QuickBooks Online for churches, synagogues, and other houses of worship

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Today’s speaker

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- You must stay in the session for the duration of the training
- This session is eligible for 1 hour of CPE
- CPE certificates are emailed directly to you within 4 weeks of the conference date to the same email address you used to register
## Can we agree on terminology?

In the interest of time and efficiency of presentation, and, of course, meaning no disrespect…..

### Church
- Synagogue
- Tabernacle
- Temple
- Mosque
- Parish
- Other Houses of Worship

### Pastor
- Minister
- Priest
- Reverend
- Rabbi
- Person of the Cloth
- Clergy

### Church Leadership
- Governing Board
- Elders
- Council
- Bishop
- Overseers
- Vestry
- Diocese/Synod

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This list is not all-inclusive.
Accounting for churches and non-profits is a whole different ballgame than commercial accounting!

FreeChurchAccounting.com
Churches are a unique type of non-profit

Churches
Focus is “missions” & “ministry”
Funded primarily by Donations
Exempt from taxation via 501(c)3
Does not have to apply for tax exemption*
Form 990 not required

Other non-profit organizations
Focus is “programs” & “social causes”
Funded by Fund Raisers & Grants
Tax exemption code section may vary
Must apply for tax exemption
Form 990 required

* “There’s no question that it’s good for a church to get the 501(c)3 designation. It cleans up all the loose ends.” JohnH
Connect with your neighbor:
How many churches have you worked with?
Disclaimer:

What you are about to see may not be GAAP or GAAS - but it’s understandable - which, in my opinion, is more important.

Note: All the information is available to easily convert to GAAP, if needed.
Foundational QuickBooks Online (QBO) differences – Church vs non-profits

This set-up is my philosophy based on what seems to work best for my church clients.

**Churches**
- Donor are often individuals/family units
- Separate Donor for non-deductible income
- Classes used for locations (or church/school)
- Ministry Depts set-up as header accounts
- Program tracking through Dept. mini-P&Ls

**Other non-profit organizations**
- Donors are often large organizations
- Donors often have sub-donor agencies
- Classes used to track Programs (Grants)
- Functional areas set-up as header accounts
- Project tracking through Projects

* Focus for this session is churches.
**QBO + TechSoup = Price savings for 501(c)3s**

Prices shown are accurate as of this writing, but subject to change.

**QuickBooks Online Advanced, 1-year Subscription, 25 users**
Yearly Admin Fee paid to TechSoup: $150

**QuickBooks Online Plus, 1-Year Subscription, 5 users**
Yearly Admin Fee paid to TechSoup: $50

**Donor Partner: Intuit**

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**ADVISOR TIP:** Be sure to check organization’s eligibility & software availability before suggesting to client.
Account and settings

Company Tab
Change “Company type”
Nonprofit organization (Form 990)
SAVE
Account and settings

Advanced Tab
“Other Preferences”
Customer Label
Change to “Donors”

SAVE and DONE
Report titles change automatically!

Profit & Loss becomes **Statement of Activity**
Balance Sheet becomes **Statement of Financial Position**
Agenda

Income “buckets”

Reporting & budgeting

Personnel
• Staff, other than Pastors
• Pastors
• Volunteers & independent contractors

Communication – The numbers & beyond
Income “buckets”
Three types of funds collected.

**General fund**
Not Designated/Restricted
Tithes, Offerings, Donations
Subject to Sales Tax?
Subject to UBIT*?

**Designated funds**
Camp Registrations
Missions Trips
Special Collections
Benevolence

**Restricted funds**
Building Funds
Memorial Funds

ADVISOR TIP: Separate Donor-Restricted vs Board-Restricted Funds

Breakout Session @ 2:30: Understanding UBIT Taxes & New Laws
Handling general (un-restricted) funds

REPORTS – Statement of Activity

**REVENUE = Unrestricted**
- General Offerings
- Loose Offerings
- Tithes & Offerings

**ADVISOR TIP:**
- COGS for a church?
- Synod Support
- Merchant Fees
Handling designated (temporarily restricted) funds

Beware! Not all designated & restricted funds are tax deductible.

How will you record funds?

- Is it INCOME?
- Is it OTHER INCOME?
- Is it a LIABILITY?
- Is it a CASH sub-account?
- Is it an EQUITY Adjustment?
Income “buckets”

Are there too many buckets?

**General fund**
- Personnel
- Mortgage/Rent
- Facilities
- Repairs & Upkeep
- Missions
- Ministries

**Designated funds**
- Camp Registrations
- Missions Trips
- Special Collections
- Benevolence
- VBS
- Women’s Ministry
- Grief Recovery
- Hurricane Relief

**Restricted funds**
- Building Funds
- Memorial Funds
- Endowment Funds

ADVISOR TIP: Possible communication and/or trust issues.
Handling designated (temporarily restricted) funds

REPORTS – Statement of Financial Position

Current Liabilities
Outreach – General
Seniors Rock
Fellowship
World Hunger

ADVISOR TIP for Carryover Balances
P/Y Balance
+Collected
-Expended
=Ending Balance

ADVISOR TIP: Common in “congregational” churches.
Handling designated (temporarily restricted) funds

REPORTS – Statement of Financial Position, Current Year vs Previous Year

ADVISOR TIP for Carryover Balances
Close out prior year balances and move prior year ending balance to current year “P/Y Balance” line
Journal entry to roll-up prior year balance(s)

Journal Entry is made January 1 of Current Year
Release temporary restrictions

When event is complete move activity figures to statement of financial activities, using a Journal Entry.

SAMPLE VERBIAGE
“This church is a qualified 501(c)(3) organization. All tithes, offerings, or donations of any kind are deductible under IRC section 170(c)(2). Unless otherwise noted and in accordance with IRS regulation, you agree to relinquish control of the donated funds to the discretion of this church.”

ADVISOR TIP: If using liability option, watch for “negative” balances = overspending = expense.
Handling restricted funds

Beware! Not all designated & restricted funds are tax deductible.

How will you record funds?

• Is it INCOME?
• Is it OTHER INCOME?
• Is it a LIABILITY?
• Is it a CASH sub-account?
• Is it an EQUITY Adjustment?
Restricted funds

Assets should be set aside to accomplish the intention of the donor.

Liabilities (generally long-term, but not necessarily)

ADVISOR TIP: Use sub-accounts to identify donor-restricted vs board-restricted.
Agenda

Income “buckets”

Reporting & budgeting

Personnel
• Staff, other than Pastors
• Pastors
• Volunteers & independent contractors

Communication – The numbers & beyond
Statement of financial position
aka “Balance Sheet”

ADVISORY CONVERSATION
Is there a need for a compilation, review or audit*?
Why?

Are restricted funds physically separated from operating funds?

Are fixed assets (& depreciation) shown on Stmt. of Fin’l Position?

Are there negative balances showing for designated funds?

*Power Panel@ 4pm: Best Practices for Handling Non-Profit Audits
Statement of activity
aka “Profit & Loss”

Ministry departments
Adult
Men
Women
Young Adult
High School
Jr. High School
Children
Nursery

Typical sub-accounts
Curriculum
Supplies
Meals & meetings
Event
• Event – Collected
• Event – Expended
• Net Event Income/Loss

Mini “P&L”

ADVISOR TIP: Person responsible for the department should be part of the budget process.
Budgeting – Easy as 1-2-3!

GEAR – Tools - Budgeting

Subdivide by class
Location
Church vs School

Add budget

ADVISOR TIP: SAVE as you go!!
But wait! What about balance sheet items?
Consider using contra accounts “Below-the-Line”

Budget CASH Inflows & Outlays
Use “Customize Reports” to
Show only “Revenue & Expenditures”
Exclude “Other”

JOURNAL ENTRY to record:
Major purchases -> Fixed Assets
Principal Portion Only -> Reduces Debt

ADVISOR TIP: SAVE Customized Reports.
Agenda

Income “buckets”

Reporting & budgeting

**Personnel**
- Staff, other than Pastors
- Pastors
- Volunteers & independent contractors

Communication – The numbers & beyond
Staff, other than clergy (Pastor)

Churches are held to the same employment laws as any other employer.

What rules apply to churches?

- Employee selection/discrimination
- Immigration
- Worker Compensation
- Wage & Hour Laws
- Fair Labor Standards
- Typical Tax Withholding

ADVISOR TIP:
Churches are not generally subject to unemployment taxes. Check with state.
Add to Employee Handbook.
Set-up employees with timesheet only access
GEAR – Your Company – Manage Users

Enter Employee Name (existing), then next screen:
First Name
Last Name
Email (User ID)

Add user
Time tracking only
Independent contractors
If it looks like a duck…

Relevant factors:
• Control over how work is done
• Control over equipment provided
• Control over pay/pay schedule
• Contractor is “in business”
• Opportunity for profit or loss
• Permanency of relationship
• Relationship believed to be created

ADVISOR TIP: IRS guidelines pertain to churches.
Independent contractors = vendors

Obtain W9 and fill in Vendor Information BEFORE issuing first payment.

ADVISOR TIP: Attach W9 to Vendor Record.
Pay independent contractors with direct deposit!

Workers – Contractors – Pay with direct deposit….fill in the blanks
Pastor compensation

Pastors are “dual status employees.” Employees for income taxes; self-employed for SS & Medicare

Name & Address of Church

Name & Address of Pastor

Compensation, NOT including housing allowance.

Social Security & Medicare are always $0 for Pastors

Housing allowance.

ADVISOR TIP: Pastors CAN have the church withhold Federal & State taxes to cover income & SECA taxes.
Typical set-up for Pastor

Think of pastor compensation as two pieces of the same pie.

Pastor compensation:
- Base salary
- Clergy housing (cash)

Note: Clergy Housing (In-Kind) = Church Provided

ADVISOR TIP:
Watch out for unreported compensation:
- FICA reimbursement
- Non-group insurance
- Unqualified retirement contributions
Pastor housing

Housing allowance in excess of actual expenses is subject to Federal & State taxes.

The LEAST of three methods:

- Actual amount to be spent for housing
- Amount (or percentage) officially designated (in advance)
- Fair rental value of house, furnishings, & utilities

ADVISOR TIP:
Housing allowances are always proactive (never retroactive)
Housing Allowances must be “reasonable”
Form 4361

This form creates an IRREVOCABLE election between the Pastor & the IRS. Covers only church income.

Conscientiously opposed to:

- Social Security (OASDI)
- Medicare / Medicaid
- TANF / Temporary Assistance for Needy Families
- SNAP / Food stamps
- WIC / Women, infants & child welfare
What is taxable employment income?
Churches tend to be very generous. Make sure all income is reported properly!

Compensation includes:
• Salary
• Bonuses
• Housing (subject to SECA)
• Excess Housing (Fed & State)
• FICA “reimbursement”
• Cash/Gift Cards
• Honorariums
• Pastor Appreciation
• Love Gifts
• Pers. health insurance premiums
• Unaccountable Allowances

ADVISOR TIP: Watch for “carryover” & non-qualified benefits.
Agenda

Income “buckets”

Reporting & budgeting

Personnel
• Staff, other than Pastors
• Pastors
• Volunteers & independent contractors

Communication – The numbers & beyond
Who needs to know? What do they need to know?

Communication is a key component of a successful church.

<table>
<thead>
<tr>
<th>Communicate with:</th>
<th>What they want to know:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Congregation/Donors</td>
<td>• Budget, Spending, Tax Deduction</td>
</tr>
<tr>
<td>• Board/Council</td>
<td>• Timely, accurate, concise, graphs</td>
</tr>
<tr>
<td>• Denomination/Synod</td>
<td>• Percentage to “mother church”</td>
</tr>
<tr>
<td>• Department Chairpersons</td>
<td>• Actual vs Budget – their department</td>
</tr>
<tr>
<td>• Employees</td>
<td>• Payroll, benefits – and purpose</td>
</tr>
<tr>
<td>• Bank</td>
<td>• Covenants met</td>
</tr>
<tr>
<td>• CPA/Auditor</td>
<td>• Internal controls in place</td>
</tr>
<tr>
<td>• ECFA/GSCA</td>
<td>• Standards met for seal of approval</td>
</tr>
<tr>
<td>• Volunteers*</td>
<td>• Appreciated &amp; needed</td>
</tr>
</tbody>
</table>

ADVISOR TIP: Communication needs to be timely, accurate, sincere, and personal.

*Meetup Thursday @ 8am: Relationship Marketing & the Power of Human Connection*
Set-up governing board with read-only access

GEAR – Your Company – Manage Users

Enter Employee Name (existing), then next screen:
- First Name
- Last Name
- Email (User ID)

Add user

Reports Only
What we covered:

Income “buckets”

Reporting & budgeting

Personnel
• Staff, other than Pastors
• Pastors
• Volunteers & independent contractors

Communication – The numbers & beyond
Next Steps:

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