


*Andrews Chapel
United Methodist Church*

**Treasurer
Policies and Procedures Guidelines
(Prepared by Finance Committee)**



***PROCEDURES
MANUAL***

Detail Church Procedures

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Andrews Chapel UMC
Procedures Manual

Treasurer, Policies and Procedures Guidelines
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Thank you for agreeing to serve your church as its Treasurer. Your work is essential to the ministry of Andrews Chapel UMC. As you carry out your leadership responsibilities, you may find that you need information beyond what you currently know about legal and tax matters, financial management, or communications with the wider church.

Handbook for Church Treasurers and Trustees

I. Introduction

II. The Legal Status of Churches

This section covers the question of incorporation, as well as tax exemptions applicable to churches.

A. Incorporation

A local United Methodist Church congregation may be either a non-profit corporation or a non-profit unincorporated association.

A church that has not carried out the legal procedures necessary to incorporate is, by default, an unincorporated association.

The personal liability of church officers is further discussed in section IV.C. of this manual.

B. Tax Exemptions

Federal and State laws grant to churches a number of tax exemptions. The tax exempt status of your church is one of its most valuable assets. It means that most contributions from members are tax-deductible, and that the church can operate at much lower cost than would be possible otherwise. It is important to safeguard this status by using it appropriately - see .caution. below.

1. Federal Income Tax

The Internal Revenue Service has issued a ruling, dated June 10, 1964, which as subsequently amended, grants blanket Federal income tax exemption to The United Methodist Church and all member churches.. A letter documenting this ruling is attached as Appendix B.

If you should be called upon to document the exempt status of your church, simply copy this letter along with the page of the Conference Yearbook on which your church is listed. This will satisfy most grant-makers, tax authorities and others who may be interested. If you need further documentation, feel free to contact the Conference Business Manager for assistance.

2. Federal Tax I.D. Number

Although local churches are blanketed under the UMC Federal tax exemption, each local church needs its own Federal I.D. number for reporting employee payroll taxes and in order to obtain State sales tax exemption.

You can obtain a Federal I.D. number for your local church by filing the first page only of Internal Revenue Service form SS-4, listing the UMC general exemption number (.GEN.) under item 8a. This form can be obtained from any IRS office, or downloaded from the World Wide Web (see Appendix A for web address.) It must be signed by the president or vice president (or comparable officer, such as the moderator) if your church is incorporated, or by .a responsible

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and duly authorized member or officer.. if your church is an unincorporated association. The IRS advises that this form will take 4 - 5 weeks to process; an I.D. number can be obtained more quickly if an application is made by telephone (see instructions for SS-4).

3. State Income Tax Exemption

Under Georgia law, all local UMC churches are exempt from State income tax by virtue of our Federal exemption.

4. State Sales Tax Exemption

Each local church needs its own exemption from Georgia sales tax. To obtain a sales tax exemption certificate for your church, you need to file a Georgia Department of Revenue form. This form asks for your Federal I.D. number. You also need to attach a copy of the UMC Federal income tax determination letter (Appendix B) and a copy of the Georgia Conference Yearbook page listing your local church. The sales tax exemption is good for five years. You will need to contact the Department of Revenue as the expiration date nears. In order to renew your church's exemption, you will need to resubmit your Federal I.D. number, income tax determination letter and Yearbook page copy.

Caution: It is important that the sales tax exempt number be used only for church-related purchases. Other use could jeopardize your church's sales tax exemption.

5. Property Taxes

A church's house of worship, the parsonage occupied by its ordained pastor, and a reasonable amount of surrounding land are exempt from local property taxes, provided these properties are being used exclusively for religious purposes. Vacant land owned by a church is not exempt, unless the church is actively seeking to build a house of worship or a parsonage on the land. Parsonages and church buildings under construction are exempt.

Many churches lease or rent space to day care centers or other community groups. Leasing or renting church property to individuals or to other organizations, including non-religious non-profit organizations, may result in a full or partial loss of the property tax exemption. Much seems to depend on the local taxing authority, which has some discretion as to how stringently to apply the law.

6. Federal Excise Taxes

Religious organizations are **not** exempt from Federal Excise taxes such as those charged on telephone service.

7. Georgia Hotel Room Use Tax

Religious organizations are **not** exempt from GA. tax on hotel room use. Churches which hold retreats or other events at hotels should be prepared to pay this tax.

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8. Tax Filings

Most not-for-profit corporations are required to file annual financial reports known as Form 990 (Federal) and Form PC (Georgia). Churches are not required to file these forms. Churches may be required by local tax authorities to file form 3 ABC in order to maintain exemption from real estate taxes.

III. Financial Management of Churches

This section includes recommendations concerning accounting and reporting procedures to safeguard the money entrusted to the church by its members.

A. Record Keeping

As with any organization, all financial records kept for a church should be clear and easy to follow. Good documentation of procedures and transactions help the church to operate smoothly and to ensure that resources contributed by members are used appropriately. Clear records also make it much easier for a new financial officer to take over when the terms of current officers are completed.

B. Computer Software for Church Accounting

There are many software products available as tools for church management, including church accounting. It can be challenging to assess the strengths and weaknesses of each package and determine which is best for your church, especially as the software market changes so rapidly.

C. Protecting the Assets of the Church

All of us expect that our churches will be characterized by trust and honorable behavior among our members. While the instances are not large in number, each year churches do lose money through carelessness or dishonesty on the part of those members or employees responsible for handling church funds. We read about some of these instances in the newspapers; many more are handled privately. Beyond resulting in financial loss, such events can be quite damaging to the relationships within a church community. One important role of the Treasurer and Trustees is to try to prevent such losses.

1. Internal Controls

It helps to make sure that your church has adequate procedures for handling receipts (both checks and cash) and disbursements (payments). Such procedures are known to accountants as **internal controls**. Good internal controls make it less likely that money contributed to the church will be stolen or misused.

The following fifteen-step plan for internal controls is from **Internal Controls for Churches** by Manfred Holck (published by Church Management, Inc., and unfortunately out of print. Holck's words are shown in boldface; comments in plain text are added.)

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Internal control is a plan of control, not only to detect error or fraud, but to safeguard assets; to check the accuracy and dependability of financial records and reports; to encourage operating efficiency and adherence to the rules, regulations and policies set by management.. Steps to be followed are:

i. Do not assign the same person responsibility for more than one of the following tasks: counting the offering, writing checks, recording individual contributions, and reconciling the bank statement.

To the greatest extent possible, different people should handle different financial duties within the church in such a way that they effectively monitor one another's work. For example, ideally, one individual should open mail containing checks from members, list the checks and make a bank deposit. Another person should update the pledge records using the list of checks received. Likewise, the person who can sign checks should not be allowed to authorize payments, but only respond to requests from those individuals responsible for implementing the church budget.

ii. Make certain that at least two people are in custody of the offering until it has been safely deposited in the bank or placed in a night depository or safe. This procedure protects the church from possible loss of offering plate contributions. Equally importantly, it protects the church members responsible for depositing the offering from any suspicion that they might mishandle the funds.

iii. Promptly deposit all money - cash or checks - received on Sunday or during the week. A list of checks received should be compared regularly with the bank statement. Again, if at all possible, different jobs should be done by different individuals. The person who lists incoming checks should not reconcile the bank statement.

iv. Encourage all members to use envelopes.

v. Do not let just anyone have access to the offerings and to the checking account. Access should be limited to persons approved by the finance committee of the church. This committee should vote annually concerning which individuals have authority to sign checks on behalf of the church, and record this vote in the minutes of the committee.

vi. Insist that all payments be by check. The check provides a more reliable record of the payment than is possible for a cash transaction

vii. Require two signatures on every check. This provides excellent protection against the possibility that funds might be misspent. Some churches allow a single signature for checks in amounts below a particular threshold (for example, checks in amounts under \$1000) but require two signatures for any check in an amount exceeding the threshold.

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viii. Assign someone other than those who handle cash or keep the financial records the responsibility for receiving and reconciling the bank statement. Here again, the separation of different financial functions enables church members to monitor one another's work and to have confidence in the church's system of financial management.

ix. Use a church budget effectively.

In general, expenditures should be consistent with the planned budget; expenditures to meet unanticipated needs should be approved by the finance committee of the church.

x. Unpaid pledges should not be written off by any financial officer.

To write off a pledge is to remove it from the list of pledges the church expects to collect. If an old unpaid pledge is to be written off, this decision should be made and voted by the finance committee of the church.

No individual acting alone should write off pledges.

xi. Keep marketable securities, notes, valuable personal property, cash (coins, bills, or checks) in a safe place.

xii. Maintain an inventory of assets.

List office equipment, furniture, musical instruments and other valuables. An inventory guards against the possibility that physical assets will disappear without being noticed as missing. Also, such a list is invaluable in the event that church property is lost through fire or theft

xiii. Make sure an annual audit is conducted.

xiv. Put all of your cash handling procedures in writing.

xv. Get a fidelity bond for all cash handlers.

2. Treasurer's Reports to Church

The Treasurer should provide monthly financial reports to the governing committee of the church, and provide an annual report to the full church at its annual meeting. These reports should show actual income and expenses compared with budgeted amounts. The Treasurer should also provide information concerning the assets and liabilities of the church - that is, cash balances and investments as well as any debts owed by the church. These reports will assist church leaders and other members to understand the financial position of the church and to make informed decisions about financial matters.

3. Audits

The Conference strongly recommends that the financial records of each local church be audited by a Certified Public Accountant once every three years. This is the average term served by church officers; an audit by an outside

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professional should take place once during each term.

Many church officers are reluctant to engage professional auditors because of the expense involved. However, the costs of dishonesty or mismanagement on the part of those entrusted with church funds are likely to be far higher.

Just as we allocate money in our church budgets to pay the costs of insurance, it makes sense to allocate money for periodic audits.

In addition, the Georgia Conference recommends that internal audits of church records be conducted annually. An internal audit should be carried out by one or more church members who have no other role in the financial operations of the church. In this way, a person or persons with an independent perspective will monitor the financial management system on a regular basis.

4. Bonding of Staff and Volunteers

The Georgia Conference recommends that each local church purchase a fidelity bond to cover staff and volunteers who have responsibility for handling money.

Such a bond is a form of insurance which compensates the church in the event that it loses money due to the dishonesty of employees or volunteers.

In most cases, this type of insurance will only pay on a claim if the church is willing to prosecute the person who has embezzled money. It can be very difficult for church boards to decide to prosecute church leaders in cases of wrongdoing. It is far easier on everyone if potential theft can be prevented by means of good internal control procedures.

D. Investments

The management of investments is another area in which good control procedures are crucial. Unfortunately, a number of churches have lost money due to the dishonesty of trusted church officers who claimed to be investing money which was actually being diverted for personal use. Others have lost money because one or two individuals, while trying to act in the best interests of the church, have made unwise investment choices. Of course all investment involves some degree of risk; no protocol can fully safeguard against the possibility that an investment made in good faith may turn out in retrospect to have been a poor one. However, good procedures can reduce the risk that the church will suffer from the results of dishonesty or poor judgment on the part of a key officer.

1. Investment Policy

The Conference recommends that each church adopt a written investment policy, approved by its governing body. This policy should provide guidelines as to how church assets may be invested, and indicate who has the authority to make investment decisions within these guidelines. The policy should also indicate what amount of income from the investments may be used, by whom and for what purpose.

2. Protecting Investments

As with accounting procedures, responsibilities related to church investments should be distributed among several individuals. In particular, no individual

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acting alone should have the authority to choose an investment vehicle for the church. Likewise, at least two signatures should be required for any withdrawal of invested funds. Annual financial reports should include a full accounting of invested funds, and annual audits should include verification of amounts invested. This means, for example, that the auditor should physically examine stock certificates held by the church, and write to banks, brokers and investment firms for independent confirmation of assets held in custody for the church.

IV. Managing Legal and Financial Risks

This chapter contains information and recommendations to help you protect your church and its members from legal and financial risks.

A. Insurance

Like other organizations, churches are subject to various risks for which it is wise to have insurance coverage. Many churches are inadequately insured. Even a well-insured church will face disruption of its ministries in the case of a major fire, employee injury or lawsuit. However, sufficient insurance can make the difference between a crisis that is manageable and one that is devastating.

1. Worker's Compensation

Churches are subject to worker's compensation laws in Georgia, and therefore it is required that all churches have worker's compensation insurance for all employees. Most health insurance programs, as well as most liability insurance policies, exclude coverage for work-related injuries.

If an employee is injured in the course of his or her work, and the employing church has no worker's compensation insurance, the church must pay out of its own funds for medical treatment, lost work time, and (in the case of a disabling injury) income replacement for a period of time required by law. Even a minor injury requiring medical attention can result in substantial costs to the church. A worker's compensation insurance policy may be obtained through a local insurance agent.

An additional caution regarding worker's compensation concerns contractors hired by the church. Any contractor engaged by the church should be required to show proof of up-to-date worker's compensation insurance coverage.

It is very risky to hire a contractor who lacks this coverage, as the church could be held liable for costs resulting from any injury to the contractor (or persons employed by the contractor) incurred while working for the church.

2. Property Values

Many churches have property insurance policies which understate the costs of the covered buildings and their contents. In determining an adequate level of insurance, church officers need to consider what it would cost to rebuild church structures comparable to all the buildings presently in use, and replace all furnishings (replacement costs).

This enables a covered church, in the event of a major loss, to rebuild a structure essentially identical to that which was destroyed, including features

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such as ornate woodwork and stained glass.

In addition to purchasing an adequate insurance policy, it is wise for church officers to document, in detail, the property being insured. Documentation should include a description of each building accompanied by photographs or videotape, a list of furnishings, and photographs of any particularly valuable or unusual items. This documentation should be kept off the insured premises so that it would not be destroyed in the event of a fire or flood at the insured site. In order to collect under most insurance policies, the insured party must be able to document what was lost; otherwise, the insurance company may want to underestimate the loss and the appropriate settlement.

3. Liability Insurance

As more people turn to litigation as a way to resolve disputes and seek restitution, churches are increasingly vulnerable to lawsuits. Liability coverage should be chosen with this vulnerability in mind. Ideally, church insurance should include coverage for sexual misconduct, as this is presently one of the greatest areas of risk for churches. Likewise, liability insurance should include coverage for good-faith actions of volunteers as well as employees, because members of church decision-making boards (trustees, parish boards, personnel committees) are quite likely to be among the targets if a church is sued. As in the case of Worker's Compensation coverage, any contractor hired by the church should show evidence of liability insurance coverage. This protects the church in the event that the contractor's actions result in damage to people or property.

4. Use of church buildings by other organizations

Churches frequently ask about the insurance implications of allowing other organizations (Scouts, twelve-step programs, exercise classes, etc.) to use their facilities. In general, it is wise to require those users who represent non-profit or for-profit corporations, as well as individuals who are in business for themselves, to provide evidence that they have their own liability insurance. Beyond this, each church must check with its insurance agent to determine the level of risk posed by the use of church buildings by other groups.

If your church operates a child-care center or other business on its premises, you should discuss these activities in detail with the church's insurance agent in order to make sure that adequate coverage is in place for all operations.

B. Minimizing Legal Risks to the Church

While it is important to have adequate insurance, it is equally important to try to reduce the chance that the church will be exposed to a lawsuit in the first place. Such legal action can be quite difficult and divisive for a congregation even if monetary losses are minimal. Areas to consider include personnel policies; screening and supervision of volunteers and employees; physical hazards on the premises; policies concerning the use of church vehicles; copyright regulations; and environmental hazards (such as oil tanks, asbestos, etc.).

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1. Minimizing the Risk of Sexual Abuse and Misconduct

Church officers have a profound ethical as well as legal responsibility to implement policies which reduce the risk that any church member will be sexually abused by a church employee or volunteer. Allegations of sexual abuse within a community of faith are deeply disruptive and often devastating, especially where children are involved.

There are excellent resources available to guide you in assessing and, if necessary, improving your church's policies and procedures concerning the prevention of sexual abuse.

C. Minimizing Legal Risks to Church Volunteers

In recent years a number of lawsuits have tried to impose personal liability on volunteer officers of churches. Areas of potential liability include the following:

1. Liability involving injury to another's person or property. Examples would include negligent hiring or supervision of an employee, copyright infringement, wrongful termination of an employee, negligent operation of a motor vehicle.

A church officer is usually considered to be liable only for those decisions in which he or she is involved. If a church board member is uneasy with a decision of the board, it is wise to have this dissent recorded in the minutes of the meeting.

2. Liability for contracts signed by the officer. If the officer signs a contract on behalf of the church without first being granted authority to do so by the governing board, the officer may be held personally liable for the contract. Even if such authority has been granted, the officer must explicitly include on the document the church's name, corporate status, and the capacity in which he or she is signing in order to avert the possibility of being held personally liable.

3. Breach of fiduciary duty of care. A volunteer may be vulnerable to this charge if his or her inattention allows some kind of loss to occur. Board members who are chronically absent from meetings may put themselves at particular risk in this area.

4. Willful failure to withhold payroll taxes or to pay withheld amounts to the IRS. This is a felony punishable by a fine of up to \$10,000 and/or imprisonment for up to five years (section 7202, Internal Revenue Code). In addition, each officer involved can be personally liable for a penalty of 100% of the amount of tax evaded.

Of course, church volunteers who willfully act in ways that jeopardize the church or its members should not be protected from legal action. However, officers need to be confident that they are protected as long as they honorably exercise their best judgment in the interests of the church.

The risk that officers will be held personally liable can be reduced by making certain changes to the church's legal documents. Churches which are unincorporated can amend their bylaws to indemnify officers, to the extent legally permissible, from liability for bad outcomes of decisions made in good faith. A higher level of protection is afforded by

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incorporating - the mechanism of incorporation is designed to insulate leaders from personal liability provided they are acting in good faith and in their corporate capacity.

V. Your Church as Employer

Church officers often face questions as to the mechanics of hiring and compensating church employees. Read the Personnel Policies and Procedures Guidelines.