

VICTORY OUTREACH INTERNATIONAL

CHURCH ADMINISTRATION OPERATIONAL MANUAL

A policy and procedure manual of the
Independent Religious Corporations

REVISED 2017

This handbook was prepared by the personnel of Victory Outreach International®, to assist local church leaders in their ministry. As an operational manual, it can be used as a supplement and a resource guide. As a policy manual, certain provisions reflect the tenets of our faith and as such, are requirements that must be adhered to.

These provisions are found in:

- 1. The Minister/Church (includes The Statement of Faith)**
- 2. Religious Corporation Compliance**
- 3. General Ministry Policy**

Please understand that this manual is not intended to be legal advice. If the reader has concerns about how the law applies to their specific facts or circumstances, they should seek legal advise from an attorney.

Church Administration Operational Manual

Table of Contents

SECTION ONE – CHURCH ADMINISTRATION ESSENTIALS

Administration Structure

Church Administrative/Financial Flow Chart	5
Department Descriptions	6
Monthly Flow of Activity	6

Job Roles

Business Administrator	6
Account Representative (Treasurer)	7
Check Signers.	8
Accounts Payable	8
Reconciler	9
Receptionist	9
Trustees	10
Financial Contributions Recorder	10
C.P.A./Professional Bookkeeper	11

SECTION TWO - TAX EXEMPTION

Tax Exemption

Federal Exemption From Income Tax	13
Can a church lose its Tax Exempt Status?	14
State Income Tax Exemption	15
California Tax Exemption	15
Annual Informational Returns	15
Unrelated Business Income	16

Property Tax Exemptions

Church Exemption	17
Religious Exemption	17
Welfare Exemption	17

SECTION THREE – ADMINISTRATION PROCEDURES

Planning & Budgets

Planning	19
A Financial Plan.....	19
What is a Budget?	20
Functions of a Budget	20
Creating Budgets.....	21
Overview	22

Establishing Credit

Purpose	23
How to Establish Credit	23

Contribution Reporting Requirements/Procedures

IRS Regulations Regarding Substantiation Rules	24
Minimum Receipting Standard	24
Contemporaneous Receipts	25
Sample “No Goods or Services Received Statements”	25

Accounts Payable Procedures

Church Bank Accounts	25
How to Open a Church Checking Bank Account	26
Check Signers	28
Chart of Accounts	28
Accounts Payable	28
Filing	29
Reconciliation	29

Church Ministry Procedures

Ministry Department Deposits	29
Ministry Tithes	30
Check Requisitions	30
Receipts	30
Special Events/Fundraisers	30
Reimbursements	31
Credit Accounts	31
Printing of Flyers/Literature	31
Acquiring Facilities for Events	31

Annual Financial Statements

Purpose	32
Where to Begin	32
A Compilation, Reviewed or Audited Financial Statements	32

SECTION FOUR - THE CHURCH AS AN EMPLOYER

Compensating Employees

Purpose	34
When does a Church become an Employer?	34
Who is an Employee?	34
Employee Handbooks	34
Worker's Compensation	34
Employee Records	34
Sample Personnel Files Checklist	35

Ministerial Compensation

Compensation	36
Reasonable Compensation	37
Ministerial Taxes	37
Ministers have Dual Tax Status Under Law	37
Definition of a Minister for Federal Tax Purposes	38
Minister Employee v Self-Employed Tests	38
What is Reportable as Ministerial Income and What is Not	38
Gifts and Bonuses	40
Options for Paying Ministerial Taxes During the Year	40

Minister's Housing Allowance

Description	41
What May be Included in the Housing Allowance?	41
Is There a Limitation on Housing Allowance?	42
How to Designate a Housing Allowance	42
What are the Tax Advantages of the Housing Allowance?	42
When can Changes be Made in the Housing Allowance Designation?	42
Responsibility to Determine the Fair Rental Value	43
Can a Minister's Housing Allowance be 100% of Compensation?	43

Church Payroll and Payroll Services

Churches have special situations	43
--	----

Allowances and Expense Reimbursements

An Accountable Reimbursement Plan	44
Church Debit/Credit Card Use	45

SECTION ONE

CHURCH ADMINISTRATION ESSENTIALS

Victory Outreach Administration/Financial Flow Chart

Church Board

a. President: _____ (Senior Pastor)

b. Secretary: _____

c. Treasurer: _____

d. Director: _____

e. Director: _____

Senior Pastor: _____

Associate Pastors: _____

Business Administrator / Account Representative: _____

2 Check Signers _____

Accounts Payable

Receptionist

Batching Trustees Team
(At Every Offering)

1: _____

2: _____

3: _____

Processing Trustee Team
(Team of volunteers)

1: _____

2: _____

3: _____

4: _____

5: _____

Bank Depositors

1: _____

2: _____

At least two of the team members take the deposit to the bank. Okay to rotate persons.

Income Reports are given to the Account Representative

Financial Contributions Recorder Keeper

Data Entry: _____

Verifier: _____

C.P.A./Bookkeeper

Each church should establish a Finance Department that should consist of the following: Business Administrator, Account Representative, Trustees, Check Signers, Reconcilers and Financial Contributions Recorder.

The Finance Department should also hire an outside C.P.A. or professional Bookkeeper to complete annual financial statements.

Department Description

- ◆ Implement financial plans of the church
- ◆ Manage all finances
- ◆ Assist with budgeting and financial forecasting
- ◆ Oversee special events and projects
- ◆ Perform all financial reporting and internal audits
- ◆ Assist C.P.A. with annual financial reports by providing all necessary data
- ◆ Maintain all checking and savings accounts
- ◆ Pay all invoices and bills
- ◆ Process and record all income

Monthly Flow of Activity

- ◆ Maintain church monthly budget
- ◆ Prepare monthly spreadsheet reports
- ◆ Oversee any special events or special projects during the month
- ◆ Reconcile and balance all checking or savings accounts
- ◆ Pay monthly bills and invoices
- ◆ Maintain filing of all financial records
- ◆ Handle NSF checks and correspondence
- ◆ Maintain high level of communication within the Finance Department
- ◆ Prepare receipts
- ◆ Separate restricted funds

Business Administrator

In many churches, the Business Administrator is the Pastor or a Pastor in the church. Although it is very important for the Pastor to be involved in the financial welfare of the church, he should not be involved in the creation of basic accounting transactions (writing checks, making deposits, etc.), or the reconciliation of those transactions. This is not a practical issue, however a perceptual one (leave the day to day responsibilities to the Account Representative-*see note under Account Representative*). The Business Administrator should be involved in the administration and direction of church finance. The Business Administrator should spend time reviewing and understanding the financial activity of the church.

General Characteristics of Administrators

- ◆ Resourceful – Administrators must properly value resources, both human and material. Resourceful individuals develop an ability to inventory everything that may be available to accomplish the purposes of the church.
- ◆ Practical – Administrators need a balanced perspective of the entire church (no tunnel vision). Practical leaders understand the effect that change has on the life of the church and implement only the adjustments that will have positive, long-range impact.
- ◆ Thoughtful – Administrators should have the capacity to ideate and to cultivate concepts. Policies that operate the church should always agree with the true concepts of the church. They must know their Pastor well and be capable of understanding their view in every situation.
- ◆ Communicative – Administrators must communicate clearly and thoroughly with the staff, leadership, constituency and the community. It is in the communication of thought that ideas are perfected to the point that they become valid for use. They must be capable of effective delegation by developing an efficient organization of responsibility and accountability for the church staff.
- ◆ Facilitator – Administrators are motivated by a strong desire for harmony in the concerted work of the church. To facilitate means, “to make easy”; the administrator should feel a compulsion to focus all the resources at their disposal into bringing ease to the daily life of the church.
- ◆ Responsive – Administrators must comprehend authority and learn to respond to it positively. The Pastor determines the direction for the church body and administration expedites his decisions. Should administration assume control of the church, the body will be governed by physical limitations rather than by spiritual power. The Pastor and the board are “directive” and administration is “responsive”.
- ◆ Tither in the church – they have already made a commitment to God’s money

Account Representative (Treasurer)

The Account Representative is also known as the Treasurer. The Account Representative is the one that outside agencies, including the government, should deal with. Above all, the Account Representative is responsible to the members of the church and should be ready to report the financial conditions at any time if needed. The Account Representative is responsible for maintaining complete records of financial activity, but also for maintaining supporting (or backup) documentation like receipts, invoices, correspondence, giving envelopes, etc.

It is important that accounting transactions are recorded on a consistent basis. In addition, the Account Representative should be responsible to see that disbursements are issued and contributions deposited in an accurate and timely fashion.

***Note:** Due to the small size of many churches and the lack of qualified individuals to fill financial positions, Pastors often resort to fulfilling this position themselves. We recommend that this practice be avoided whenever possible. In addition, a serious a problem can exist when the Pastor’s spouse or relative takes over financial duties in the church. Many Pastors (or often their spouses) possess the skills necessary to fulfill the day-to-day responsibilities of Account Representative, but the reality is that the potential for misunderstanding and division in the church would be magnified if they did take over these duties. In order for Pastors to be effective spiritual leaders, they must be above reproach. Assigning*

these basic accounting responsibilities to another qualified person will help the Pastor in this area. If you are pioneering and the Pastor (or his spouse) must perform these duties, only do them until you are able to trust and train another person.

General Characteristics of Account Representative

- ◆ Person of Integrity (trustworthy; capable of confidentiality)
- ◆ Good Judgment
- ◆ Organized – to set up and implement a financial structure
- ◆ Understands Financial Data (quick learner)
- ◆ Attentive to Detail/Methodical
- ◆ Analytical
- ◆ Responsible
- ◆ Resourceful
- ◆ Communicative (Accountable)

General Responsibilities of Account Representative

- ◆ Accounting for and managing church checking account
- ◆ Communicating the church budget
- ◆ Recording Deposits
- ◆ Reporting Income/Expenses to Pastor or Church Board
- ◆ Provides checks and balances for Pastor or Church Board
- ◆ Provides information necessary to Victory Outreach International Finance Office and C.P.A./Professional Bookkeeper
- ◆ Pastor's armor bearer, releaser
- ◆ Assist in establishing church financial policy & procedure

Check Signers

Each church should enact a policy of double-signing all checks. Many churches have an Account Representative and a few trustworthy individuals that might serve in the capacity of second check signers. There must be at least two unrelated signers on the account, never Pastor and Pastor's Spouse. It can be Pastor/2nd Signer or Pastor's Spouse/2nd Signer. We recommend using church officers as signers.

General Characteristics of Check Signers

- ◆ Person of Integrity (trustworthy; capable of confidentiality)
- ◆ Availability
- ◆ Tither in the church – they have already made a commitment to God's money

Accounts Payable

This person is responsible for providing financial and administrative support in order to ensure effective, efficient and accurate financial and administrative operations. The Accounts Payable person reports to the Business Administrator and is responsible for providing financial, administrative and

clerical services. This includes processing and monitoring payments and expenditures and preparing and monitoring the payroll system. Providing these services in an effective and efficient manner will ensure that finances are accurate and up to date, that staff are paid in a timely and appropriate manner and that vendors and suppliers are paid within established time limits.

General Characteristics of the Accounts Payable Person

- ◆ Attentive to detail/Methodical
- ◆ Person of Integrity (trustworthy; capable of confidentiality)
- ◆ Accurate
- ◆ Tither in the church – they have already made a commitment to God’s money

General Responsibilities of the Accounts Payable Person

- ◆ Receive and verify invoices and requisitions for goods and services
- ◆ Verify that transactions comply with financial policies and procedures
- ◆ Prepare batches of invoices for approval & data entry
- ◆ Enter invoices for payment
- ◆ Manage the weekly check run
- ◆ Record all checks
- ◆ Prepare vendor checks for mailing
- ◆ Prepare manual checks as and when required
- ◆ Maintain listing of accounts payable
- ◆ Maintain updated vendor files
- ◆ Print and distribute weekly & monthly financial reports

Reconciler

The Account Representative is best suited to reconcile accounts.

General Characteristics of Reconciler

- ◆ Attentive to detail/Methodical
- ◆ Person of Integrity (trustworthy; capable of confidentiality)
- ◆ Accurate
- ◆ Tither in the church – they have already made a commitment to God’s money

Receptionist

Each church should have a receptionist at their post every Monday – Friday 9am – 5pm (or a predetermined **consistent** schedule). This person will create an inviting and gracious atmosphere for visitors to the office and to assist with general office tasks that help the church operate effectively, efficiently and creatively.

General Characteristics of the Receptionist

- ◆ Person who is supportive and enthusiastic
- ◆ Ability to articulate the vision and values of Victory Outreach
- ◆ Positive, energetic, personable, marked by integrity

- ◆ Has leadership skills
- ◆ Teachable, creative, cooperative
- ◆ Good people skills, a sense of humor
- ◆ Is self-disciplined
- ◆ Is friendly to church staff, adults, youth, guests and the larger, local and international community
- ◆ Has computer skills, including all Microsoft applications—Word, Excel, Outlook, & Publisher

General Responsibilities of the Receptionist

- ◆ Direct callers to the appropriate party
- ◆ Answer questions about church events (who, what, when, where and how?)
- ◆ Promptly distribute office messages, mail and email
- ◆ Announce or introduce guests to various staff
- ◆ Be a gate-keeper... courteous to each person while protecting staff's time
- ◆ Share administrative pool duties as necessary
- ◆ Assist with event preparations such as Baptism, Child Dedications
- ◆ Coordinate volunteer teams, and help with on-site facilitation
- ◆ Receive and edit weekly/daily prayer requests and distribute to prayer team and staff via e-mail
- ◆ Assist in verifying the database of members, guests and regular attendees
- ◆ Make initial contact with new guests to the weekend service
- ◆ Organize, maintain and assist staff/volunteers with the use of office equipment/supplies for mail, copies, fax, scan and other
- ◆ Recruit, train and organize volunteers to assist with office tasks
- ◆ Prepare and maintain coffee set up for the reception area
- ◆ Plan, order, organize food for office meetings and select events
- ◆ Back up Facilities Team with facility reservations
- ◆ Maintain staff, and phone extension list
- ◆ Maintain Victory Outreach National & International phone list & emails

Trustees

It is our general policy that at least two Trustees process the church finances at one time. It is best if the two are not related in any way. You may have two related Trustees if they are part of a Trustee Team (more than two people). The Trustee team should consist of at least one Team

Leader/Overseer, Trustee, “Verifier” and a “Banker” (see Trustee Manual).

The Account Representative should not process finances. The Trustees provide the Account Representative with accurate information necessary for record keeping and reporting.

General Characteristics of Trustees

- ◆ Person of Integrity (trustworthy; capable of confidentiality)
- ◆ Tithers in the church – they have already made a commitment to God's money
- ◆ Efficient
- ◆ Accurate
- ◆ Attentive to Detail/Methodical
- ◆ Responsible

- ◆ Communicative

Financial Contributions Recorder

Each church must issue donor-giving records. It is the job of the Financial Contributions Recorder to record financial data from contributions that the church has received. Giving Statements should be mailed out annually to your donors/church members (see Contribution Recording Requirements Section). Giving Statements are also to be made available upon request by the donor/church member for use in income tax reports. Giving records are to be kept strictly confidential on behalf of the individual donors/church members.

Note: The Financial Contributions Recorder may also receipt any gifts that the church receives that require a tax-deductible receipt to the donor.

General Characteristics of Recorder

- ◆ Attentive to detail/Methodical
- ◆ Person of Integrity (trustworthy; capable of confidentiality)
- ◆ Efficient
- ◆ Resourceful
- ◆ Accurate
- ◆ Communicative
- ◆ Tither in the church – they have already made a commitment to God's money

Certified Public Accountant/Bookkeeper

We highly recommend that each church hire a C.P.A. or Bookkeeper to review and prepare your annual financial reports. Preferably, a C.P.A. or Bookkeeper that is familiar with church accounting or non-profit accounting. Churches in your area may be able to refer you to a reputable C.P.A. or Bookkeeper (see Section on Annual Financial Statements)

Benefits:

- ◆ Audit your accounts
- ◆ Prepares annual financial reports - needed for credit, major purchases/leases.
- ◆ Aids with Payroll taxes (if you do not use an outside service)
- ◆ Aid in closing out your account at the end of each year

SECTION TWO

TAX EXEMPTIONS

Federal Exemption From Income Tax

By giving churches automatic tax-exempt status, the Federal government refrains from illegitimate control of, and interference into, the sphere of religion and its institutions, and instead safeguards, as it must, the free exercise of religion. This is a vital governmental means of acknowledging and protecting, instead of burdening and directing, the church's unique identity and contributions.

Churches that **meet the requirements** of IRC section 501(c)(3) are **automatically** considered tax-exempt and are not required to apply for and obtain recognition of tax-exempt status from the IRS. The requirements as stated by the IRS are:

- the organization must be organized and operated exclusively for religious, educational, scientific, or other charitable purposes,
- net earnings may not inure to the benefit of any private individual or shareholder,
- no substantial part of its activity may be attempting to influence legislation,
- the organization may not intervene in political campaigns, and
- the organization's purposes and activities may not be illegal or violate fundamental public policy.

Therefore, a church is automatically exempt from Federal Income taxes from their first day of existence and as long it meets and maintains the "requirements" it qualifies immediately to receive and receipt all tax-deductible contributions received for the benefit of the ministry.

Nevertheless, there are several reasons why a church may want to go through the exemption process with the IRS, it:

- ✓ Puts the church on record with the IRS when filing various information and tax returns for such issues as unrelated business income and health care tax credits.
- ✓ Ensures quick and accurate assistance from the IRS when filing various information and tax returns for such issues as unrelated business income and health care tax credits.
- ✓ Settles the issue of exemption -if any of your contributors are audited by the IRS
- ✓ Greatly helps in getting county property tax exemption, and is a required document where a “welfare exemption” is being applied for.
- ✓ Makes it easier to get nonprofit banking privileges, US Postal Service nonprofit mailing privileges, and special discounts off products and services from a number of business and vendors who reserve these only for “qualified” non-profits.
- ✓ Often qualifies your church to receive matching employer contributions
- ✓ Could make it easier if any of your ministers elect out of social security.

If the church does decide to pursue a letter of recognition for federal tax exemption, they will need to file IRS FORM 1023, and answer the special section of questions for churches. The application form is extensive and requires a number of organizational, governance, financial, and policy documents be included with the application. VOI recommends a professional, such as your CPA, be engaged to assist in the preparation of the document.

Can Tax Exempt Status be Lost?

Yes, by providing a substantial benefit to private interests, participating or intervening in a political campaign, or having significant unrelated business activities, tax exempt status can be lost. IRS Publication for Churches clearly states:

All IRC section 501(c)(3) organizations, including churches and religious organizations, must abide by certain rules:

- their net earnings may not inure to any private shareholder or individual,
- they must not provide a substantial benefit to private interests,
- they must not devote a substantial part of their activities to attempting to influence legislation,
- they must not participate in, or intervene in, any political campaign on behalf of (or in opposition to) any candidate for public office, and
- the organization’s purposes and activities may not be illegal or violate fundamental public policy.

Inurement to Insiders

Churches and religious organizations, like all exempt organizations under IRC section 501(c)(3), are prohibited from engaging in activities that result in inurement of the church’s or organization’s income or assets to insiders (i.e., persons having a personal and private interest in the activities of the organization). *Insiders* could include the minister, church board members, officers, and in certain circumstances, employees. Examples of prohibited inurement include the

payment of dividends, the payment of **unreasonable** compensation to insiders, and transferring property to insiders for less than fair market value. The prohibition against inurement to insiders is absolute; therefore, any amount of inurement is, potentially, grounds for loss of tax-exempt status. In addition, the insider involved may be subject to excise tax.

Private Benefit

An IRC section 501(c)(3) organization's activities must be directed exclusively toward charitable, educational, religious, or other exempt purposes. Such an organization's activities may not serve the private interests of any individual or organization. Rather, beneficiaries of an organization's activities must be recognized objects of charity (such as the poor or the distressed) or the community at large (for example, through the conduct of religious services or the promotion of religion). Private benefit is different from inurement to insiders. Private benefit may occur even if the persons benefited are not insiders. Also, private benefit must be substantial in order to jeopardize tax-exempt status.

Substantial Lobbying Activity

In general, no organization, including a church, may qualify for IRC section 501(c)(3) status if a substantial part of its activities is attempting to influence legislation (commonly known as lobbying).

Political Campaign Activity

Under the Internal Revenue Code, all IRC section 501(c)(3) organizations, including churches and religious organizations, are absolutely prohibited from directly or indirectly participating in, or intervening in, any political campaign on behalf of (or in opposition to) any candidate for elective public office. Contributions to political campaign funds or public statements of position (verbal or written) made by or on behalf of the organization in favor of or in opposition to any candidate for public office clearly violate the prohibition against political campaign activity. Violation of this prohibition may result in denial or revocation of tax-exempt status and the imposition of certain excise tax.

State Income Tax Exemption

Churches are NOT automatically exempt from most state income tax purposes. In most states, as in California, when a church incorporates it is assumed to be a taxable corporation. To qualify for exempt status the church must file for exemption with the Franchise Tax Board. Failure to qualify for exempt status will subject the church to the annual minimum franchise tax, plus penalties for failure to file the tax returns.

California Tax Exemption

To receive an exemption the church needs to file the appropriate form (in California it is FTB Form 3500) and supply all the additional information and documents requested. In most states the application form is extensive and requires a number of organizational, governance, financial, and policy documents be included with the application. VOI recommends a professional, such as your CPA, be engaged to assist in the preparation of the document. State exemptions from income tax are

generally from the date of approval going forward and not retroactive to the initial date of existence. Consequently it is important to complete and file the state exemption as quickly as possible.

For organizations formed after January 8, 2008 that desire a *California* tax exemption, you will no longer have to file Form FTB 3500 if you file and successfully qualify for a federal exemption from income tax. Instead they can submit a copy of their IRS Exemption Determination Letter, along with FTB Form 3500A and the FTB will grant an exemption and make the exemption retroactive to the date set by the IRS in its determination letter.

Since churches are not required to file for Federal exemption, they don't normally have an IRS Exemption Determination Letter. So the church will have a choice:

1. File only state FTB Form 3500 and qualify for state and federal exemptions, or
2. File a federal exemption using IRS Form 1023, receive a positive determination, and then submit the IRS Exemption Determination Letter along with FTB Form 2500A to the State of California.

Annual Information Returns

Churches generally are not required to file the annual IRS Form 990 (or in CA FTB Form 199) informational returns. However, they are required to notify the IRS (and Franchise Tax Board) of any change of address, amendments to the Articles of Incorporation, or amendments to the By-laws. This is because the exempt status was granted based on the documents submitted to these (and other) agencies as part of the exemption application process. Consequently, any changes to those documents could impact the continued exemption of the organization.

Most churches are exempt from filing these tax forms. If you are unsure if your church is required to file, a good place to check is on your federal and state determination letter. It will generally state specifically what your filing requirements are. BUT if your church has been in existence for more than 30 years you may find the information on your determination letter is no longer correct. In such a case, the only real way to determine your filing requirement(s) is to contact the agency directly to inquire.

Unrelated Business Income Tax (UBIT)

Income from activities not directly related to fulfilling an organization's exempt purposes may be subject to the tax on unrelated income. Churches and religious organizations, like other tax-exempt organizations, may engage in income-producing activities unrelated to their tax-exempt purposes as long as the unrelated activities are not a substantial part of the organization's activities. However, the net income from such activities will be subject to the UBIT if the following three conditions are met:

- the activity constitutes a trade or business,
- the trade or business is regularly carried on, and
- the trade or business is not substantially related to the organization's exempt purpose. (The fact that the organization uses the income to further its charitable or

religious purposes does not make the activity substantially related to its exempt purposes.)

Unrelated business income (UBI) is permitted for tax-exempt organizations. UBI must not be a substantial part of the organization's income. There is not specific percentage limitation on how substantial the UBI is. However, organizations with 50% to 80% of their income classified as unrelated have lost their tax-exempt status.

If churches have \$1,000.00 or more of gross UBI in a year they must file form 990-T.

Unrelated Business Income Checklist

Answering the questions below can determine whether an activity produces unrelated business taxable income:

- Is the activity regularly carried on?

A specific business activity is regularly carried on if it is conducted with a frequency, continuity, and manner of pursuit comparable to the conduct of the same or similar activity by a taxable organization. An activity is regularly carried on if it is conducted

- ✓ intermittently the year round, or
- ✓ during a significant portion of the season for a seasonal type of business

However, an activity is not regularly carried on if it is conducted

- ✓ on a very infrequent basis (once or twice a year),
- ✓ for only a short period time of the year, or
- ✓ without competitive or promotional efforts.

- Is the activity substantially related to the exempt purposes of the church?

To be substantially related, the business activity must contribute importantly to the accomplishment of a purpose for which the nonprofit was granted tax exemption, other than the mere production of income to support such purpose.

- Is the activity conducted with volunteer services?

Any business activity in which substantially all (85% or more) of the work is performed by volunteers is specifically exempted from unrelated business income tax.

- Is the activity primarily for the convenience of staff, students, members or visitors?

So-called "convenience" activities are exempt regardless of their nature. Examples are parking lots, food service, bookstores, and vending machines.

- Is the income derived from debt-financed property?

Examples of income from debt-financed property are interest, and rental property that have been purchased with borrowed money.

- Is the income from rental or real property?

Rental income is generally tax-exempt if it does not relate to debt-financed property. But if significant services, such as setup, cleaning, and laundry service are provided, then the income is usually taxable.

Property Tax Exemptions

A church has three basic options from which to choose from when filing for an exemption from property tax on its “real” and “personal” property:

1. Church Exemption – restricts the use of the property to traditional church worship purposes only (e.g. it cannot be used for other purposes, even by the church). For example a church run day-care center would not be allowed. A church office would not be allowed (though a minimal amount of office use might be allowed, depending on the county assessor).

2. Religious Exemption – allows other related “religious” uses by the church. Allows other churches to co-exist on the property (each church that uses the property on a “regular basis must individually apply for the property tax exemption) and allows other related church activities, such as offices, classrooms, preschool and day-care centers on the site.

3. Welfare Exemption permits the church to allow other tax exempt activities and organizations to use the property. But each tax exempt organization that uses the property on a “regular” basis must also qualify for the property tax exemption. “Regular basis” use is subject to interpretation by each county assessor.

A church owned residence used to house ministerial staff can generally qualify for an exemption from property tax as well, provided a Welfare level exemption is in place and the property is owned exclusively by the church and used to house a licensed or ordained minister and their family.

SECTION THREE

ADMINISTRATION PROCEDURES

Planning & Budgets

Planning

“No one plans to fail...they just fail to plan”

Many churches have just not spent the time to properly allocate and plan for expected income/expenses thus they have no way of knowing how they are doing financially. If your church does not have a computerized accounting system, we highly recommend you purchase one.

Planning is the prerequisite and basis for budgeting; it is the essential element in Church financial management. God is an orderly provider and expects the same from us. Planning will identify where the Church is headed and how it is going to get there.

“Which one of you, when he wants to build a tower, does not first sit down and calculate the cost to see if he has enough to complete it?” (Luke 14:28)

A Financial Plan aligns vision, provides knowledge & resources; directs toward its highest & best use; measures the progress & impact of each key decision and resource.

Keys to Proper Planning

- ◆ Identify needs
- ◆ State goals
- ◆ State objectives – be specific
- ◆ Establish priorities
- ◆ Evaluate progress

Planning Principles when dealing with Church Finances

- ◆ Set your goals according to the church vision
- ◆ Use a written budget
- ◆ Tithe First and Give to UWC
- ◆ Limit credit
- ◆ Practice saving money regularly
- ◆ Get out of debt
- ◆ Stick to your plans

BUDGETS

Getting Started

Pastors and churches seldom have all of the money they would like to have to do what they want for God. Sometimes pastors and churches have not done the best they are called to do because of lack of planning and budgeting. Because many pastors and churches do not know how to develop and operate a simple budget, they have missed the “best” and have settled for the “best they know how.”

A pastor may say that there is no way he can develop a budget because he cannot know how much the offering will be – he just spends what comes in. Other pastors may say, “I know what the church needs, so I just spend what comes in on what the church needs.” If you ask him how much he thinks will come in to cover the church’s expenses, he will tell you. When he tells you he knows the church’s needs and how much he thinks will come in to cover them he is really telling you about the budget – he just is not calling it that.

Budgets are not just for big churches, or rich churches. Budgets are for all churches that want to use the resources God gives them to the best advantage. Budgeting does not require mathematical genius. Church budgeting only requires you to have a Holy-Spirit-led mind to discern God’s goals for your congregation; a yielded heart to acknowledge His leadership; the courage to walk by faith toward the goals God places before your pastor – and the ability to add, subtract, multiply, and divide.

What is a Budget?

A budget is simply a plan for measuring activity over a period of time against forecasted or projected amounts. These forecasted amounts should be based on a blending of historical experience with future goals for ministry and operations. A budget is a plan for allocating available resources. It is simply a matter of setting priorities on everything that the church wants to do so that the money is used for the most important things first. A carefully planned and meticulously monitored budget is an extremely valuable tool. In a church, it should reflect goals and objectives of the church’s ministry. It should “serve” to carry out the church’s reason(s) for existence.

When talking about budgets, the annual budget is usually what is meant. However, in order to have

enough money to pay bills on a timely basis, you must also develop a budget that shows how much money you expect to come in each month so you will know how much you will have available to spend each month. This is called a cash flow budget.

The **cash flow budget** helps you make spending decisions because it gives you a picture of your expected cash assets at any point in time. It shows you when large or unusual expenditures are planned and make it possible to compute whether there will be enough cash to cover those expenses. For example if your church needs to make a large expenditure at a specific time and the cash flow budget shows there will not be enough money at that time to pay for it, you can decide ahead of time whether the deficit should be met by having a special fund-raising appeal or event, change the timing of the expenditure, or by incurring some short-term or long-term indebtedness. Regardless of which course of action you decide on, you can compute the amount that will be needed and adjust the budget to reflect the decision.

Even if you have a small church and you are a one-man (or woman) budget committee, you still need a cash flow budget. The church administrator must ensure sufficient cash will be available throughout the year to meet expected expenses when they arise. The budget will help you plan the timing of expenses so that you can meet the cash disbursement requirements at specific times. You must pay the church bills on time and maintain a good testimony in your community.

Functions of a Budget

The two basic functions of a budget are planning and control. Carefully planning your budget will help you avoid any unnecessary expenses and provides the framework for control. Control is the comparison of actual results, evaluating variances, and taking corrective actions to adjust the variances when necessary. Variances should always be investigated and causes determined quickly. The Budget Administrator should review a monthly spreadsheet or budget to actual report regularly, and resolve inconsistencies and variances on a timely basis. Most irregularities such as non-budgeted items, unauthorized or misclassified transactions will be apparent using this method of analysis and resolved.

- ◆ Budgets require periodic evaluation
- ◆ Budgets promote growth in coordination, cooperation, and communication
- ◆ Budgets provide a framework for evaluation
- ◆ Budgets create an awareness of costs
- ◆ Budgets orient activities toward organizational goals
- ◆ Budgets aid in ability to track church growth, can be used as a tool for future improvements

Creating Budgets

Note: If your church does not have a computerized accounting system, we highly recommend you purchase one. Not only will they help make the finance accounting easier, but will help with creating budgets.

Most small churches have one checking account for the Christian Recovery Home(s) and the church. If so, the budget should reflect both entities. This size church usually needs to combine the income/expenses of both entities because they support each other. In this size church, the Pastors usually live with the Christian Recovery Home and many of his expenses fall under the Recovery Home umbrella. They should have separate checking accounts when your church is larger and each entity is able to financially function without any financial support from the other. However, the

Christian Recovery Home(s) should tithe to their local church as a biblical principle.

- ◆ When creating a budget you must first analyze your annual church income/expenses, (do not include income or expenses that were designated or restricted to certain uses by the donor for church ministries, for example, fundraisers for youth, children's ministry, etc.)
- ◆ If you use QuickBooks, you may run a transaction report by account/category for the period of time you are evaluating. This will list all the chart of account/categories and the transactions and total spent for each during the period of time you are evaluating.
- ◆ Determine your absolutes. Absolutes are expenses that you absolutely have to pay monthly or annually. If it is an annual expense, divide the annual amount by 52 weeks, to determine the amount to put on your budget. If it is a monthly expense, divide the annual amount by 12 months then divide by 4. If you do not plan to spend a sum weekly on an expense, such as insurance, but it is a semi-annual expense then still include it in your weekly budget so your funds will be there at the six months due date. Thus, in your weekly budget the sum is budgeted, but not spent until the monies are due. You will reserve these funds until they are due.
- ◆ For income budget projections, do the same; divide the total amount for each income account/category by the period of time you are evaluating. For example, divide annual amounts such as tithes and offerings by 52 weeks to determine the weekly amount for your budget (only use the income sources you can count on, do not use sporadic donations or love offerings for your budget forecasting).
- ◆ Determine your monthly budget, which contains 4 weeks (*see Appendix C*). We recommend you use the spreadsheet format. In preparation of a budget, remember to round off dollar amounts whenever possible. Whenever you have a month with 5 weeks that 5th week will help you to be ahead for the next month. You may add in non-budget income or expenses into your spreadsheet as they occur.
- ◆ For ministries or departments that the church supports or aids (i.e., nursery), you must request an annual budget (what they anticipate to buy or activities planned) from the overseer to determine the weekly amount to put on your spreadsheet.
- ◆ For special events, the overseer of the event should submit a budget for that event for approval by the Business Administrator (or Pastor).

Note: As a reminder, when you are setting up your budget be sure to include your church tithes to Victory Outreach International as an expense, along with your Ministerial Fee, and if applicable your Victory Outreach Home Fee(s).

It is best practice to set-up a recurring account for these expenses. If you mail in checks to the Finance Department for either of these fees, be sure to write in the memo of the check what the payment is for.

Operating Procedures

- a. The pastor will meet monthly with business administrator and/or appropriate ministry leaders (if necessary) to review the prior month's actual cash-flow and determine the cause of any deviations from the cash-flow budget. They will also review the financial progress for the current month and discuss expected deviations from the budget projection for the month following.
- b. Check requests must be approved for all purchases even though the item requested is included in the approved budget. This procedure ensures that budget provisions are reviewed by each appropriate ministry leader and the business administrator before expenditures are approved.
- c. Some budgeted items, such as office supplies and building maintenance, require great leeway for

the appropriate manager so he/she can make routine purchases without seeking approval for many small or unplanned purchase orders. When necessary in such cases, the pastor will approve an “open purchase order” for the appropriate manager for specific budget items. He will assign specific dollar limits for each item. When this is done, the manager may make purchases for the specifically approved budget item up to the approved limit. Purchases that will result in monthly expenditures above the “open purchase order” limit must be approved in advance by the pastor and business administrator.

- d. Check requests may be originated by any church worker or staff member. After furnishing all of the required information on the check request, the originator will sign the form and submit it to the appropriate ministry leader. The ministry leader will review the form for completeness and accuracy, receipts are attached (reimbursements must be pre-approved prior to spending), and ensure that it is within the approved budget limit. If satisfactory that the check request is appropriate and in accordance with the approved budget, he or she will sign it and forward it to the finance department for final approval.
- e. Also see “Church Ministry Procedures”

Overview

Implementing your new church budget is going to take time. Budgeting is a process, not an action. You must set goals and priorities as well as make estimates of income and expenses—all of it is hard work. You must know your pastor and have open lines of communication with the pastoral team so that you have their input in the goal and priority-setting process. Consideration of every potential ministry of the church is essential if you are to develop a budget that truly reflects the utmost in ministry for the church. You can never be exact in your estimates, either for income or expenses. But your estimates are better than nothing and will help you make adjustments as your budget year progresses. Your bookkeeping records are your best sources of information for making estimates, but remember those records are only history, you still need to use your best judgment when developing your budget. Remember to keep your budget format simple. Developing and implementing your budget is a process. The entire process relies heavily upon spiritual leadership because the entire purpose of the budget is to provide for the spiritual ministries of the church. The final budget is a direct reflection of the plans for the church’s spiritual direction. Your Business Administrator should inform all involved that you are implementing a new church budget.

Remember budgets do not operate themselves. Church leaders need to actively look at the budget regularly and use it as a “road map” to guide financial operations as it is intended. The effectiveness of your budget depends entirely on two things: (1) your planning, and (2) your character because without willpower, or the character and determination to live within the budget, no amount of skill in planning will make a budget useful. The financial manager must have a complete and broad view of the church’s goals for the year and basic assumptions that underlie each of the budget estimates if (s)he is going to be able to tell when the budget deviations are serious or minor.

- ◆ MONTHLY FINANCIAL STATEMENT – The business administrator will prepare this to show the actual income and disbursements for the month. It is useful for keeping the church (pastor) informed and for planning future budgets. In addition, it is also good to prepare a monthly budget comparison report that shows what the actual income and expenses were versus the budgeted amounts for each item of income and expenses for the same month and for the previous year (see

template). This report helps the pastor and business administrator determine how well they are doing in relation to the plan for the month and for year so far.

- ◆ FREEZE all spending, the purpose of the freeze is to build a financial base so that you may begin your budget and pay out any aging or delinquent bills once this base is established. Only pay absolutes for a period of 1 to 3 months (depending on how long it takes for you to build a financial base to start from).
- ◆ DOWNSIZE whatever you can cut down on, do so. For example: cutting down the use of the telephone in the church office, only turning on the air conditioner or heat when services are being held, etc.
- ◆ CUT out Items you no can no longer afford until you're budget income grows. For example: "hospitality" meetings, etc.
- ◆ HOLD off on special speakers, events or major purchases during this time.
- ◆ You might also decide that rather than eliminate any item from the budget, you will put forth a special effort to increase income. You might consider having a special fund drive or special appeal. The church is to teach the members to walk by faith in obedience to God. This includes growing in dependence on God to supply their financial needs so they can give more to support the work of the ministry of His church. Challenge the congregation to support the ministry, not to support "the budget".

Establishing Credit

Purpose

Establishing and acquiring credit gives the church purchasing strength. This enables the church to reach its goals in developing a strong financial base. Establish a healthy credit report by keeping to the terms of each bill/agreement. This will buy you purchasing power in the future for larger investments.

Paying on Time – It's your job to protect and safeguard the name of Victory Outreach in your city. Your reputation is very important. Keep the BIG picture in mind. Maintain your credibility and image.

How to Establish Credit:

- Each endeavor should be pre-approved by the finance committee/board of the church.
- Remember loans are liabilities that need to be included in your church budget. The amount to be borrowed should be determined by the finance committee along with a payment plan.
- All applications and forms must be prepared by the Account Representative and approved by the finance committee.
- Review the application and terms; this will determine the type of loan. A secured loan requires collateral. An unsecured loan, no collateral required. Some loans require a guarantor; this person can be the Pastor or a board member of the church, but it puts the personal assets of the individual at risk. Keep in mind hidden clauses that may lock you in. If in doubt, seek legal advice.

The same procedure should be followed for leases, lease to purchase, loans, and credit cards.

Contribution Receipting Requirements/Procedures

A donor is required to have a receipt that meets several requirements before they can legally claim the contribution on their tax return. Consequently, if the donor does not receive an accurate and timely receipt from your church it could have serious consequences for your ministry, including the loss of future contributions from donors.

IRS Regulations Regarding Substantiation Rules

Effective 2008 all contribution receipts must state that the donor received nothing of significant value for the contribution. THIS IS A REQUIRED STATEMENT (see *Gomez v. IRS Commissioner (T.C Memo. 2008-93)*). Consequently a receipt is not valid unless it has a statement to that effect included.

Minimum Receipting Standard

Here's a summary of what your receipts must include:

1. Name and address of the donee organization,
(The Federal Tax ID in not required, but is recommended)
2. Name and address of the donor
(But not their Social Security Number)
3. Statement that "No goods or services were received by the donor in exchange for the contributions, in whole or in part. This statement:
 - a. Must be included on the receipt
4. The total amount of the contributions for the year
5. A listing of each individual gift of \$250 or more that includes the:
 - a. Date of the gift
 - b. Amount of the gift
 - c. Note: check numbers can be reported but it is not required
6. Signature of an authorized agent of the ministry
 - a. You should note that while receipts are not required to be signed, if there is a place for a signature, then an authorized representative must sign them.
7. For Quid Pro Quo gifts (where the donor receives something in return for the gift):
 - a. Amount of the gift
 - b. Description of item given to donor
 - c. Value of item received for gift
 - d. Deductible contribution amount

Contemporaneous Receipts

The receipt must be received contemporaneously. A receipt is considered contemporaneous if the taxpayer receives the receipt before the earlier of:

- ✎ The date on which the taxpayer files the return of the taxable year in which the contribution was made, or
- ✎ The due date (including extensions) for filing such return.

This means that the receipt (with all the required information) cannot be obtained after the tax return is filed. The contribution deduction can (and likely would) be denied by an IRS agent if the receipt was not “contemporaneous.” The receipt must be in the taxpayer’s hand before they file their tax return.

Therefore, the Church needs to send the receipts to their donors before January 31 of each year for the prior year’s giving, since the taxpayers file their tax returns about that time.

Sample “No Goods or Services Received Statements”

“No goods or services were received in return for any of these contributions other than intangible religious benefits.”

“For income tax purposes, it is important for us to state that you did not receive any goods or services in return for any of these contributions other than intangible religious benefits. You made these gifts out of your own generosity and commitment to Jesus Christ.”

“Thank you for your cash contribution of \$300.00 that (Victory Outreach name) received on December 12, 2011. No goods or services were provided in exchange for your contributions.”

“Thank you for your cash contribution of \$350 that (Victory Outreach name) received on May 2, 2013. In exchange for your contribution, we gave you a cookbook with an estimated fair market value of \$60.”

“Thank you for your contribution of \$450 to (Victory Outreach name) made in the name of its Building Fund program. No goods or services were provided in exchange for your contribution.”

Accounts Payable Procedures

Church Bank Accounts

You should first incorporate, get a tax ID number (EIN) and then open the church checking account as a corporation, using its own Tax ID number. *If you have started the church before forming the corporation, just notify the IRS, and they will assign the EIN to your new corporation.*

Opening a bank checking account in the church’s name is a simple process. A bank account is necessary for a church to begin to receive offerings, protect donations and money from fundraisers, deposit tax withholdings, and pay church operation costs. In fact, a bank account is required to comply with many of the federal governments’ regulations.

The process of obtaining an account for your church is different from opening a personal account. The first thing you need to do is apply for an Employer Identification Number through the Internal Revenue Service. An EIN, also referred to as a with-holding number, or tax identification number, is a nine-digit number assigned to you by the IRS to identify your tax account. It is unrelated to the church’s tax-exempt status, but required for any entity withholding income and Social Security taxes

from employees' paychecks.

HOW TO APPLY FOR YOUR EIN

There are four ways to apply for an EIN. To acquire this number, you'll need to file an SS4 form with the IRS. The fastest, and preferred method is to apply online at www.irs.gov. Information submitted is verified during the online process, and an EIN is issued immediately. You will be able to print a confirmation letter instantly following application verification.

Before you begin the application process, be sure to have the following on hand: the name and social security number of the person responsible for handling the bank account. It is probably your church treasurer, or secretary. You'll also need to know the mailing address, and county, in which business is conducted. A physical address is needed if the mailing address is a P.O. Box.

You can also get an EIN instantly by applying over the phone **1-800-829-4933**. Apply Monday through Friday from 7:00 AM to 10:00 PM in your time zone.

If you download IRS form SS-4 from the website you can fax or mail it. Faxed applications are issued EINs within 4 business days. Mailed applications will receive notification via mail of assigned EIN in 4-5 weeks.

It is important to have all information correct when applying for your EIN. Any wrong information will delay the process.

○ *A good administration practice is to keep this document in one binder (along with your Articles, Bylaws and such). You WILL need them from time to time and it will be productive to have the documents located in one place.*

Once you have your EIN you can open a bank account in the church's name. Each bank requires different documentation before they will open an account. The following are simple instructions to follow:

How to Open a Church Checking Bank Account

1. Call or visit the websites of local banks to obtain information about the types of accounts they open for churches. Be sure to obtain information about monthly fees, interest rates and any other important information.
 - Shop around for the best banking rates. You do not want your deposits significantly impacted by account fees. All banks are not the same. Some key points to ask about are:
 - Fees you don't understand
 - Minimum balances
 - Returned check fees
 - Fees for banking in-person vs. online banking
 - Loans (you may need this in the future)
 - Confidentiality of information (do not take for granted that your finances will be kept secret)
 - Who are the banking officers? (This can be a conflict of interest.)
2. Conduct a meeting with the church's officers. Present the findings, and vote upon a course of action.
3. Decide who will sign for the account during the meeting. Plan a day and time when all signers can travel to the bank to open the account.
4. Gather necessary documentation: Go to the bank with the following already prepared:
 - Your original, stamped Articles of Incorporation *plus* a copy (don't leave them your original)
 - Meeting minutes from your Board meeting (*item 2 above*) where it was resolved to open an

account with the bank you're at, and where it was specified who the authorized signers are [see sample resolutions]

- The church's Federal EIN number
 - All signer's photo identification
 - An opening deposit (be sure to ask the bank for the necessary amount)
 - Prepare a brief statement on the church's letterhead listing the officers of the church by name and position. Bring it along in case it is needed.
 - NOTE: The Bank MAY also require you to present your 501(c)(3) Exemption Ruling Letter to open the account. Be patient with them, and explain that you are a new church, and you may or may not, even file for this letter, as you are not required by the IRS to do so. They should get around to waiving this requirement. If not, go to another bank. Or present a copy of the IRS publication for Churches.
5. Meet at the bank and open the account.
 6. Remember to request that the monthly bank statement cut-off date be the last day of each month (banks hate this, but it will make your life easier)
 7. Discuss all the bank fees (banks love to hide them)
 8. Sign the necessary signature cards and account documents. Order checks, and make the initial deposit.

A bank account in the church's name keeps your church compliant with federal laws regarding payroll tax deductions. The IRS requires any church that with-holds \$2500 in payroll taxes, or more in a calendar quarter, to deposit those with-holdings in a bank account. A deposit schedule, set up by the IRS for tax with-holdings, must be adhered to. Severe penalties exist when money is not deposited on time, or at all.

It is easy to overlook some of the fundamental laws regarding church finances. Oftentimes, church treasurers are volunteers, and mistakenly believe the church is not accountable to the government for financial reporting because it is a nonprofit organization. There is also a high turnover rate in this position, which can leave gaps in record keeping.

The treasurer, or responsible party, needs to thoroughly understand the reporting procedures for the IRS. They are taking a great responsibility in this position. The IRS can hold the appointed person responsible for paying 100 percent of funds not deposited, and penalties for late deposits.

Having a system in place to handle church finances will save you a lot of time and heartache in the long-run. Accounting software will make tracking deposits, withdrawals, and reconciling bank statements easy. Back-up electronic and paper files regularly, and store them in a safe place. This protects the church's records in case of fires, floods, and theft. The most important thing is to become familiar with the IRS rules regarding church finances.

In addition to performing church cause, and caring for the people and the community, you have to pay attention to your church's finances – the corporation. A bank account protects your church from committing fraud unintentionally. The IRS levies punishment for misappropriation of funds that are intentional, or unintentional. Not only is your church affected, but the entire organization is negatively impacted when funds are mishandled. For more information the IRS publishes the booklet Tax Guides for Churches and Religious Organizations. You can download the booklet at www.irs.gov.

Check Signers

Each church should enact a policy of double-signing all checks. Many churches have an Account Representative and a few trustworthy individuals that might serve in the capacity of second check signers. There must be at least two unrelated signers on the account, never Pastor and Pastor's Spouse. It can be Pastor/2nd Signer or Pastor's Spouse/2nd Signer. We recommend using church officers as signers.

Chart of Accounts

When you write checks, they should be coded with a number from the Chart of Accounts, e.g., Gas, 82900. This will enable your bookkeeper to prepare a Financial Statement and/or reports. Every check you write should fit into one of the Chart of Account categories, also known as GL (General Ledger) Numbers-See Appendix I.

Note: The Chart of Accounts serves as a universal accounting language within Victory Outreach. All Victory Outreach Churches should use it for accounting purposes.

Accounts Payable

Note: We highly recommend that you use a financial software program such as QuickBooks. This saves you the time and energy that it takes to do accounts payable manually. These software programs are very affordable. If you do not have access to a computer or software program, you will need to perform your accounting manually, see Appendix K for information.

It is the job of the Business Administrator and the Account Representative to protect the name of Victory Outreach in your city. Your reputation is very important to your Pastor and our ministry. Always be sure to maintain good credit by paying your bills on time and be careful about opening credit accounts. Be sure to stay within your budget.

Always use your Victory Outreach Chart of Accounts for all income and expenses. Put careful thought into the transaction you are about to record and pick a category that best describes that transaction. If you use QuickBooks accounting systems, you may enter your bills before they are due and hold them until it is time to pay them out. You may enter them with a future date for the week they are due (Week 1,2,3,4) based on when the money is available in your budget. You may also put a "class" (or tag) on the transaction in QuickBooks, which is an informal way of tracking the transaction for a particular ministry. For example, Youth could be a "class" and you can run reports easily by this class and pull out all of their transactions for a period of time.

If you do use QuickBooks accounting systems, order Voucher Checks, these are 3 part checks that print out detail on each part of the check (see Appendix D). The Account/Category will print on the left side on both the middle (second) part, and the third part (payment record), this helps with filing.

Note: We recommend the following in regards to items that are ordered on credit, for which an invoice will later be received. The ministry/department head of the requesting department sign off on the invoice when it is received before payment is issued. In addition to providing yet another check and balance, the ministry/department head would also be aware of whether the items that invoiced have actually been received. Additionally, we recommend that payments be made off of only original invoices or receipts. This procedure will aid in avoiding double payment. For larger churches, we also recommend using a purchase order system (for more information see Appendix E, page 2).

Filing

File your deposits and all back up paperwork by month. When you reconcile your account you may locate and verify your deposits easily by doing this.

Files all payables/check requests alphabetically and file each bill paid in these files. Attach the middle part of the voucher check to the actual bill you paid.

The bottom portion of the voucher check (payment record) should all be filed in numerical order in a separate file box. Always have back up paperwork to support why the check was written. If you receive your canceled checks back from the bank with your bank statement, you may either file them in a separate file box or leave them attached to that month's bank statement.

Reconciliation

Each month your bank should send you a monthly bank statement and copies of your canceled (paid) checks. Your bank statement should be reconciled (balanced) with your bank register. If you are using a computer software program, it makes this procedure much easier. If there are any discrepancies between your debits and credits and the banks, you should contact your bank immediately to try to resolve the discrepancy. If you are using a computer software program, after you have completed your reconciliation, you should print a full report using the ending date on your bank statement. Attach this report to your bank statement and file. Again, although the Account Representative is best suited to reconcile accounts, it would be in the best interest of the church if another individual performed the monthly bank reconciliation.

Church Ministry Procedures

See Sample Appendix E to handout to your Church Department Leaders / Overseers

Ministry Department Deposits are to be turned in the same day; no later than the next day. There should be no "cash outs". If any reimbursements are needed, a check requisition should be submitted.

Anytime monies from church ministry fundraisers donations, offerings, etc. are received, monies are to be deposited immediately. Monies must be deposited in appropriate sealed bank bag or envelope.

Note: When checks are not deposited in a timely manner this may cause them to be returned by the bank for non-sufficient funds. When the bank returns a check that was submitted by a department/ministry, the amount of the check and fees should be deducted from that department/ministry.

Cash Count Sheet must be included in the bag with (2) signatures – Department Leader and a worker. [see Cash Count Sheet Sample]

Drop off either in church night drop or during office hours with authorized representatives only.

Ministry Tithes – Church ministries should be encouraged to pay tithes to the church from any fundraisers.

Check Requisitions – should be submitted in a timely manner and issued to vendor’s name if over \$100.

For checks and balance purposes: Check requisitions need to be completed by the Department or Ministry Leader or Overseer ONLY.

It is best practice to establish one day each week to review the church budget. Mondays is a good day to do this. Therefore, check requisitions are to be sent to the Finance Department NO LATER THAN MONDAY (or any other pre-determined date the finance department has established). Turnaround time (with availability of funds in the departments account) will be on Wednesday only.

Note: All checks should be issued the same day every week. It is best practice to establish these days: Check Receiving Day (Monday), Budget Review Day (Tuesday) & Check Writing Day (Wednesday), otherwise the finance department can find themselves unproductive by doing these tasks on a daily basis. Or worse, forget to review the budget and/or pay bills.

Check requisitions should be completed with: Name of vendor, exact amount, and description and purpose of purchase.

Get Quotes – especially for printing. Comparison shop.

Receipts

Original receipts of purchase are to be returned to the Finance Department immediately. Instruct the department leader to please indicate name of ministry and from whom.

If they receive checks on a regular basis from the church, the finance department should withhold any future checks until receipts from the previous check have been returned. If receipts are lost, a “Receipt Liability Form” must be completed. Frequent loss of receipts should be a concern and should result in meeting with Pastoral Staff.

Special Events/Fundraisers

Planning minimizes reimbursements, all church ministries should plan for their events.

Any special event to be held by a Department/Ministry or Fundraiser requiring “front money” should be done by the following procedure:

- A budget of all income/expenses required for the event/fundraiser must be submitted first. Funds will be issued based on the approved budget. Note: Account Representative should make him or herself available should the department head need assistance with this.
- Any event or fundraiser where a ministry/department is collecting funds, this money must be turned in to the Finance Department and then applied to the department’s account. No money is to be used for expenses from the funds received; it must first be accounted for and followed up with Check Requisitions.
 - Note: If personal checks are collected for the event/fundraiser, this money should not be made available for one week to insure that the checks clear the bank.
- A report should be issued on the completion of the event/fundraiser of actual income and

expenses and profit. (Note: A well planned, and closely monitored event budget will prevent a loss).

Reimbursements should be avoided, unless an emergency situation arises. Reimbursements also require Pastoral Staff approval.

Credit Accounts are NOT to be opened by any Department or Ministry Leader, only by the authorized Account Representative (this includes accounts with printers). If a department or ministry leader wishes to open an account with a company, they are to submit the credit application to the Account Representative, who will submit the request to the church board.

Printing of Flyers/Literature

All requests for printing should be channeled through the Publications Department (or designated church or pastoral staff), whether their department designs the flyer or not. The Finance Department should not accept check requisitions unless it is signed by the Publications Department (or designated church or pastoral staff). Following this procedure will ensure quality presentation of the Victory Outreach name that is being published and protects your Trademark License agreement.

Acquiring Facilities for Events

When planning a rally or event at a City Park or Facility, the following procedures are the best practices to follow to secure the facility and make the event a success:

- First the Department Leader should get approval by Pastoral Staff and check any conflicting events on the church calendar.
- Request the facility. The facilities manager will give the department leader an application to secure the reservation; this should be brought to the Church Business Administrator for review and signature.
- Usually the facility will require a Certificate of Insurance. The Certificate of Insurance may be obtained from your Church Insurance Agent. Give your agent at least one week's notice to obtain the certificate.
- If the facility requires a deposit, the department leader should fill out a Check Requisition and deliver it to the Church Finance Department with at least one weeks notice as well.

Annual Financial Statements

Purpose

A Financial Statement is a report that summarizes the financial position of the church as well as the net worth at any given date. Management often elects to track and measure the progress of the operation through such statements. The statements assist the church in establishing/acquiring credit

and offers purchasing power. The end of the fiscal year for Victory Outreach International is December 31.

Where to Begin:

Internal Audits – Management will use this method to double-check its entries. This is where the Account Representative will review each account through a check-off list. This can be performed monthly, quarterly, semi-annually or annually. (See Appendix G)

Once this is completed, the church will now be prepared to have a Certified Public Accountant (CPA) prepare and/or review the Financial Statements.

Obtaining professional assistance is the responsibility of the church. A church should have a Certified Public Accountant (CPA) make a thorough review/audit of all accounts. This is a continual relationship. Accounting costs may vary, shop around, ask other local churches, ask for references. (Preferably, have one who specializes in churches or non-profits)

A Compilation, Reviewed or Audited Annual Financial Statement:

- **Compilation** – Prepared by a licensed CPA, is the gathering of financial information and the creation of financial statements for the church.
- **Reviewed** – Prepared by a licensed CPA, where a set of rules and regulations must be adhered. Less rigid than an audit and very little verification (more of an overview than detailed). Provides some assurance by the CPA as to the accuracy of the information.
- **Audited** – Prepared by a licensed CPA, a form of assurance where a set of rules and regulations must be adhered to. It involves a regular examination and verification of all raw data used to prepare Financial Statements as well as the methods of accountancy.

When the church desires to acquire credit, most financial institutions require audited or reviewed financial statements. Financial Statements consist of a Profit & Loss Report, a Balance Sheet and a Cash Flow Report.

SECTION FOUR

THE CHURCH AS AN EMPLOYER

Compensating Employees

Purpose

The church is responsible to comply with federal and state payroll laws. It is recommended that you consult with a professional tax and/or legal advisor for specific reporting requirements that your church may be subject to under the law.

Seek professional assistance. Payroll services are available through banks and service organizations. Obtain referrals to organizations that specialize in church management.

When does a Church become an Employer?

Once the church begins paying any staff (including the pastor, home director, office workers) income for services rendered.

When establishing a new church, the sending church should establish criteria for when the new church will be able to begin salary for the pastor. If possible, the pastor's salary should be part of the support they receive from their sending church, until the new church establishes a working budget that can meet the required salary and housing allowance for the pastor.

Who is an Employee?

An employee is a person who performs a service, subject to the will and control of the employer, both as to what shall be done, and as to how it shall be done. The employer provides the employee a place to work and has the legal right to discharge the employee.

Employee Handbooks (Personnel Policy Manual)

An employee handbook should be provided to each employee, regarding employment, employee benefits, personnel status, compensation, training & development, general information, operational consideration, standards of conduct, etc. (Sample available upon request)

Worker's Compensation

Once the church begins to employ, it is required by law to obtain worker's compensation. Worker's compensation is for work-related injuries for employees.

Employee Records

Employee records should be kept for each employee and readily available. These records should be kept confidential. The following is a list of records that you should keep as an employer:

- Personnel File – Application, resume, termination letter
- Insurance File – All health insurance records, doctor's notes, life insurance
- Worker's Compensation – Information regarding work-related injuries. An Employer's Report of Occupational Injury or Illness Form should be completed in the event of an employee injury.
- I-9 Forms – Determines employee eligibility, enforced by the Immigration and Naturalization Service. In the United States, the law requires you to hire American citizens or aliens who are authorized to work in the United States. File alphabetically.
- Payroll File – Information such as benefit eligibility, W-4's, W-9's and Personnel status changes, attendance notices, annual attendance records, vacation requests, team member evaluations.

Sample Personnel Files Checklist (not all items are absolutes)

Employee Name _____ Employee Number _____
Department _____ Date of Review ____/____/____
Review Completed By _____

Personnel File (one file per employee)

- Employment Application

- Résumé
- Up-To-Date Job Description
- Employment References Checklist
- Job Offer Letter
- Orientation Checklist
- Emergency Contact Information
- Employee Information Form
- Employees Withholding Allowance Certificate W-4
- State Specific Employees Withholding Allowance Certificate, if applicable
- Copy of Driver's License, if required for the position
- Signed Receipt of Employee Handbook and Employment-at-will Statement
- Change in Personal Data Form
- Performance Evaluations
- Position/Rate Change Forms
- Record of Disciplinary Action (Verbal and Written Warnings), if applicable
- Absentee Record
- Requests for Time Off
- Tuition Assistance/Training Requests
- Documentation of Training
- Documentation of Certification and/or License (for example, Licensed Minister)
- Housing Allowance – Copy of Resolution
- Requests to Review Personnel File
- Resignation Statement

Benefits File (one file per employee)

- Benefits Declination Form
- Health, Dental, Vision, and/or Pharmacy Insurance Enrollment Forms
- Other Insurance Enrollment Forms (Life Insurance, etc.)
- Flexible Spending Account Forms
- Election Form/Compensation Reduction Agreement Employee Direct Deposit Signup
- Claims
- Beneficiary Designation Form
- COBRA or State Continuation paperwork, if applicable

Payroll File (one file per employee)

- Direct Deposit Authorization
- Payroll Deduction Authorization Forms
- Overtime Requests, if applicable
- Time Sheets
- Employee Expense Report
- Auto Mileage Reimbursement Vouchers
- Garnishments/Income Executions

Confidential Files (one file per employee)

- Documentation of Investigations
- Lawsuit or DOL/EEOC investigation correspondence
- Background Check and Drug Testing Results

- OSHA Forms
- Employee Incident Report

Medical File (one file per employee)

- Medical Information
- FMLA Forms
 - Employee Request for Family Medical Leave
 - Certification of Health Care Provider
 - Family Medical Leave Periodic Reports
 - Family Medical Leave Return to Work Certification
- Workers' Compensation Claim Forms
- Accommodation Requests

Note: Under ADA, all medical information must be retained in separate, confidential files.

I-9 File (one consolidated file)

- Form I-9
- Copies of Form I-9 supporting documentation, if applicable (for example, social security card).

Note: By law, you are not required to photocopy documents. If you do, you must do so for all employees and should retain each photocopy with the Form I-9.

Employers should ensure that information contained in employee files remains confidential by maintaining the files in a secure location and limiting disclosure to authorized personnel only. Employers should also be sure to review and comply with all recordkeeping and record retention requirements set forth in local, state and federal laws.

Ministerial Compensation

Compensation

The two primary challenges for churches in the area of compensating employees are:

1. **Level of compensation.** Compensating employees too little can create issues for employees covered by the Fair Labor Standards Act. And, compensating employees excessively may jeopardize the church's tax exempt status in limited situations. The primary focus today in Congress and the IRS is clearly on high compensation paid to church and nonprofit leaders. While no absolute limits have been placed on compensation to church leaders, many have suggested this be done.
2. **Maximizing the tax advantages of certain fringe benefits.** Compensation may be maximized by effectively structuring fringe benefits (housing allowance). The tax-free or tax-deferred features of certain fringe benefits can significantly increase an employee's take-home pay.

Reasonable Compensation

Employees of churches may receive reasonable compensation for their efforts. Excessive compensation can result in private inurement and may jeopardize the tax-exempt status of the church. Reasonable compensation is based on what would ordinarily be paid for like services by a like organization under similar circumstances. The intermediate sanction regulations impose penalties when excessive compensation or benefits are received by certain key employees and other individuals.

Ministerial Taxes

Contrary to some common misconceptions, ministers are always employees of the organization they have been hired to perform services for unless they can meet the definition of a “self-employed” individual as defined by the Internal Revenue Service. Ministers who qualify to be treated as employees of the organization are eligible to participate in all church sponsored employee benefit programs (i.e. health insurance, retirement, etc.) and their wages should be reported on IRS Form W-2.

In the rare case where a minister qualifies as “self-employed” for income tax purposes, they must be treated as contractors not eligible to participate in church sponsored employee benefit programs. Or if allowed by the church to participate, the value of all such benefits are required to be reported as taxable earnings on their annual IRS Form 1099MISC.

A failure to properly classify and report ministers and their earnings, subjects both the church and the minister to potential audits, fines, and penalties, including “Intermediate Sanctions” under “excess benefit” rules.

Ministers have Dual Tax Status Under the Law:

For income taxes they are generally classified as Employees:

- Wages reported on W-2, and
- Group benefits provided by the church are not taxable

For social security taxes they are considered “self-employed” by Congressional definition.

As such, ministers are prohibited from participating in social security through the Federal Insurance Contributions Act (FICA and Medicare) withholding. This is not optional. Again, this is by Congressional definition. Ministers are however, required to participate in social security through The Self-Employed Compensation Act (SECA). Thus, employers may not withhold FICA and Medicare from their wages, even if the minister requests the church to do so. If the church does withhold FICA they are risking the status of the minister’s housing allowance exclusion since the allowance is only for ministers doing ministerial services. If the church withholds FICA/Medicare, by definition they are saying the minister is not performing ministerial services. Consequently a church can only withhold for income tax and **the minister(s) will have to:**

- Report and their Social Security tax personally on Schedule SE of their personal tax return,

- Should estimate and pay their expected Social Security tax obligation quarterly using estimated payment coupons, and
- Will risk losing their housing allowance exclusion if not classified properly.

Definition of a Minister for Federal Tax Purposes

The Tax Court has ruled that the following five factors must be considered when seeking to determine who is a minister:

1. Is ordained, commissioned, or licensed,
2. Administers the sacraments,
3. Conducts worship services,
4. Performs services in the “control, conduct, or maintenance of a religious organization” under the authority of a church or denomination, and
5. Is considered to be a spiritual leader by the related religious body.

Only the first factor is required in all cases (the individual must be ordained, commissioned or licensed). The remaining four factors need not all be present for a person to be considered a minister for tax purposes. The tax court did not say how many of the remaining four factors must be met. Bottom line, it is in the best interest of a minister to participate in as many of the factor areas on a regular basis as he/she can to ensure that, for tax purposes, they qualify as a minister.

Minister Employee v Self-Employed Tests

The Tax Court has adopted a “7 factor test” for determining whether or not a minister or other worker is an employee or self-employed for income tax reporting purposes.

1. The degree of control exercised by the employer over the details of the work. *The more control exercised by the employer over the details of the work, the more likely the worker is an employee.*
2. Which party invests in the facilities used in the work. *Workers employed by an employer who provides the facilities used in the work are more likely to be employees.*
3. The opportunity of the individual for profit or loss. Employees generally do not realize profits or losses as a result of their work (they are paid a salary); self-employed workers often do realize profits or losses.
4. Whether or not the employer has the right to discharge the individual. *If an employer discharges a worker, this indicates that the worker is an employee.*
5. Whether the work is part of the employer’s regular business. *Workers who are furthering the employer’s regular or customary business are more likely to be employees.*
6. The permanency of the relationship. *The more permanent the relationship, the more likely the worker is an employee.*

7. The relationship the parties believe they are creating. *Ordinarily, the parties assume that a worker is an employee who is issued a W-2 and who received several fringe benefits.*

The court emphasized that no single factor is controlling. Using this test, the Tax Court found a United Methodist minister to be an employee, but ruled that a Pentecostal Holiness minister was self-employed. While the test may make it easier for some ministers who report their income taxes as self-employed to prevail if the IRS challenges their reporting status, most ministers will be classified as employees, and should receive a Form W-2 from their church rather than a 1099 MISC.

In total the implications from all these “tests” and case rulings can be summarized this way.... A minister is an employee of the organization for whom they are performing ministerial services unless you can show beyond a reasonable doubt that they are not.

What is Reportable as Ministerial Income and What is Not

Reportable Income....

- ✓ Professional salary
- ✓ Reimbursement of social security taxes by the church
- ✓ Bonuses from the church
- ✓ Gifts from the church or from individuals *giving through the church*
- ✓ Travel and expense allowances if paid without accounting to the church
- ✓ Honoraria and professional fees
- ✓ Personal use of church-owned vehicles. (Based on mileage log of business use. **If there is no log kept, then 100% of the auto is taxable to the minister**).
- ✓ Taxable fringe benefits
- ✓ Reimbursements that exceed IRS standards.
- ✓ Travel expenses of spouse or family member who is not a church employee if not performing significant services
- ✓ Personal purchases made on the church credit card

Not Reportable as Income....

- ✓ Housing and furnishing allowances (if actually expended and within limitations).
- ✓ Hospital/health care, disability, or group term life insurance premiums if paid by the church directly to the insurance carrier through a qualified church sponsored plan.
- ✓ Gifts from individuals not claiming the gift as a contribution.
- ✓ Gifts and inheritances from relatives.
- ✓ Professional expense reimbursement under accountable reimbursement policies.

Gifts and Bonuses

When an employer (church) gives a love offering/gift or bonus to its minister(s) or missionary(ies), it is considered a taxable income and should be included on the W-2 or a 1099MISC form. When donors of a gift have been given receipts or are considering the gift as a deductible contribution to the church and the church pays the gift or bonus to the individual, it is considered taxable income. Gift

from individuals for which no charitable deduction will be taken, and which does not come from the employer are not taxable income and should not be included on the employee's W-2 or 1099MISC.

Options for Paying Ministerial Taxes During the Year

Basically, there are three options available to the minister and his/her church when reporting the minister's taxes. The first step is to determine if the minister is an employee or a self-employed contractor.

If it determined that the minister is, in fact, self-employed:

- then the church should **not** withhold any taxes on behalf of the individual and instead should issue an IRS Form 1099-Misc. to the individual at the end of the calendar year.

If it is determined that the minister is, in fact an employee of the church there are two options:

- the minister can take personal responsibility for the payment of all anticipated income and self-employment taxes due to the IRS and the State by filing a quarterly estimate of their income and self-employment taxes directly with each government agency using the appropriate forms, or
- if the minister chooses, he/she can ask their employer to withhold for them a designated amount each pay period from their salary and pay it to the appropriate government agency as "income taxes withheld." Note: If the minister requests that an employer withhold taxes on their behalf the employer is legally bound to comply with their request).

The appropriate way for a minister to request that his/her employer make withholdings on their behalf is for the minister to complete IRS Form W-4 form. Line 6 of the IRS Form W-4 can be used to indicate additional withholdings per pay period to cover anticipated SECA taxes for the year. (in 2012 the effective tax rate is 13.3% is paid on a wage base of up to \$110,100. The individual pays a 2.9% tax rate on all wages above \$110,100.). All taxes withheld and paid on behalf of the minister should be reported as "income taxes" only.

At the end of the year the employer would then issue the minister a W-2. All Federally taxable income should be reported in box 1 of the W-2 form (the designated housing allowance should not be shown in this box). All Federal taxes withheld and paid on behalf of the minister (if any) should be reported in box 2 (Federal income tax withheld). The corresponding boxes (usually box 17 & 18) should be used to report and State income and taxes withheld.

Housing allowance paid to the minister does not need to be reported on the W-2 since it is not considered taxable income. However, you may wish to indicate the amount of housing allowance paid to the minister in the box marked "other" (usually box 14) to assist the minister and/or the minister's tax preparer in the actual preparation of their tax return.

Ministerial Housing Allowance

Any duly ordained, commissioned, or licensed minister of a church, who is given the authority to perform substantially all of the religious duties of their church may exclude from gross income either 1) the rental value of the home furnished as part of compensation, or 2) the rental allowance paid to him as part of his compensation, to the extent used by him to rent or provide a home. The religious duties performed by a minister include baptisms, weddings, funerals, communion, conduct of religious worship and the control, conduct and maintenance of religious organizations under the authority of a church or denomination.

Housing allowances should be established and reviewed for a duly qualified minister by the official governing board of the Church or denomination on an annual basis. To meet current IRS standards the request should meet the following minimum standards:

1. The request should be in writing to the Board
2. The name of the minister and the amount of their salary being set aside for housing purposes should be specifically identified to the request.
3. The request and its approval should be duly recorded in the form of a motion in the minutes of the Board.

To ensure that no lapse in coverage occurs the motion should include wording stating that the annual housing allowance is ongoing until such time as (a) minister request of the Board that a change be made or (b) the minister leaves the employment of the Church or denomination.

To ensure that the minister is able to take full advantage of their allowance, the Board should meet and take action on a minister's housing allowance sometime prior to the minister beginning their service with the Church (or the beginning of a new calendar year if approved annually).

What May be Included in the Housing Allowance?

- Any funds spent to provide a home for the minister and his family may be included such as:
- Rent or principal payments (including down payment)
- Interest on the mortgage (if the mortgage was to acquire or improve the home).
- Property taxes
- Insurance on the home
- Repair and upkeep of the home
- Furniture, appliances, vacuum sweeper, T.V., washer, dryer, etc., including home repairs on these items, and insurance on contents of the home.
- Utilities – gas, electricity, non-business telephone (excluding personal long distance calls), water, cable T.V. (except movie and special channels), sewer charge, garbage removal, etc.
- Decorator items, curtains, rugs, pictures, etc.
- Miscellaneous – lawn mower, cleaning supplies, brooms, light bulbs, etc.

Is There a Limitation on Housing Allowance?

Yes. Exclusion of Housing Allowance under Inter Revenue Code §107 – Home Owned Or Rented Housing Allowance Received: The exclusion is limited to **the least** of:

1. The amount actually spent to provide a home, or
2. The amount officially designated as housing allowance, or
3. The fair rental value of the home, including the cost of furnishings, and the actual cost of utilities.

Any rental or housing allowance that is more than the **lesser** of these three limitations is added back to gross income.

How to Designate a Housing Allowance

Official designation of the housing allowance must be made by the official board of the church in advance and must state the minister by name and include the dollar limit. The minister should submit a request in writing to the official board, and upon its approval, have the action recorded in the official minutes of the appropriate church board.

It would be appropriate for the action to be taken in November or December of each year as the official designation for the new calendar year. The housing allowance may be designated for more than one year in advance, which may be appropriate when there is no change anticipated in the amount of the designation.

The housing allowance may be designated at any time of the year provided it is in advance of the benefit period in which it is to be used. Adjustments may also be made at any time of the year but only for housing allowance to be paid **after** the revised approval. Housing allowance may not be made retroactive.

What are the Tax Advantages of the Housing Allowance?

They are significant. The housing allowance (funds actually spent) are not included in the gross income for income tax purposes although it is included in the income for self-employment tax (Social Security) purposes. In addition, interest on the mortgage and property taxes may be deducted on Schedule A, Form 1040.

When can Changes be Made in the Housing Allowance Designation?

It is an established principal that the housing allowance must be properly declared before it is paid. The housing allowance designation can only be changed prospectively, the change cannot be made retroactively. It is generally preferable to declare the housing allowance before the year begins. In some cases that may be a calendar year, or some other church fiscal year. However, changes can be made at any time throughout the year, as long as the change only affects payments made after the

change. This is appropriate when new staff is hired.

Responsibility to Determine the Fair Rental Value

The responsibility to determine the actual exclusion of Housing Allowance is on the minister. The Church only has to designate a portion of the minister's salary as Housing Allowance. Then it is up to the minister, on his own tax return, to justify that he qualifies to exclude the portion of Housing Allowance.

Can a Minister's Housing Allowance be 100% of Compensation?

The May 16, 2000, the United States Tax Court ruling in the Warren case provided that a minister's housing allowance can represent 100% of the minister's compensation, as long as it is used to pay for housing related expenses.

There are several situations where a minister's housing allowance could be 100% of the ministerial compensation. Some examples are:

- Traveling evangelists often do not have a "home" church that can designate enough housing allowance to cover the minister's total housing expenses. Therefore, honoraria from other churches could be designated to be 100% housing allowance.
- When a minister purchases a home the down payment qualifies as part of the housing expenses. It is very possible that the down payment, plus all the regular housing expenses, could exceed the minister's total compensation.
- Part-time minister – Church compensation often is less than the total housing expenses. Therefore, a 100% housing allowance designation could be appropriate.
- Housing expenses for two income families sometimes exceeds the ministerial compensation paid by the church. This often occurs in low income churches that are in high cost areas, or in marriages where the spouse is in a high paying occupation.

Church Payroll and Payroll Services

Churches DO have special payroll situations, so they do have to be handled with care. Most of the payroll services do have the capabilities of handling the specialized payrolls of churches. However, many of the representatives or technicians do not understand how the church payrolls differ, so they can mess up the churches payroll reporting. If you can get someone who does understand, or who is willing to listen, then the computers do have the capability to handle those situations.

Here are some of the areas that need to be watched.

1. Non-ordained Staff
 - a. Block SDI and SUI (the Church is generally exempt from SDI and SUI, but you can elect to be covered, and this election can be made unintentionally).

- b. On DE6 – Do NOT use “Subject Wages.” That is for wages that are subject to SDI and SUI.
 - c. Block FUI
2. Ordained Minister Staff – Pastors & Licensed Ministers
- a. Block SDI and SUI, even if the church has elected this coverage.
 - b. Block FICA and Medicare. Ministers are exempt from these coverages by law. If these are withheld, the church is saying that the employee IS NOT a minister, and thus is not eligible for housing allowance either.
 - c. Can withhold FIT and SIT on a voluntary basis.
 - i. Can withhold enough to cover both FIT and SE tax.
 - ii. Probably will need to figure the amount of the combined withholding. Most payroll services won’t have the capability to make this calculation. The withholding amount can then usually be “forced.”
 - iii. Minister should submit a W-4
 - d. Housing Allowance for Ministers
 - i. Most Payroll Services are set up so that they can handle minister’s housing allowances, but they may have to “tweak” their system.
 - As Non-Taxable Earnings – NOT to be included in W-@ box 1 as wages.
 - As a Negative Deduction, that results as a reimbursement. Most systems are set-up to carry forward accumulated balances.
 - Most services may not be able to include the annual housing allowance on the W-2, in Box 14. Therefore, we recommend the use of the reporting letter.
3. W-2s – See W-2 example
4. Be sure to CAREFULLY check your quarterly payroll tax reports or the W-2s will be wrong.

Allowances and Expense Reimbursements

Many employees incur out-of-pocket business expenses during the course of the year for transportation, travel, entertainment, education, books, and similar items. A church can reimburse business expenses under either an “accountable” or a “non-accountable” reimbursement plan. A reimbursement plan is “accountable” if it:

1. Reimburses **only those business expenses** that an employee periodically substantiates as to the date, amount, and business nature of each expense, and
2. Requires any the employee to return any excess reimbursements.

An employer’s reimbursement plan is non-accountable if it fails either of these two requirements.

An Accountable Reimbursement Plan is **one of the most important components of an adequate clergy compensation package**. If a church adopts an accountable plan, then none of the church’s reimbursements need to appear on the employee’s W-2 (or 1040), and there are no expenses for the employee to deduct. The employee, in effect, reports to his or her employer rather than to the IRS. This is now the ideal way for churches to handle the business expenses of clergy and any other church worker.

Adequate substantiation or “accounting” under an accountable reimbursement plan generally means that the employee is required to substantiate (with receipts or other reliable written evidence) the amount, date, and “business nature” of **each expense** before the church reimburses the expense. The information provided by the employee must be sufficient to enable the church to identify the specific nature of each reimbursed expense and to conclude that the expense is attributed to the employee’s business (church related) activities. The income tax regulations specifically prohibit “accounting” to an employer by means of taxpayer’s own oral or written statements. Therefore, a minister will not adequately account to his or her church by orally informing the church treasurer of the amount of business expenses incurred during a particular month, or by signing a statement that merely recites what the minister’s business expenses were. Note further that a minister’s charging of business expenses to a church credit card will constitute a “reimbursement”, but it does not in itself constitute an adequate “accounting” unless the minister periodically substantiates the amount, date and business purpose of each expenditure with receipts or other written evidence.

New IRS guidelines for “accountable” plans took effect July 1, 1990. The new IRS guidelines specify that an employee’s “Accounting” or substantiation of his or her business expenses, and the return of any excess reimbursements, must occur within a “reasonable time.” Business expenses will be deemed substantiated within a reasonable amount of time if **done so within 60 days** after the expenses are paid or incurred, and excess reimbursements will be deemed to have been returned to the employer (the church) within a reasonable amount of time if done so **within 120 days** after the expenses are paid or incurred.

Business expense reimbursements or allowances paid to employees on or after July 1, 1990, must be included on the employee’s W-2 forms, and are subject to income tax and FICA withholding when paid – unless the reimbursements are paid under an “accountable” reimbursement plan. The withholding requirements will not apply to clergy, who are exempt from FICA tax withholding (unless they have elected voluntary withholding). Non-minister church employees will be covered by the new rules.

There are a variety of ways for a church to “fund” an accountable reimbursement plan. First it can agree to reimburse all substantiated business expenses without limitation. Second, it can agree to reimburse substantiated expenses up to a fixed limit (i.e., \$4000 per year). Any business expenses incurred by the minister in excess of this amount would be un-reimbursed.

A reimbursement policy must be in writing, and it should clearly specify what expenses the church will reimburse. It also should describe the documentation and reporting that will be required.

See Sample *Accountable Reimbursement Policy* in Appendix C

Church Debit & Credit Card Policies and Procedures

Objectives

1. To allow Church personnel access to efficient and alternative means of payment for approved expenses, especially expenses related to business travel and office supplies.
2. To improve managerial reporting related to Church debit or credit card purchases.
3. To improve efficiency and reduce costs of payables processing.
4. To establish and maintain standards of Church debit/credit card use accountability.

Policies

1. Church credit cards will be issued to employees with approval of the Board of Directors.
2. **Church debit cards** should be kept in the church safe.
 - To improve efficiency with Church budgeting, the Church Debit cards are only to be used for a church expense and have a pre-approved amount.
3. Church Debit/Credit cards will only be used for business purposes. Personal purchases of any type are not allowed.
4. The following purchases are not allowed:
 - Personal items or loans
 - i. Such as personal items for your family.
 - ii. Such as travel expenses for your children.
 - iii. Such as personal or family vacations.
 - iv. Such as groceries.
 - Rentals (other than short-term autos)
 - Telephones, related equipment, or services
5. Any other items deemed inconsistent with church business related expenses. Cash advances on Church credit cards are *not* allowed.
6. Cardholders will be required to sign an agreement indicating they accept these terms. Individuals who do not adhere to these policies and procedures risk revocation of their credit card privileges and/or disciplinary action.

Procedures:

1. Church debit/credit cards may be requested for prospective cardholders by written request (Church Debit & Credit Card Request Form) to the business administrator or treasurer.
2. Detailed receipts must be retained and attached to the credit card statements. In the case of meals and entertainment, each receipt must include the names of all persons involved in the purchase, and a brief description of the business purpose of the purchase, in accordance with Internal Revenue Service regulations.

3. Monthly statements, with attached detailed receipts, must be submitted to the accounting department within ten days of receipt of the statement to enable timely payment of amounts due.
4. All monthly statements submitted for payment must include the initials of the cardholder, the signature of the approving staff member and the date of approval. Each statement must have the approval of the approving staff member in addition to the approval of the cardholder, unless the cardholder is him/herself the staff member.
5. All monthly statements submitted for payment must have the appropriate account number(s) and the associated amounts clearly written on the statement. Multiple purchases charged to the same account number must be subtotaled. Cards may be designated to have all expenses charged to a specific account number, with exceptions noted.

Victory Outreach - _____ Trustee Manual

I. Recommended Procedures for Collecting Church Contributions

A. Team Work

1. It takes teamwork in order to receive the church offering. It takes:
 - a. The Pastor
 - b. The Ushering Ministry
 - c. The Security Ministry
 - d. The Trustee Ministry
2. For a congregation of 3,500 people, it takes approximately 70 people, networking together as a team. Of course, for smaller churches the numbers are significantly less.
3. All ministries must be familiar with the building. A layout of the building (routing sheet) is very important. The routing sheet must have the number of entrances, the number of chairs that are set up, the number of rows and how many chairs per row.
4. The rows must be sectioned out in order to service the congregation as they prepare to give their contributions. The more efficient the team works together, the more security it brings to the congregation to insure them that the contributions they are giving to the Lord are properly collected.
5. The Pastor works very closely with the Head Usher, Security Overseer and the Trustee Overseer. The Head Usher will receive last minute instructions as to guest speakers, special offerings that may be collected, pledges that will be taken or anything out of the 'norm' for that particular service. Again, all Ministry Overseers work together as a team. All Ministry Overseers have the same vision with the same purpose. Different roles, same vision and purpose.
6. The Head Usher is the overseer of the Ushers and Usherettes. He has an assistant, male or female, in some cases, both. The Head Usher receives his instructions from the Pastor and relates any changes that the Pastor has made to his assistant.
7. The Head Usher insures that everything that needs to be taken care of for that particular service has been taken care of. He in turn must work closely with the Security Overseer in order to avoid collisions.
8. The Assistant to the Head Usher is to make sure that the offering baskets have been properly numbered and labeled. The offering baskets must have ample amount of Tithing envelopes, United We Can envelopes, Visitor Cards, Prayer Request Forms and pens. The Assistant also makes sure that the offering baskets are at their designated location.

9. The Assistant assigns one Usher per door entrance and assigns the Usherettes to the section that has been designated to her. The Assistant places names or initials on the routing sheet and immediately knows which section has not been assigned. Any last minute instructions that must be communicated to the Ushers and Usherettes that is out of the 'norm' should be communicated before the service begins.

B. Collecting The Church Contributions

1. The Usherettes are to be alert to the instructions that are being given to them from the Pastor behind the pulpit regarding the offering. The Usherette passes the offering basket down the assigned sections of the building that were assigned to her and makes sure that the offering basket has not skipped any area of her section. She then takes the offering basket to the Usher that is assigned to her section.
2. Ushers are placed at the door entrances of the building and are assigned to the sections of the building that are closest to their assigned door entrance. After the Usherettes have collected the offerings, the Usher receives the offering baskets from the section that was assigned to him.
3. A Security Guard is assigned to one or two Ushers. Security escorts the Ushers with the offering baskets to a designated location.
4. The Trustee Overseer is responsible for having plastic bank bags, rubber bands, and a zippered carrying case at the designated location for ensuring proper sacking of the offerings.
5. The Security Team, Trustees, Head Usher and his/her Assistant work together in order to properly sack the offering. They separate all the envelopes from the loose currency and coin.
6. They place the currency and coin in a plastic bank bag and seal it. This is the loose cash offering.
7. They place all the Tithing, Church Planting, Building, United We Can envelopes into a plastic bank bag and seal it.
8. The strips of the plastic bank bags that have the number of the bag are stapled to the routing sheet.
9. The Trustees place all the bags into a zippered carrying case and are escorted by Security and Head Usher to a designated location. Under no circumstances are the Trustees to carry the zippered carrying case unescorted to its designated location.
10. In the event that a love offering is being collected, the Ushers and Usherettes receive their instructions from the Head Usher that has already received his instructions from the Pastor.

Note: For small churches we recommend the offerings be counted immediately after the service

by at least two people. It is general policy that at least two Trustees process monies at one time. It is best if the two are not related in any way. You may have two related Trustees if they are part of a Trustee Team (more than two people). The Trustee Team should consist of at least one Overseer/Leader, Trustee, "Verifier" and a "Banker".

However, if you have at least two (unrelated) trustees count the offerings on the next day that is acceptable as long as the offerings are stored in a secure safe, in sealed bank bags. We recommend a two lock safe, with a combination lock and a key lock. One Trustee should be issued the key and the other the combination, to ensure that two Trustees are present whenever the safe is open. No more than two people should know the safe combination and no more than two people should be key holders.

Offerings should never be stored for long periods of time as this prolongs the deposit into the bank and may cause checks to be returned by the bank and it is not safe to store monies for long periods of time.

II. Procedures for Counting Church Contributions

A. Separating The Contributions

1. The Trustee Overseer opens all the plastic bank bags beginning with Friday evening, Sunday morning, Sunday evening and Spanish afternoon service in the presence of a second Trustee.
2. The Trustees scan through all the envelopes and separate the United We Can, Tithing, Building and Church Planting (etc.) envelopes.
3. The Trustee rubber bands the United We Can envelopes and places them back into a bank bag, sets the bag aside in a safe place, away from her working area.

Note: The United We Can envelopes will be forwarded to the United We Can Coordinator or designated person to mail via certified mail to the United We Can Office. Envelopes must be mailed by Monday after the weekend it was received. Make sure to secure the United We Can envelopes until they can be sent into the United We Can Office.

4. Open any envelopes that do not have a name on them. If the envelope contains currency or coin, the contents should be removed from the envelope and included in the loose cash offering. If the blank envelope contains a check, transfer the information from the check onto the envelope and include with the proper batch of envelopes (i.e., tithes, offering, etc.) In most cases, the memo the check indicates where the donor designated the contribution. If there is no indication, it is considered part of the offering.
5. The Trustee separates the envelopes according to categories. Church tithes, Youth tithes, Spanish tithes, Church offering, Youth offering, Spanish offering, Church Planting, Youth Church Planting, Spanish Church Planting, Building Fund and split envelopes.
 - a. A split is an envelope that has multiple contributions. For example: the envelope may have tithes and offering, or may have tithes, offering and building.
6. After the envelopes have been separated, they are batched. Beginning with Friday service, Sunday morning, Sunday evening and lastly, Spanish service.

- a. A batch is a rubber banded stack of envelopes that range from not less than 1 envelope no more than 15 envelopes. It has a Batch Header with all the information pertaining to that particular batch.
- b. A Batch Header is a 7 X 3-1/4 inch form.

B. Loose Cash Offering

The bank bag that contains the loose cash offering will be given a batch header also. It is considered cash offering for the day it was collected.

It is considered one big batch and will be assigned a batch number also (see Batching Instructions below). It will be processed by one Trustee who will separate all currency, coins, and checks and print their calculator tape and write the total on the batch header and initial under “processing monies” (similar to Step 5 under “Processing the Batched Envelopes” and then verified by another Trustee (similar to “Verifying the Batches” section to follow). With any loose checks (not enclosed in envelopes) that were placed in the offering, look at the memo of the check to see if there is any indication of what the check is designated for. If it is designated tithes, complete an envelope for the check and place it with the other tithing envelopes for batching. If there is no indication, the check is considered part of the cash offering, however, an envelope should be completed for the check (to insure that the donor is credited) and it should be placed in with the other offering envelopes for batching.

With large offerings, several Trustees may process by assigning each Trustee a specific job-like one Trustee may total all the currency, another all of the coins, etc. It should also be given a GL No., batch number as listed below in Step 2 of “Batching the Envelopes”.

Any Love Offerings received should be processed in the same manner as above. An envelope will be need for each check indicating it as a Love Offering and insuring the recording of the donor’s gift.

C. Batching the Envelopes

1. Once the envelopes are batched according to categories: tithes with tithes, youth tithes with youth tithes, offerings with offerings, etc., the envelopes are slit opened. Do not open the envelopes with coin in them; the coin may roll out of the envelope. Coin envelopes are opened when the Trustee is actually processing that particular envelope.
2. The Trustee doing the batching fills out a Batch Header writes in the date, applies the proper GL No., description of the GL No., batch number and amount of envelopes and signs her initials on the line that says “Batching”.
 - a. A GL No. is a General Ledger Number or Category from the Victory Outreach Chart of Accounts that is used for accounting purposes.
 - b. A Batch number is a six-digit number used for the Data Entry Department or Financial Contributions Recorder in your church.

3. The Trustee that did the batching fills out the Church Batch Log.
 - a. A Church Batch Log sheet that records all the contributions of all the batches that are being processed for that particular day according to a specific checking account.

D. Processing the Batched Envelopes

1. The Trustee will take one batch, remove the rubber band and sign the Batch Header on the line that says "Processing Monies".
2. The Trustee opens the envelope and takes out the contents. If it is cash, the Trustee counts the cash and on the bottom right hand corner of the envelope below the "For Office Use Only", puts a check mark on the line that says cash. Below the cash line is the Total line and writes down the total amount that was removed out of the envelope. Below the Total line is the Trustee line. The Trustee puts her initials on the Trustee line. If there is a discrepancy on the envelope that the donor has marked, have a second Trustee verify the contents and sign her initials.
3. If the Trustee pulls out a check from the envelope, review the envelope and the check. On the envelope, make sure that it is completely filled out with name, address, city and zip. If the envelope is not completely filled out, then transfer the information from the check onto the envelope.
4. Review the check by looking at the date and make sure the check is not post-dated. Check for any discrepancies between the written amount and number amount of the check and the signature line for signature. If the check is not signed or if there is a discrepancy and there is a phone number, inform the Trustee Overseer to call the donor and ask him/her to instruct you on how he/she wants for you to handle the check. In the event that the Trustee Overseer cannot reach the donor, remove the envelope from the batch, change the total envelopes on the Batch Header and change the total envelopes on Church Batch Log. You may mail the check back to the donor to request signature or call the donor back later.

Note: When communicating with donors always use the utmost tact and confidentiality. Your church office may have a designated person assigned to calling donors in such cases.

5. After all the money and checks have been removed from the envelopes, the Trustee runs a tape of the envelopes on the calculator and totals it (do not remove tape from calculator). On the same tape, the Trustee begins to total the contents of the envelope beginning with the checks. Subtotal the checks then beginning with the largest bills, (100's, 50's, 20's, etc.) counts them, keys in the total (do not total, just key in). Then beginning with the largest coin (dollar piece, half dollars, quarters, dimes, etc.) counts and keys in the totals and hits the total key. The total amount of envelope contents should be the exact amount of the envelopes.

6. If the totals from the envelopes and contents balance out, write in the total of the batch on the Batch Header under “Batch Total”. Rubber band the envelopes, checks cash and coin (place the coin in a coin envelope) with the Batch Header and calculator tape. Place the batch in a separate tray for verification by another Trustee (verifier).
7. If the total does not balance with the total of the envelopes, repeat step 5. You should have been able to correct the error.

E. Processing a Split Batch

1. Highlight the categories on the envelopes with colored highlighters
 - a. Tithes
 - b. Offering
 - c. Building Fund
2. Follow Steps 2 through 5 under “Processing the Batched Envelopes”.
3. Run a calculator tape on all the envelopes with the specific highlight and total it. Do the same for each category. Finally, calculate the highlighted totals. The total should balance with the envelopes and contents of envelopes.

F. Verifying The Batches

1. All the batches that were processed will have to be verified. Follow Steps 5 and 6 under “Processing the Batched Envelopes”.
2. After the batch has been verified, the Trustee that did the verifying signs the Batch Header on the second line that says “Processing Monies”.
3. The Verifier staples the calculator tape that was on the batch unto the Batch Header.
4. The Verifier staples the calculator tape that she verified onto the Batch Header and places the Batch Header with the contents of the batch into a separate tray for banking.
5. After all the batches have been verified the Trustee that will be preparing the money for deposit will be the “Banker” (one who will prepare final count and deposit).

G. Preparing The Money For Deposit

1. The Banker places all Batch Headers in order according to batch number. The Banker transfers the totals from the Batch Headers unto the Church Batch Log according to batch number in categories. Tithes on tithes column, offering on offering column, etc.
2. The Banker runs a calculator tape according to categories of the Church Batch Log

and totals it. Lastly, the Banker totals all the categories that will be prepared for deposit.

3. The Banker separates the currency according to categories: 100's with 100's, 50's with 50's.
4. The Banker runs the currency through the currency-counting machine (if available) or manually counts.
5. The Banker prints the total of the currency from the currency counter (if available). The printer will print the total bills according to categories and total all the money.
6. The Banker places the coin from the coin envelopes into a coin holder by categories: Quarters with quarters, dimes with dimes, etc. and counts the coin. All the coin that can be placed into a bankroll must be rolled.
 - a. 40 quarters equal \$10.00 and is placed a bankroll.
 - b. 50 dimes equal \$5.00 and is placed into a bankroll
 - c. 40 nickels equal \$2.00 and is placed into a bank roll
 - d. 50 pennies equal \$.50 and is placed into a bankroll
7. The coin that cannot be rolled is placed into a large coin envelope.

Note: Bank bags, rolls and straps are usually available for free from your banking institution. If not, most office supply stores also have them in stock.

8. The Banker endorses all the checks and runs a calculator tape of checks.
9. The Banker totals the checks, currency and coin. The totals should be exactly as the totals on the Church Batch Log.
10. The Banker fills out the Victory Outreach Deposit Recording Sheet transferring the totals from the Church Batch Log onto the Recording Sheet.
11. A second Trustee must verify the deposit. If the deposit balances with the Deposit Recording Sheet, then the Banker is ready to prepare the Bank Deposit Sheet. The Banker and the Verifier sign the Deposit Recording Sheet.

H. Preparing The Bank Deposit Slip

1. The Banker prepares a Bank Deposit slip that has the bank account number that the deposit will be applied to.
2. The Banker will attach the Church Batch Log and wraps the batches of envelopes.. The wrapped batches are transferred to the Financial Contributions Recorder (Data Entry Department).
3. The Banker fills out a bank bag with the name, address, city and zip code of the church.

4. The Banker places all the currency, coin rolls, checks with a calculator tape rubber banded together and the white copy of the Bank Deposit Slip face up into the bank bag. The loose coin that was placed in the coin envelope should be placed into the bank bag.
5. Before sealing the bank bag, the Banker checks her working area to make sure that there is no currency or coin lying around that is a part of the deposit.
6. The Banker seals the bag and removes the bank strip with the number of the bank bag and staples it to the yellow copy of the Bank Deposit Slip.
7. The Banker makes a copy of the Victory Outreach Deposit Sheet. On the back of the Deposit sheet, copy the Bank Deposit Slip.
8. The Banker Staples the Deposit Slip to the top of the Victory Outreach Recording Sheet. The Recording Sheet is stapled to the top of the pink Church Batch Log and forwarded it to Finance Department.

When ALL is completed, the Finance Department receives:

- Deposit Recording Sheet
- Copy of bank deposit slip
- Copy of the Church Batch Log

The Financial Contributions Recorder receives:

- Church Batch Log
- Batches of counted envelopes with Batch Header and calculator tape attached

NSF's (Non-Sufficient Funds)

Upon receiving an NSF notice or Deposit Item Returned notice from the bank, the Finance Department enters the returned item into the bank register (using GL No. that was originally given when received) and sends the returned check to a designated clerk who sends an NSF letter to the donor (along with a copy of the returned check) and a copy of the letter and check will go to the Financial Contributions Recorder or Data Department so that they can adjust the donor's giving record. The designated clerk will keep a copy of the letter and original returned item in a binder, we recommend using alphabetical order (sample of letter in Record Keeping Manual).

If the donor wishes to resolve the NSF they may ask you to redeposit the check or they may send in a money order or cashier's check to replace the NSF check (we also ask them to include a \$5.00 bank fee for each returned item, your fee may differ). If they are sending in a money order or cashier's check to replace the NSF check, they may want you to return the original check to them. Whether you are re-depositing the check or depositing their replacement money order or cashier's check, the same procedures should be followed:

- Look up the NSF letter and original check, determine what type of check it is and what deposit the new check or re-deposit should be deposited to.

- Batch by following the same procedures under batching.
- Make two copies of the original check and along with the replacement money order or cashier's check.
- Process the NSF in the same manner as you process tithes, offerings, etc.
- After you have processed the NSF, data will receive their copy of the Batch Header and attach one of the copies of the original check that they are paying. The other copy should be attached to the Batch Header that the Finance Department receives. This is so that both departments know that the donor is paying an NSF and that it is not a new donation.
- The Finance Department will forward their copy of the paid NSF to the designated clerk who will find the letter that was sent and back up documentation and mark it as paid.

Church General Account

1. The Church General Account usually manages finances for the various ministries of the church. Such as:

Nursery	Worship	Choir
Sports	Drama Worship	Children's Ministry
Youth	Young Adults	Etc.

2. Every Church Ministry that is raising funds for their ministry must fill out a Cash Count Sheet and it must be verified by a second person when turning in fundraising money. The money must be placed in a plastic bank bag along with the Cash Count Sheet and placed in the drop vault safe that is provided by the church or taken to the church office. Plastic bank bags should be available from the Trustee or church office.
3. Every morning from Monday through Friday, the Trustees remove everything that is in the drop safe and place it into a zippered bag. The bag is hand carried to the Trustee Office.
4. The Trustees batch the bags according to ministry.
5. The Trustees open the bags and beginning with the checks, currency and coin, run a calculator tape and total it. Always make sure to write in the memo of the check what ministry or event the check came from in case it is returned by the bank. This insures that the Finance Department will be able to easily identify the origin of the check and make necessary adjustments to that ministries account balance.
6. The procedures are the same as for church contributions. All the batches must be verified. It is not necessary to assign batch numbers the these batches or use the Church Batch Log as they will not be sent to the Financial Contributions Recorder (Data Entry Department) – See Batch Header Sample

7. Once everything is verified, the finances are ready to be prepared for deposit. Follow the same procedures with the exception that all the paper work goes directly to the Account Representative that is overseeing the Church General Account due to the fact that none of the fundraising monies need to be recorded by the Financial Contributions Recorder because they are not from individual donors.

8. Sometimes the Church General Account is a separate checking account from the account that the Tithes, Offerings, etc. are deposited into and has it's own deposit book and bank endorsement stamp.

APPENDIX B - Housing Allowance Resolution

VICTORY OUTREACH [INSERT CITY] CHURCH [OR LEGAL CHURCH NAME]

Minutes of Board of Trustees

Date: [Insert date]

Present: [Insert Board of Directors & Officers Present]

The meeting was opened with prayer by Chairman [Insert Chairperson]

The following is the resolution for the pastor's Housing Allowance:

The Board was informed that under Section 107 of the Internal Revenue Code, an ordained minister of the gospel is allowed to exclude from gross income subject to federal income tax the housing allowance paid "as part of his compensation to the extent used by the minister to rent or provide a home."

After considering the statement of Pastor [INSERT PASTOR'S NAME] setting forth the amount Pastor [INSERT PASTOR'S FIRST NAME] estimates he will be required to spend to provide a home during [INSERT YEAR], on motion duly made and seconded, the committee adopted the following resolution:

WHEREAS, ministers are compensated by Victory Outreach Church [INSERT CITY] exclusively for services as a Minister of the Gospel; and

WHEREAS, Victory Outreach [INSERT CITY] does not provide Ministers with a parsonage; therefore hereby:

BE IT RESOLVED that after January 1, 2____, \$_____ of Pastor [INSERT PASTOR'S NAME] monthly salary shall be designated as housing allowance, until changed by this committee or other official action of the Church. This housing allowance shall be so designated in the official Church records.

The meeting was adjourned and dismissed with prayer by [INSERT NAME],

Next meeting –

Respectfully submitted,

_____,
Secretary

MINISTER'S HOUSING EXPENSES

Name: _____

Housing Allowance for 2____	\$ _____
Expenses to Provide Housing or 2____: Mortgage or Rent	\$ _____
Mortgage or Rent Payment (Principal and Interest)	
Real Estate Taxes	
Homeowners/Renters Insurance	
Utilities (Electric, Gas, Garbage, Sewer, etc.)	
Telephone (excluding long-distance)	
Cable TV (excluding extra channels)	
Homeowner's Association Fees/Dues	
Decorator and Household Items, etc.	
Kitchen Utensils and Cookware	
Cleaning Supplies	
Repairs/Remodeling and Upkeep	
Gardening Supplies (Gardener no longer allowable)	
Furniture	
Appliances	
Down payment on House Purchase	
Total Expenses	
Unused Housing Allowance (Excess Expenses)	

I respectfully request that the Board designate the above amount as my Housing Allowance, as provided by Section 107 of the Internal Revenue Code for a Minister of the Gospel.

Date

Name

Signature

APPENDIX C

Victory Outreach Church _____

Accountable Reimbursement Plan for Church Staff

Victory Outreach Church _____ establishes this Accountable Reimbursement Plan for Professional Expenses between _____ (name of minister or employee) and Victory Outreach Church _____ effective _____ (month/day/year) and is limited to the maximum annual amount of _____.

Professional expenses to be covered by this plan shall include the following:

1. Auto reimbursement for miles driven each year by the minister in performance of church business. A guideline could be the standard amount allowed for deduction by the Internal Revenue Service. Commuting costs are not included.
2. Convention/Conference expense includes the cost of attending annual meetings; i.e., transportation, meals, housing and registration.
3. Continuing education includes funds and time for a course of study or educational conference to further develop professional skills. The minimum is \$_____ per year and the equivalent of ____ days.
4. Books, periodicals and other resources are essential tools for the minister. A reasonable budget item for these is recommended.
5. Hospitality for the cost to the minister of hospitality extended on behalf of the church.
6. Other expenses may include parking fees and tolls, when incurred in ministry related trips. Computers and cell phones fit into this plan, if they meet two conditions in Section 179 on IRS Form 2106:
 - a. It is for the convenience of the church and not the minister
 - b. It must be a condition of employment of the minister

The minister shall substantiate to the church treasurer these expenses within sixty days of incurring the expense. Expenses shall be documented by date, type of expense, place, purpose, cost, receipts and, in the case of mileage, shall also include the number of miles and the amount being requested.

The church treasurer will, upon receipt of these expenses and appropriate documentation, reimburse the minister on a timely basis out of the church reimbursement account. It is not permissible for the church to reimburse for professional expenses by means of periodic salary deductions.

All overpayments made to the minister shall be returned to the church within 120 days of receipt.

Any amount remaining in the church reimbursement account for this minister shall remain the property of the church.

It is understood that the amounts reimbursed to the minister under this plan are not considered to be income and will not be included in the ministers W-2 form.

This policy was adopted by vote of _____ on _____

Minister's signature _____ Date _____

Treasurer's signature _____ Date _____

APPENDIX D

VICTORY OUTREACH CHURCH SAN JOSE MINISTRY CREDIT CARD HOLDER AGREEMENT

I, Pastor _____, hereby acknowledge receipt of the following

credit card: _____ / _____ - _____ - _____
(type of credit card) (credit card number)

I understand that improper use of this card may result in disciplinary action, as outlined in the ministry handbook, as well as personal liability for any improper purchases. As a cardholder, I agree to comply with the terms and conditions of this agreement, including the attached Ministry Credit Card Policies and Procedures agreement.

I acknowledge receipt of said Agreement and Policies/Procedures and confirm that I have read and understand the terms and conditions. I understand that by using this card, I will be making financial commitments on behalf of Victory Outreach _____ and that the ministry will be liable to _____ for all charges made on this card.
(Name of Credit Card Company)

I will strive to obtain the best value for the Ministry when purchasing merchandise and/or services with this card.

As a holder of this Ministry card, I agree to accept the responsibility and accountability for the protection and proper use of the card, as enumerated above. I will return the card to the Business Administrator or Treasurer, upon demand, during the period of my employment. I further agree to return the card upon termination of employment. **I understand that the card is not to be used for personal purchases.** If the card is used for personal purchases or for purchases for any other entity, the Ministry will be entitled to reimbursement from me of such purchases. The ministry shall be entitled to pursue legal action, if required, to recover the cost of such purchases, together with costs of collection and reasonable attorney fees.

Signature _____ Date _____
(Cardholder)

Signature _____ Date _____
(Board of Director)

Accounting Department use only:

Date _____ Amount approved \$ _____

Signature _____
(Treasurer – Board of Director / Business Administrator)

VICTORY OUTREACH _____ INC.

RESOLUTION OF THE BOARD

OBTAINANCE OF CREDIT CARD

WHEREAS, it is advisable to obtain credit card privileges for purposes of charging certain expenses to the business of the Corporation; be it

RESOLVED, that Pastor _____, as President of the Corporation, authorized _____ to apply for and obtain a Corporate Credit Card from American Express with such credit limit as the president deems advisable, and,

Pastor _____ President and Senior Pastor

be authorized to charge on that account any expenses reasonable to effecting the business of the Corporation as provided for by the Internal Revenue Code, and that the Treasurer of the Corporation is directed to monitor said account and pay such proper charges as they become payable.

BE IT FURTHER RESOLVED THAT, _____ is authorized to execute this transaction.

Executed this ____ day of _____, 20__.

_____, Corporation Secretary
Victory Outreach – _____, Inc.

Church Ministry Procedures

All Department and Ministry Leaders must follow the Following administrative & financial procedures

Ministry Department Deposits – are to be turned in the same day. There are to be no “cash outs”. If any reimbursements are needed, a check requisition should be submitted.

Anytime monies from church ministry fundraisers, donations, offerings, etc. are received, monies are to be deposited immediately.

Note: When checks are not deposited in a timely manner this may cause them to be returned by the bank for non-sufficient funds. When a check is returned by the bank that was submitted by a department/ministry, the amount of the check (and fees) will be deducted from that department/ministry.

Cash Count Form must be included in the bag with (2) signatures – Department Leader and a worker. (see sample form)

Monies must be deposited in appropriate sealed bank bag or envelope.

Drop off either in church night drop or during office hours (9am – 5pm) with authorized representatives only.

Ministry Tithes – As a Biblical principle, all church ministries are encouraged to tithe 10% of all fundraising monies turned in.

Check Requisitions

Check requisitions need to be completed by the Department or Ministry Leader or Overseer ONLY. Requisitions are to be turned in to the Finance Department NO LATER THAN MONDAY. If request is over \$100.00 the check request should be in the vendor's name. □ Turnaround time (with availability of funds in the department's account) will be on Wednesday only.

Please have check requisitions with: Name of vendor, exact amount, description and purpose of purchase, and (for approval) the Department Leader's signature. Checks will not be issued without the Department Leader's approval.

We are very sorry but there will be no exceptions. Extreme emergencies should be referred to Pastoral Staff.

Note: Please Get Quotes – especially for printing, comparison shop

Receipts

Original receipts of purchase are to be returned in to the Finance Department immediately. Please indicate name of ministry and from whom.

If you receive checks on a regular basis from the church, the finance department will withhold any future checks until receipts from the previous check have been returned. If receipts are lost, a “Receipt Liability Form” must be completed. Frequent loss of receipts should be a concern and should result in meeting with Pastoral Staff.

Special Events/Fundraisers

Any special event to be held by a Department/Ministry or Fundraiser requiring “front money” should be done by the following procedure:

A budget of all income/expenses required for the event/fundraiser must be submitted first.

Funds will be issued based on the approved budget. Note: If you should need assistance please see us, with a minimum of (3) week advance notice. □ Any event or fundraiser where a ministry/department is collecting funds, this money must be turned in to the Finance Department and then applied to the department’s account. No money (cash) is to be used for expenses from the funds received; it must first be accounted for and followed up with Check Requisitions.

o Note: If personal checks are collected for the event/fundraiser, this money will not be made available for one week to insure that the checks clear the bank.

Upon request a report can be issued on the completion of the event/fundraiser of actual income and expenses and profit. (Note: A well planned, and closely monitored event budget will prevent a loss).

Reimbursements should be avoided, unless an emergency situation arises. Reimbursements also require Pastoral Staff approval.

Credit Accounts are NOT to be opened by any Department or Ministry Leader, only by the authorized Account Representative (this includes accounts with printers). If a department or ministry leader wishes to open an account with a company, they are to submit the credit application to the Account Representative, who will submit the request to the church board.

Printing of Flyers/Literature

All requests for printing should be channeled through the designated church or pastoral staff, whether their department designs the flyer or not. The Finance Department will not accept check requisitions unless it is signed by the designated church or pastoral staff. Following this procedure will ensure quality presentation of the Victory Outreach “brand” and protects our Trademark License agreement.

Acquiring Facilities for Events

When planning a rally or event at a City Park or Facility, the following procedures are the best practices to follow to secure the facility and make the event a success:

First the Department Leader should get approval by Pastoral Staff and check any conflicting events on the church calendar. □ Request the facility. The facilities manager will give the department leader an application to secure the reservation; this should be brought to the Church Business Administrator for review and signature.

Usually the facility will require a Certificate of Insurance. The Certificate of Insurance may be obtained from our Church Insurance Agent. Give our department at least one week’s notice to obtain the certificate. □ If the facility requires a deposit, the department leader should fill out a Check Requisition and deliver it to the Church Finance Department with at least one weeks notice as well.

CHECK REQUISITION

DATE: _____

PAYABLE TO: _____ DATE NEEDED: _____

ADDRESS: _____ CITY: _____ ZIP: _____

CHARGE TO: _____

DESCRIPTION: _____

AMOUNT NEEDED: _____

REQUESTED BY: _____

APPROVED BY: _____

OFFICE USE ONLY

ACCOUNT NAME: _____

CHART OF ACCT. NO. _____

PREPARED BY: _____

MAIL CHECK: YES _____ NO: _____

*PLEASE NOTE: All checks will be available every **Wednesday** of the week. Original Receipts must be turned in immediately. Please Submit Request by **MONDAY***