

Financial Guidelines for Local SDA Churches

Note: This document was prepared to assist the boards of local SDA churches in establishing financial controls to minimize risks, safeguard assets, encourage accurate recordkeeping, provide accountability, deter fraud, promote efficient operations, and ensure compliance with laws. Although specifically prepared for a large church, most of the content should apply to a church of any size. The document might serve as a template that church boards can use to formalize their financial policies. For comments or suggestions, please contact Bruce J. Toews, DBA/MBA/CPA, Dean & Professor of Accounting/Finance, Walla Walla University, bruce.toews@wallawalla.edu, 509.527.2376.

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VOTED: By the Church Finance Committee on [date].

VOTED: By the Church Board on [date].

[?] Church of S.D.A. Financial Guidelines

1. Organization and Tax Status

The [?] Church of Seventh-day Adventists (hereafter referred to as the “church”) is a constituent church of the [?] Conference of Seventh-day Adventists, a non-profit corporation based in [city, state]. The legal ownership of all church assets and accounts is in the name of the [?] Conference Corporation [or Association] of Seventh-day Adventists, hereafter referred to as [?]. Under the umbrella of the Seventh-day Adventist Church in the U.S., the church is a tax-exempt 501(c)(3) organization to which tax-deductible donations can be made. Unlike most other 501(c)(3) organizations, churches are exempt from filing a federal information tax return (i.e. Form 990).

2. Basis of Accounting and Fiscal Year

- a. The financial statements are prepared on a cash basis, and, as such, the only assets recorded on the regular books are cash and savings. Property and equipment are recorded on the financial statements of the Conference. A record of material property and equipment is maintained separately from the main accounting system. Transactions for payroll and benefits are processed by the Conference, which bills the church for those staffing costs funded by the church.
- b. The fiscal year of the church follows the calendar year – January 1 to December 31.

3. Bookkeeping Software

- a. The books are currently maintained by the church Treasurer using [? accounting software], which includes a general ledger accounting/reporting system and a donor database.

4. Financial Oversight and Authority

- a. **Treasurer:** The Treasurer is responsible for keeping the books and financial records and handling the day-to-day transactions, including bill paying, donation receipting/tracking, remittances to the conference, and account reconciliations. The Treasurer ensures that any donor restrictions are followed and issues year-end receipts to donors for tax purposes. The Treasurer also ensures compliance with other tax reporting requirements (e.g. Form 1099-NEC, etc.). The Treasurer prepares monthly financial reports for review by the Finance Committee and the Church Board. The financial report should include a statement of financial position (balance sheet) and a statement of activities showing receipts and expenses for the month and year-to-date, compared to budget. The Treasurer may be aided by one or more Assistant Treasurers. The Treasurer and Assistant Treasures positions should only be filled by those who have the appropriate backgrounds/training and stellar records of integrity. At least one Assistant Treasurer should be trained in the basic duties of the Treasurer in order to take care of routine tasks while the Treasurer is absent from the office (vacation, sick leave, etc.). The Treasurer should be asked to take earned vacation every year, while an Assistant Treasurer fills in.
- b. **Finance Committee:** The Finance Committee consists of [X number] members, [X number] of whom are appointed by the Membership Placement Board [or Nominating Committee] and [X number] of whom are ex-officio members (Pastor, Treasurer, etc.). The Chair of the Finance Committee is selected by the [pastoral staff?]. The Head Elder/Board Chair has the

option to participate in Finance Committee meetings. The Finance Committee selects a secretary who prepares the agenda and minutes, which are to be permanently maintained by the [Treasurer?] in the central church file. Committee decisions are made via majority vote with a quorum of [X number] members present. The Chair only votes to break a tie. The Finance Committee meets monthly during the school year and as needed during the summer months. The duties of the Finance Committee include: (a) reviewing and approving financial reports and other matters before being presented to the Board; (b) preparing and approving the annual budget before being voted by the Board; (c) approving all material fundraising efforts in advance; and (d) providing general oversight for all other material financial transactions of the church.

- c. **The Church Board:** Although the Board may assign more detailed financial oversight to the Finance Committee, the Board is ultimately responsible for establishing all financial policies that safeguard church assets and ensure effective financial accountability, reporting, and decision-making. The Board reviews and approves the monthly financial reports, approves the annual budget, and makes final decisions regarding all material financial transactions, subject to final church-wide approval at the Church Business Meeting. By default, Board membership should include the Church Treasurer and Finance Committee Chair.
- d. **Church Business Meeting:** The Church Business Meeting is the constituency meeting of the church and should be held at least annually. The Church Business Meeting has authority over, and may delegate responsibilities to, the Board. The meeting should be announced several weeks in advance and church members should be encouraged to attend. A policy on quorum is made at a Church Business Meeting. A pastor, an elder arranged by a pastor, or, in some cases, a conference official, serves as chairperson. A financial report for the latest period and an annual budget for the next period should be presented by the Treasurer or Finance Committee Chair for approval by majority vote. Votes by proxy or letter are not permitted.

5. Budgets

a. Operating Budget:

- i. During the fall of each year, the Finance Committee, with the assistance of the Treasurer, prepares the annual operating budget for the following fiscal year. The Finance Committee seeks input from various department managers before finalizing the operating budget. The operating budget is voted by the Board and at the Church Business Meeting.
- ii. Mid-year adjustments to the operating budget may occur in the unusual case of large unpredictable cash flow variations and must be approved by the Finance Committee and the Board.
- iii. The operating budget should include an amount of cash set aside as an operating reserve to cover lean year deficits or any special projects approved by the Finance Committee and/or the Board. The accumulated amount will be reviewed annually as part of the budget.

b. Capital Budget:

- i. Capital budgets for major capital projects/expenditures are prepared as needed and must be approved by the Finance Committee and the Board (in consultation with any committees overseeing facility maintenance, technology, etc.). When a major

capital expenditure can be anticipated, the capital budget should also be approved in advance at the Church Business Meeting.

- ii. In a prudent attempt to save ahead for inevitable capital expenditures, the operating budget should include a provision in which cash reserves for maintenance, depreciation, technology, etc. are accumulated each month. Ideally, an attempt should be made to fully fund depreciation so that funds are available to replace old property and equipment.

6. Collecting and Recording Donations:

- a. **Saturday Collections:** *[NOTE: The process for handling Saturday collections varies from church to church. Because skimming (stealing) receipts before being recorded/deposited can be a problem, at a minimum the counting of receipts should be done by at least two people who sign off on the count, access to the safe/vault should be restricted, and receipts should be deposited by designated individuals by the first open bank day.]*
 - i. **Saturday:** Deacons collect offerings from the main services. Designated individuals collect special Sabbath School offerings to be turned in at a designated place. An Assistant Treasurer and at least two Deacons place the tithe envelopes and loose offerings collected in one of several large special envelopes designated for that particular offering (e.g. separate envelopes for loose offering, children's offering, Sabbath School missions, Sabbath School expense, etc.). The Assistant Treasurer and at least one Deacon sign the seals on each envelope, write their names, signatures, and date/time on the envelopes, and then place them in the church safe/vault. The envelopes are sealed in such a way that evidence of any tampering will be obvious. Unused envelopes are stored in a secure place. Only the following people have access to the church safe/vault: the Treasurer and certain Assistant Treasurers. No pastors or deacons should have safe/vault access.
 - ii. **Sunday:** Two Assistant Treasurers meet outside the church and enter the church together. For each of the large envelopes, the Assistant Treasurers total all the tithe envelopes and count the loose currency and use the counting machine to total coins (if available). A report is prepared and signed by each counter and filed for at least one year or until the annual audit has been completed, whichever is later.
 - iii. **Monday:** The Treasurer reconciles and posts the total receipts before depositing at the bank.
 - iv. **Alternatively,** in some large churches, immediately following the service two deacons will place the total collections in a bank bag and drop it in the overnight bank drop, to be counted by the Treasurer and Assistant Treasurers at the bank on Monday. Most banks have a room appropriate for counting the money and will allow use of an automatic coin counter.
- b. **Midweek Dropped-Off Donations:** Cash or checks brought in to the church office during the week should be placed by donors directly in the locked dropbox in the church office. The church secretary or anyone else in the office should ask members to place their donations directly in the dropbox as opposed to physically handling the donations themselves. The locked dropbox can only be accessed by the Treasurer or another designated individual. The dropped-off donations are counted and recorded by the Treasurer and Assistant Treasurer and a report prepared before being deposited at the bank.

- c. **Mailed Donations:** Mail to the church PO Box is collected regularly by a designated person [usually the Treasurer or Secretary] who sorts the mail. The Treasurer should count and record donations before depositing in the bank. Members should know that mailed donations should only be by check and currency donations should not be allowed in the mail.
- d. **Online Offerings:** The church website contains a link to the North American Division's online donation system, called Adventist Giving. A transfer of funds from Adventist Giving is received twice a month and reconciled to the bank. The Treasurer has access to online reports at any time. Merchant fees incurred when donors use their debit or credit cards are borne by the NAD. No merchant fees are assessed for donors who make payments directly from bank accounts, i.e. Electronic Funds Transfer (ETF). Online donations should be encouraged as they are more efficient and remove much of the control issues over receipts.
- e. **Loose Offerings:** The purpose for loose offerings is assigned in advance on a schedule distributed by the Conference. The assigned purpose for loose offerings is posted in the bulletin each Sabbath. Loose offerings are designated for local purposes at least twice a month. Loose offerings designated for non-local purposes are sent to the Conference monthly.
- f. **Bulletin Report:** The Treasurer submits figures to be shown in the bulletin each week that include receipts to-date along with the church budget amount. The content and format of the bulletin report is periodically reviewed by the Finance Committee.
- g. **Donation Acceptance Policy:**
 - i. The church will only accept donations that are consistent with its mission and values.
 - ii. The church will accept donations of cash or near-cash; personal property; real property; marketable investment securities; interests in trusts, life insurance, and retirement funds; gifts in kind; or any other asset. However, donated assets will only be accepted if the receipt thereof does not incur substantial expense, liability, or difficulty. Acceptance of all donations other than cash or near-cash must be approved by the Finance Committee or Board prior to acceptance. The UCC should also be consulted before non-cash donations are accepted because of complex tax and legal implications.
 - iii. The church will generally not accept new restricted funds that are overly restrictive in nature or too expensive to administer in relation to their value. The Finance Committee must preapprove acceptance of large restricted gifts.
- h. **Donor Restrictions:** According to state charitable solicitation laws, nonprofits must spend donor-restricted monies as specified and account for these funds separately.
 - i. **Tithes, World Church, and Other Offerings for Non-Local Use:** Under no circumstance will any funds designated for purposes beyond the local church be kept and used internally by the church, including tithes, which are to be remitted monthly to the Conference.
 - ii. **Undesignated Donations:** The Conference policy specifies that receipts in envelopes without a designated purpose or restriction should be counted as tithes. For envelopes without donor names, the Treasurer may contact the donor for further clarification.
 - iii. **Old Restricted Funds:** According to the Uniform Prudent Management of Institutional Funds Act [which most states have adopted], whenever funds cannot be used for their restricted purposes (outdated, impractical, or unworkable restrictions),

the church can release or modify the restrictions by: (1) obtaining the written consent of donors, (2) working with the state attorney general to obtain court approval without donor consent, or (3) submitting a [X number might vary by state]-day notice to the attorney general (donor consent not needed) for funds that are more than [X number] years old and have a value less than [X number]. The church should consult with the Conference and legal counsel when large amounts are involved.

- iv. **Donation Refunds:** As a legal matter, donors release the rights to donated assets and have no basis to request a refund, unless restrictions are violated or the funds cannot be used per the intent of donors. For example, the church has no legal obligation to refund a donation simply because the donor doesn't like a new pastor. However, at the written request of a donor, the church may refund a donation under special circumstances. Issues to consider include:

1. The donor can demonstrate an unanticipated hardship.
2. The donation has not yet been used for its intended purpose and using the donation per the donor's intent is no longer possible.
3. The original donation was illegitimate (e.g. one spouse contributes out of a joint bank account without consent of the other; a thief contributes stolen funds, etc.)
4. The original donation was conditional and thus had no legal standing (e.g. donor specifies funds can only be spent if a matching amount is raised, which will not happen for whatever reason.)
5. The refund will not significantly impact the church financially.
6. A government entity orders a refund (e.g. court ruling in a bankruptcy case)

The Finance Committee and/or Board should pre-approve all large refunds. A letter should accompany the refund informing the donor to obtain advice regarding any income tax implications. The church is not required to issue a Form 1099 because the church does not know how much tax benefit the donor received from the original donation. The church should consult with the Conference and/or legal counsel when large amounts are involved.

- i. **Fund-Raising Efforts:** All major fund-raising efforts are pre-approved by the Finance Committee and/or Church Board. No major fund-raising campaigns outside the church's constituency are allowed; however, donations from online/TV viewers outside the constituency are welcome. Appeals made during church services and programs must be pre-approved and made for legitimate church-related purposes.
- j. **Tithe Envelope Formatting and Retention:** The line items listed on the tithe envelope besides tithe and church budget are approved by the Finance Committee in consultation with the pastoral staff. Tithe and offering envelopes are kept for a minimum of one year or until the audit, whichever is later. (See Document Retention Policy in Appendix A.)

7. Issuance of Charitable Contribution Receipts

- a. The Treasurer issues charitable receipts post-marked by January 31 for all previous-year donations for which the donor was identified. Even though the IRS only requires a receipt for single donations of \$250 or more, receipts should be issued for all donations, regardless of size.
- b. Receipts are issued via regular mail, unless donors request an emailed copy.

- c. Receipts for cash donations must identify the church name and address, the year received, the nature (e.g. cash) and amount of the contribution, and a statement to the effect that no goods or services were provided in return for the contribution, except intangible religious benefits.
- d. For non-cash donations, procedures as outlined in IRS Publication 526 are followed, including how to value the donation and prepare receipts and IRS Forms.
- e. Copies of charitable receipts are kept for at least seven years.
- f. Cutoff: Mailed donations must be post-marked no later than December 31. Hand-delivered donations must be received by December 31.
- g. Charitable receipts should not be issued to donors who insist that the benefit go to a specific person. The decision about benefiting a specific individual must be made by a committee and be beyond the control of the donor. Common examples of problems: (a) a donor writes a check as part of a Sabbath School fund-raising effort to benefit a needy individual and writes the name of that individual in the memo line of the check; (b) a grandparent gives a donation with the stipulation that a grandson be awarded student-aid; or (c) a donor specifies that the donated funds be used for travel costs for a family member on a mission trip.
 - i. Note: If a donation will benefit a specific individual (e.g. mission trip donations), donors should complete a form similar to that in Appendix B.

8. Disbursements and Expenditures

- a. **Payment Methods:**
 - i. Church operating expenses are normally paid by the Treasurer via check. Automatic electronic payment can also be initiated for routine expenses, such as utilities.
 - ii. The church uses one credit card. The Treasurer ensures that every credit card charge has a supporting receipt.
- b. **Authorized Check Signers:** Only the Treasurer and one other designated individual [e.g. Assistant Treasurer or Pastor] are authorized to sign checks. For large checks over a certain amount, required dual signatures are encouraged (a dual signature requirement can be arranged with most banks).
- c. **Bank Reconciliations:** Bank accounts are reconciled at least monthly and bank statements and reconciliations kept on file for at least seven years (see Appendix A). If bank reconciliations are prepared by the Treasurer, the reconciliations and bank statements must be reviewed and initialed by an Assistant Treasurer, Finance Committee Chair, or Pastor. [Note: arrangements can be made with most banks to send a second copy of the bank statement in the mail to a pastor or Finance Committee chair. The statement will show pictures of the checks that have cleared. This extra control is recommended.]
- d. **Forms 1099-NEC:** These forms are issued by January 31 for payments of \$600 or more during the previous year to non-incorporated independent contractors and for honorariums to non-employees. Copies also go to the IRS. See IRS Publication 15-A for details.
- e. **Equipment Ledger:** A separate ledger for equipment contains the following information: description of property (photo if possible), date of acquisition, cost, serial number, warranty information, and repair/maintenance record. In addition, it is recommended that a video recording showing the equipment/premises be made periodically, including shots of the serial numbers of equipment. This information can be especially helpful in the case of theft or damage.

- f. **Insurance** is maintained on all property per Conference and Adventist Risk Management policies.
- g. **Disbursements by Pastors:** (a) If a pastor needs a disbursement from his/her designated funds, he/she must sign-off. (b) For disbursements from the benevolent fund, at least two pastors must sign-off. Whenever possible, benevolence disbursements should be issued directly to an establishment on behalf of the individual with the need (e.g. pay the rent to the landlord rather than to the needy tenant).
- h. **Reimbursement Checks:**
 - i. Receipts are required for every reimbursement along with a reimbursement request forms, which are available from the front office or the Treasurer.
 - ii. **Supplies Purchased by Members:** If members use their own funds to purchase supplies for their church departments (e.g. Children's Sabbath School leaders), they should submit a reimbursement request form (along with receipts) and then donate funds to offset the cost. Otherwise, the true cost of operating that department will not be reflected in the records.
 - iii. Requests for checks issued to others must be done via email or in writing with a signature (e.g. A Sabbath School class requests a check payment to a needy individual).

9. New Financial Accounts: The Board and/or Finance Committee must pre-approve the opening of any new church bank or investment account and the authorized account signers.

10. Acceptable Investments: All funds in bank accounts should be government-insured at all times, which may require splitting funds among several banks and/or credit unions. Acceptable investments include: bank checking/savings accounts, bank money market accounts, bank certificates of deposit (CDs), and deposits at the Union Revolving Fund or Conference. Any other investment or financial account requires approval by the Finance Committee and Board.

11. Borrowings: Any material debts incurred by the church will be pre-approved by the Finance Committee and Church Board and be authorized by, and in the name of, the Conference.

12. Audits: The books are periodically audited by the Conference auditor. A copy of the auditor's report goes directly to a pastor and to the Finance Committee Chair, who is responsible for making certain any audit concerns are addressed.

13. Backup of Files: All digital financial records, such as accounting software files, are backed up at least weekly in both secure onsite and offsite locations. For onsite backup, an external hard-disk or USB/SDHC drive is kept in the safe/vault. For offsite backup, cloud storage is recommended but a USB/SDHC drive or mobile external hard-disk is acceptable. Paper files are kept in locked filing cabinets.

Appendix A
 Document Retention Policy
(Example)

All financial documents should be kept until the church audit, after which the following retention policy applies:

Tithe Envelopes	One year or until the audit is done (whichever is later)
Board/Committee Papers: Policies, Agendas, Minutes	Permanent
Property/Equipment Records	Permanent
Contracts	Permanent
Correspondence, Departmental.....	5 years
Correspondence, Administrative.....	5 years
Audit Reports, Financial	Permanent
Ledger, General	Permanent
Ledgers, Accounts Receivable.....	7 years
Capital Assets Ledger	Permanent
Journals, General	Permanent
Journals: Purchase, and Disbursement.....	7 years
Receipts – Charitable Donations.....	7 years
Canceled Checks, General	7 years
Bank Statements & Reconciliations	7 years
Employment Records.....	Permanent
Time Cards.....	7 years
Payroll Journals and Earnings Record, Employee.....	Permanent

DISPOSAL OF DOCUMENTS: All documents not retained should be either shredded or burned.

Appendix B
Form for Donations Benefitting a Specific Individual

According to IRS Publication 526, a donation designated for a specific person is not tax deductible. However, by completing and returning this form with your donation, your donation may be considered a tax-deductible contribution.

If you wish to receive a charitable receipt for tax purposes, please sign this form after agreeing to **BOTH** statements below. If you do not wish to receive a charitable receipt for tax purposes, you do not need to complete this form:

- I understand that if I prefer that a specific person receive the benefit of my donation, I nevertheless grant the church complete discretion and control to use my donation as it sees fit in support of the church mission and ministry.
- I understand that my contribution is non-refundable.

Signature: _____ Date _____

The person I would prefer to support is: _____
(Please do NOT write the name of any individual on your check)

If for a mission trip, the trip location is: _____

The amount of my donation is \$ _____

Name (please print legibly) _____

Street Address: _____

City, State & Zip: _____