



Financial Controls, Policies and Procedures

Church Funds, A Trust: A Legal Note

Church income ordinarily consists of designated and undesignated contributions, interest on bank accounts, gain on investments, and rent from church--owned properties. Church income, from whatever source, is held by the church in trust for the church's religious and charitable purposes. Such a trust may be express, as when a donor contributes funds for a specified purpose, or implied, as when funds are contributed without designation regarding their use or constitute rents, interest income, service income, or gains.

In laymen's terms, "church funds are not an investment in stocks and bonds in order to make a profit, they are given to carry out the work of the church and are to be used specifically for the purpose it has been given."

Funds Policy:

All accounts or funds created by the church or by any church entity must a) be approved by the church in conference, b) be subject to annual reporting requirements, c) be under the oversight of the Finance Officer and Finance Committee, and d) provide a means of recording, securing, depositing and reporting approved by the Finance Committee.

Some miscellaneous funds created by a group within the church may NOT be official church funds in which case there will no official receipting or reporting within the church. These funds should in most cases be for limited and short term use such as a temporary fund for an outing, or a social events fund of a class.

Establishing Funds:

The Church shall upon recommendations from the Finance Committee establish such Funds as are deemed appropriate including the General Fund, and other special or designated fund accounts. The Finance Committee and Finance Officer shall assure that proper accounting is maintained for each Fund, and procedures implemented for assuring proper deposits, receipting and accounting established in this policy, are followed.

Church Disclaimer for Discretion Over Designated Funds

While this church's intent is to use all designated gifts for the specific purposes and projects designated, the final authority for the use of all gifts to the church rests with Administrative Board/Council. In exceptional circumstances where the designated purposes are not longer feasible, or has been completed, or for other good cause, the Administrative Board/ Council may redirect such gifts to other appropriate ministries or projects, retaining to the extent deemed feasible, the basic original purpose of the designation. (see pg. 8)

Memorial Funds: Memorial Gifts and Funds

- The Finance Committee and Finance Officer shall establish a Memorial Gifts Fund for receiving and accounting for designated gifts in memory/honor of members and others associated with the church or its friends.
- The Memorials Committee shall establish appropriate policies on the use of such memorial gifts, and authorize expenditures of the funds for purposes it deems appropriate.
- The Committee may identify priority projects or ministries toward which it will allocate such gifts. While specific interests of donors will be considered, the Committee retains the authority and responsibility to use the Funds in a manner appropriate to the purposes of the church. All gifts are received subject to this principle.
- A Book of Memorial Fund Gifts [or Book of Memory] shall be maintained by the Committee that will register memorial gifts to the Church. The following information will be included in the Book: The name of the person in whose memory/honor the gift is given, the date and occasion for the gift if applicable, the name(s) of the donor, and a description of the gift. When the funds are used, a note may be made in the Book as to the use.
- Where Memorial Funds are used to purchase a tangible asset, the Committee may recommend to the Administrative Board/Council that a memorial marker be placed on the object noting that it was made possible by the Memorial Fund.

Scholarship Funds: Basically, a scholarship fund can be established to help meet expenses that would otherwise be deductible - IRS Pub 508.

- Tuition, books, supplies, lab fees, and similar items.
- Certain transportation and travel costs (including meals and lodging).
- Other educational expenses, such as costs of research and typing when writing a paper as part of an educational program.

- Treas. Reg. 1.117-(3) (a) specifies that the term "scholarship" does not include "any amount provided by an individual to aid a relative, friend, or other individual in pursuing his studies where the grantor is motivated by family or philanthropic considerations."
- If contributions to the fund are earmarked by the donor for a particular individual, they are treated, in effect, as being gifts to the designated individual and are not deductible.
- This is also true if the donor understands that the contribution is to benefit a specific student (Revenue Ruling 62-113).

Therefore, we conclude that contribution credit is not given when:

- The contributions designate a specific student;
- Donors understand their contributions are to specific student;
- Parents intend their contribution to benefit children rather than the church.

Mission or Missionary Fund: A principle that can be applied to a mission fund is – all contributions go into a 'common pool' not earmarked for a specific individual, to be administered by a missions committee and distributed in accordance with stated policies regarding the church's mission statement. The Supreme Court's decision in the Davis case ensures that contributions to local churches for independent missionaries and short-term "lay missionaries" from one's own church must have certain controls:

- Church must approve each mission ministry (not individuals by name) as a legitimate activity in the furtherance of the church's religious mission.
- Prepare policy to communicate all terms and conditions of the mission ministry.
- Require 'activity report' summarizing all missionary activities in the mission ministry.
- Require 'accounting' or 'audit' of the use of the funds.
- Confirm that the expenses correspond to the missionary activities described in the activity reports.

Short Term Mission Trips: Many churches sponsor individuals and/or teams of individuals that serve on short-term mission trips, domestically and internationally. The proper handling of funds raised and expended for short-term mission trips often raise some challenging issues.

- Funding by the sponsoring churches general budget. Expenses relating to short-term mission trips may be funded in full by the sponsoring churches general budget.
- Funds directly expended by trip participant with no financial involvement of the church. A participant in a short-term mission trip may partially or totally fund trip expenses by making direct payments for airfare, lodging, meals, and other expenses. A participant can pay the expenses directly or indirectly through the church sponsoring the trip.

- Funding based on gifts preference for particular trip participants. When mission trip participants raise part or all of the funds required for a trip, the church generally records the amounts raised in separate accounts for each participant as a way of monitoring whether sufficient funds have been raised to cover the expenses of the participant's trip. Gifts preferred for particular trip participants should not be refunded to donors if the preferred individual does not go on the trip. Refunding these gifts is a strong indication that the church does not have adequate discretion and control over the gifts. The following statement should be used in solicitations for contributions:

Contributions are solicited with the understanding that the church has complete discretion and control over the use of all donated funds.

- Funding based on gifts restricted for particular trip participants. Although a donor may express a preference for a particular trip recipient, if the donor expresses a restriction for a certain trip recipient, the gift is generally considered earmarked, does not qualify for a charitable deduction and should not be accepted (or acknowledged as a contribution if accepted).

Non-Cash Gifts

- Non- Cash gifts will be accepted by the church on a "request only basis." This means that members are encouraged to give non-cash gifts but only when the church makes a request for them. Examples of these times would be to support a church sponsored, or one of its groups for a rummage, or yard sale.
- Receipting for non-cash gifts will be recorded on a Non-cash receipt form furnished by the church. The contributor will complete the form along with an estimated value of the gift itself.
- Items must be valued at \$250 or more before a receipt will be given.
- Items or property given to the church in excess of \$5,000 will require the contributor to furnish an official appraisal or bill of sale. The appraisal summary will have to be attached to Form 8283. The church will provide a signature and the contributor will have to attach the form to their return.

Allocation to Gifts to Funds and Accounts

Except where the donor has expressly designated otherwise, or the receipts have been received for special funds or causes, all receipts shall be credited to the General Fund.

Position Responsibilities

1. Finance Committee

- In consultation with the Pastor, determines person or persons who can authorize expenses (i.e. youth director, choir director, etc.).
- In consultation with the Pastor, determines unrelated persons to serve as the Counting Committee

2. Pastor

- As chairperson of the Nominating Committee and in consultation with Lay Leadership, determines the Church Financial Secretary and Church Treasurer, elected positions.
- Reminds the Finance Committee and Church Council why it is important to follow these procedures.
- Periodically Review Bank Statements for any irregularities.
- Review Donor Giving Records at least annually.

3. Church Finance Officer/Treasurer (volunteer or paid)

The Church Finance Officer/Treasurer shall not be personally involved in counting or depositing any church funds. He/She is accountable to the Administrative Board/Council and its committees. He/She shall be responsible for overseeing the disbursement of all funds received into the church treasury and to further assure church funds are kept in a responsible and organized manner in accordance with the policies, procedures and internal controls established by the church. Additional responsibilities include:

- Oversee all checks before disbursement and assure that all money disbursed on behalf of the church is in keeping with the church's budget, and that accurate records are maintained of how money is spent.
- Process all checks, recording them in the appropriate accounting software program.
- Process all payroll checks, Tax Form 941's, W-2's and other government records required in a timely fashion.
- Insure that computer files are backed up weekly, at a minimum monthly, and the back-ups are stored off premises.
- Prepares and presents the monthly finance report for Finance Committee, assuring accurate data indicating the financial well-being of the congregation is available to the committee and the Administrative Board/Council.
- Supervise daily cash balances to ensure sufficient funds are maintained and make recommendations for the investment of any excess funds.

- Maintains adequate filing and storage system for all financial and banking records for documentation of church assets and other information for insurance and other purposes.
- Prepares records for annual audit.
- Maintain historical data, and establish a retention system for old financial records in accordance with government requirements (minimum of 7 years).
- Ensure that all governmental taxes, reporting forms, and regulations are met on a timely basis.

4. Financial Secretary / Administrative Assistant (volunteer or paid)

- Supervise the Counting Committee, which shall consist of at least 2 persons not related. After the contributions have been properly counted, the Financial Secretary is responsible for recording the contributions to each family's contribution record and to the general ledger and then depositing the funds in the bank in a timely fashion as established by the Finance Committee.
- Responsible to report to the Finance Committee each month the status of contributions to the church.

5. If church size allows, the following duties should be performed by a person designated by the Finance Committee other than the Financial Secretary or Church Treasurer:

- Perform bank reconciliation each month in a timely fashion.
- Verify that all checks have been properly signed.
- Verify that the bank balance reconciles to the bookkeeping records.
- Verifies that the beginning balance equals the ending balance of the previous month both in the checking account and the general ledger.
- Signs and dates the reconciliation report.
- If church size does not allow for another individual to perform the above duties, the audit committee needs to examine monthly bank reconciliations in detail.

Annual Audit

An independent auditor, not necessarily a CPA, and not related to the Finance Secretary, Treasurer or the person performing bank reconciliations, is to audit the records annually.

- The audit should include the bank accounts of all affiliated ministries of the local church.
- The audit must include verification that proper internal accounting controls are being maintained.
- If the person doing the audit is not a CPA, consult the Local Church Audit Guide and the Fund Balance Report from GCF&A (www.gcfa.com).
- Submit copies of the audit to the Pastor and the Chair of the Finance Committee and the District Superintendent.
- The audit needs to be approved by the Finance Committee.

Receipts/Contributions: (in compliance with IRS rules as of 2004)

NOTE: THE CHURCH'S PREFERRED METHOD OF RECEIVING FUNDS IS TO WRITE A CHECK PAYABLE TO THE CHURCH AND PLACE IT IN A CHURCH ENVELOPE OR USE AN ACH.

- **Must be a gift of cash or property.** Something of value must be given to the church (usually cash). May not be donated personal services or free use of some personal asset.
- **Must be unconditional** (except for permissible designations to aspects of an organization's activities, such as missions). The donor must surrender control to the church.
- **Made payable to our church.** Checks written to the church (or money placed in a church envelope) and "earmarked" to be given with the intention to be a gift to individuals, even if charitable in intent such as to meet a personal need, are NOT deductible contributions. Gifts for this purpose must be made payable to the church and designated to the appropriate benevolence fund.
- **Must be without personal benefit to the donor.** Contributions cannot be made to church by an individual if the same individual making the contribution is intended for it to pay for their own mission trip, personal counseling, education, etc.
- **May not be in exchange for services or goods.** An individual may not turn an envelope in with an amount of money on it, in exchange for some work performed for the church, or in exchange for items purchased for the church, even if a receipt is furnished. Individuals desiring to make such a contribution to the church must render a receipt, or bill, for goods purchased, or services rendered, to the church and receive actual payment. The individual thus wanting to donate the amount to the church, must deposit the payment from the church into their account, and write a check to the church for the said amount. Then and only then can the church legally give a record of a charitable donation.
- **Contributions given in cash,** and NOT contained in a church offering envelope, cannot be recorded as a charitable gift and a statement of the gifts cannot be given.
- **Contributors giving with cash** must include their name and the amount given on the offering envelope before credit can be given. Offering envelopes containing cash that are received without name and amount should also be forwarded to the church office.
- **All offering envelopes** are to be completed by the contributor. Church personnel, volunteers or otherwise, are not allowed to complete envelopes for contributors.
- **Funds received through the mail** during the week shall be retained and made available to the counting committee.

Designated / Restricted Funds: The church may, with the approval of the Administrative Board/Council, arrange to receive designated funds for the specific purpose to support specific projects and missions.

Legal Rule for Designated Funds

Where funds are accepted subject to the donor's designation of the use of the funds, the church is under a legal duty to preserve those funds and use them only for the designated purpose. The church shall separately account for these funds, and the actual money shall be preserved, not merely a paper accounting. Thus such designated funds shall be kept in a separate account.

Separate accounts is defined as separate accounting; not separate bank accounts.

- **Designated Funds** shall be receipted and disbursed through separate ledger accounts. The Church Finance Officer shall establish and oversee these accounts.
- **Restricted funds** are charitable contributions whose use is restricted by donors to churches. The church has no discretion in the management and disbursement of such funds. Examples of such restricted funds would be the special offerings of the UMC including Conference and General Advance Specials.
- Designated funds will not be accepted for projects not previously approved by the church.
- **Money designated to a "budget line item,"** The church will not allow the receiving funds for the same purpose as specific line items in the budget.
- Designated funds received in excess of those needed to complete the project which they were intended, will by recommendation of the finance committee, and by vote of the Administrative Board/Council, be diverted to another area of need.
- **Quid Pro Contributions of More Than \$75** - If a donor makes a "quid pro quo" contribution of more than \$75 (that is, a payment that is partly a contribution and partly a payment for goods or services received in exchange), the church must provide a written statement to the donor that satisfies two conditions:
 - The statement must inform the donor that the amount of the contribution that is tax-deductible is limited to the excess of the amount of any money (or the value of any property other than money) contributed by the donor which exceed the value of any goods or services provided by the church or other charity in return.
 - The statement must provide a good faith estimate of the value of the goods or services furnished to the donor. A written statement need not be issued if only "token" goods or services are provided to the donor (generally, with a value not exceeding the lesser of \$96 or 2 percent of the amount of the contribution). Further, the rules do not apply to contributions in return for which the donor receives solely an intangible religious benefit that generally is not sold in a commercial context outside the donatives context.

• **Charitable Contributions with a Designated Desired Recipient** The most difficult kind of benevolence fund contribution to evaluate is a contribution that designates a desired recipient. Ordinarily, such "designated contributions" to a benevolence fund are not deductible, since the intent of the donor is to make a transfer of funds directly to a particular individual rather than to a charitable organization.

□ **First, section 170** of the Code allows a charitable contribution deduction only with respect to donations "to or for the use of" a charitable organization. Contributions to an individual, however needy, are never deductible, since they can never be said to be "to or for the use of" a charitable organization.

□ **Second, the intent of the donor** ordinarily determines whether the transfer should be characterized as a tax-deductible contribution to a church or a nondeductible transfer to an individual. Did the donor intend to make a contribution to the church, or did he only intend to benefit the designated individual (using the church as an intermediary to enable him to obtain a tax deduction for his nondeductible gift)? The fact that the payment was made to a church is not a controlling factor, since taxpayers cannot obtain a deduction merely by funneling a payment through a church.

3 Attorney, Richard Hammer says "It is possible that special appeal contributions could be tax deductible, if the following conditions are met.

1. The offering was pre-authorized by the church;
2. The recipient (or his or her family) is financially needy, and the needs are substantial
3. The offering is used exclusively for the expenses incurred for the above stated needs
4. Immediate family members are not the primary contributors;
5. No more than one or two such offerings are collected for the same individual.

Financial Reporting

- Annual budgets from Council of Ministries, Staff Parish Committee and Trustees are to be submitted to the Finance Committee for review and recommendations by the Finance committee are given to Administrative Board.
- The Administrative Board approves annual budgets.
- Budgets are reviewed mid-year and are changed to reflect changing conditions.
- Monthly Financial Reports are prepared by the Treasurer and submitted to the Finance Committee for review.
- Detailed Financial Reports are provided to the Administrative Board at each meeting.
- References and explanations must be given to any budget variances over 10%.
- Audits will be conducted at the approval of the Administrative Board.

Safeguarding Assets

- The Treasurer shall have primary responsibility for ensuring that proper Financial Management procedures are maintained and the policies of the Administrative Board are carried out.
- The Finance Committee shall provide fiscal oversight in the assets of the Church and shall have primary responsibility for insuring that all internal and external financial reports fairly presents its financial condition.
- A proper filing system will be maintained for all financial records.
- Actual revenues and expenses will be compared to the budget on a monthly basis.
- Excess cash will be kept in an interest bearing account.
- Bank statements are promptly reconciled on a monthly basis.
- Documents for all fixed assets and securities will be kept in a locked fireproof file.
- Appropriate insurance for all assets will be maintained.
- Records need to be kept on the Church premises.

Counting and Cash Receipts

- There should be two unrelated cash counters every Sunday (counters must rotate from week to week). The Finance Committee shall appoint sufficient members that would include persons other than the Treasurer, to include some of their own members or others at their discretion, to assure that not less than two are available on all occasions at which funds are to be counted.

- The counting team on any given occasion shall perform double counts on all receipts immediately following the receiving of the offerings, or services of which funds were received.
- They shall upon need, count funds that may be received by mail in an expedient manner. Funds received during the week shall be placed in a secure place until counting takes place.
- Each counter will complete an Offering Cash Count Form. A copy of the counting sheet shall be kept for a minimum of three years in the church office for referral if needed.
- Each counter will verify the other's form.
- The policy for designated funds should encompass the following steps:
 - Define procedures for the establishment of a specific Restricted/Designated fund listed above.
 - Counters/tellers should observe the gift during the counting process, as it is a gift to a new restricted/designated fund.
 - The counters/tellers should record the gift on the count sheet in red or highlight the description and amount as a potentially new fund. It is important to note that the counters/tellers are not authorized to approve a gift to a new designated fund.
 - The Finance Officer should temporarily deposit the gift in a category entitled Miscellaneous Designated.
- Assure that monies received in envelopes are properly attributed to the contributor either by name, or envelope number. If number system is not used, the contributor's name must be on the envelope if charitable credit is to be given.
- Assure that the amount within the envelope matches the amount written on it.
 - A counter may fill in the amount but only when envelopes have a name on it. This should be verified and initialed by both counters.
 - Envelopes containing cash, but with no name (if number system not used) should be recorded as loose change with no charitable credit issued.
 - Envelopes not matching the amounts contained within, and as much as is possible, must be confirmed immediately by seeking out the individual
- They shall count monies received during Sunday School and received during the week by mail at the normal time for the counting process unless directed otherwise by the Senior Pastor, Chair of Finance, and/or Finance Officer.
- All funds (offering, special event, fundraising, etc.) must be counted and deposited before any expense is reimbursed.
- All checks and cash that are received should be processed in a timely fashion with all checks stamped, "For Deposit Only". Records must be kept so that retrieval of the items deposited can be verified in case there is a dispute over an item deposited.

- Donations made for a specific purpose must be used prior to budgeted funds. If donated funds remain at the end of the year, the budget will be reduced by that amount (See designated funds pg. 8).
- Financial Secretary enters offering checks and cash receipts totals into the contributions record.
- Copy of deposit slip or receipt from the bank given to the Treasurer or Depositor designated, who will record deposits in a timely fashion.
- The Financial Secretary will keep a Weekly Contribution Account Summary and Offering Cash Count Form and will distribute a Weekly Contribution Account Summary and Offering Cash Count Form to the Treasurer.
- The Weekly Contribution Account Summary must match deposit slip, unless otherwise noted.
- Envelopes are considered by some experts as a contract. Therefore they shall be given to the church's recording financial secretary or church secretary or their designee, and copies of cash envelopes kept for a period of 7 years.

Policy if Financial Secretary is not present:

- Counters count and record cash as above.
- The Treasurer will complete a deposit slip entering cash amount on proper line.
- The Treasurer will total checks, use adding machine with tape, run checks through 2 times to make sure total comes up the same.
- The Treasurer, or designated depositor, will take deposit to bank.
- Financial Secretary will go online to record offering checks and complete the Weekly Contribution Account Summary.
- Remaining items are as above.

Disbursements

- Only persons authorized by the church may make purchases on its behalf. Persons authorized shall be determined by the finance committee and or their designees. No unauthorized purchases will be reimbursed by the church.
- Ideally there should be 3 people who can sign checks in case of an emergency and cannot include the Financial Secretary, or Pastor, or the Pastor's family.
- Two signatures are required on all checks; the person signing the check must never be the person authorizing the expense. The Finance Committee, in consultation with the Pastor, is to designate persons who can authorize expenses.

- The authority for the disbursement of church funds comes from the adopted church budget. The Finance Officer has no authority to disburse funds except at the direction of the Committee on Finance and/or the Administrative Board/Council. The church shall authorize disbursements in one of two ways:

1. By the adoption of a budget that typically authorizes such routine expenditures as the utility bills, mortgage payments, literature and salaries; and

2. By special authorizations for non-budgeted items by the Administrative Board/Council or some person or group given that authority. Thus, if a person comes to the Finance Officer and seeks to make a donation with a request that the donated funds be sent to some other cause or ministry, the Finance Officer is not authorized to honor the request. Even if the other cause is good and charitable, the Treasurer only has authority to act within the scope of the Administrative Board/Council's authorization.

- All disbursements will be made by pre-numbered checks and must be accounted for on a weekly basis.
- Routine checks for building and operating expense, payroll and pastor expense can be written without approval by Finance Committee, Administrative Board and/or Board of Trustees.
- Approval is needed for all expenses/reimbursements that are not considered routine. Budgeted items are not approved expenses.
- Reimbursements requests with receipts must be submitted for payment within 60 days of the expense or by the last day to submit invoices, whichever comes first.
- A Check Request form must be filled out for all reimbursements. A Check Request form must include the name of the person, address and phone number of the person making the request, the date the check is needed, name of payee if different than the person making the request, a payment description (reason for check) and a receipt(s). Requests can be used for reimbursement, direct pay (to a specific vendor) or advance. See Accountable Reimbursement Policy below. A Check Request form may include multiple expenses. Forms should be located in the church office.
- **No checks written to "cash" or "bearer".**
- **The use of ATMs or other means to withdraw cash directly from local church accounts shall not be permitted.**
- Invoices and check requests must be marked paid with the date and check number and filed.
- Every check written should have an invoice/receipt or check request with the exception of payroll checks.
- **Blank checks must not be signed in advance.**

- Checks must be recorded timely into the accounting system.
- Treasurer will print reports to include Available Cash Balances report and Summary of Revenues and Expenses at a minimum of once per month.
- Treasurer and Finance Committee Chairperson will review the reports prior to presenting the reports to any committee or board meeting.
- Unused Checks should be kept in a secure locked area.
- It is important to adopt a policy for credit card use and approval of the purchases for payment. This policy should establish who may be issued credit cards, clarify that these credit cards are not to be used for personal items, establish limits for each individual issued a credit card, and provide procedures for submitting credit card bills for payment.

Electronic Banking: Local Churches, Florida Districts and the Florida Conference increasingly are turning to electronic banking as a faster, easier, and more efficient substitute for paper transactions. Electronic banking uses computer and electronic technology to streamline the processing and recording of receipts and disbursements, while reducing the cost of processing these transactions. Banking can be done without leaving the office, generally at any time of the day, and often you can see up-to-the-minute balances and recorded transactions.

Receipts, disbursements and transfers in proper circumstances can be processed via electronic funds transfer (EFT) services, whether transferring funds from a savings to a checking account at the same bank, or making a payment to a vendor's bank across the country. Traditional internal controls, such as written policies and procedures, authorizations, segregation of duties and monitoring, however, are still important in the new technological world.

Policy and Procedures

Before you begin processing transactions electronically, you should have detailed policy and procedures in place that specify online banking activities and electronic funds transactions in which your organization is authorized to engage. The policy should include the following:

What online banking and EFT activities will be used?

Who is authorized to initiate electronic transactions?

Who will approve electronic transactions?

Who will transmit electronic transactions?

Who will record electronic transactions?

Who will review and reconcile electronic transactions?

This policy must be consistent with the Discipline and other responsibilities of the officers and employees involved.

Segregation of Duties

Classic internal controls, if well designed, all work well with EFT technologies. Proper segregation of duties is important in almost any business function, but is critical for electronic transactions. Without proper segregation of duties, the risk increases that one person could be in a position both to commit a wrongdoing and to conceal it. At least two individuals should be involved in each electronic transaction.

The authorization and transmitting functions should be segregated and, if possible, the recording function should also be delegated to someone who does not have either approval or transmitting duties. Generally, the same controls should be used for electronic disbursements through online banking as apply to the manual preparation of checks. Payments made using electronic funds transfer services cannot circumvent laws, regulations, and/or your internal control policies.

Safeguards

Access to in-house electronic banking software should be password protected and only authorized individuals should have the passwords. The use of this software should be monitored frequently due to the ease with which transfers can be made.

Monitoring

Your internal control system must include procedures or safeguards for the documentation and reporting of all transfers and disbursements of funds electronically.

Electronic Payments

Local Churches, Florida Districts and the Florida Conference are authorized to accept electronic payments through their web sites or electronic transfers from donor's accounts.

Electronic Check Images

Most banks no longer provide cancelled paper checks to their customers, but instead offer electronic check images online or on CD. You can accept these electronic images in lieu of cancelled checks, upon authorization of the finance committee.

Accountable Reimbursement Policy

• We recognize that certain expenses of ministry paid by the pastor/staff person/ministry leader are part of the ordinary and necessary costs of this ministry in this Church. The following conditions for the policy are binding upon the Church and its pastor/staff person/ministry leader.

1. The pastor/staff person/ministry leader shall be reimbursed for his/her ordinary, necessary, and reasonable business expense incurred in the conduct of the ministry for, and on behalf of, the Church, to the amount approved at charge conference.
2. The treasurer must be given adequate accounting within 60 days after the expense is paid or incurred. Appropriate documents (original receipts) must be attached to each reimbursement request.
3. For advance payment of a particular anticipated expense, the pastor/staff person/ministry leader must account for the expense as described above and return any excess reimbursement within 14 days after the expense is paid or incurred. Any excess reimbursement must be returned to the church before additional advances will be made. If the excess reimbursement and substantiation are not submitted by the end of the calendar year, a 1099/or adjustment to W-2 income would be issued to the person requesting the advance.
4. Only one half of the Account Reimbursable amount can be expended in the first six months of the year.
5. The treasurer shall exercise his/her discretion regarding the adequacy of the substantiation and the appropriateness of any reimbursement based on account reimbursable worksheet guidelines. Questions arising in these areas will be resolved by the Finance Chairperson and/or Staff Parish Relations Chairperson, subject to review and approval by the finance committee.

Payroll

• IRS Rule: Any person asked to perform a duty and as a result of performance of that duty receive compensation, they are considered an employee and taxes must be withheld and reported. (The only exception is for ordained ministers)

- The church will strive to keep as best as is understood, all current rules of reporting as are required by IRS including the following.
- The church will withhold and report appropriate taxes on each employee hired by the church, except for ordained ministers.
- Any person not considered to be an employee who receives \$600 between January 1 and December 31 of any single year, will be required to furnish the church with their Social Security number, and a misc.1099 will be issued after December 31.

Employee vs. Independent Contractor

Employees typically:

Receive salaries or hourly wages (whether part-time or fulltime).

Can be fired.

Can quit without penalty.

Must submit reports.

Must obey instructions.

Must do the work themselves.

Are hired to provide services for an indefinite period of time, rather than to accomplish a particular task.

Are eligible for fringe benefits (health, disability, pension, sick pay, etc.).

Are provided what is needed to do their job.

Are reimbursed for expenses.

Independent contractors are considered self-employed. They typically:

Set their own hours.

Decide how to get the work done (rather than follow someone else's instructions).

Offer their services to the public.

Provide their own equipment.

May work on someone else's property, and for several persons at the same time.

May employ assistants.

Are hired to do a particular task, and are paid by the job.

Have a substantial financial investment in the work.

- Each employee and pastor will be given and required to complete form W-4 and I-9.
- The church will pay one half ½ and withhold the other half ½ of the appropriate FICA taxes. It will also compute and withhold federal, state and other taxes as deemed appropriate and lawful, for each employee and send the appropriate amounts.
- The Staff Parish Relations Committee and/or Administrative Board authorize all personnel salary/wage rates. The Staff Parish Relations Committee and/or Administrative Board likewise authorize all changes in employment.
- The Staff Parish Relations Committee maintains all personnel records and notifies the Treasurer when there are changes (new employee, salary/wage changes, etc.).
- Personnel paid hourly will submit their hours in written form to the Treasurer prior to the end of the pay period.
- The Treasurer will prepare the paychecks or submit payroll information to outside payroll service, using the approved salary/wage rates for each employee and pre-numbered checks or ACH. All paychecks must be recorded in the accounting system and a paycheck register report generated.
- Payroll tax deposit information is prepared at the end of the month and the payroll tax deposit is made when it is due (the 15th of the following month).

Clergy Compensation Plan

- Housing: The pastors of the church shall be eligible for a housing allowance according to the rules set forth by IRS (even if living in the church parsonage).
- **Congregational Steps for Consideration of a Housing Allowance**
- The Pastor speaks with the District Superintendent regarding desire for the church to consider a housing allowance.
- The Administrative Council forms a study team of 5-7 persons including the Lay Leader, and representatives from the Staff Parish Relations Committee, the Board of Trustees, and the Finance Committee.
- The housing allowance study team should consider the following:
 - o The pros and cons for their congregation to move from a parsonage to a housing allowance taking into consideration missional and financial issues.
 - o The monthly cost of renting a home that meets Annual Conference Standards within 20 miles of the church. The team should identify at least three examples of appropriate homes for rent.
 - o The cost to the budget (annually and over time) if the church adopts a housing allowance instead of owning and maintaining a parsonage.

o The pros and cons of renting versus selling the parsonage, including a discussion on how the funds would be used in keeping with the Discipline.

Based on this research, the study team would propose an annual housing allowance.

The study team shares the proposal with the Church/Administrative Council for discussion and questions.

If the response of the Church/Administrative Council agrees with the proposal to provide the pastor with a housing allowance, the proposed allowance must be approved by the District Committee on Clergy Housing.

If the study team recommends selling the parsonage and the Church/Administrative Council agrees, the plan must be approved by the District Committee on Church Location.

A copy of the proposal should be available for members of the congregation to review. There should also be a church-wide meeting where the congregation can have a chance to ask questions.

The final step is to contact the District Superintendent to set up a Church Conference to vote on the housing allowance and related issues.

• Expenses: Ordained ministers may receive funds as determined by the Staff Parish Relations committee, for reimbursement for expenses incurred during the course of duties performed on behalf of the church.(See Account Reimbursable)

In order to receive the funds as a reimbursement they must give a monthly report of activities to the Finance Officer, to include all mileage and expenses incurred and other costs associated with being a professional clergyperson.

If they choose not to use an accountable plan for reporting, in accordance to IRS rules, all funds given to the pastor for expense reimbursement shall be placed on W-2 form as salary income.

•Churches are discouraged from making Clergy Loans, and in the event a loan is necessary it must first be approved by the District Superintendent, and under no circumstances should the District directly make a Clergy Loan.

Bank Reconciliations

• The Treasurer will maintain a record of all bank transactions, including all checks dispersed and receipts deposited on a weekly basis. All records are to be housed at the church office.

• The designated party will reconcile all bank accounts on a monthly basis.

Document Retention:

The following records shall be retained for a period of (7) seven years in a secure location: All church financial records and statements (bank statements and records checks, contribution statements, copies of contributor's cash envelopes, vendor documentation, purchase orders, housing allowance designations, weekly counting sheets), accident reports, personnel records (applications for employment, terminated employee records, expired contracts, personnel files, payroll records), property documents (appraisals, expired insurance policies, tax or other financial matters), contracts and agreements, wills of deceased donors, federal/state/local filings, insurance documents (accident reports, claims (after settlement), expired policies, safety reports), expired trust Agreements.

“the guidelines are not intended to be legal advice and when in doubt a tax advisor should be consulted”

_____ United Methodist Church of _____

is in compliance with the Fiscal Controls, Policies, and Procedures

_____ Date

_____ Pastor

_____ Finance Chairperson

_____ Treasurer

_____ Church Council Chairperson



Financial Controls, Policies and Procedures

Annual Review and Renewal Document

_____ United Methodist Church

_____, Florida

When approaching the subject of money within the context of a church, the operative word is “integrity”. The Bible is quite clear on the need to be honest and forthright in financial matters. There is also the potential of the church’s testimony to an unbelieving world. The way a church handles its finances can present positive or negative witness to those outside the church. Does the church care for its people the way it cares for its money? Are the leaders sloppy, not concerned with details, or downright unconcerned? Therefore, be intentional in selecting good, qualified people to be the caretakers of the funds and good people need the right policies and procedures, so please review these policies and procedures annually and watch for any updates to these policies and procedures sent out from the Conference Financial Services Department.

The original financial controls, policies, and procedures was adopted by the _____ United Methodist Church on _____ and is on file in our church office and the District Office.

“the guidelines are not intended to be legal advice and when in doubt a tax advisor should be consulted”

Annual Renewal

The Financial Controls, Policies and Procedures is renewed by action of the Administrative Council of _____ United Methodist Church on this _____ day of _____, 201_.

Pastor

Finance Chairperson

Admin Council Chairperson