410 for instructions on completion of this worksheet.

<table>
<thead>
<tr>
<th>Prior Month’s Bank Reconciliation</th>
<th>Cash Receipts</th>
<th>Cash Disbursements</th>
<th>Test Month’s Bank Reconciliation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Bank</td>
<td></td>
<td>( )</td>
<td></td>
</tr>
<tr>
<td>Deposit(s) in transit:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning</td>
<td></td>
<td>( )</td>
<td></td>
</tr>
<tr>
<td>Ending</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Less outstanding checks:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning</td>
<td></td>
<td>( )</td>
<td></td>
</tr>
<tr>
<td>Ending</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Reconciling Items:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per General Ledger</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

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## 25.410:
### Test of Transactions — Cash

<table>
<thead>
<tr>
<th></th>
<th>Performed By</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Select one month as the test month and enter your selection here ____________________________</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Obtain the bank statements for the month being tested and the month prior.</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Obtain copies of the bank reconciliations for the month being tested and the month prior.</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Complete the “Proof of Cash Worksheet” illustrated and supplied with this program (see 25.405) as follows:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. On the first line of the first column, enter the cash amount “per bank” taken from the prior month’s bank reconciliation. On the first line of the last column, enter the cash amount “per bank” taken from the test month’s bank reconciliation.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. On the first line of the second column, enter the total deposits (credits) shown on the test month’s bank statement. On the first line of the third column, enter within the set of brackets (indicating a negative number) the total withdrawals (debits) shown on the test month’s bank statement.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>c. Verify the first line totals across (column 1 + column 2 + column 3 = column 4).</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Total the cash count sheets and compare to deposits. Compare deposits to bank statement and the posting in the general ledger and checkbook.</td>
<td></td>
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<tr>
<td>6.</td>
<td>Continue completing the “Proof of Cash Worksheet” as follows:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. If deposits in-transit are shown on the bank reconciliations, enter these also on the worksheet. On the second line in the first column, enter the total of deposits in-transit shown on the prior month’s bank reconcilement. Duplicate this entry within the brackets (indicating a negative number) in the first column, but in the cash receipts column. On the same line in the last column, enter the total of deposits in-transit shown on the test month’s bank reconcilement. Duplicate this entry on the same line, also in the cash receipts column.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Verify the second line totals across.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>c. Next, enter the outstanding checks shown on the bank reconciliations on the worksheet. On the third line within brackets (indicating a negative number) in the first column, enter the total of outstanding checks shown on the prior month’s bank reconcilement. Duplicate this entry on the same line (not in brackets), but in the column of cash disbursements. On the same line within brackets (indicating a negative number) in the last column, enter the total outstanding checks shown on the test month’s bank reconcilement. Duplicate this entry within brackets (indicating a negative number) on the same line, also in the column of cash disbursements.</td>
<td></td>
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<tr>
<td></td>
<td>d. Now, verify the third line of the worksheet totals across (column 1 + column 2 + column 3 = column 4).</td>
<td></td>
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<tr>
<td></td>
<td>e. If other reconciling items appear on the bank reconciliations, they will have to be shown on the worksheet in two columns to make it balance. Enter other reconciling items now (fourth line).</td>
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<tr>
<td></td>
<td>f. Add down each column of the worksheet, entering sums across the bottom line. Be sure each positive number is added and each negative number is subtracted.</td>
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<tr>
<td>7.</td>
<td>Now the proof:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. The cash balance “per general ledger” in the prior month bank reconciliation (first column) should equal the test month’s beginning cash balance in the general ledger or the checkbook balance for the beginning of the month. Verify this now.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. The cash receipts (second column) “per general ledger” should equal the debit postings for the test month within the general ledger. Verify that this is true.</td>
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<tr>
<td></td>
<td>c. The cash disbursements (third column) “per general ledger” should equal the credit postings for the test month in the general ledger. Verify that this is true.</td>
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<tr>
<td></td>
<td>d. Finally, the cash balance “per general ledger” in the test month bank reconciliation (last column) should equal the general ledger cash balance at the end of the test month or the checkbook’s ending balance. Look and see that this is true. Review all gifts to determine they have been permanently restricted by the donor.</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Congratulate the committee. They just proved the cash account for one month—go have some coffee!</td>
<td></td>
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</tbody>
</table>
### 25.415: Test of Transactions — Cash Disbursements

**Cash Disbursements:**

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<thead>
<tr>
<th>Performed By</th>
<th>Date</th>
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</table>

1. Determine how many checks were written during the year by subtracting the beginning check number from the ending check number. Divide the number of checks written by 20, (which will be the sample size), and determine the interval between each sample. For example, 400 checks written, divided by 20, would mean every 20th check would be examined.

2. Secure the sample of 20 by obtaining all the canceled checks for the year.

3. Make a list of the 20 checks and make columns headed accordingly: check number, vendor, date written, amount, account distribution, supporting detail, and remarks.

4. At this time, review the internal control review and note the answers given to authorized signatures, number of signatures required, the cash disbursements section of the questions. Now you will prove or disprove the validity of the internal control as it was explained to you.

5. Obtain all the supporting documentation to the 20 checks written. Now examine each check and supporting documentation to see if each one is handled in accordance with documented procedure. Use the worksheet (prepared in step #3 above) to support your findings. Note any departure from procedure. Make appropriate comments and recommendations for better documentation.

6. After performing the above test, return all items to their proper file.

### 25.420: Test of Transactions — Cash Receipts

**Cash Receipts:**

<table>
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<tr>
<th>Performed By</th>
<th>Date</th>
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</table>

1. Select a sample of cash receipts from the receipts log/journal, excluding worship service offerings. (This has been tested in income.)

2. Review the receipt explanation and supporting documentation to ensure the income account charged was reasonable.
# 25.425: Test of Transactions — Payroll

## Payroll:

<table>
<thead>
<tr>
<th></th>
<th>Performed By</th>
<th>Date</th>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>Examine the individual payroll files. Test for completeness.</td>
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</tr>
<tr>
<td>2.</td>
<td>Compute the payroll for one period.</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Verify that housing allowance is recorded properly and trace same to the governing body’s minutes.</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Do the annual salaries agree with the approved amounts?</td>
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</tr>
<tr>
<td>5.</td>
<td>Are current withholding authorizations on file?</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Is an appropriate Form I-9 on file for each worker?</td>
<td></td>
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<tr>
<td>7.</td>
<td>Obtain the quarterly and annual payroll tax returns. (Form 941) Verify the reporting on a selected quarterly return. Combine the quarterly returns and verify the annual return totals.</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Inquire and obtain documentation on selected unusual payroll reporting items and verify proper reporting (i.e., moving expenses, auto/expense allowances, group term life, and tax-sheltered annuities (TSA).</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Verify payment of withheld taxes to IRS, state, local, and payment of workers compensation insurance.</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Verify payment of health insurance, pension, dental, life insurance, and other fringe benefits.</td>
<td></td>
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</tbody>
</table>
Members of First Lutheran Church:

We, as an appointed “Financial Review Committee,” have reviewed the financial reports of First Lutheran Church.

Our financial review covered the period of Date ______________________  Date ______________________

As part of our study, we utilized the financial review package as found in the Congregational Treasurer’s Manual. We performed the review at the request of our congregational chairman and in accordance with the constitution and bylaws of our church. As a result of our study, certain recommendations have been made to improve the recordkeeping of our church and to assist the treasurer in his or her duties.

We thank God for this opportunity to serve Him and pray that our recommendations are received as constructive information to improve and strive toward excellence as God commands us.

The Financial Review Committee

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