



Finance Manual

For Alliance Church Treasurers (and Pastors)

*Produced by the Divisions of Operations/Finance and National
Church Ministries of The Christian and Missionary Alliance*

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The Christian and Missionary Alliance
P. O. Box 35000
Colorado Springs, Colorado 80935-3500

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How to Use this Manual

We have designed this manual so that you can use it in two ways:

- Read it from cover to cover. It will familiarize you and the members of your financial team with all of the topics and issues presented.
- Use it as a reference book when you have questions about the various topics. To help with this purpose, we have prepared an expanded Table of Contents and with the capabilities of Adobe Acrobat, you can do a word search for specific issues. Further information on special topics, such as computer software recommendations and a glossary of financial terms, are found in the Appendices at the back of the book.

Along with this manual, we have available, upon request, samples of the various journals, reports, and forms that we recommend in this manual. Throughout this manual we will make references to the samples that are available.

Introduction

So you have been elected treasurer of your church...

Don't panic! Thousands of people serve in this stewardship role in churches around the world, and with little or no formal training. It isn't an impossible task. From the viewpoint of the authors, it is one of the most important and rewarding ministries in the church.

This manual is written for the church treasurer. However, much of the material will also interest the pastor and other members of the church financial team. We have designed this book to help you get started and to carry out your responsibilities. We intend it to be a "how to" book. It provides the basics for preparing budgets and periodic financial reports to your church governance authority and congregation. It also covers:

- Pastoral remuneration packages
- The payroll functions of your church
- Reporting to tax authorities
- Insurance matters for your church and staff
- Some legal issues that are important to the church

This is not an authoritative document, and we do not pretend to cover all situations and circumstances. With its help, however, you will be better informed of the various financial issues affecting your church. You also will be better equipped to serve the church in this very important area.

Tax and legal information presented in this manual is based upon laws and regulations in effect at the time it was published. You should always inquire if these have changed. Since the laws and regulations are constantly changing, we have provided a list of resources in **Appendix B**. We highly recommend these publications. They will help you and your financial team to keep up to date on the tax and legal matters that affect your church.

Members of the Division of Operations/Finance, Office of the Corporate Secretary, and the Division of National Church Ministries of The Christian and Missionary Alliance have written this book. They have been trained in the various areas they discuss. More importantly, they have had many years of service as treasurers of local churches. You may have questions regarding matters in this book, or others that may arise as you perform your duties. If you cannot resolve these in your local church, your district office can provide you with additional assistance. If they cannot resolve the question, they should contact the Division of Operations/Finance at the National Office.

Chapter 1

The Church's Financial Team

Treasurer – *An officer entrusted with the receipt, care, and disbursement of funds.*

The key word in the dictionary definition of a treasurer is “*entrusted.*” In the qualifications for elders (1 Timothy 3), trust is a continuous theme.

As treasurer, you may be a member of the church governance authority. [Note: throughout the manual we will use “governance authority” to refer both to the governance authority of an accredited church and the Advisory Committee of a developing church.] The congregation has entrusted you with these responsibilities:

- managing the financial resources of the church
- maintaining adequate financial records
- reporting financial operations; these reports will be made to the governance authority, the congregation, the district office, the National Office of the C&MA, and to civil authorities

This manual outlines principles that aid you in fulfilling your responsibilities. It will also guide you in the development or improvement of procedures to carry out these principles.

We have included the following sections to assist you in setting up the finances for a new church:

- getting a federal employment identification number
- obtaining tax-exempt status
- opening a bank account

Even if your church is accredited, you should read through these sections. Then verify that your church has completed these steps correctly.

Requesting a Federal Employer Identification Number

A new church must apply for an employer identification number (EIN) before any payroll related payments are made (even if the church is not yet accredited).

You will need **Form SS-4** from the Internal Revenue service to do this. You may obtain this form from one of two places:

- the local IRS office or Web site (www.irs.ustreas.gov)
- the Office of the Corporate Secretary at the National Office

Tax Exempt Status

The Internal Revenue Service has officially recognized the C&MA as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code. In 1972 the IRS originally expanded this tax-exempt status to a group basis, in order to include the districts and local accredited churches of the Alliance. In 1992, with the reincorporation in Colorado, the IRS again approved a group

exemption letter. However, before the National Office can include your church in the Alliance's group exemption, it must give the National Office written authorization to do so by completing the form sent to your church by the Office of the Corporate Secretary. Once the church becomes a part of the Alliance group exemption, the IRS officially qualifies it as a member of the tax-exempt organization.

While a church is categorized as "developing," it is under the direction of the district superintendent or director. During that period, it is considered part of the district for purposes of determining exempt status. Developing ethnic churches in an unconstituted district are under the direction of the Office of Intercultural Ministries at the National Office. These churches are tax-exempt as part of the National Office.

National Church Ministries notifies the Data Management Office when your church becomes accredited. That office then notifies the Office of the Corporate Secretary which automatically sends forms for becoming a part of the Alliance's group exemption to your church. If you do not receive these forms within six months of becoming accredited, or for further information, please contact the Office of the Corporate Secretary.

The alternative to seeking tax-exempt status as part of the C&MA group is for your church to file its own application with the IRS. The form is 14 pages long and requires that detailed financial information be submitted. It also requires an application fee. Gaining exemption under the Alliance's umbrella is much simpler and costs little or nothing.

An accredited church that either does not apply to be included in the C&MA group exemption or does not obtain independent tax-exempt status is still exempt from income taxes as long as it satisfies all the prerequisites contained in section 501(c)(3). Despite this automatic exemption for churches, obtaining IRS recognition is advisable in order to assure contributors who itemize their deductions that donations will be tax deductible.

Opening a Bank Account

In a new church plant, the district Church Planting Director determines where to keep the funds of the church. In an accredited church, the governance authority makes this decision. The governance authority should pass and record in the minutes a motion similar to the following one:

Recommendation: That we authorize the church treasurer to open an account in the name of [*church name*] Church of the [*district name*] district of The Christian and Missionary Alliance in [*name of bank*], and that we authorize the treasurer and assistant treasurer to deposit and withdraw funds on behalf of the church.

The name on the checking account is important if your church is a "developing" church. For example, suppose your church is called the First Alliance Church in Warsaw, Ohio. The checking account as a new, developing church should be in the name of First Alliance Church of the Central District of The Christian and Missionary Alliance, Warsaw, Ohio. (Contact the district office for further information.) Use the district federal tax-exempt number on your new account with their permission. Then there will be no question about the tax-deductibility of the members' contributions. This number should be used until the church is accredited.

The governance authority may authorize additional persons to sign checks. The governance authority may also want to require two signatures on checks over a certain amount. Disbursements should be made using pre-numbered checks.

Ideally, the church should have one checking account for all contributions to the General Fund, Great Commission Fund (missions), Benevolent Fund, Building Fund, and Sunday school. Funds for such auxiliary groups as C&MA Men's Ministry, Alliance Women Ministries, and Alliance Youth Group, may also be kept in this one account, or they may be kept in separate church checking accounts that are maintained by these groups. Wherever possible, the church's checking account should be an interest-bearing account.

If the church has excess funds, the governance authority should consider putting these funds in a savings account. There it will earn more interest than is normally available in an interest-bearing checking account. An Alliance Development Fund (ADF) Agreement Account is a good alternative. It pays a higher rate of interest than most savings accounts. It has the added benefit that ADF uses these funds to lend to other Alliance churches, colleges, and other auxiliary organizations for the purchase or construction of church buildings and parsonages. Another advantage is that funds can be withdrawn at any time. For further information about opening an Agreement Account, please contact The Alliance Development Fund, Inc.

Personnel

The *Manual of the Christian and Missionary Alliance* outlines the roles of financial personnel. In new or small churches, one person may be doing several different tasks. As the church grows, it is best to have one person assigned to each office.

Treasurer: The treasurer is the chief financial officer of the church. He/she is one of at least two persons who have immediate responsibility for the church's funds and finances. In a small church, the treasurer is usually responsible for counting money with the assistant treasurer.

The treasurer receives all monies given to the church, unless there is a missionary treasurer. In that case, the missionary treasurer handles the contributions for missions. The treasurer also:

- pays all the bills, on order of the governance authority
- keeps proper record of all transactions
- files canceled checks and receipts

The treasurer may also:

- be the chairperson of the Finance or Budget Committee
- direct the preparation of budgets
- be responsible for all financial reporting

Assistant Treasurer: The assistant treasurer's responsibilities are to:

- count or oversee the counting of all contributions
- keep a careful record of all receipts
- issue receipts to donors for income tax purposes

The assistant treasurer works with other persons appointed by the church's governance authority to count the offerings. In large churches, the governance authority may appoint others to this

task. There should **always** be at least two persons present to receive and count the church offerings.

Missionary Treasurer: In an accredited church, the financial team may include a missionary treasurer. The missionary treasurer accounts for all money given specifically for missions. He or she sends each month's contributions to the National Office of the C&MA with a special **Remittance Form**. This is sent in the special envelope provided by the Division of Operations/Finance. *This should be done before the 10th day of the following month.* (See Chapter 4 – Sending Money to the National Office.)

In many churches, there is not a separate position of missionary treasurer. The treasurer and the assistant treasurer perform these functions.

Treasurer's Checklist

We have provided a checklist of financial matters for church treasurers in **Appendix D**. It includes tasks that should be performed weekly, monthly, quarterly, and annually, as well as things that a developing church and a newly accredited church should do.

Conclusion

That, in brief, is how you start and the people you need for the financial team—treasurer, assistant treasurer, and possibly a missionary treasurer. There may be some “doubling up” of duties in the beginning when qualified members are lacking. But there always needs to be at least two people working together. The manner in which God's tithes and offerings are handled should build confidence and be above reproach.

Chapter 2

Checks and Balances – Internal Controls

Checks and balances (or internal controls) are procedures that safeguard the church from deliberate or accidental mishandling of money. They reassure contributors and the public that the church is trustworthy. They can also spare the financial team from accusations of mismanagement.

Alliance Manual Regulations

The *Manual of the Christian and Missionary Alliance* specifies that official church records are church property. Church officers may change because of resignation. When the church elects or appoints a successor, the current records of the church pass to the new officer. Keep all records in a secure place selected by the governance authority.

All financial records should be audited annually, or at any time a change in treasurer occurs. The church governance authority (or district Church Planting director) also may require audits more frequently.

The church needs a system of checks and balances in several areas, but procedures for the handling of cash are the most critical. Churches operate on a cash basis. The financial team handles money every week. Therefore there must be a good system of internal controls.

Basic Concepts

It is impossible to develop a complete list of checks and balances that will satisfy every situation in all churches. Churches are different in their size and make-up. However, all persons involved in the financial management of the church should understand the following basic concepts.

Segregation of Duties – Wherever possible, do not assign the same person responsibility for more than one of the following tasks:

- counting the offering
- recording individual contributions
- writing checks
- reconciling the bank statement

In a small church, the treasurer and assistant treasurer may have to handle all of these responsibilities. If this is the case, then the individual counting the offering should not record the contributions and the person writing checks should not reconcile the bank statement.

Confidentiality of Information – It is very important that *anyone* who has access to the giving records of individual donors keeps this information strictly confidential. This includes the persons who count and record the offerings. It also includes the assistant treasurer, who

transfers information to the *Individual Donor Records*. Keep the number of people with access to individuals' giving records to a minimum.

Handling Offerings – At least two persons should always be present with an offering until it is counted and either a recording of the offering is made on a **Cash Receipts Summary** form or the bank deposit is prepared. It is easy to see why two or more people should be present while the offering is counted. It is just as important that two people be present to take the offering from the sanctuary to the counting room.

Counting the Offering – We have already noted that two or more people must be present when you count the offering. If these are not the treasurer and the assistant treasurer, they should be persons appointed by the governance authority, unless the church bylaws or governance authority policy specify differently.

Count the offering and record it on a **Cash Receipts Summary** form. (A sample of this form is available.) Prepare a separate **Cash Receipts Summary** for each offering that is taken by the church.

The governance authority may choose to use a computerized system of accounting records. If so, enter the offering information directly into the computer for each donor and for the loose cash contributions. (See **Appendix C** for a list of computer software programs for churches.)

Whichever method is used, determine the total. This may be the total of either the **Cash Receipts Summary** or a summary report produced by the computer after you have entered all the receipts. Compare this to the total of all cash and checks received. The two totals must agree. Find and correct any errors. The persons counting and recording the offering should sign and date the summary report. They then submit it to the assistant treasurer, who reviews and signs it.

Recording the Offering – Next the totals for the envelope and cash offerings are transferred to the **Cash Receipts Journal**. These totals are taken from the information on the **Cash Receipts Summary**. (A sample of a **Cash Receipts Journal** is available.)

The assistant treasurer also should record the individual giving information from the **Cash Receipts Summary** to the **Individual Donor Records**. He or she should do this within one week of receiving the offering. (A sample of an **Individual Donor Record** form is available.)

The church should keep copies of the **Cash Receipts Summary** reports and a copy of the year-end **Individual Donor Records** for seven years. This will help to verify donor contributions if the IRS ever challenges the giving of an adherent in the church. (See **Appendix E** for information on how long to keep records.)

Offering Envelopes – The governance authority should provide the congregation with offering envelopes and urge people to use them. Using envelopes is a help to the financial team. The assistant treasurer can verify the amount of an individual's giving on the **Cash Receipts Summary** when he or she transfers this information to the **Individual Donor Records**. It also provides verification if the donor questions the recording of a contribution. Keep these envelopes for several months after you furnish the donors with a report of their contributions. This is in

case there are questions about an individual gift. The length of time you keep the envelopes will depend on whether you give these reports quarterly, semi-annually, or annually.

Inexpensive offering envelopes are available through Christian Publications, Inc. For accounting purposes, it is best to use a system of pre-numbered envelopes, assigning each donor an individual number. Also, encourage the church people to use personal checks rather than cash when making their offerings.

Prompt Deposits – Count all offerings and deposit them promptly after you receive them. Deposits can be made in the night deposit box or on the next banking day. This control reduces the amount of time you keep cash in the meeting place and reduces the chance of loss or theft.

Designated Gifts – Gifts that are designated for a particular exempt purpose *should* (morally and, possibly, legally) be used for that purpose, if at all possible. If this is not possible or practical, the donor should be contacted, if identifiable, to determine whether he/she wants to designate an alternative use for the funds. Under IRS regulations, in order for any donation to be legitimate it must be given without the donor retaining control and therefore it is normally not appropriate to return donations even when designated unless such donation can be returned in the current year given and the tax deductible receipt corrected.

Weekly Reports – Give the congregation a summary of the prior week’s offering. A sample report is shown in **Chapter 5**.

Monthly Reports – Prepare and present monthly reports to the governance authority and to your congregation. **Chapter 5** discusses monthly reports to the governance authority and the church congregation. Later, we will discuss the importance of these reports.

Monthly Bank Reconciliation – The bank will send monthly statements and they need to be reconciled to the accounting records. The reconciliation should list all items being accounted for. Follow up at once on all disputed charges or questioned items. This process ensures that errors are discovered quickly, and that the church’s records agree with the actual cash in the bank. It also provides a good tool for tracing receipts and disbursements during your annual church audit. See **Chapter 5** for “how to” instructions for preparing a bank reconciliation.

Whenever possible, the monthly bank reconciliation should be done by someone who has no responsibility for signing or issuing checks.

Annual Reports – The Treasurer is required to prepare a complete financial report for the year and include it in the Annual Report of the church. This will often be formatted in three columns:

- the current year budget
- actual expenses for the year
- the proposed budget for the coming year

A sample report is available.

Annual Audit – The business world accepts an annual audit as a prudent practice. It is also a good practice for churches.

The audit consists of a variety of tests, questions, and review procedures. These help determine whether all financial transactions have been properly accounted for, and have been represented fairly in the financial reports. Usually, the audit also evaluates the procedures the church is using to account for finances.

The audit is not a reflection on the competence or integrity of the treasurer. Rather, it is a routine procedure designed to protect both the treasurer and the church.

The governance authority will normally appoint several individuals to conduct the audit each year. It is helpful if the people who are appointed are knowledgeable in finance or accounting. However, this is not critical, especially if the auditors use the sample checklist provided in **Appendix F**.

The church also may consider having a professional, independent audit or review performed by a certified public accountant. Many churches do this periodically, such as every two or three years. While this is expensive, it may be worthwhile if:

- you value the suggestions this kind of audit can generate
- the church's finances are complex (for example, if your church has a school, day care center, or investments)
- the church is obtaining bank financing or considering other transactions where independently audited financial statements are required

Conclusion

Second Corinthians 8 and 9 outline basic principles of Christian giving. From God's perspective, giving to the Lord through the church is an act of worship to Him. It brings a variety of blessings, as does all obedience to God's principles. Those who serve as the caretakers of His offerings have great responsibility to safeguard the church's assets. This system of checks and balances helps you to serve God with excellence.

Chapter 3

Receipting the Money

The church receives cash or checks at different times and from several sources. Some of it may come in the mail. Naturally, it must be kept in a safe place until it can be included in the next general accounting.

Most people, however, contribute money through the church offerings taken on Sunday. It is extremely important that the contributions be accounted for, from whatever the source. The treasurer is responsible to use monies for the purpose the donors intended.

Eight Steps to Receipting Money

Step 1: Separate the church offering envelopes from all the cash (usually called the loose offering) and other checks. Put the offering envelopes in numerical order. You should maintain lists of envelope numbers and donors organized two ways:

- by name
- by number

Have the lists available for the people who are recording the offering. Sometimes a check will be given without an envelope from someone who has an assigned envelope number. When this happens, insert the check in the proper place among the offering envelopes, and record the gift by number on the **Cash Receipts Summary**, noting that there was no envelope. Other times, you may receive checks from individuals who do not have envelopes. Record their name and address on the **Cash Receipts Summary**, so the assistant treasurer can issue a receipt for them.

Step 2: Count the loose offering and enter the total on the Loose Offering line of the **Cash Receipts Summary**. This is usually under the General Fund column. An exception would be if a special offering was received for a designated purpose. Then you would place loose offerings in the proper column. A **Cash Receipts Summary** is available.

Step 3: After the loose offering is counted and recorded, open each envelope. Record on the **Cash Receipts Summary** next to the proper pre-printed envelope number:

- the total amount of the contribution
- the amounts designated by the donor for each fund (General Fund, Great Commission Fund (missions), Building Fund, etc.)

Recording these individual contributions may seem unnecessary, but it will make the assistant treasurer's job much easier when he or she records the information in the individual giving records.

Sometimes, a donor may not write on the envelope the funds for which their offering is designated, but has put that information in the envelope or on the check. Enter this information on the envelope. You should assume that money, which the donors do not designate, is for the church's General Fund. An exception would be if the governance authority sets a different policy, and communicates it to the church.

Now, make sure that the check is negotiable (able to be cashed). Check to see that:

- the numeric and written amounts agree
- the date is current
- there is a proper signature

Make sure the contents of the envelope (whether cash or check) agree with the amount written on it. This is important: the offering envelopes are the documents that you may need later to balance the bank deposit. Keep envelopes in the same order as you record them on the **Cash Receipts Summary**.

Count the offering as soon as possible after the ushers collect it. If it is stolen before you count it, some insurance policies will not cover the loss, because they cannot determine the amount of the offering.

Step 4: After all the receipts are recorded on the **Cash Receipts Summary** form, total each of the columns. Then enter the total for each column at the bottom of the page. If you need more than one page to record an offering, write the total of each column at the bottom of the page. Then record a grand total at the bottom of the last page. When you add each of the individual column totals together, that amount should be the same as adding together all of the amounts in the Total column. If it is not, find the error and correct it.

Step 5: Using an adding machine, make a tape that includes all of the checks and their total. Next, make a second adding machine tape, this time making a subtotal of all the checks. If this amount is the same as the total on the first tape, then add the amount of cash (currency and coin) and make a new total on the second tape. This total should match the total on the Cash Receipts Summary. If it doesn't, find the error and correct it. Staple this tape to the Cash Receipts Summary.

Step 6: Prepare the bank deposit, using the bank's pre-printed deposit form. Write the total amount of the first adding machine tape you made (in Step 5 above) on the first line for checks. Then staple that tape to the deposit form, as a record of all the checks. Write the amount of currency and coin on the proper lines, and total the deposit form. This total must match the total on the **Cash Receipts Summary**.

Each check should be restrictively endorsed on the back of the left end of the check. "Restrictively endorsed" means that you write or stamp:

- For deposit only
- Name of your church
- Church's bank account number

An endorsement stamp is the easiest way to do this. You can purchase one from the bank or from a local stationery store. Take the deposit to the bank as soon as possible.

Step 7: From the **Cash Receipts Summary**, the assistant treasurer can copy the amounts of the itemized donor contributions to their **Individual Donor Records** (sample available). Do this at once, rather than letting several reports pile up.

Step 8: Soon afterward, enter totals from the **Cash Receipts Summary** into the **Cash Receipts Journal** (see Chapter 5, Budgeting, Recordkeeping and Reporting). At the end of each

month, summarize the receipts for that month and report them to the governance authority and the congregation.

Remember to follow the proper procedures for processing cash receipts. Proper controls will insure that all offerings are used for their intended purpose. Proper records also will enable you to aid your members if the Internal Revenue Service ever questions their contributions. Improper receipting procedures that result in the consistent violation of IRS tax deductibility requirements could result in your church losing its tax-exempt status.

Cashing Checks from Church Offerings

Occasionally a member of the congregation may approach you following the offering to request that you cash a personal check for them. Although this is not a violation of the law, it is a very poor procedure and you should avoid it. If it is a necessity, have them write a check payable to “Cash” and not to the church. Otherwise the person may accidentally (or even intentionally) use the canceled check as a record of their contribution to the church for tax purposes. An admonition from Scripture is appropriate: “...avoid the very appearance of evil.”

Donor Receipts

The Revenue Reconciliation Act of 1993 (RRA 93) signed into law by the President on August 10, 1993 contained new substantiation requirements for documenting certain charitable contributions. Beginning January 1, 1994, no deduction is allowed under section 170 of the Internal Revenue Code for any charitable contribution of \$250 or more unless the donor has contemporaneous written substantiation from the charity. In cases where the charity has provided goods or services to the donor in exchange for making the contribution, this contemporaneous written acknowledgment must include a good faith estimate of the value of such goods or services. Thus, taxpayers may no longer rely solely on a canceled check to substantiate a cash contribution of \$250 or more.

The substantiation must be “contemporaneous.” That is, the donor must obtain it no later than the date the donor actually files a return for the tax year in which the contribution was made. While the new law states that it is the donor’s responsibility for obtaining this substantiation from the charity, most charities recognize their need to provide this substantiation automatically as a part of their receipting process, whether it is on an annual reporting or individual receipt basis.

Most churches issue an annual report of giving to each donor. When this is done, the annual report should itemize each individual gift of \$250 or more, even though not legally required. This is a good practice and allows donors to detect errors and reconcile discrepancies. An individual gift is defined as the total amount given on a particular day, and not as amounts given to individual “funds” on a particular date. In addition, if nothing was given to the donor, the receipt, whether on an annual statement or individual gift basis, must include a statement to the effect that “No goods or services of value were given in exchange for this contribution.”

If the church receives a specific donation that is greater than \$75 and includes some tangible good or service (i.e. book, dinner) then additional substantiation requirements apply. These are termed by the IRS as “quid pro quo” contributions.

Additional information about proper substantiation of donations may be found in the Church and Clergy Tax Guide (see Appendix B), or in I.R.S. Publication 1771 (11-93), which may be requested from your local I.R.S. office or their Web site.

Out-of-Pocket Expenses of Volunteers

New substantiation requirements have come out in proposed regulations involving the unreimbursed out-of-pocket expenses of volunteers in excess of \$250. While the church does not have to acknowledge the out-of-pocket expenses that its volunteers incur in rendering services to the church, it must provide written acknowledgement that services were rendered. The acknowledgement must contain the following:

- A description of the services provided by the volunteer.
- Dates that the services were rendered.
- An indication whether any goods or services were provided in exchange for the costs incurred.

It is up to the volunteer to substantiate the actual costs, and to determine whether the costs qualify as charitable contributions.

Tax-deductibility Questions

To assure compliance with Internal Revenue Service regulations, all gifts need to be clearly identified as tax-deductible or non-deductible. Note any gift that is non-deductible in the **Cash Receipts Summary** and **Individual Donor Record**.

How does a person determine if a gift is tax-deductible or non-deductible? There are six conditions that a contribution must meet to be tax-deductible:

- a gift of cash or other property (not services)
- made before the close of the tax year for which the contribution is claimed
- unconditional and without personal benefit to the donor
- made “to or for the use of” a qualified organization
- not in excess of the amounts allowed by law
- properly substantiated

The IRS has also ruled that one of the main determining factors for tax-deductibility is who controls the use of the funds. In Revenue ruling 62-113, the IRS states:

The test in each case is whether the organization has full control of the donated funds, and the discretion as to their use, so as to insure that they will be used to carry out its functions and purposes.

The ruling continues:

If contributions are earmarked by the donor for a particular individual, they are treated, in effect, as being gifts to the designated individual and are not tax-deductible. However, a deduction will be allowable when it is established that a gift is intended by a donor for use of the organization and not as a gift to an individual.

Gifts for designated or special projects are deductible if the governance authority approves those special projects before you issue the tax-deductible receipt. Gifts for the support, work or outfit of an Alliance missionary are also deductible. So are gifts that are “approved specials.” These are projects approved by International Ministries or National Church Ministries at the National Office. (See the section on **Common Designations** in Chapter 4, Sending Money to the National Office. There you will find a more complete definition of some of the types of gifts that are sent to the National Office.)

Gifts for the support of youth participating in the Alliance Youth Corps, Operation Good News, and similar programs are usually tax-deductible. There is some question as to whether gifts from parents for their own children in these programs are tax-deductible. If the parents generally support other youth in the church, if their support is only a portion of the total given, or the church maintains control over the funds and disburses them for appropriate ministry costs, you could issue a tax-deductible receipt to them. Since it has already spoken on the issue of control, the IRS will probably challenge the governance authority’s approval of a special project if it is based on the specific request of the only donor.

Gifts that may be tax-deductible also include love offerings or benevolent gifts designated for specific people. For example, suppose you take a love offering for your pastor at Christmas. The gifts would be tax-deductible only if they are reported as income to the pastor. Love offerings are discussed in more detail in Chapter 6. Or, the governance authority (or other designated church body, such as the deacons) may approve a benevolent fund for a specific individual. Gifts to that fund are also tax-deductible.

Non-cash Gifts

The church may receive contributions in property or other non-cash items. In general, a receipt for a specific amount is not appropriate. Instead, send a letter to the donor acknowledging that the church received the gift. Include a complete description of the item.

The burden of determining and supporting the value of this type of gift rests primarily on the donor. IRS regulations specify special reporting requirements for some non-cash gifts valued at more than \$500. If the amount of the deduction for all non-cash gifts exceeds \$500, the donor is required to file Form 8283 with their federal income tax return. For gifts, other than marketable securities, valued at more than \$5,000, the donor usually has to obtain a qualified appraisal of the item.

If the church sells the item within two years, additional information must be provided to the IRS. If this happens, you are required to complete Form 8282. Both Form 8282 and 8283 may be obtained from the IRS.

Exercise care in accepting non-cash gifts, especially land and buildings. By accepting these gifts, the church may be liable for environmental or legal issues, such as pollution problems or asbestos in buildings.

Fund Raising

There are also IRS regulations covering fund raising events. If you provide some type of gift or benefit to the donor, the fair market value of that benefit is not tax-deductible (“quid pro quo” rules). Examples of such benefits include meals, concerts, books, and other “give-away” items. The IRS requires that the value of the benefit be printed on tickets and other promotional literature. You may want to consult with a tax advisor when planning a fund raising event. See additional information in the Church and Clergy Tax Guide.

Chapter 4

Sending Money to the National Office

The Great Commission Fund is the financial dimension of The Christian and Missionary Alliance's response to the instruction and promise of our Lord in Matthew 28:18-20, "...Go and make disciples of all nations..." The fund is comprised mostly of the Faith Promise contributions of Alliance people in churches across the United States. These Faith Promise gifts usually are tallied at the annual mission conference and are commitments of giving to Alliance missions for the next twelve months. Unlike a traditional pledge, the amount promised is not something for which the giver is held accountable. It is received as a sincere intention, a commitment made by faith between the individual and God to support Alliance missions.

The treasurer's job is to receive the gifts to the Great Commission Fund as they come in, receipt them in the manner your church has established and send the total to the National Office on a monthly basis. Support of our missionaries and missions program is *dependent on the regular flow* of gifts from the churches. The Uniform Constitution for Accredited Churches (in the *Manual of The Christian and Missionary Alliance*) requires the treasurer or missionary treasurer to forward all mission offerings to the National Office by the tenth of the month after they are received. The special remittance form and envelope provided by the Division of Operations/Finance should be used to send the missions offerings.

The Remittance Form

When the church's contributions are received at the National Office, they are processed according to the directions on the special remittance form. The official receipt is then sent to the church, indicating how the contributions have been designated. Attached to the receipt is another remittance form to be used when sending in the next contribution.

A sample of the **Receipt/Remittance** form provided by the National Office is available. These remittance forms speed up the processing of funds at the National Office. They also insure that the contributions are properly recorded. Thousands of receipts are issued each month, representing millions of dollars in contributions. The remittance form is very important in this process.

Common Designations

Great Commission Fund: Money given to missions becomes a part of the Great Commission Fund. The money in the Great Commission Fund is used for the worldwide work of the C&MA. This includes the financial support of Alliance missionaries, overseas church planting, radio and medical work, and Bible translation. The GCF also supports the Alliance work in the United States including church planting, intercultural ministries, education ministries, and denominational administration. This is the "bread and butter" fund of the Alliance. It is essential to the denomination's ministry of world evangelization. Show the amount for the Great Commission Fund on the first line of the **Remittance Form**.

Occasionally a donor may designate that his/her contribution be used in a more specific way. Listed below are the other “common designations” that donors may specify in their giving.

Support – Frequently a church or an individual gives to the support of a particular missionary as a way of personalizing their gifts to the Great Commission Fund. This money is placed in the Great Commission Fund, and the missionary is informed of the gift and the donor.

Work – When someone contributes money to the “work of” a particular missionary, that gift is forwarded in full to the field where the missionary serves. The missionary then uses it for some part of his/her ministry under the direction of the field leadership team.

Outfit – When a donor designates money for the “outfit of” a missionary, that gift is considered taxable income to the missionary and is sent with his/her allowance the month following the receipt of the gift. An outfit consists of those items approved by the field administration to meet the needs of the missionary. It may include appliances, linens, and other items used by the missionary on the field.

Approved Specials – A donor may designate money for one or more “approved specials.” These are projects not included in the Great Commission Fund budget. Specials for overseas projects are approved by the field administration and International Ministries. Specials for Intercultural Ministries are approved by National Church Ministries. The Approved Specials lists stipulate a maximum amount for each project. If the amount received for a project exceeds the approved maximum amount, it is held until the donor can be contacted and another designation is determined. An exception to this procedure is the Approved Specials for vehicles for missionaries. Excess funds are automatically credited to that missionary’s “work” account. Donors are notified of this change, and are given the opportunity to redesignate their gift if they desire to do so.

The Approved Specials lists include things such as vehicles for missionaries, buildings for Bible institutes, sound systems for open-air evangelism, translation projects, youth conferences, etc. The lists are updated regularly. A copy of the lists may be obtained by writing to International Ministries or National Church Ministries at the National Office. You may learn the amount that has been received for a particular approved special by calling International Ministries or the Intercultural Ministries office in National Church Ministries.

Personal gifts – Money may be designated as a personal gift for a missionary. This may be designated as a birthday, anniversary or Christmas gift for the named missionary. These funds are forwarded in full to the missionary with their regular allowance to use, as they desire.

Gifts in all these designations, *except for personal gifts*, qualify for a tax-deductible receipt. Personal gifts are **not** tax-deductible.

When money is designated for a missionary for any of these categories, please use the missionary’s full name. Also include the field where he or she serves. The C&MA has many missionaries with the same last name. Some of them have the same initials and a few even have the same first name.

Timing of Sending Money to Missionaries

You should understand the processing time the National Office personnel needs to get a gift to a missionary by the time the donor intends. Churches normally forward the gifts they receive in one month during the first ten days of the following month. When gifts are received in the National Office, they are sent to the missionary the month after that.

Suppose a donor, giving through the church, wants to send a Christmas gift to a missionary. To have the missionary receive it before Christmas, the donor should place it in the church offering in September. The money is sent to the National Office in October. The gift would be included in the missionary's November allowance, which would reach him or her at the **end** of November. [If the donor sent the gift directly to the National Office, he or she would have to send it in October for the gift to be included in the missionary's November allowance.]

Corrections and Questions

The personnel in the Division of Operations/Finance at the National Office strive for accuracy and promptness as they process each monthly remittance. Occasionally, however, someone may make a mistake. If you ever have a question about the processing of receipts or about a previous remittance, please address your inquiry to:

Senior Manager of General Accounting
The Christian and Missionary Alliance
P. O. Box 35000
Colorado Springs, CO 80935-3500

Fellowship Fund

The Fellowship Fund is the informal name for the C&MA's defined benefit plan under section 403(b) of the Internal Revenue Code. At the 1999 General Council, the C&MA adopted a defined contribution plan under section 403(b) for all current participants of the Fellowship Fund and for any new participants who choose to join. The Fellowship Fund was closed to any new participation, all participants 54 or younger were effectively rolled into the new 403(b) plan, all participants 55 or older were given the option of rolling into the 403(b) plan or remaining in the Fellowship Fund, and all current retirees remained in the Fellowship Fund.

As a result of this transition, the Fellowship Fund participation is now static or declining. Despite this, there is still a month to month obligation to those remaining participants in the Fellowship Fund. Due to the significant underfunding that occurred during its 60 years of operation, the Fellowship Fund is still dependent on monthly contributions from the National Office, district, churches, and C&MA subsidiaries and affiliated enterprises in order to properly fund the Fellowship Fund's payment to its retirees.

As part of the transition from the Fellowship Fund to the 403(b) plan, all the above entities including churches were required to continue contributing to the Fellowship Fund as in the past but at a reduced rate. These rates are as follows:

<u>Plan Years</u>	<u>Of General Operating Income</u>
2000, 2001	.9%
2002, 2003	.8%
2004, 2005	.7%
2006 and later	to be determined

The above calculated amount for each organization should be remitted to the National Office on a monthly basis as part of the remittance process described in this chapter.

Chapter 5

Budgeting, Recordkeeping and Reporting

This chapter covers the “nuts and bolts” of the ministry of the treasurer. It includes:

- the process of preparing an annual church budget
- maintaining accurate and complete records
- reporting the financial status of the church to the congregation, the governance authority, and others

These tasks are essential for the running of the church in a God-honoring way. They provide the structures for:

- accountability to God, the congregation, the evangelical community, and civil authorities
- protection of the church’s assets
- planning and management of the church’s programs and resources

No part of this process needs to be elaborate or complicated. However, certain traits are a part of all good financial records and reports. These include:

- accuracy
- timeliness
- completeness
- clarity

The suggested methods in this chapter provide simple, effective means to accomplish these objectives. All of these methods may be used manually (handwritten or typed) or on a computer (see **Appendix C** for suggested computer programs).

The focus of this chapter is on the church’s records. However, the same principles and procedures apply to the church’s auxiliary groups that may keep their own records (Sunday school, C&MA Men’s Ministry, Alliance Women Ministries, Alliance Youth Group).

Budgeting

General

The annual church budget is a key tool for planning and control. Only God knows the “end from the beginning,” but it is wise to have plans for the church’s future. Regularly the church leaders will assess where it “has been” and where the Lord intends for it “to go.” A budget translates the church’s goals into the financial resources needed in order to accomplish these goals. It requires a balance between faith and realistic expectations. Expectations are based on the church’s history, size, unique opportunities, major community changes, etc.

The treasurer, with the governance authority (or possibly a finance or budget committee appointed by them), will prepare the church budget for the coming year. It needs to be completed before the church's Annual Meeting. Encourage each department and major ministry to provide his or her input to the budget committee. If the church is accredited and has a governance authority, it will hold an Annual Meeting. At that time, the budget will be presented to the congregation for its approval. If the church is a developing church, the budget will need the approval of the district superintendent or director. This approval should be secured before the budget is presented to the congregation for its approval.

Budgets can cover any twelve-month period—known as the *fiscal year*. The National Office of the C&MA operates on a July 1 to June 30 fiscal year that corresponds with the cycle of sending missionaries. Unless your church has a special need, we suggest that your church operate its budget on the calendar year, January through December.

Once established, the budget will provide you with an important *navigation* tool. It helps the church determine if it is accomplishing its goals within the available resources. It also enables the leadership to take corrective action during the year. The budget lets the leadership monitor how the planned receipts and disbursements compare to what was actually received and spent.

Sunday school and youth ministries sometimes have separate budgets. If they do, the Sunday school or youth ministry may be responsible for raising all of its own support through offerings or fund-raising endeavors. However, it is becoming more frequent for churches to have a Sunday school budget, but not require the Sunday school to raise *all* of its own income. In this case, a portion of the Sunday school (or youth) budget comes from offerings received by these groups. An additional portion comes from the general operating expenses of the church.

If the Sunday school or youth program operates on a self-supporting basis, treat it as a separate fund, with its own set of receipts and disbursements accounts. Give the fund its own line on the **Condensed Monthly (or Annual) Financial Report**.

A third way of handling auxiliary groups is also possible. The church may not count Sunday school and youth offerings separately. Instead, they are placed in the general fund income as a gift or offering received from the Sunday school or youth group. These expenses are included in the general church budget.

Budget Preparation

To prepare the budget, you need a “framework” for summarizing the anticipated revenues and expenses. This framework, which is also used for recordkeeping and reporting, is called a *chart of accounts*. Usually, a number is assigned to each account in a logical sequence or pattern. Then funds and accounts within those funds can be clearly separated and identified.

There is a sample chart of accounts available. The chart of accounts may be tailored to fit the needs of the church.

A sample of the **Annual Report and Proposed Budget** using sample accounts shown is available. Current Year Actual receipts and disbursements can be a useful tool in projecting the

expenses for the next year. However, do not base the budget solely on past experience, but on the future goals and objectives.

In the sample you will see that we budgeted what we expected to receive (receipts) so it is equal to what we expect to spend (disbursements). Do not budget disbursements to exceed receipts. Likewise, do not let *actual* expenses exceed *actual* receipts. The church may, however, plan more receipts than disbursements. The planned excess amount could provide savings for future projects or as a cushion for unexpected expenses.

Recordkeeping

A central part of the role of the treasurer is to keep up-to-date, accurate records of all receipts and disbursements of the year. There are many ways to set up your accounting records or “books.” The method we describe below is easy to use and adequate for most churches. Periodically, the details will need to be summarized into a financial report. This will be discussed later in this chapter.

Cash Receipts

When the people who count the money receive an offering, they record how each donor has designated his/her money on the **Cash Receipts Summary** (as described in Chapter 3). The totals need to be recorded by account from the **Cash Receipts Summary** in the record of transactions known as the **Cash Receipts Journal**. They should be recorded as soon as possible after depositing the offering. Often, other funds will come in, such as checks for the reimbursement of expenses (for example, Bible study books) or miscellaneous gifts. Normally, these will be held until the next deposit is made.

There is a sample **Cash Receipts Journal**, including sample transactions available. The **Cash Receipts Journal** will require several pages for each grouping of accounts. Use the same format as shown on the sample for each group of accounts. The accounting paper has only enough room for six accounts. Group together several pages with the same account numbers to record the entire year’s transactions for those accounts. Additional pages may be inserted as needed.

At the end of each month, total all the columns. A year-to-date total should also be made. Calculate this total by taking the year-to-date total from the previous month and adding to it the current month total. For example, suppose your fiscal year is the calendar year (January through December). In January, your year-to-date and monthly totals will be equal. Add February’s total to this amount to find the year-to-date amount for that month. Next month, add March’s total to the February year-to-date figure. Continue this process throughout the year. It will make it easier to prepare your reports at the end of any period.

In addition to the **Cash Receipts Journal**, the deposits should be recorded in the church’s checkbook, so you can keep a *running balance*.

Cash Disbursements

Before we discuss the actual recording of cash disbursements, there are several important guidelines for disbursing funds:

- Except for cash disbursed from a petty cash fund (described below), all payments should be made by check. This provides the best record of payments and is safer than keeping cash on hand.
- Use pre-numbered checks and keep track of how each number is used. This is an important safeguard. If you need to avoid a check, keep it, so that you properly account for each check.
- Support all payments by appropriate documents, such as invoices or governance authority minutes (for salaries). File the supporting documents in a logical way (for example, by date or vendor for invoices).
- Mark paid invoices “paid.” Write the date of the payment, the check number, and the account number(s) you charged the payment to on the invoice.
- Require two (dual) signatures on all checks over a certain dollar amount (for example, \$500). You can easily arrange this with your bank.
- Always keep checks in a secure place.
- **Never** pre-sign blank checks.

The treasurer and assistant treasurer (and possibly one other person approved by the governance authority) will have *signing authority* on the church’s bank accounts. Although the treasurer is the primary person to disburse funds, at least one other person should have the same authority, in case of an emergency. Another person also will be necessary if the governance authority requires dual signatures on checks.

Write checks only when proper documentation is received, such as receipts or invoices. Make only those payments that the budget (which the congregation approved) authorizes. The governance authority should approve unbudgeted items or expenses that exceed budgeted amounts.

As with your personal bank account, be careful to record every check. Write the purpose of the check and the account number(s) to which you will charge the amount on the check stub or in the check register. Do it when you write the check. This will make it easier to record the item in the **Cash Disbursements Journal** and avoid questions and confusion later.

There is a sample **Cash Disbursements Journal** with sample transactions available. Just as with the **Cash Receipts Journal**, the **Cash Disbursements Journal** will require several pages for each grouping of accounts. Use the same format as shown in the sample for each group of accounts. The accounting paper only has enough room for six accounts. Group together several pages with the same account numbers to record the entire year’s transactions for those accounts. Additional pages may be inserted as needed.

Once again, total all columns at the end of each month. Carry forward year-to-date amounts. At the end of each month or other period, you can get the total amount spent from a particular account. A summary of these amounts will be reported to the congregation (and others) along with the cash receipts.

The church may choose to keep a small amount of cash (for example, \$100) available at the church to cover small, emergency expenses. Since the amount is small, it is referred to as *petty cash*. If the church decides to set up this fund, follow these procedures:

- Keep the cash in a safe place and accessible by only one or two people. They are responsible for the fund.
- Keep the money on an *imprest* basis. This means that the total of the cash and receipts in the fund should always equal the original amount. For example, suppose the original amount in petty cash is \$100. The person spending the cash will return a receipt for the purchase to the person responsible for the fund. The total of the actual cash in the fund plus the receipt should always equal \$100.
- The person responsible for petty cash should keep a “log” of disbursements. See the sample log on the next page. Have the person receiving the cash sign his/her name in the “Payee” column.
- Eventually the actual cash will fall below a certain amount (for example, \$20). The person responsible for the petty cash then totals the disbursements on the log. He or she submits it, along with the corresponding receipts, to the treasurer, who will give the petty cash person an equal amount to replenish the total cash to \$100. Usually the treasurer will write a check for the amount needed to reimburse petty cash. Then the person responsible for the petty cash fund cashes the check.
- Then the expenses are recorded in the **Cash Disbursements Journal**, supporting the entries with the receipts.
- Petty Cash should always be reimbursed to its full amount at the end of the church’s fiscal year.

Sample Petty Cash Log				
Date	Payee	Description of Expense	Account Number	Amount

Total				

Other Accounting Records

We have described accounting methods for cash receipts and disbursements. These cover most of the transactions you will need in the simplest method possible. However, there are other types of transactions for which you need to keep records. They are:

Assets are items of value that the church owns. These usually have an “economic life” that continues beyond the current fiscal year, such as buildings, furniture, and equipment. More elaborate accounting methods provide a way to record assets in the accounting records of the church. For our purposes, however, you only need a record of all relevant information on the assets. The record covers the time from when you purchase the assets until you dispose of them (sell or give them away). This information should include:

- description
- date of receipt or purchase (acquisition date)
- the original cost
- insured replacement cost
- invoices and other documents

Present a report containing this information to the congregation once a year (usually when the Annual Report is presented).

Liabilities are debts that the church must settle at a future date, such as mortgages and other types of loans. This information should include:

- description
- date of the amount borrowed (date incurred)
- original amount borrowed
- interest rate
- monthly payment
- remaining balance due

- any other relevant information.

This information should be reported annually. There is a sample **Statement of Assets and Liabilities** available.

Transfers include the amounts you transfer between funds or bank accounts. Maintain a record of transfers in either:

- the checkbook
- a savings account record
- a separate record

Again, these should be reported to the congregation regularly.

Other Accounting Duties

Reconciling Bank Accounts

As we noted in Chapter 2, the church should receive statements from the bank for all its accounts each month. These statements need to be reconciled with the church's records according to the date shown on the bank statement.

Reconciling requires you to account for items that the bank has recorded, but you have not yet recorded (for example, bank service charges). You must also account for transactions that you have recorded, but the bank has not yet recorded (for example, outstanding checks). Most banks provide a reconciliation form and instructions on the back of the bank statement. You may use this form, or you may use an adding machine tape. To use the tape, follow these steps:

1. Enter the amount of each outstanding check (not yet recorded by the bank) and total them.
2. Enter the bank balance shown on the statement and:
 - subtract the total of outstanding checks
 - add any deposits that have been made which do not appear on the bank statement
 - add any unrecorded charges (which you must record in your books later)
 - subtract any unrecorded bank credits (you must also record these later in your books)
 - total the tape
3. This total should equal your checkbook balance. If not, you need to search for errors in the checkbook or in your calculations. For example, suppose you entered the wrong amount in the checkbook for a check or a deposit. Or, suppose you made a mistake in addition in calculating the checkbook balance. Include the amount of the error(s) on the reconciliation. This way the ending total on the reconciliation will agree with the actual

checkbook balance. You will also need to make the appropriate correction(s) for these errors in the checkbook.

4. When you have completed the tape so that it equals the checkbook balance, write the check numbers next to the amounts printed on the adding machine tape. This will help you re-check your reconciliation. It will also help you see the checks that “clear” on later bank statements.
5. If you believe that your bank has made an error, contact them immediately. Some banks will not correct their errors if you do not notify them within a certain period after they issue the statements.
6. Attach the adding machine tape to the bank statement and keep it with the canceled checks.

Be sure to complete the bank reconciliation each month. This provides a check on the bank (**they do make mistakes!**) and it helps insure that your records are accurate and complete.

Closing Accounts at Year End

At the end of the fiscal year, the accounts need to be “closed.” This requires you to total the receipt and disbursement accounts to their final year-to-date amounts.

Start all your receipt and disbursement accounts over at zero when you begin the new fiscal year. Then you can start accumulating balances again. Carry the cash and fund balances forward (continue where you left off at the end of the previous year) in the checkbook and reports (**Sample Condensed Annual Financial Report** available).

Record Retention

The civil authorities require that records be kept for certain periods of time. The church, too, needs to maintain records. These provide a ready reference for studying the church’s history and for analyzing trends. There is a list of recommended retention periods in **Appendix E**. The list does not include every type of record or document that should be kept. It should, however, serve as a guideline for similar records.

Reporting

The congregation and the governance authority need to be informed regularly on the status of the church’s finances. This is done by summarizing the transactions that you recorded in the detail accounting records into various financial reports.

Good reports help your church fulfill its mission by keeping everyone well informed. The reports must have the following characteristics to be useful:

- Complete; no important information is missing
- Clear; they need to be understandable by persons who read them

- Consistent; the transactions should be recorded the same way each time they are recorded
- Comparable; the reports should be prepared in the same way so that accurate comparisons can be made with prior and later periods or with the budget
- Accurate; there should be no significant errors
- Timely; reports are presented often enough for them to be useful

We will describe some suggested reports below. Reports will vary from church to church in their detail and frequency.

Weekly Reports

Many congregations find it helpful to receive a brief weekly report, such as the one below. This report could be published in the church bulletin or posted on the bulletin board.

Sample Weekly Financial Report		
General Fund	Last Week	Year to Date
Actual	\$900	\$21,050
Budget	1,023	20,460
Great Commission Fund		
Actual	\$300	\$4,500
Faith Promise	225	4,200

This report could be expanded to include columns for other funds (example, Building fund or instrument fund), as needed.

Monthly Reports

At a minimum, reports should be presented of receipts and disbursements to the governance authority and the congregation, every month. Preparing a condensed report is easy using the **Cash Receipts** and **Cash Disbursements Journals**. The amounts in the report are taken from their respective journals. A sample of a brief, condensed report is available.

This same report should be prepared for the entire year as part of the church's **Annual Report** (sample available). Show the balances at the beginning and end of the year, along with the total receipts, disbursements, and transfers for the year. The details of special funds can appear on a separate page, with a single line showing the totals on the summary page.

The bottom portion of the report shows where the church's funds are kept. This serves as a *proof* of the top portion of the report. The total cash **must** equal the total of the balances of all funds.

Suppose the total of the balances in the cash accounts (checkbook, savings account, and petty cash amount) does *not* equal the total ending (or beginning) balance of the funds in the church's records. This would reveal an error that must be resolved.

Most governance authorities will want a *full* report of receipts and disbursements for the previous month (sample available). Prepare a report for each fund based on the totals taken from the **Cash Receipts and Cash Disbursements Journals**.

Obviously, a computer would be extremely helpful in preparing these reports. More and more churches are now using them. (See **Appendix C** for a list of some recommended software and guidelines.)

Some of the columns in this report could be left out. However, those we included represent the most useful information. The treasurer and the governance authority (and Finance Committee) will find these reports helpful in preparing next year's budget.

As noted previously, *the treasurer should not spend more than what is approved in the budget*. Suppose this was to happen (for example, an unusually cold winter produces higher than expected fuel bills), the governance authority should approve the excess expenditure, or take some other action. Just as in your personal life, the church must live within its means.

Annual Reports

Article V of the C&MA **Uniform Constitution for Accredited Churches** requires that a detailed financial report be presented to the congregation at the time of the Annual Meeting. At that point, the full year's budget and actual receipts and disbursements are reported. We have a sample available. It uses the same accounts as the detail monthly report to the governance authority sample. Our sample uses three columns to show current year budget amounts, current year actual amounts, and the proposed budget amounts for the following year. As was noted above, you should also prepare a **Condensed Annual Financial Report**.

You should provide the congregation with one other document. This is a report of the assets that the church owns and the liabilities that the church is obligated to pay (sample available). More formal, sophisticated accounting systems provide this information as part of their financial statements. Our goal is to provide, simple, easy-to-prepare reports.

Final Words

The church must keep copies of all financial reports for various lengths of time (see suggested retention periods in **Appendix E**). This provides historical information necessary for future needs and to answer questions that may arise. A bank may also require them if the church ever needs to apply for a loan.

Clearly note any changes in the way you present data in the financial reports so you can compare information with other years. For example, suppose the church reports telephone expenses under

“utilities” for several years. Later, you decide to show these costs on a separate line. A comparison of those lines in the financial reports would be misleading without a note explaining the change. It would appear as though the church had no telephone expense in previous years, or that it is “buried” in some unknown category. The cost of utilities would also appear to decrease from previous years. A simple note would clarify the change. It would also provide better information for projecting future costs during the budget process.

Chapter 6

Payroll and Pastoral Remuneration

Dual Status

A pastor has a dual status for tax purposes. Internal Revenue Service publication 517, *Social Security for Members of the Clergy and Religious Workers*, states the following regarding pastors:

You are considered a self-employed individual in performing...ministerial services for social security purposes. However, because of common law rules...you may be considered an employee for other tax purposes.

Under common law rules,

you are an employee if your employer has the legal right to control both what you do and how you do it, even if you have considerable discretion and freedom of action.

Most pastors have this dual status. Some tax advisors recommend that churches issue a Form 1099 to their pastor, considering him to be self-employed. This may be proper if your pastor arranges for and provides services for several churches. However, in most situations, a minister serves just one church. In that case, the IRS considers him an employee with the common law rules stated above. Therefore, you should prepare a W-2 Form for your pastor.

Publication 517 contains a comprehensive example of a minister's earnings. It shows how the pastor's salary and benefits should be reported on a W-2 Form. It also demonstrates how your pastor should complete each of the income tax schedules. We recommend that you get a copy of this publication from the IRS each year for you and your pastor.

There are several advantages for treating the pastor and other staff members as employees (if they meet the criteria for being an employee):

- Some *fringe benefits* can be excluded from income for employees. For independent contractors, you must report fringe benefits as income.
- If the church sets up an *accountable reimbursement plan*, employees can be reimbursed for their expenses without having to report those monies as income. You must report reimbursements to independent contractors as income.
- Employees have a lower risk of audit by the IRS. The IRS is beginning to investigate more extensively whether someone is an independent contractor. Suppose the pastor receives only one Form 1099, as would probably be the case if you pay him as an independent contractor. This could be a "red flag" to the IRS to audit your pastor.
- The IRS may determine that your pastor was improperly classified as an independent contractor, when he should have been considered as an employee. In that case, the church would be subject to unpaid taxes and penalty assessments.

Some people believe the IRS is employing questionable tactics in checking whether an individual should be treated as an independent contractor or an employee. There are several steps the church should take if it hires independent contractors and the IRS audits it.

- Don't answer *any* questions without competent tax or legal advice. The law allows the church to get a copy of the publication, *Your Rights as a Taxpayer*, before responding to any audit questions.
- Don't offer information about other churches or organizations that treat individuals as independent contractors. The IRS may use your information to investigate that organization.
- Don't let an agent intimidate you. They may suggest that your church "must have something to hide" if you want to contact a tax or legal advisor first. Also, do not be fooled by an agent who says that he is trying to be "nice to you." He or she may offer to "help you and work with you so that the workers will be treated as independent contractors."

Pastoral Remuneration Package

The church should pay its pastor an adequate salary. For a full-time pastor, this is a salary that allows him (and his family) to live at the same general level as the rest of the congregation and community in which he serves. Many pastors and church people are uncomfortable discussing salaries. Paul addressed this issue several times in his epistles to the first century churches. Paul was a tentmaker, supporting himself and his ministry by his trade. Yet he was very clear in stating that a worker who gives his life to the gospel should receive his living from the gospel (1 Cor. 9:1-18; Gal. 6:6). Focus on three considerations when you discuss salaries in the church.

- Seek to place in leadership men and women who commit themselves to scriptural principles.
- Determine **how** you will make decisions about remuneration.
- Set up clearly defined policies to deal with this issue.

The total salary and benefits "package" for a pastor contains several parts. Some of these are taxable sources of income, and others are non-taxable. Keep aware of current tax law developments that relate to clergy. This will help you *maximize* the benefits that your pastor(s) receives. We have included in **Appendix B**, a list of several publications that are updated annually.

The pastor's remuneration package may consist of the following:

Salary – This is a basic amount, part of which should be designated as "housing allowance." We will discuss housing allowances below. Report the part of the pastor's salary that is not designated as housing allowance as taxable wages on his W-2 Form. This amount, along with the housing allowance, is subject to self-employment tax.

Social Security Grant – Some churches provide an extra payment to the pastor to cover all or part of his Social Security Self-employment tax. This must be reported as taxable wages on the W-2 form; it is also subject to self-employment tax.

Expense Reimbursement/Allowance. This is for expenses such as travel, study, books, and entertainment. See the section on **Reimbursement of Expenses** below to determine its tax treatment.

Insurance – This can include life, medical, dental, and disability insurance. If the pastor is considered an employee for income tax purposes, do not report the amount the church pays for the premium as taxable wages. The exception is if you provide life insurance coverage in excess of \$50,000. Report the portion of the premium that is for the coverage over \$50,000 as W-2 taxable wages. (See **Chapter 8** for more information on insurance.)

Pension –The church may pay for his participation in an individual retirement account (IRA) or tax deferred annuity (TDA). Depending on the type, these are usually not immediately taxable (that is, they are *tax-deferred*) to the pastor for income tax purposes. For self-employment tax purposes, IRAs are taxable, but TDAs paid directly by the church to the investment company are not.

Equity Grant – If the church provides a parsonage, the leadership should consider contributing money to a tax deferred annuity (TDA) for the pastor. The pastor can then use this money to obtain housing when he retires. This is important, since he is not able to build up equity for this purpose as most homeowners do. This is different from other retirement funds, which are for general living expenses in retirement. A pastor may save funds using some other method for retirement housing. However, the TDA approach has an advantage: it is not taxable to the pastor (until he retires) for income taxes or self-employment taxes.

Setting the Pastor's Salary

Consider these factors as guidelines in setting your pastor's salary:

- Salaries paid to other professionals in the area
- Salaries that other churches similar in size in your area pay their pastors. Many churches are willing to share this information. However, note that some churches severely underpay their pastor.
- The cost of living in your area
- Average salaries of the members of the congregation
- Implications of IRS Intermediate Sanctions (discussed in detail in Chapter 9)

The governance authority may want to survey the congregation, following a form similar to the available sample. Note the following:

- State on the survey that the governance authority will use it to help determine the level at which you will pay the pastor.

- You may want to give several ranges to choose from in question #3, rather than asking for a specific amount.
- State on the form that it is confidential; many people do not like to discuss salaries.

Note: if this is a developing church, the district Church Planting Director, in consultation with the Advisory Committee, sets the pastor's salary.

Housing Allowance

A housing/parsonage allowance is a designated **portion** of the pastor's salary. It is *not* an amount in addition to his salary. As a result of specific laws, he does not report it as income for federal income tax purposes. However, it is generally subject to self-employment taxes. The housing/parsonage allowance may be in the form of a parsonage or an allocation of cash.

For a pastor who receives a rent-free parsonage as part of his compensation, the governance authority of the church should draw up a resolution that specifies the value of the rent-free parsonage and that states that the pastor may also exclude as parsonage allowance any utilities, maintenance, insurance or furnishings provided for the parsonage from the pastor's cash compensation. A pastor doesn't report the value of the rent-free parsonage and other related expenses as compensation on his federal income tax return. The value of a rent-free parsonage and related expenses is included in the pastor's self-employment income.

For a pastor who rents his home, the computation is straightforward. The sum of rent, insurance, maintenance, furnishings, and utilities is compared to the church-designated allowance and the lesser amount is deductible.

For a pastor who owns his home, the actual amount that a pastor can exclude from his gross income is the *least* of these three amounts:

- His church-designated housing allowance
- The amount he actually spent on housing expenses
- The fair rental value of his furnished home including insurance, maintenance, furnishings and utilities

He must determine the amount of actual expenses paid, which may include mortgage payments, acquisition costs, interest, taxes, insurance, maintenance, and utilities, and then apply the above criteria.

The pastor can exclude his housing allowance from his income only if the church governance authority officially designates the amount of the allowance before it is paid. We recommend that the church governance authority make this decision in the form of a continuing resolution. This is a statement that a designated amount is in effect until the governance authority changes it. The governance authority may forget to approve a housing allowance for the new year. By following this guideline, the continuing resolution from the previous year remains in effect. The church secretary must include this designation, as shown below, in the governance authority minutes. It

also may be helpful to get a letter from the church secretary for the pastor's file that states the governance authority's action.

Be it resolved that the (governance authority) approved a housing allowance for Rev. _____ in the amount of \$ _____ for the year _____, and for future years unless changed by specific action of the (governance authority).

The pastor can exclude only the amount that he actually spends for running his home. For example, the governance authority designates the pastor's housing allowance as \$15,000, but he actually spends only \$12,000. He must report the difference of \$3,000 for income tax purposes on line 22 of Form 1040 as "Excess Housing Allowance." Similarly, if the fair rental value as calculated above is \$11,000, then he must report \$4,000 for income tax purposes.

Suppose the pastor buys a house for cash (as he might for instance, if he sells one house and buys a less expensive house for cash). The law no longer entitles him to most of his housing allowance benefit. This is because he does not have a mortgage payment. He cannot "spread out" over several years the cost of buying a home for cash.

The pastor is responsible for keeping records of all his housing allowance expenditures. He must be able to produce them if the IRS audits him.

Reimbursement of Expenses

Under current law you can reimburse the pastor for business or ministry expenses under an "Accountable Reimbursement Plan." If you do so, he is not required to report these reimbursements as income. The church must have a *written* policy describing the procedures of this reimbursement system. The reporting system should require the pastor to submit written records and receipts that detail each expenditure. These should include:

- the date
- the type of expense
- to whom it was paid
- the business or ministry purpose

We recommend that you photocopy these records. While law does not require this, it provides a set of records for the pastor.

As support for his travel expenses, the pastor should keep a "log" of all business mileage. He should note:

- the date
- the number of miles (the IRS is beginning to ask for odometer readings in some cases)
- the business or ministry purpose

The pastor's mileage expenses may be reimbursed at the current rate that the IRS allows, as well as for his actual costs for tolls and parking.

If expenses are reimbursed without an Accountable Reimbursement Plan, the pastor must report them as income. In this system, the pastor is sometimes given a "flat" monthly allowance for car or ministry expenses. He does not have to provide receipts and records to the church but should retain them in his own records should he be audited. He then deducts these expenses on **Schedule A** of his income tax return. However, under this system, his meal and entertainment expenses are reduced by 50 percent (IRS Publication 463). These are combined with other expenses, and are further reduced by two percent of his adjusted gross income. These rules can add a significant amount to the pastor's income tax liability. This amount can be avoided if the church uses an Accountable Reimbursement Plan.

Moving Expenses

When a church calls a pastor, it normally pays for the cost of moving him and his family. A portion of moving expenses is deductible if the following conditions are met by the pastor's acceptance of the new job:

- His new place of work (office or church) must be at least 50 miles farther from his former home than his former place of work was.
- As an employee, he must be employed full time in the new area for at least 39 weeks during the twelve-month period immediately following the move. If self-employed, he must work full time; comply with the previous 39 weeks rule, and for a total of at least 78 weeks during the first twenty-four months in the new area.
- His move must be closely related, both in time and place, to the start of the work at the new job location. The general rule is one year.

Deductible expenses allowed include:

- The cost of packing, crating, and transporting household goods and personal effects for the whole family. You may also deduct the cost of storing and insuring your goods and effects within any consecutive 30-day period after the things are moved from your former home and before being delivered to your new home.
- Travel expenses including transportation and lodging (but not meals) for the whole family while traveling to the new home.

Nondeductible expenses include:

- Temporary living expenses.
- Pre-move house hunting trips.
- Expenses related to the sale of a house or settling of a lease including mortgage penalties, home improvements to help sell the house or a loss on the sale. Expenses of purchasing a new home or obtaining a new lease.
- Meal expenses incurred while moving to new home.

- Real estate taxes.

In 1998 moving expense reporting significantly changed. The amount that the church pays for moving a pastor may be reported in a number of ways. Allowable moving expenses that are paid directly to a third party on behalf of the employee are not reported on the W-2. Allowable moving expenses that are reimbursed directly to the employee are reported in Box 12 of the W-2 and identified using Code P. Reimbursement of nondeductible moving expenses is to be included in Box 1 of the W-2 as taxable income.

Form 3903 is still the form that the pastor uses to compute his moving expense deduction for unreimbursed moving expenses or expenses reimbursed under a nonaccountable arrangement.

Expenses that the IRS allows the pastor to deduct for income tax purposes are also deductible from his self-employment earnings.

Honoraria and Love Offerings

Occasionally, the pastor may receive payments for performing weddings or funerals, or speaking at other churches. These payments could be referred to as “honoraria” or “love offerings.” Regardless what they are called, if they are for services performed, they must be treated as income for both income tax and self-employment tax purposes. Note that business expenses associated with these honoraria can be offset against the income.

As a rule, “love” gifts are considered compensation to the pastor and reported on his W-2 since he is an employee particularly if the church leadership initiates or assists in the collection of the gift through announcements or letters of solicitation. If the church board sees this gift as part of the compensation package, it is even more determinative of the compensation treatment. The gift can be determined by the IRS to be compensation even if you do not supply a tax deductible receipt to the donors. With that said, it is possible for a “love” gift to not be compensation, if it can be shown that it was truly a grassroots collection out of love and concern for the pastor by the members. This would mean that members wanted to give without any encouragement from the church, governance authority, or other church leaders. It is our opinion that the cleanest and easiest is to treat any kind of love gift for a pastor as compensation. The tax deductibility of love offerings is discussed under “Tax Deductibility Questions” in Chapter 3 above.

Earned Income Credit (EIC)

Many pastors and staff members may be eligible for the EIC, but not be aware that they are. It is a credit for certain workers. It reduces tax they owe and may give them a refund even if they don't owe any tax. The criteria for claiming the EIC has changed from year to year, as have the taxable and nontaxable earned income amounts that qualify, so we won't include the specific criteria here. Rather, we would encourage you to have your pastor and staff members check the requirements for the current year to see if they qualify.

Federal and State Unemployment Insurance

In general, nonprofit organizations are exempt from federal unemployment insurance. In most cases, they are also exempt from state unemployment insurance. While a church doesn't have to do anything to be exempt from federal unemployment insurance, the procedures for exemption from state unemployment insurance vary from state to state. In some states, a church must file the appropriate forms to be exempt. In other states, the exemption is automatic UNLESS the church files the appropriate forms to participate in the unemployment insurance program. Where a church chooses to participate in the unemployment insurance program, there is sometimes a choice of either paying a quarterly percentage of payroll, or in only reimbursing the state for actual unemployment claims. If the church has not already checked to see what the requirements are in its state, it should do so, either by calling the district office, or by calling the state department of revenue.

Chapter 7

Reporting to Tax Authorities

Life would be much simpler if we did not have to make reports! But, as with all Christian service, accountability is part of your ministry. You already know that you are accountable to the governance authority and the congregation. You also are accountable to the civil government. In Chapter 5 we discussed the various reports you make to the governance authority and to the congregation. In this chapter, we will discuss how you report to the IRS and Social Security Administration.

In addition to these federal agencies, most states have quarterly and annual payroll filing requirements. Contact the state department of revenue and the district office for guidance in this area.

Be sure to keep payroll records until the statute of limitations runs out on them. See **Appendix E** for the period of time you must keep payroll records.

Payroll Records and Tax Reports

Certain areas of church tax handling and reporting are often misunderstood:

- Payroll records
- Tax deposit requirements
- Filing requirements to report wages

Much of the confusion is because the pastor is in an unusual category. Clergy have a different reporting system than others who file income tax returns.

As you discovered in Chapter 6, the pastor has a dual status under the tax laws. Social Security covers services that he performs under the Self-Employment Contributions Act (SECA). Accordingly, he must pay self-employment taxes on his earnings as a minister. The church's non-clergy employees (i.e. secretary or custodian) must pay their portion of the Federal Insurance Contributions Act (FICA) tax and the church must pay the employer's portion of the tax.

For **income tax purposes**, the IRS considers the pastor to be an employee. Wages paid to the pastor are reported on Form W-2. When you complete a W-2 for the pastor, leave the section for FICA wages blank.

Payroll Tax Deposits

You should get IRS Publication 1 (Circular E) for the church. This is the IRS handbook for employers. The IRS should send it to the church automatically each year after you receive the church's federal identification number. Two sections will help you most: tax withholding and tax payments.

If the church has non-clergy employees, you need to have them complete Form W-4, the **Employee's Withholding Allowance Certificate**. On it, they indicate the number of exemptions they will claim. Based on the number of exemptions they claim on the W-4, you determine how much income tax to withhold from their paycheck. You will find this in the tax withholding tables in **Circular E**. You also must withhold FICA taxes. You can find instructions for calculating them in **Circular E**.

You must send payroll taxes to the government. You make these payments quarterly, or more frequently if the amount is large. **Circular E** tells you when these payments are due. In general:

- Quarterly payments are filed on Form 941 (discussed below). There are places on Form 941 for you to record the amounts you have already paid.
- More frequent payments can be made at a local bank. Send these with Form 8109, **Payroll Tax Deposit Coupon** that the IRS provides. A completed example of this form and additional instructions is available.

The IRS does not require you to withhold federal taxes from the pastor's wages. Instead, he makes quarterly estimated payments for his income and self-employment taxes himself. However, he may ask the church to withhold taxes from his paycheck, just as you do for non-clergy employees. If he chooses this latter option, have him complete a W-4 and report the amount you withhold as *federal income tax withheld*. Most state laws follow the federal law, which is they do not require you or the pastor to withhold state income taxes. A few states *do* require such withholding, even where the IRS doesn't require it for federal purposes. You should check the laws in your state.

Quarterly Reports

Form 941 is a quarterly report to the IRS of the wages that were paid and taxes withheld. It must be filed on or before the last day of the month *following* the close of a quarter. For example, you must file the report for January through March by April 30. In completing Form 941, everything you report quarterly you will ultimately report on Form W-2, which is filed annually. Amounts you report on Form 941 **must** agree with your payroll earnings records. A completed example of Form 941 and more instructions is available.

Annual Reports

You must file W-2 forms annually to report earnings of the pastor and other employees to:

- Social Security Administration
- State tax authorities
- Local tax authorities

You must provide W-2 forms for the preceding calendar year to all the church's employees by January 31.

Use a **Transmittal Form W-3** to send your W-2s to the Social Security Administration. You must send these by February 28. Complete the forms and send them according to the IRS

instructions. Samples of a completed W-2 and W-3 are available. It also has instructions for some of the boxes.

The IRS also requires you to report some other payments. You must report payments to *non-employees* for services they provided if your total payments to them are \$600 or more for the year. This requirement includes payments for services, but not for “goods” (actual items) paid to individuals or partnerships. Payments to companies that are incorporated are also excluded except for health providers and lawyers. Report these on Form 1099. Complete the form and give it to the non-employee by January 31 (for the previous calendar year). You must file it with the IRS by February 28. Use transmittal form 1096 to send 1099s to the IRS. Completed examples of forms 1096 and 1099 are available.

Some churches treat individuals as independent contractors. They may do this so the church is not responsible for payroll taxes. However, be **warned** if you do this. Apply the *common law employee test* described in the income tax regulations. From it, you can determine how to classify a person working in the church for federal tax purposes. (Note that some states have different tests for determining whether a worker is an employee.) According to the federal test,

generally the relationship of employer and employee exists when the person for whom services are performed has the right to control and direct the individual who performs the services, not only as to the result to be accomplished by the work, but also as to the details and means by which that result is accomplished. That is, an employee is subject to the will and control of the employer not only as to what shall be done, but how it shall be done. In this connection, it is not necessary that the employer actually direct or control the manner in which the services are performed; it is sufficient if he has the right to do so. The right to discharge is also an important factor indicating that the person possessing that right is an employer. Other factors characteristic of an employer, but not necessarily present in every case, are the furnishing of tools and the furnishing of a place to work to the individual who performs the services.

IRS Form SS-8 contains a checklist of twenty criteria. They can help you determine whether to classify a person as an employee or as self-employed. A checklist is available.

The most common example of this question in your church is the custodian. Often, churches consider the custodian as an employee. This is because the church usually directs what, where, how and when the janitor works. Suppose, however, your church *contracts* a person to clean the church. You have a written, signed contract with the person that states the person is an independent contractor and responsible for applicable payroll taxes. The contract also should cover as many of the twenty criteria as are relevant, indicating that the person meets the criteria for an independent contractor. The contracted janitor decides when and how to clean the church and the janitor uses his or her own equipment. In this situation, you may consider the janitor as an independent contractor.

There is one other consideration about the 1099 form. This involves *itinerant ministers*, such as traveling evangelists. They depend on the honoraria that they receive from many churches for their support. Therefore, they do not have just one church that serves as their employer. This prevents them from taking advantage of the specific tax laws that benefit employees. However,

the church may designate a portion of its gift to that minister as housing allowance. You may do so only if your church writes an agreement with the evangelist to designate a portion of his honorarium as housing allowance. Do not include the amount of the designated housing allowance in the amount that you report on the minister's 1099 form.

Conclusion

Working with payroll and payroll taxes can be confusing. Don't get discouraged! Start by keeping good payroll records. Then just follow the instructions on the forms.

Chapter 8

Risk Management

Risk management is recognizing that insurance only can do so much and go so far in protecting the church. In reality, insurance is mostly about financial loss, while risk management is about financial, emotional, and physical loss. Risk management for the church is about making sure that children are as safe and secure as reasonably possible. It is about making sure individuals are not injured, harmed or even killed because of a hazard in the church or on the church property that has not been identified and taken care of in a timely manner. It is about making sure that the property is not needlessly destroyed because someone did not take the time to inspect the church for hazards or because the church was unwilling to spend the needed amount of maintenance dollars. It is about making sure your employees know that you care enough about them to protect them, if at all possible, from injury or that the church will address an injury quickly if it does occur.

Basically, there are three ways to manage the everyday risks inherent in the life of every church. The first, and probably most important, is to minimize risks whenever and wherever possible. This would entail a thorough safety audit of the church's property, people, policies, and procedures to identify where corrections should be made to minimize potential risks. Minimizing risks is a process of observing, imagining, and acting. Observe the things around the church or the personnel policies that are in place; imagine what could happen; and then take steps to reduce the potential loss. This may include investing in safety equipment such as alarms, locks, or even surveillance cameras. It may include training employees to know what to do in an emergency or accident. It may mean helping employees understand the need to take appropriate steps to reasonably protect the assets God has provided to the church.

The second way is to transfer those risks to others by placing the responsibility on them. This may include contract provisions with vendors or contractors that make them responsible, but more commonly it takes the form of a waiver of release for activities that the church may be sponsoring.

The final way is by procuring insurance coverage for potential losses and liabilities with the goal of protecting the church from a major financial loss.

Insurance

A good insurance program is a central part of the church's overall stewardship responsibility. If the church has unforeseen losses or expenses, insurance can:

- Prevent severe financial hardship for the church and its staff.
- Provide resources to help resume normal activities.
- Compensate those who may be harmed in an accident involving church property or personnel.

Insurance does not ignore or replace God's provision. It is merely a prudent financial safeguard for God's people and property.

This chapter will discuss various types of insurance coverage available to the church. Each type should be considered in putting together the church's insurance program. The two general categories we will consider are:

- Personal insurance (for pastors and staff)
- Property and casualty insurance

Personal Insurance

Today, a variety of personal insurance products are available. Consider the following factors to determine the types and amounts of coverage that the church will provide for the pastor and staff:

- Marital status and family size
- Base salary and other parts of their compensation
- Availability of other resources to provide funds that insurance will not cover
- Financial ability of the church

Give careful consideration to the types of coverage the pastor and staff will need when you develop their salary and benefits package (see further discussion of this topic in Chapter 6, Payroll and Pastoral Remuneration).

The list below highlights the coverage that you should consider.

Medical Insurance

With the high cost of health care in America, this coverage is extremely important. Even routine medical procedures can cost thousands of dollars. Extensive or unusual procedures cost tens or even hundreds of thousands of dollars. Unfortunately, there is little relief in sight for this upward trend in medical costs.

Many different levels of coverage are available at varying prices. A group plan may be available to you through the C&MA National Office or your specific district. Otherwise, you may consider purchasing coverage through a local insurance agent. We strongly encourage you to consider medical coverage for the pastor and staff. You also may want to consider dental coverage. This is often available with medical coverage for an additional cost.

Life Insurance

As with medical insurance, life insurance products abound in the market place with a mind-boggling array of features. The important considerations are to:

- Provide some coverage
- Clearly understand the goal of the coverage

For example, is it your intent to provide *income replacement* for the family of the deceased? Or is it merely to provide funds to cover funeral costs?

In making your choice, select a reliable agent or broker who will become fully aware of your objectives. Be sure they will meet those objectives at the lowest cost for the coverage desired. It is easy to let someone talk you into buying coverage that is not needed. It is also easy to underestimate the cost of providing for a family or spouse.

One further note: some medical plans also offer a life insurance feature. Usually the life insurance is offered at a very minimal additional cost or as part of the medical insurance plan as is the case with the C&MA national plan. This could be a viable option for the church staff, especially if your goal is to provide only a minimum amount of life insurance.

If you are interested in the C&MA national plan, please contact the Employee Benefits people at the National Office.

Disability Insurance

Some benefits are available to the pastor in the event of a disability through the Social Security system. This is available unless the pastor has elected not to participate in Social Security (through filing an official waiver notice with the IRS). However, the restrictions on the payment of Social Security benefits are severe. Also, disability is a greater likelihood than death for many years. This makes consideration of a disability insurance policy an important matter. Some states may require the church to provide disability insurance.

Once again, the features of the programs vary and care should be exercised in selecting a program. A local insurance agent or broker can advise you on the many options available. Note that the policies fall into two general categories:

- Short-term, which provides income up to 26 weeks
- Long-term, which can provide benefits for life

The church may be able to provide support to the pastor or staff on a short-term basis. Providing long-term disability income payments, however, is usually not possible. Therefore, long-term disability insurance is the more important consideration. (Note: The C&MA national plan has a long term disability feature.)

Workers' Compensation Insurance

This type of insurance covers all work-related injuries or diseases for the pastor and church staff. It provides income replacement, medical costs, and financial compensation for certain injuries. It also may cover volunteer workers at the church and foreign travel.

Some states require certain levels of coverage. Discuss the need for this insurance and the proper amounts of coverage with a local insurance agent or broker. The state's workers' compensation fund may also offer coverage, sometimes at a significant savings.

Unemployment Insurance

Some states may require unemployment insurance. As with some of the other types of insurance described above, you should find out what is required by the laws in your state.

Property and Casualty Insurance

Property and casualty insurance can be a very complex area. This is because of:

- The wide variety of coverage available
- The variations and subtleties involved

It may also seem to be a painfully dry subject! However, it is a very important part of the church's financial plans.

In this section, we will try to give a brief overview of this subject. We will also list some factors you should consider in the development of the church's insurance program.

General

Obviously, your intent should always be to do everything in a manner that is above reproach. This includes being careful to protect the church's assets, and being safety conscious. No matter how careful you are, though, accidents will happen, for which others may try to hold the church responsible. This could be something hilarious, such as a pig bite at the annual greased-pig-catching contest (this really happened). Or it could be a serious lawsuit for alleged mishandling of a counseling situation. Even if the church's representatives are innocent, the costs can be significant. They can include paying restitution, defending a lawsuit or replacing property. Churches are not immune from lawsuits and are subject to civil law.

Insurance can be purchased, at a price, for just about any eventuality. Therefore, it is important to identify the types of insurance coverage that make the most sense for the church. The key is to find a balance between too little and too much coverage. It is helpful to have a knowledgeable, professional advisor assist you in making decisions about the appropriate insurance package for the church.

Types of Coverage

Coverage	Description
Automobile Liability	Covers bodily injury, death, and property damage as a result of operating a vehicle.
Automobile Physical Damage	Covers damage to the vehicle.
Boiler and Machinery	Covers all pressure, electrical, and mechanical equipment damage resulting from an accident.
Crime	Insures against loss from theft, safe burglary, robbery, dishonest acts of employees, and forgery.

General Liability	Covers third party bodily or personal injury, death, property damage, and related costs.
Property	Includes all risks of damage to real or personal property. It may insure property damage from fire, sprinkler leakage, windstorm, explosion, vandalism, and collapse. This includes buildings and their contents.

Each of these types of coverage can have different exclusions, additions, and deductibles. Consider carefully the church's resources and unique situation.

In addition to the basic coverage, there are special types of insurance that you may need to consider. These can include:

- Pastoral counseling (some pastors carry this kind of coverage on their own)
- Coverage for special events (i.e. picnics, sports, camping)
- School or day-care facilities
- Protection for church's governance authority and trustees (directors and officers liability insurance)
- Employee practices (i.e. wrongful dismissal, harassment, discrimination)
- Inappropriate contact (i.e. with children or the opposite sex)

Some districts already have church insurance programs. If you are interested, please contact the district office.

Claims

No matter how minor, report all accidents promptly to your insurance carrier. Send any notice of legal action against your church or staff by registered mail to your insurance carrier. Include a request for a returned acknowledgement.

Conclusion

As stated earlier, risk management is a critical part of church stewardship and insurance is a prudent, valuable component of any church's financial program. You cannot avoid all accidents, but you can prevent many problems. It requires you to combine an awareness of situations that have risk and that could result in an insurance claim with good old common sense (which is not all that common!). No list of considerations can be all-inclusive. Here are some examples of items that you should consider:

- Maintain adequate security for the church's property.
- Screen people in particular areas of service, such as the church bus driver, children's and youth leaders.
- Maintain good internal controls (see Chapter 2).
- Get proof of adequate insurance (certificate of insurance) from those performing work for the church, such as contractors or service providers.

- Ensure careful planning and supervision for special events (for example, youth events, church picnics, fairs, etc.).
- Keep property in good condition.
- Clearly identify exits from your facilities.
- Keep an adequate number of operating fire extinguishers on hand.
- Maintain a current inventory of property and its value.

Most insurance agents or brokers will help you identify risks, and the types of insurance that are right for the church. As with any product, shop around for the best price, service, and coverage.

Chapter 9

Miscellaneous Matters

In this chapter, we will cover some important topics that have not been discussed elsewhere in this manual.

Tax Matters

Tax-exempt Status

The church's tax-exempt status is **extremely** important for two reasons.

- It means that your church does not have to pay income taxes on any of its receipts, including contributions, interest, or investment income.
- It enables the church to issue tax-deductible receipts to its donors.

Refer to Chapter 1 for instructions on getting your federal tax identification number and tax-exempt status.

Because of its importance, you must take steps to preserve your tax-exempt status. These include:

- Being careful when you issue tax-deductible receipts (see Chapter 3).
- Being careful when you generate income that does not relate to your church's tax-exempt purpose.

It is not possible to give a complete list of unrelated activities. They include operations that generate revenues the IRS defines as "unrelated business income," as well as other income (for example, royalties). Certain activities seem obviously unrelated to your church's purposes; others do not. **If in doubt**, consult a knowledgeable person in the congregation or district office. Some activities will not jeopardize the ability to issue tax-deductible receipts, but the church may be required to report and pay taxes on the amounts received.

Rental Property Income/Unrelated Business Income Tax

Generally, rent income received on real property is not unrelated business income. **Unrelated business income** is income from a business enterprise not related to your church's tax-exempt purpose. It must be derived from an activity that constitutes a trade or business that is regularly carried on and is not substantially related to the church's exempt purpose.

However, it can also come from passive income like interest, dividends, rents, and royalties that are debt-financed. Therefore, rents from debt-financed property are usually considered to be unrelated business income. **Debt-financed property** is defined as any property held to produce income and that is subject to "acquisition indebtedness," such as a mortgage, at any time during the year. However, rental income from debt-financed property is not considered unrelated business income if it falls within any of the following exceptions:

1. Substantially all (85% or more) of the property is used for exempt purposes. However, property is not considered to be used for exempt purposes simply because the income derived from the property is spent for exempt purposes. If less than 85% of the property is used for exempt purposes, only the portion of the property that is NOT used for exempt purposes is treated as unrelated debt-financed property. (You should also note that partial use of the property by other entities may have an impact on the property's real estate tax exemption, depending upon local laws and regulations.)
2. If a church acquires land for the principal purpose of using it substantially for its exempt purposes within fifteen years of the date of acquisition, then the property is not treated as unrelated debt-financed property, even though it may otherwise meet the definition. This rule (the "Neighborhood Land Rule") applies after the first five years of the 15-year period only if the church demonstrates to the I.R.S. Commissioner that it is reasonably certain that the land will be used in the described manner before the expiration of the 15-year period. In order to satisfy the Commissioner, the organization does not necessarily have to show binding contracts. However, it must at least have a definite plan detailing a specific improvement and a completion date, and some affirmative action toward the fulfillment of such a plan. This information must be forwarded to the Commissioner of Internal Revenue, Washington, D.C. 20224, for a ruling at least ninety days before the end of the fifth year after acquisition of the land. In addition, the property does NOT need to be in the immediate neighborhood of the church, an exception to requirements for other exempt organizations.

A major limitation to the Neighborhood Land Rule is that it applies with respect to any structure on the land when acquired, or to the land occupied by the structure, only so long as the intended future use of the land requires that the structure be demolished or removed in order to use the land for exempt purposes. The Neighborhood Land Rule does not apply to structures built on the land after its acquisition. This significantly increases the probability that unrelated business income taxes will be due on rental of debt-financed real property. Note that rental income from personal property is taxed unless it is a minimal portion of the real property rental income.

3. Real property received as a gift that has debt on it is excluded from the debt-financed rules for five (5) years. Real property received as a bequest that has debt on it is excluded from the debt-financed rule for ten (10) years.

The first \$1,000 of gross unrelated business income is not subject to the tax. **Gross unrelated business income** is the amount of gross receipts reduced by cost of goods sold. If the gross unrelated business income exceeds \$1,000, an IRS Form 990-T must be filed on or before the 15th day of the fifth month following the close of the fiscal year. This is true even for organizations (such as churches) that are not required to file Form 990 with the I.R.S. For most churches, who have a fiscal year end of December 31, this due date would be May 15.

Property Tax Exemption

You may be able to obtain an exemption from property taxes on the church building, parsonage, or church-run school. You should apply for it as soon as the church purchases property.

Each state or local city grants property tax exemptions differently. They also differ in the restrictions they place on use of the property. For example, some states or cities may not permit the church to rent portions of the property to others. Consult with the district office or a local attorney when you apply for property tax exemption.

Intermediate Sanctions

In 1996 Congress enacted a new law that imposed intermediate sanctions on “excess benefit transactions” related to “disqualified persons”. Simply put, if a key person in a tax-exempt organization, including churches, receives benefits from that organization that exceed the fair market value of the consideration (i.e. services rendered) received by the organization, then the IRS is authorized to assess excise taxes on the key person and members of the governance authority that approved the benefits. This generally relates to compensation but can also include other transactions like sales or leasing of property. There is a safe harbor for compensation arrangements if certain procedures are followed. Even though it could be assumed that a pastor would never receive excess benefits from the church, it is important to analyze every transaction that could ultimately benefit the pastor to ensure that this does not occur. For more information, refer to the Church and Clergy Tax Guide mentioned in the Appendix B.

Legal Matters

Legislatures are considering churches and other non-profit organizations more often today in the development and application of laws. Therefore, it is very important to keep up on legal developments. Several publications are available to aid you (see **Appendix B**). It is also wise to maintain contact with an attorney who is knowledgeable in church legal matters.

Here are some important matters to consider.

Articles and Bylaws of the C&MA

The legal charters of the C&MA, its bylaws and many other documents governing our denomination are included in the *Manual of The Christian and Missionary Alliance*. You should obtain a copy and become familiar with its contents. You can download it from the Web site or request a CD from the Office of the Corporate Secretary

Copyright Laws

The church’s most common concern with copyright laws is in the area of church music. Some churches make photocopies of music. Other churches make overheads of the words of songs and hymns, or distribute printed copies to the congregation. Because this music is the property of someone else, *copying it is illegal*, unless you have permission. More importantly, you do not want to break the law or rob Christian songwriters of their rightful income.

Richard Hammar, attorney-at-law, suggests the following steps to avoid copyright infringement:

- Purchase all music. Don’t copy anything.

- Get written permission from the copyright owner for each song you use and pay the required fees.
- Follow the complex “compulsory license procedure” for recorded music. Or,
- Purchase a license that provides “blanket” permission. This permits you to use a specified library of songs from cooperating publishers and copyright owners for congregational use.

One source of copyright licenses is *Christian Copyright Licensing, Inc.*, 17201 NE Sacramento Street Portland, OR 97230 . You can call them toll-free at 1-800-234-2446 or e-mail them at sales@ccli.com for an application.

Labor Laws

The church has some special privileges in the hiring of staff. These include the right to hire only Christians. However, you are not exempt from all discrimination laws.

The church should:

- Base all hiring practices on Christian principles
- Use common sense
- Document the church’s policies of hiring, benefits, and procedures that affect the employees

Explain the policies to all the staff and have them available for reference. When you develop your policies, have the church’s attorney or the district office review them.

One important legal requirement is relatively new. *All* the staff, *including pastors*, who are hired after November 6, 1986, must fill out form I-9. The United States Immigration and Naturalization Service (INS) requires this form for everyone, including native-born citizens. It must be kept on file at the church for three years after the date of hiring, or one year after the date that the employee leaves, whichever is later. The form requires the employee or pastor to present certain identification information to the church when you hire them. If these forms are not on file, have the pastor and staff complete them as soon as possible. You can get a supply of the forms and a handbook with additional information from your local INS office.

Annual Certification of Racial Nondiscrimination

Every organization that claims exemption from federal income taxes under section 501(c)(3) of the tax code AND that operates, supervises, or controls a PRIVATE SCHOOL (or schools) must file a certificate of racial nondiscrimination (Form 5578) each year. A “private school” is defined as an educational organization that normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly conducted. The term includes preschools, and primary, secondary, preparatory, or high schools, and colleges and universities, whether operated as a separate legal entity or an activity of a church. [It does NOT include Sunday schools.] The certificate is due by the 15th day of the fifth month following the end of the organization’s fiscal

year. Again, for most churches, who have a fiscal year end of December 31, this due date would be May 15.

Political Activities

In a recent case, a church in New York lost its tax-exempt status because of its involvement in political activities. The church had paid for ads criticizing President Clinton's positions on abortion and other social issues before the election in 1992. While this I.R.S. action is very drastic and unusual, it is important to remember that churches are prohibited from participating or intervening in (including the publishing or distributing of statements) political campaigns on behalf of any candidate for public office. This would include both statements for or against a particular candidate. These rules apply equally to national, state, and local elections and candidates.

A church can have political candidates address the congregation as long as overt campaign activities are avoided, the same opportunity is afforded all other qualified candidates for the same office, and the congregation is informed before or after the speech that the church does not endorse any candidate for public office. Other activities such as voter education are okay as long as they are neutral in content and format. The church may publicize its position on social issues, but must not link that position to specific candidates.

The bottom line is that a church has to be very careful in walking the line between addressing an issue and endorsing or criticizing a particular candidate and his position on an issue. Pastors have to be particularly careful in making statements of this type since they may be viewed as an agent of the church. If the pastor does wish to make a political endorsement despite the risk, he should at least qualify his remarks by explicitly stating that they are being made in a private capacity and not as an agent of the church, and that the church has not taken any action to endorse or express its opposition to any candidate.

National Office Resources and Services

Division of Operations/Finance

The Division of Operations/Finance of the C&MA encompasses many functions that support the worldwide ministry of the Alliance. We have described some of these elsewhere in this book. Others are listed on the C&MA Web site. We encourage you to access the C&MA Web site on occasion for new information or current updates not included in this manual.

You already know that you will have contact with the Division of Operations/Finance when sending in your monthly check for the Great Commission Fund. In addition, you should be aware of the following services:

Employee Benefits

- The C&MA Retirement Plan of the C&MA is administered by the Division. This includes receipting church contributions, paying benefits, managing fund assets, and overseeing the plan design and funding.

- A national 403(b) program is available to all Alliance official workers.
- A self-insured medical and dental insurance program and a national life insurance program is available to official workers if their district is a participant.

The Office of the Corporate Secretary

The Office of the Corporate Secretary oversees the administration of the C&MA's group tax exemption letter. Should you have questions related to your church tax exempt status, please contact this office. This office also includes the Office of Legal Services which provides legal, tax, and risk management services to the National Office. This office also assists districts and churches on a limited basis particularly in the area of federal tax issues. For church focused information see the C&MA Web site at www.cmalliance.org/resources/churchrisk.htm if you have general questions.

Alliance Development Fund, Inc.

This subsidiary provides excellent investment opportunities for Alliance churches, workers and constituents. These include savings certificates, Individual Retirement Accounts (IRAs), a 403(b), Church Agreement Accounts, and Shell Point Village Agreement Accounts. ADF loans the funds to Alliance churches, districts and auxiliaries to buy property or construct buildings. ADF also assists churches in the area of capital fund raising. For a prospectus, call the ADF Office, at 888-878-3060 or visit their Web site at www.adf-inc.com

The Orchard Foundation, Inc.

The Orchard Foundation provides various methods for deferred giving to Alliance ministries. Representatives are available to help the congregation with individual financial planning. Call 888-689-6300 or e-mail them at steward@tof.cmalliance.org.

National Office Data Management Office

National Church Ministries keeps on file your annual reports. Sometimes, churches lose this information during transitions. You may need statistics on the history of your church in order to get bank loans. Call the National Office Data Management Office for help.

You can get additional information on any of the above by contacting the National Office at 719-599-5999.

Appendix A

Glossary of Financial Terms

Accountable Reimbursement Plan - A method of reimbursing employees for business/ministry expenses that requires them to account for each expense by providing appropriate documentation (such as a receipt with the purpose, place, and other information). Using this plan, the church does not have to report the reimbursements as income to the employees. Without it, the reimbursements must be reported as income. While the employees may deduct some of the expenses on their tax returns, they end up paying taxes they would not have to pay if the church used an accountable reimbursement plan.

Assets – Resources, properties, rights or claims against others that have future benefits. Assets belong to the church and normally have a useful life that extends beyond one year. Examples include buildings, furniture, equipment, and amounts due from others (loans).

Audit – An examination of the accounting records, reports, and procedures of the church by someone independent of the financial functions of the church. The audit will normally consist of a variety of tests, questions, and review procedures to determine whether all transactions have been properly recorded and summarized in reports. It may also test to see that established policies and procedures are being followed, and that they are appropriate and adequate.

Budget – A detailed projection of revenues and expenses for a future period of time. The budget provides a tool for measuring how actual results compare with expectations. This helps to monitor and manage the church’s resources.

Calendar Year – The church must select a 12-month period for the accounting year, known as a *fiscal year*. Annual reports and “closing” the books are done at the end of this period. If the church chooses the period from January 1 to December 31, records are being kept on a calendar year.

Chart of Accounts – A logical sequence of numbers that are used to identify and segregate the accounts of the church. Transactions in the church records are recorded by type, according to the established account numbers and titles.

Closing – At the end of an accounting period (usually the fiscal year), all accounts need to be “closed.” No more entries should be recorded for that fiscal year. The balances of the accounts are reported as of that last day of the period (called the *closing date*) in the financial reports. Closing balances can be handled in two ways:

- Balances in the ongoing asset and liability accounts (such as cash, mortgages, and fund accounts) are *carried forward*. This means the closing balance for these accounts becomes the opening balance for the new period.
- Balances in the receipt and disbursement accounts start over at zero for the new period, and the net amount is carried forward in the fund balance.

Continuing Resolution – A resolution that the church governance authority makes which continues from year to year until it is formally changed. The governance authority’s resolution regarding the housing allowance portion of the pastor’s salary should be recorded in the form of a continuing resolution.

Designations – Contributions and gifts that donors give for a specific purpose, project or, in special situations, person. The back of the Receipt Form from the National Office lists common designations. It is important that all gifts be used in accord with the donor’s designation, if at all possible.

Disbursements – The spending of funds from the church’s resources for various purposes. These should be:

- for approved purposes only
- properly recorded in the church’s records

Endorse – To sign or stamp the back of a check as the payee before cashing the check or transferring it to another party (including the bank). Checks should be restrictively endorsed as soon as possible. This prevents unauthorized persons from cashing or depositing the checks if they are lost or stolen. Endorsement restrictions typically state “for deposit only” and show the church’s account name and number.

Fiscal Year – See *Calendar Year* above.

Fringe Benefits – Benefits provided to the church’s pastor or employees in addition to salary. Medical insurance and life insurance are examples of fringe benefits.

Housing Allowance – A portion of the pastor’s salary designated to cover housing costs. This portion of the pastor’s salary is not subject to federal income tax. Specific rules apply to determine the treatment of this amount. These rules are discussed in Chapter 6.

Imprest – An imprest account balance does not change as funds are withdrawn or replaced. For example, an imprest petty cash fund will be established with a certain amount of cash. At any point in time, the sum of all cash and receipts for expenditures from the fund will equal the original amount. The balance on the church’s books will not change unless the amount of the fund itself is either increased or decreased.

Income Replacement – Insurance payments intended to replace income lost due to injury or death.

Internal controls – A system of procedures and policies established to safeguard the church’s assets and help insure the integrity of the records. A full discussion of various internal controls recommended for churches is included in Chapter 2.

Invoice – A document received from vendors or service providers that describes the amount owed to them for goods or services provided.

Journal – A book (or electronic file) containing information regarding financial transactions called entries.

Liabilities – Obligations that must be settled in the future through disbursement of funds or performance of services. Examples include mortgages, loans, and amounts due for credit purchases.

Negotiable – Money or a document representing money (such as a check or money order) that the *bearer* (person having it) can transfer to someone else freely, without restriction.

Pass-through Account – An account in which you record both revenues and expenditures. Use these when receiving designated funds, which must “pass through” in their entirety to the designated person or project.

Petty Cash – Small (petty) amounts of cash held to cover small expenditures. Keeping a petty cash fund is often convenient for the church and the treasurer.

Receipts – Two meanings:

- Funds received by the church
- A form given to a donor as evidence of his or her contribution

Reconciliation – The process of identifying all items causing a difference between two balances that should agree once the differences are accounted for. For example, the balance shown in the checkbook or a bank account usually will not agree with the balance shown on the monthly bank statement. This is because the bank may have recorded transactions that have not yet been recorded in the checkbook (interest accrued or a charge for printing checks). The opposite may also occur (outstanding checks the bank has not yet processed). Once all items are added and subtracted from one of the balances to account for all the differences, the balances should be equal. Missing items or unidentified differences must be followed up. The process is known as “reconciliation.” (Reconciliation is discussed in Chapter 5.)

Remittance form – The form that accompanies the funds the church sends (remits) to the National Office each month. The form identifies how the most recent contributions were designated and leaves room for additional designations for the next remittance to the National Office. A new remittance form is attached to your receipt from the National Office, to be used the next time funds are sent in. (Remittance forms are discussed in Chapter 4).

Running balance – Continuation of the balance in a particular account or category. The balance is kept “running” by adding the current period activity to the balance at the end of the previous period.

Signing authority – Authority given by the church governance authority or district to persons in the church (such as the treasurer) to sign checks or other important documents.

Tax-deductible – The Internal Revenue Service and state taxing authorities allow taxpayers to deduct certain contributions from their income when determining the amount of taxes that the

person must pay. The taxpayers must substantiate tax deductions. Therefore, the church should give contributors receipts so they can justify their deductions. Also you must distinguish between those contributions that are tax-deductible and from those that are not deductible (such as a personal gift for a missionary). Tax-exempt status is discussed in Chapter 1, and the issuance of receipts in Chapter 3.

Transfer – From time to time, it may be necessary to transfer funds from one fund or bank account to another. These transfers need to be recorded in the appropriate records and report them in the Condensed Monthly (or Annual) Financial Report.

Vendor – A person or company which provides goods or services for payment.

Appendix B

Resources

Two resources address legal and tax issues very effectively. Our main source for information is Christian Ministry Resources (CMR). This organization produces a number of excellent materials for both the church treasurer and the pastor. One resource we refer to consistently is the *Church & Clergy Tax Guide*. Another resource the church may find useful is their *Compensation Handbook for Church Staff*. The C&MA also has a special arrangement with CMR related to online access of its Legal and Tax Library for only \$25 per year versus the standard fee of \$50. It also produces *the Church Treasurer's Alert* and the *Church Law and Tax Report*. Contact CMR at (800) 222-1840 to receive a catalog of resources, or online at www.iclonline.com.

Another resource in this area is B. J. Worth. Ms. Worth publishes resources in the areas of tax and financial services. One of her main publications is the *Ministers Tax Guide*. Contact her at (800) 368-0363 or online at www.worthfinancial.com.

Resources for church administration include the Christian Management Association and the National Association of Church Business Administration. Both organizations have resources related to management and administration of the church. Contact them as follows: Christian Management Association — (949) 487-0900 or www.cmaonline.org; National Association of Church Business Administration—(800) 898-8085 or www.nacba.net.

One source available, should you find your pastor or church in need of legal counsel, is the Christian Legal Society. This is an organization of Christian lawyers who may be able to assist you in a search for competent legal advice. Contact the Christian Legal Society at (703) 642-1070 or online at www.christianlegalsociety.com.

Finally, a great resource concerning conflict management is Peacemaker Ministries in Billings, Montana. This ministry is committed to resolving conflict biblically whenever and wherever it arises. Contact Peacemaker Ministries at (406) 256-1583 or online at www.HisPeace.org.

Appendix C

Computer Software Programs for Churches

Many churches are finding that a computerized accounting system works well for them. Numerous software packages are available, ranging from generic business programs to customized, church-specific ones.

If you are thinking about converting to a computer system for your church, we recommend that you follow these steps:

Step 1 – Define your needs. What kind of records do you want the computer to keep?

- Stewardship, to record and report individual pledges and giving, and to provide summary information by account number.
- General ledger, to record all income and expenses, and to provide periodic reports, usually monthly.
- Church attendance, committees, spiritual gifts inventories, etc. A general database for the church, providing various information on church members and adherents.
- Word processing and desktop publishing, used for church communications, weekly worship bulletin preparation, and sermon preparation, etc.
- Other uses such as Bible study programs, property management and inventory, library and music filing, or graphics.

Step 2 – Determine what software best suits the church’s needs. Where multiple packages are needed, is there a need to transfer information between them? Are the packages compatible with one another? Is there appropriate software that some of your financial team are already using at home or at work?

Step 3 – After choosing the software, determine the hardware (equipment) needs to run the software. Be sure to plan sufficient space for future growth.

Because churches vary in size, style, and ministries, the National Office does not endorse any one program as the “official” software. The listed software packages have been selected because they meet criteria we feel are important for use in most Alliance churches. These criteria include:

- The software operates on standard hardware.
- The accounting structure used by the program is: a) similar to church-style bookkeeping [cash basis], and b) according to generally accepted accounting procedures.
- The program is composed of independent “modules.” This means you can use as many or as few of the software features as you choose.
- It is integrated with a database program for membership records. Having to learn different programs for accounting, membership, mailing lists and attendance is usually impractical in the church setting. The listed programs all have these tasks integrated into the program and available as separate modules.

- It is expandable. As the church grows, the accounting needs will grow and change. The program should allow for significant growth. Do not get locked into a program that fits now, but not later. A program should be able to “export” information to your word processor and a common spreadsheet program.
- The program is menu-driven. This means the person using the program is prompted to make choices throughout the program. Most church treasurers are volunteers, rather than full-time employees of the church. The software must be easily and quickly learned. It should not require a great deal of memorization, since some of the financial team may use it only monthly or quarterly.
- Support and help are available. Most churches do not have a full-time computer expert on hand. The program should provide assistance in starting and running itself, through both written manuals and on-screen help. In addition, it should have a telephone number (preferably toll-free) where you can get assistance for more specific problems.
- The program has “password” or other security features. Membership files and financial giving records are very confidential. Only approved church officers should have access to those records. For example, the assistant treasurer or person recording individual contributions usually does not need access to the check-writing part of the program. Many programs allow only authorized users to enter certain parts of the program.

The following programs are some that are used by Alliance churches. They represent the lower and medium cost ranges available.

Membership Plus Deluxe

www.discountbible.com or www.discountchristian.com

Membership Plus Deluxe is an accounting and recordkeeping package designed for churches, clubs, and civic groups. It is especially adept at tracking membership, attendance and giving of church adherents who are involved in multiple group activities within the church (Sunday school classes, C&MA Men’s Ministry, etc.) It features pop-up windows for help in completing forms and printing reports. This deluxe version is a combination of two modules: Membership Plus (a database) and Money Counts (an accounting package).

Power Church Plus

PowerChurch Software
 328 Ridgefield Court
 Asheville, NC 28806
 (800) 486-1800 Toll-Free
www.pchurch.com

This package includes 14 modules: Mailing List, Member Profiles, Contributions and Pledges, Activities and Skills, Attendance, Fund Accounting, Accounts Payable, Payroll, Multi-user Support, Equipment Inventory, Music Library, Education Library, Sermon Filer, and Visitations. Features include the ability to add a new family or member to all the databases at once, a database expandable to over 100,000 families, a 60-day no-risk guarantee, free telephone support, zip code sequence printing for mailing lists (to get the post office discount), automatic

production of member directory, categorization of members skills by level of expertise and interest, and a system of filing and searching sermons.

(free demo disk)

Shepherd's Staff

Concordia Publishing House
3558 S. Jefferson
St. Louis, MO 63118-3968
(800) 325-2399
www.shepherdsstaff.org

Shepherd's Staff software includes a Finance module capable of tracking an unlimited number of funds, accounts and vendors. Checks, deposits, and journal entries process automatically and analyzing budgets becomes easy.

Choose reports from a standard list or customize. Modules also available for Membership, Attendance and Contribution.

Church Management Solutions

Church Management Solutions
3300 Bass Lake Road, Suite 304
Brooklyn Center, MN 55429
(800) 247-8044
(763) 566-2250 Fax
www.ChurchManagementSolutions.com
email: info@churchmanagementsolutions.com

Church Management Solutions provides technology solutions to connect and empower. Powerful management software and Web solutions streamline operations, increase productivity, and improve communication. Their software modules include Membership, Contribution, Attendance, Outreach, Ledger and Payables, and Payroll. Web solutions include free Web site hosting, email accounts, online church calendar, facility scheduler, and forms. They offer a complete solution, including tele-training (learn in the convenience of your own office), data conversion, and technical support. Their software is compatible with Microsoft® Excel, Word, and Outlook and supports PDAs, electronic giving, and direct deposit of payroll. Contact them for a free product CD or a hands free demonstration.

Appendix D

Treasurer's Checklist

The checklist is organized in six sections:

- Things that a developing church needs to do
- Things that a newly-organized church should do
- Things that all churches should do weekly, monthly, quarterly or annually

Note that the treasurer does not handle all these items. We have included them, however, because they are important tasks in the financial process of the church.

Tasks for the Developing Church

- Appoint an advisory committee.
- Appoint a treasurer and assistant treasurer.
- Open a checking account in a local bank.
- Apply for a federal employer identification number.
- Establish a chart of accounts and a budget.
- Advisory committee designates a portion of the pastor's salary as a housing allowance.
- Purchase insurance.
- Review information on copyright laws.
- Prepare or order necessary forms:
 - Offering envelopes.
 - Individual donor records.
 - Cash receipts summary.
 - Cash receipts journal.
 - Cash disbursements journal.
 - Establish formats for the weekly, monthly, quarterly, and annual financial reports.

Tasks for the Newly-Accredited Church

- Complete and return papers for participation in the group exemption sent by the Office of the Corporate Secretary or apply for individual church exemption with the IRS (group exemption is strongly recommended).
- File nonprofit corporation papers.
- File for state and local sales tax exemptions, if available.
- File for property tax exemption for church property, building(s), and parsonage(s), if available in your state or locality.

Weekly Tasks

- Receive and count the offerings.
- Prepare a Cash Receipts Summary for each offering.
- Prepare the bank deposit and take it to the bank.
- Transfer the offering information to the Individual Donor Records and Cash Receipts Journal.
- Prepare a weekly financial report for the congregation.
- Write checks as necessary and record them in the Cash Disbursements Journal.

Monthly Tasks

- Send missions money and the church's Fellowship Fund contribution to the National Office on the Remittance Form by the 10th of the following month.
- Prepare the bank reconciliation.
- Total columns in Cash Receipts and Cash Disbursements Journals, and prepare financial reports for the governance authority and the congregation.
- Prepare payroll checks for the church staff (this may be done more frequently if desired) and maintain payroll records.
- Submit payroll taxes as necessary.

Quarterly Tasks

- Prepare Form 941 and send it to the IRS.
- Review comparison of actual versus budgeted receipts and disbursements with the governance authority, noting especially any significant variations from the budget.

Annual Tasks

- Order offering envelopes.
- Prepare the budget.
- The governance authority should appoint a committee to audit the financial records and prepare an audit report for the Annual Meeting.
- The governance authority designates a portion of the pastor's salary as a housing allowance.
- Prepare all necessary financial reports to be included in the Annual Report to the church.
- Reconcile the quarterly 941 forms to the total payroll information for the year.
- Prepare W-2 and W-3 forms for wages paid to the church staff
- Prepare 1099-Misc and 1096 forms for payments of \$600 or more made to independent contractors.
- Complete the Annual Report and send a copy to the district office.

Appendix E

Record Retention Periods

Item	Recommended Retention Period
Asset/Liability Records	At least 3 years after the asset or liability is disposed of or settled.
Audit reports	Permanent
Bank statements and reconciliation	3 years
Canceled checks	7 years
Cash Disbursement Journal	Permanent
Cash Receipts Journal	Permanent
Cash Receipts Summary	7 years
Checkbook	7 years
Deposit slips	3 years
Financial Statements:	
Annual	Permanent
Monthly or Quarterly	3 years
General ledgers	Permanent
Individual Donor Records	7 years
Invoices, including expense reports	3 years after payment
Payroll checks and records	7 years
Tax-related reports (W-2, 1099, etc.)	7 years
Bylaws	Permanent
Contracts and agreements	7 years after completion
Deeds and easements	As long as the property is held

Insurance matters:	
Policies	10 years after expiration
Accident reports	3 years
Fire inspection reports	3 years
Claims	7 years after settlement
IRS examinations, rulings, comments	Permanent
Minutes of governance authority and Congregational Meetings	Permanent
Reports to the Congregation/others	At least 5 years
Tax Exemption Letter	Permanent
Zoning variances or rulings	Permanent or 3 years after property is sold

Appendix F

Sample Audit Checklist

- Select several monthly bank statements, including the final statement for the fiscal year, and:
 - Ensure that reconciliations have been carefully completed.
 - Trace selected items from the reconciliation to the bank statement and the accounting records.
 - See that all voided checks are accounted for.
 - On a test basis, see that checks are properly endorsed by the party they were issued to.
 - Check to see that outstanding checks and other items clear the bank or are otherwise disposed of on a timely basis.
 - Investigate the nature of “miscellaneous” or unusual reconciling items.

- Count the petty cash. The total of cash and receipts should equal the “imprest” amount. If not, investigate.

- On a test basis, trace cash receipts and disbursements from the original document (such as Cash Receipts Summary or checks) through the accounting records, and summary totals to the various financial reports.

- Review Cash Receipts and Disbursements Journals for unusual items. Investigate any that are noted.

- On a test basis, check to see that there is proper authorization and documentation for each cash disbursement, such as an invoice or receipt, within approved budget lines, or with specific approval of the governance authority, for large or unbudgeted items.

- Review other documents and records (on a test basis) to see that they are being used in accordance with established policies and procedures. For example, are Cash Receipts Summaries signed by the two individuals who counted the offerings?

- Check to see that all payroll and other tax reports were filed on a timely basis.

- Test weekly, monthly, and especially the annual reports to the congregation and governance authority for accuracy by tracing totals back to the accounting records.

- Check to see that all monies designated for the Great Commission Fund, or other purposes, are being sent on a timely basis for their intended receivers.

- Determine whether accounting duties are adequately segregated in light of the financial personnel available.
- Check to see that contributions to the Fellowship Fund are being made in accordance with the Fellowship Fund regulations.
- Audit the records of supporting organizations (such as, C&MA Men's Ministry, Alliance Women's Ministry or the Sunday school) that maintain their own financial records, using steps similar to those outlined above.
- Prepare reports of your findings to the governance authority and congregation.

Reporting – Your report to the governance authority should be fairly detailed and may include recommendations. Your report to the congregation should be brief, stating that a review was performed, and whether or not the records and financial reports examined are fairly stated.

You can and should expand it when special circumstances warrant it. In any case, you must obtain the approval of the governance authority before presenting it to the congregation. The governance authority should record its response to the auditors' report and recommendations in the minutes.

Appendix G

Annual Report to the District

The church is required to prepare an annual report each year. Instructions and an electronic copy of the forms are sent out at the end of each year to all Alliance churches.

The treasurer will be asked to provide certain financial information for this report. The report is updated periodically and detailed instructions are provided each year. Therefore, this manual does not provide these instructions.

We designed the suggested chart of accounts in the available sample to help you obtain the information you will need for the Church Health Analysis. Income accounts are grouped according to the categories of information requested on the report.