

LOCAL CHURCH FINANCE GUIDE

(For Congregations of the Presbytery of New Hope)

This guide is provided to you as a service of the Finance & Property Committee of the Presbytery of New Hope. It is intended to provide practical information about management of finances of your Congregation and in particular how to meet the requirements of the Book of Order—the Constitution of the Presbyterian Church (U.S.A) pertaining to financial accountability.

New Hope Presbytery is not responsible for the conduct of local congregation financial reviews. This guide is provided to you to make you aware of financial responsibilities you need to be knowledgeable about. The information in this guide is not intended to provide legal or financial advice. Local congregations should seek such advice from local advisors.

We hope you find this guide useful. If you have questions or suggestions, please contact us at:

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TABLE OF CONTENTS

Introduction and Background Information.....	1-4
Requirement for Financial Review.....	5
Purpose of Financial Review.....	5
Who should perform Financial Review?.....	5
Groups to be Included in the Review.....	6
Information needed to perform Financial Review.....	7
Internal Controls Review.....	8
Receipts and Disbursements.....	8
Reporting and Review.....	8
Tax Reporting Requirements.....	8
Other General Requirements.....	9
Written Report.....	9
Recommended Review Procedures.....	10
Financial Review Checklist.....	13-15

INTRODUCTION AND BACKGROUND INFORMATION

As a way of introducing the financial requirements that congregations of the Presbytery of New Hope must adhere to, we have summarized information from the Book of Order (Part II) 2013/2015 edition. Most all the information in this section of the Guide is taken directly from the Book of Order. We have included only excerpts from the Book of Order pertaining to general church governance and financial matters. The purpose of this section is to refresh your knowledge about Presbyterian governance.

CONSTITUTION (From the Preface)- The Constitution of the Presbyterian Church (U.S.A.), as defined in F-3.04, consists of the Book of Confessions (Part I) and the Book of Order (Part II).

“The Book of Order contains the Foundation of Presbytery Polity, the Form of Government, the Directory for Worship, and the Rules of Discipline.”

“In the Book of Order”

1. SHALL AND IS TO BE/ARE TO BE signifies practice that is mandated.
2. SHOULD signify practice that is strongly recommended.
3. IS appropriate signifies practice that is commended as suitable.
4. MAY signifies practice that is permissible but not required.

PRINCIPLES OF PRESBYTERIAN GOVERNMENT--F-3.02

The Book of Order refers to “councils” throughout. Councils are sessions, presbyteries, synods, and the General Assembly. For local congregations guidance “council” specifically means the session of your congregation.

GOVERNED BY THE CONSTITUTION OF THE PRESBYTERIAN CHURCH (U.S.A.) – G-1.0103

“A “congregation,” as used in this Form of Government, refers to a formally organized community chartered and recognized by a presbytery as provided in this Constitution. Each congregation of the Presbyterian Church (U.S.A.) shall be governed by this Constitution. The members of a congregation put themselves under the leadership of the session and the higher councils (presbytery, synod, and General Assembly). The session leads the congregation in fulfilling its responsibilities for the service of all people, for the upbuilding of the whole church, and for the glory of God.”

FINANCES AND INSURANCE

The Book of Order is very specific when it comes to guidelines for finances and insurance.

Excerpts are as follows:

Insurance – G-3.0112

“Each council shall obtain property and liability insurance coverage to protect its facilities, programs, staff, and elected and appointed officers.”

Finances – G-3.0113

“Each council shall prepare and adopt a budget to support the church’s mission within its area.”

“A full financial review of all financial books and records shall be conducted every year by a public accountant or committee of members versed in accounting procedures. Reviewers should not be related to the treasurer(s). Terminology in this section is meant to provide general guidance and is not intended to require or not require specific audit procedures or practices as understood within the professional accounting community.”

Finances – G-3.025

“In addition to those responsibilities described in G-3.0113, the session shall prepare and adopt a budget and determine the distribution of the congregation’s benevolences. It shall authorize offerings for Christian purposes and shall account for the proceeds of such offerings and their disbursement. It shall provide full information to the congregation concerning its decisions in such matters.

The session shall elect a treasurer for such term as the session shall decide and shall supervise his or her work or delegate that supervision to a board of deacons or trustees. Those in charge of various congregational funds shall report at least annually to the session and more often as requested. Sessions may provide by rule for standard financial practices of the congregation, but shall in no case fail to observe the following procedures:

- a. All offerings shall be counted and recorded by at least two duly appointed persons, or by one fidelity bonded person;
- b. Financial books and records adequate to reflect all financial transactions shall be kept and shall be open to inspection by authorized church officers at reasonable times;
- c. Periodic, and in no case less than annual, reports of all financial activities shall be made to the session or entity vested with financial oversight.”

INCORPORATION AND TRUSTEES– G-4.01

The Book of Order clearly states that congregations must be incorporated under the laws of North Carolina.

“Where permitted by civil law, each congregation shall cause a corporation to be formed and maintained. If incorporation is not permitted, individual trustees shall be elected by the congregation. Any such individual trustees shall be elected from the congregation’s members in the same manner as those elected to the ordered ministries of deacon and ruling elder. Terms of service shall be governed by the provisions of G-2.0404.”

“The corporation so formed, or the individual trustees, shall have the following powers: to receive, hold, encumber, manage, and transfer property, real or personal, for the congregation, provided that in buying, selling, and mortgaging real property, the trustees shall act only after the approval of the congregation, granted in a duly constituted meeting; to accept and execute deeds of title to such property; to hold and defend title to such property; to manage any permanent special funds for the furtherance of the purposes of the congregation, all subject to the authority of the session and under the provisions of the Constitution of the Presbyterian Church (U.S.A.). The powers and duties of the trustees shall not infringe upon the powers and duties of the session or the board of deacons.”

HOLDING CHURCH PROPERTY—G-4.02

The Book of Order is very clear that all property held by a Council of the Presbyterian Church (U.S.A.) is held in trust for the use and benefit of the Presbyterian Church (U.S.A.).

“The property of the Presbyterian Church (U.S.A.), of its councils and entities, and of its congregations, is a tool for the accomplishment of the mission of Jesus Christ in the world.”

“The provisions of this Constitution prescribing the manner in which decisions are made, reviewed, and corrected within this church are applicable to all matters pertaining to property.”

“All property held by or for a congregation, a presbytery, a synod, the General Assembly, or the Presbyterian Church (U.S.A.), whether legal title is lodged in a corporation, a trustee or trustees, or an unincorporated association, and whether the property is used in programs of a congregation or of a higher council or retained for the production of income, is held in trust nevertheless for the use and benefit of the Presbyterian Church (U.S.A.).”

“Whenever property of, or held for, a congregation of the Presbyterian Church (U.S.A.) ceases to be used by that congregation as a congregation of the Presbyterian Church (U.S.A.) in accordance with this Constitution, such property shall be held, used, applied, transferred, or sold as provided by the presbytery.”

“Whenever a congregation is formally dissolved by the presbytery, or has become extinct by reason of a dispersal of its members, the abandonment of its work, or other cause, such property as it may have shall be held, used, and applied for such uses, purposes, and trusts as the presbytery may direct, limit, and appoint, or such property may be sold or disposed of as the presbytery may direct, in conformity with the Constitution of the Presbyterian Church (U.S.A.).”

BUYING PROPERTY

Congregations that purchase or construct real property must have such action approved by a congregational meeting. G-10503

SELLING, ENCUMBERING OR LEASING CHURCH PROPERTY – G-4.026 & G-1.0503

In general, in order to sell or encumber property two events must occur:

1. The congregation must approve the sale or encumbrance.
2. The congregation is required to obtain written permission of the Presbytery transmitted through the session of the congregation.

There is an exception to obtaining Presbytery permission provided the conditions referred to in G-4.0208 are met. See below.

LEASING CONGREGATIONAL PROPERTY

“A congregation shall not lease its real property used for purposes of worship, or lease for more than five years any of its other real property, without the written permission of the presbytery transmitted through the session of the congregation.”

Exception G-4.0208 may also apply to leasing property.

PROPERTY OF CONGREGATION IN SCHISM—G-4.0207

“The relationship to the Presbyterian Church (U.S.A.) of a congregation can be severed only by constitutional action on the part of the presbytery (G-3.0303b). If there is a schism within the membership of a congregation and the presbytery is unable to effect a reconciliation or a division into separate congregations within the Presbyterian Church (U.S.A.), the presbytery shall determine if one of the factions is entitled to the property because it is identified by the presbytery as the true church within the Presbyterian Church (U.S.A.). This determination does not depend upon which faction received the majority vote within the congregation at the time of the schism.”

EXCEPTION TO PROPERTY PROVISIONS—G-4.0208

The Book of Order provides for a limited exception to the property provisions previously referred to in this guide. The conditions under which they apply are very specific. We recommend you contact the Presbytery of New Hope office if you believe these exceptions apply to you.

REQUIREMENT FOR FINANCIAL REVIEW

Section G-3.0113 of the Book of Order **requires** each Council to have a financial review of all financial books and records every year. The financial review may be completed by an independent certified public accountant or a committee of members versed in accounting procedures.

The term “financial review” is meant to provide general guidance and is not intended to require specific audit procedures or practices as understood within the accounting profession.

The annual financial review is important for the following reasons:

1. To protect the persons the local church elects to offices of financial responsibility from unwarranted charges of careless or improper handling of funds;
2. To build the trust and confidence of the financial supporters of the church in the way their money is being accounted for;
3. To set habits of fiscal responsibility to assure that when there is turnover in personnel there will be continuity in accountability.

PURPOSE OF THE FINANCIAL REVIEW

The purpose of the financial review is the summarization of the items presented below:

- Independently verify the reports of the treasurer and financial secretary.
- Follow the money and test how it is treated at different steps.
- Document that donated and earned funds of the congregation have been used as stipulated by the donors.
- Reviews accounting controls (systems that reduce the possibility of loss, embezzlement or errors).
- Segregation of duties (assurances that more than one person is involved in critical steps in handling money so that there can be checks and balances).
- Reasonableness of systems and procedures in the light of all factors, including the size of the church and its budget.
- Records that show donors’ stipulations for the use of gifts made to the local church.
- Evaluate the adequacy of insurance coverage.
- Monitor systems for retaining and accessing minutes that have financial implications (Finance Committee, Administration Commission, and Session).

WHO SHOULD PERFORM THIS FINANCIAL REVIEW

The type of financial review and the person or persons selected to perform the review may vary depending on the size of the congregation both in terms of membership and annual budget.

1. For small congregations with memberships less than 250 and annual budgets less than \$400,000, the review may be completed by an independent qualified member or committee of members of the church. The review should include performing procedures and evaluating

and a report should be made directly to the church's finance committee or Session. **RECOMMENDED REVIEW PROCEDURES** are included in this guide. The reviewer should also complete the **FINANCIAL REVIEW CHECKLIST** included in this guide. While smaller churches may not have ideal internal controls in place, church leadership should implement controls in high risk areas to ensure funds are not misused and errors detected quickly.

2. For congregations with memberships between 250-500 and annual budgets between \$400,000-\$800,000 the review may be completed the same as for small churches with the additional recommendation that a certified public accountant be a member of the review committee.
3. For congregations with memberships between 500-1,000 and annual budgets between \$800,000-\$1,200,000 the financial review should be completed by an independent certified public accountant (CPA) or at a minimum a CPA should be an active member of the review committee. Also, financial statements including a balance sheet and statement of activities should be prepared annually. Such statements should include all separate "funds" of the church with distinctions made as to unrestricted, temporarily restricted or permanently restricted net assets as those terms are defined by Generally Accepted Accounting Principles. The procedures and review of Internal Controls should be the same as for small and medium churches.
4. For congregations with memberships greater than 1,000 members and annual budgets in excess of \$1,200,000, we recommend that the financial review be performed by an independent certified public accountant. The financial review may be a "compilation" or "review" as defined by accounting professional standards. If a "compilation" is performed, it should include "agreed upon procedures" to assure that the procedures as outlined in this guide are completed by the CPA. Financial statements prepared by the CPA should include all required disclosures (footnotes to the financial statements, setting forth information about accounting policies, restricted net assets, restrictions on cash, notes payable, etc.).

WHAT GROUPS OF FUNDS ARE TO BE INCLUDED IN THE REVIEW

The fund review should include all the books and records relating to the congregation's finances including:

- Unrestricted operating funds
- Funds held as part of capital fund drives
- Restated funds held in separate investment or endowment accounts
- Memorial Funds
- Pastor's discretionary funds
- Youth group funds
- Funds in connection with "schools" and controlled by the congregation

Funds managed by the Presbyterian Women should be included in the review process, but do not need to be included in the church's financial statements.

INFORMATION NEEDED TO PERFORM FINANCIAL REVIEW

During the review process the person or committee performing the final review should have access to the following information and materials:

1. Copies of all church policies and procedures related to finance and treasury functions and copies of minutes approving those policies.
2. Copies of all minutes from the finance committee and Session for the year.
3. Listing of all bank and investment accounts, including any special use accounts under the control of the pastor(s) or other groups within the church.
4. All financial statements for the year.
5. All bank and investment account statements for the year.
6. All bank reconciliations for the year.
7. Original books of entry, which will be the general and subsidiary journals; for those books that are computerized, a print-out of all transactions by account for the entire year.
8. The Financial Secretary's records of collections and receipts including access to individual member giving statements. The person reviewing the member giving statements must treat that information in strict confidence.

INTERNAL CONTROLS REVIEW

As part of the financial review, it is essential that the internal control structure for receipts and disbursements procedures be reviewed. The internal control structure is the process that assures the local church's operational efficiency and effectiveness, that its financial reporting is reliable, that it is complying with the Book of Order and that its assets are safeguarded.

The following guidelines are intended to assist those with financial responsibilities in local churches to identify and implement basic internal control procedures. Ideally, all local churches will meet these minimum standards and these procedures should be reviewed to ensure practice of each of these during the annual evaluation.

RECEIPTS AND DISBURSEMENTS

- Treasurer and Financial Secretary should not be the same person and should not be in the same immediate family residing in the same household
- Counting team (at least two unrelated persons) should count offerings and document totals
- Offerings should be deposited the same or next business day
- Offering count details should be given to financial secretary for recording
- Offering totals should be given to the treasurer or financial secretary to record deposit
- The Financial Secretary's deposit log should be compared to the bank statement to verify deposits (by bank reconciliation reviewer)
- Invoices should be required for all payments for all accounts
- Someone other than the treasurer (with authority by Finance Committee) should approve invoices for payment
- Typically, the Treasurer should make payments only after the invoice is approved. A policy may be implemented where routine, budgeted expenses (i.e., rent/mortgage, electric bill, etc.) may be paid without recurring approval; non-routine expenses must be approved prior to payment.

REPORTING AND REVIEW

- All accounts should be reconciled monthly
- Someone other than treasurer or financial secretary should review bank reconciliation monthly
- At least quarterly, the Treasurer should prepare financial statements that report to the Finance Committee operating fund income and expenses compared to the annual budget and details about changes in designated fund balances.

TAX REPORTING REQUIREMENTS

- W-2's must be issued for employees, including pastors, and 1099s issued for nonemployee compensation by January 31 for preceding year (federal law requirement)

- Payroll tax forms and deposits done as required for payroll amount (federal law requirement)- payroll reporting should be completed for the IRS, North Carolina Department of Revenue and SSA by appropriate due date for filing method
- Semi-annual claim for North Carolina sales tax refund filed timely
- Housing allowance or exclusions approved annually at congregation meeting kept on file (federal law requirement)

OTHER GENERAL REQUIREMENTS

- Prepare list of all church property for insurance purposes-include item description, serial number and value
- Review “Board of Pensions” invoices to ensure proper reporting of effective compensation for purposes of determining pension and health care benefits

The steps outlined in this section have been compiled into a checklist for easier use during the final review. When all the financial review steps have been completed, the reviewer should review the work done with the church treasurer and financial secretary, endeavor to answer any lingering questions, then consider preparation of the report of the review.

WRITTEN REPORT

The type of report provided at the conclusion of the financial review will depend on the scope of procedures performed and who conducted the review.

Financial reviews performed by a church member or review committee should include:

1. Listing of procedures performed and related results
2. Balance sheet or listing of all assets and liabilities if complete financial statements are not prepared for the church
3. Statement of activities and changes in net assets or listing of all income and expenses if full financial statements are not prepared for the church
4. Comments about internal control deficiencies noted during the review

Financial reviews prepared by certified public accountants should include “compiled” or “reviewed” financial statements as those terms are defined by accounting professional standards. In addition, if agreed upon procedures were performed, these procedures should be reported on by the CPA as defined by accounting professional standards.

Recommended Review Procedures

The following procedures are intended to be minimum “guidelines” for conducting the financial review. The organization of each church is unique and procedures should be revised or expanded to best fit the needs of each church.

A **FINANCIAL REVIEW CHECKLIST** is provided to document that the recommended procedures have been followed.

1. Obtain a copy of year end balance sheet (statement of financial position) and “statement of income and expenses” (statement of activities) for the year then ended. Agree each amount on such financial statements to the corresponding amounts in the church’s detail general ledger.
2. Cash balances-Obtain copies of the monthly bank statements and corresponding bank reconciliations for each church bank account for the end of year and for one other month end during the year and perform the following:
 - a. Agree the “balance per bank” from the reconciliation to the corresponding ending balance of the bank statement, and the “balance per books” (or general ledger) to the corresponding amount in the church’s general ledger.
 - b. If there are deposits in transit included in the bank reconciliations, agree such amounts to the following month’s bank statements. If such deposits are not recorded by the bank in the church’s bank statements in the following month within seven business days following the preceding month end, obtain an explanation for the delay from the church’s account, and include that explanation in the final report to church’s Finance Committee.
 - c. If there are outstanding checks included in the reconciliations, trace those checks to the following month’s bank statement and if not clearing the bank then, inquire as to why still outstanding (voided, lost, etc.)
 - d. Include a listing of outstanding checks that have been outstanding more than six months in your final report to the Finance Committee.
 - e. Obtain an explanation of any other reconciling items used in the bank reconciliation (s), and include the explanation of any significant reconciling items.
3. Investments-Obtain a listing of individual investments comprising the balance or balances of any investments included in the church’s balance sheet as of the end of the year and perform the following procedures:
 - a. Add the individual investment amounts comprising each investment account included on the Church’s balance sheet, and agree each such amount to the corresponding amount in church’s balance sheet.

- b. Agree the amount of each individual investment on the listing to the corresponding amount on the appropriate reports received from banks, brokerage companies, etc. holding such investments.
4. Church Property-Obtain a listing of all property owned or occupied by the church.
 - a. Determine through discussions that insurance is in place for all identified assets.
 - a. Determine that all current year additions to property have been added to the property listing or fixed asset depreciation schedule.
5. Church Credit/Purchasing Cards-Some churches provide credit cards to staff and certain committee chairpersons or members to use to purchase products and services for the church. If the church uses such credit cards, perform the following:
 - a. Obtain a copy of the credit card statement(s) as of the end of the year and for one other month-end during the period. Review charges for each month and the proper general ledger coding and approval for payment.
6. Tithes and offerings received:
 - a. Select six Sundays from the year. For each Sunday selected, obtain a copy of the summary counting sheet prepared by the counters for that Sunday. Agree the amounts received as shown on the counting sheet to the corresponding amounts recorded in the church's general ledger for that Sunday.
 - b. When member giving statements are mailed to donors at end of year, the committee or persons performing the financial review should mail the statements to donors with a note on each statement to report discrepancies directly to the review committee or person conducting the review.
7. Other income-If church has other sources of income (e.g., child care or preschool tuition and fees, property rentals, etc.), develop limited procedures to test the completeness and accuracy of such amounts, and describe the procedures performed and the results of such procedures in the final report to the Finance Committee.
8. Donations-For significant donations to the church (to be determined based on the size of each church), confirm with the donor the amount and intended purpose of the donation. Review to ensure the donation is being used in accordance with its intended purpose and has been accounted for completely and accurately.
9. Church expenditures and cash disbursements-Judgmentally select forty (40) expenditures recorded during the year from the general ledger, perform the following:

- a. For salary or wage payments selected, agree the pay rate used to determine the payment to the applicable schedule of salaries and pay rates approved by the Personnel Committee.
 - b. For payroll tax or benefit payments, recalculate the amount of expense recorded and payment made or remitted based on approved tax or benefit rates in effect at the time of the payment.
 - c. For expenditures paid for using a church credit or procurement card, agree the charge to a copy of the supplier receipts submitted as support for the charge, and determine the appropriateness of the specific expense account to which the charge was recorded. Confirm the credit card charge was approved for payment in accordance with the established practices of the church. Also, agree the charge for the month to inclusion in the monthly credit card statement received by the church and used as a basis to pay the monthly credit or procurement card charge.
 - d. For expenditures paid using church-issued checks, agree the amount of the expenditure selected to the supporting documentation (typically, this will be an invoice issued by the supplier of the products or services purchased or a supplier contract). Recalculate the charges on the invoice based on the quantities and unit costs listed on the invoice. Confirm the purchase was approved for payment in accordance with the established practices of the church. Agree the appropriate details (dollar amount of the purchase and the supplier's name) to the cancelled check or appropriate details provided in the bank statement received from the bank.
 - e. For all expenditures, determine the account in which the expenditure was recorded was appropriate given the nature of the expenditure and consistent with the established practices of the church.
10. Review all insurance policies in effect (according to church leadership) and ensure adequate types and levels of coverage are in place for local church needs.
 11. Obtain copies of the semi-annual "Claims for Sale Tax Refund" filed with the N.C. Department of Revenue. Review completeness of report and note subsequent receipt of refund.
 12. Review the invoices from the Board of Pensions and determine that "effective salary" has been properly reported based on approved terms of call.

Financial Review Checklist

This checklist is intended to document the financial review of your church. It is a “minimum” checklist and should be expanded as necessary to better fit the needs of your church considering the size of the church and your church staffing:

	Procedure Completed (Yes/No)	Completed by (Initials)
Cash and Investments		
1. Obtain bank and investment account reconciliations at end of year and determine that procedures and balances were performed as described by recommended procedures		
2. Obtain year end confirmation of bank and investment balances directly with depositors		
Property and Equipment		
1. Obtain depreciation schedule and verify assets listed agree with general ledger balances		
2. Verify proper approval by congregation and Presbytery for all new properties acquired or leased during year		
Restricted Funds		
1. Obtain a detail listing of all donor restricted fund balances at end of year and note agreement to general ledger balances		
2. Document any new restricted funds received during the year and note items of restrictions have been followed		
Notes Payable		
1. Verify outstanding loan balances per the general ledger to statements reported by banks or other lending agencies		
2. Verify proper approval by congregation and Presbytery for new borrowings during the year		
Receipts and Disbursements		
1. Treasurer and Financial Secretary should not be the same person and should not be in the same immediate family residing in the same household		
2. Counting team (at least two unrelated persons) should count offerings and document totals-not treasurer and not financial secretary		
3. Offerings should be deposited the same or next business day		
4. Offering count details should be given to financial secretary for recording		
5. Offering totals should be given to the treasurer or financial secretary to record deposit		

6. The Financial Secretary's deposit should be compared to the bank statement to verify deposits (by bank reconciliation reviewer)		
7. At least two persons should be listed as authorized signatures on all accounts. This should also be the case for setting up electronic payments (or EFT's).		
8. The person authorized to make electronic payments of bills shall shall maintain support for every electronic payment just as with the support for paper checks.		
9. Financial policy and authority guidelines should be written and approved by the Finance Committee		
10. At end of year, mail member giving statements with notation to report discrepancies <u>directly</u> to financial reviewer--not the financial secretary		
11. Investigate any discrepancies in recording contributions		
12. Verify that proper IRS wording is included on member giving statements		
13. Verify that non-cash contributions (stocks received) were properly recorded at Fair Market Value at time of gift.		
14. Invoices should be required for all payments from all accounts		
15. Someone other than the treasurer should approve invoices for payment		
16. A policy may be implemented where routine, budgeted expenses (i.e., rent/mortgage, electric bill, etc.) may be paid without recurring approval; non-routine expenses must be approved prior to payment		
Reporting and Review		
1. All accounts should reconciled monthly		
2. Someone other than treasurer should review bank reconciliations on a monthly basis-including bank statements, invoices, checks written, and financial reports		
3. The Treasurer or Financial Secretary should make detailed report of budget and designated fund activities to the Finance Committee on a routine basis as the committees meet		
Tax Reporting Requirements		
1. W-2's must be issued for employees, including pastors, and 1099's issued for nonemployee compensation by January 31 for preceding year (federal law requirement)		
2. Payroll tax forms and deposits done as required for payroll amount (federal law requirement)-payroll reporting should be completed for the IRS, N.C. Department of Revenue and SSA by appropriate due date for filing method		
3. Verify North Carolina sales tax refunds were timely filed during the year		

4. Housing allowance or exclusions approved annually by the Congregation and kept on file (federal law requirement)		
Other General Requirements		
1. Prepare list of all church property for insurance purpose-include item description, serial number and value		
2. Backups of computer records should be prepared daily and stored offsite		
3. Access to computer software applications should be password protected and passwords changed frequently		
4. Review payments to Board of Pensions to ensure proper reporting of effective salary for pastors or other employees		

Completion of Financial Review

Review for the year ended December 31, _____ completed by:

Signature

Date

Signature

Date