



Treasurers Workshop

Common church treasurer responsibilities:

- Bookkeeping
- Financial reporting
- Payroll
- Tax filings (Payroll, Form 1099, General Excise)
- Budget preparation

What is bookkeeping?

- **An accounting process**
- **The recording of financial transactions**
- **Transactions include sales, receipts, purchases, and payments**
- **Transactions are summarized in a report that becomes your financial statements**

Types of bookkeeping tools

- **Software (QuickBooks, Church Windows, etc.)**
- **Excel spreadsheet**
- **Manual (multi column check register)**



Financial Reporting

Basics of Financial Reporting

- **Report audience is the church council or board, church staff, members, and sometimes outside parties such as banks or creditors.**
- **Report should include:**
 - **Balance Sheet**
 - **Income Statement**

Balance Sheet



“Snapshot” of the church’s financial position at a point in time
(for example December 31, 2015)

Assets (What you own)

- Liabilities (What you owe)

= Net Assets (Your net worth)

When Liabilities and Net Assets are added together, they equal
or “balance” the assets.

**Sample Church
Balance Sheet
December 31, 2015**

Assets

Cash	\$ 8,000
Accounts Receivable	2,000
Prepaid Expenses	2,000
Property and Equipment, net	400,000
Long-term Investments	50,000
Total Assets	<u>\$ 462,000</u>

Liabilities and Net Assets

Liabilities:

Accounts Payable	\$ 5,000
Other Accrued Liabilities	4,500
Notes Payable	65,000
Total liabilities	<u>74,500</u>

Net Assets:

Unrestricted	332,500
Restricted	55,000
Total Net Assets	<u>387,500</u>
Total Liabilities and Net Assets	<u>\$ 462,000</u>

Assets

- Assets are listed in order from Current to Long-term on the Balance Sheet.
- ***Current Assets*** -- can be turned into cash or liquidated quickly. Examples are checking and savings accounts.
- ***Long-term Assets*** -- Not as liquid, usually held for over a year. Although investments can be turned into cash, they should be considered long-term since quick liquidation may result in large losses. Property and equipment such as land, building, furniture & fixtures are also long-term assets.

Liabilities

- Like assets, liabilities are listed in order from *Current* to *Long-term* on the Balance Sheet.
- ***Current Liabilities*** --- payables that are due in the near future. Examples are accounts payable for operating expenses of the church. Payroll expenses such as salaries, benefits, and payroll taxes of church employees are another example.
- ***Long-term Liabilities*** --- payable over a period of years, such as mortgages and other notes payable.

Net Assets

Assets minus liabilities = Net assets, or “net worth”

Statement of Activities “closed” into this account at year end

Commonly divided into sections:

Unrestricted

Restricted

Statement of Activities **(commonly referred to as “Income Statement” or “Budget”)**

This statement shows how much money was received, as well as how much money was spent.

Income	Money you bring in
- Expenses	Money you spend

=Net Income	Your “profit” (loss)

**Sample Church
Statement of Activities
December 31, 2015**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Income			
Contributions			
Pledges	\$ 70,000	\$ 80,000	\$ (10,000)
Offering Plate	2,500	4,000	(1,500)
Special Offerings	4,000	3,200	800
Earned Income			
Building Rental	11,000	12,000	(1,000)
Church Bazaar	1,000	1,800	(800)
Investment Income			
Interest	150	100	50
Endowment	4,500	3,000	1,500
Miscellaneous	200	800	(600)
Total Income	<u>93,350</u>	<u>104,900</u>	<u>(11,550)</u>
Expenses			
Personnel			
Salaries & Benefits	61,000	65,000	(4,000)
Payroll Taxes	3,500	5,100	(1,600)
Programs			
Christian Education	1,500	1,900	(400)
Children & Youth	2,100	2,000	100
Mission			
OCWM	7,000	8,000	(1,000)
Special Offerings (4)	4,000	3,200	800
Building & Grounds			
Mortgage Interest	3,000	3,400	(400)
Utilities	10,000	6,000	4,000
Janitorial	5,000	4,000	1,000
Repairs	1,300	1,200	100
Property Insurance	3,500	3,000	500
Administrative Expenses			
Office	900	1,200	(300)
Phone & Internet	800	900	(100)
Total Expenses	<u>103,600</u>	<u>104,900</u>	<u>(1,300)</u>
Net Income (Loss)	<u>\$ (10,250)</u>	<u>\$ -</u>	<u>\$ (10,250)</u>



Income

Member pledges and offerings are usually the main source of income for churches

- **Special Offerings include:**
 - **One Great Hour of Sharing**
 - **Strengthen the Church**
 - **Neighbors in Need**
 - **The Christmas Fund**
 - **Other offerings the church may collect for special projects**

Income (cont'd.)

- **Earned Income** – income from the rental of church facilities, and fundraising events. Keep in mind that some earned income is taxable.
- **Investment Income** – interest on savings accounts, income from investment accounts (dividends and interest, market gains and losses).

Expenses

General categories:

- **Personnel – cost of salaries and benefits for employees**
- **Program expenses – Christian education, children and youth programs**
- **Mission – Church’s five for five offerings: OCWM plus the UCC’s 4 special offerings**

Expenses (cont'd.)

- **Building and grounds – cost of maintaining the church. May include interest paid on building related debt (mortgage interest), utilities, janitorial and repairs expense, property insurance.**
- **Administrative expenses – cost of the church office. Commonly includes materials and supplies, telephone & internet, and other general office expenses.**

- **Questions on financial statements**



Internal Controls

Internal Controls

SIMPLE RULE:

Separation of duties - One person cannot have complete control of the church finances.

Internal Controls - Receipts

- **2 collectors:**
 - Have at least 2 unrelated people collect offerings and safeguard it until it can be handed over to the counters.
- **2 counters:**
 - Have at least 2 unrelated people be responsible for counting the offerings.
 - One person counts the money and records it in a cash receipts log. The second person verifies that the amounts are correct by signing the log.
- **Depositor:**
 - A separate person checks the log, and approves it with a signature. This is the person who will make the bank deposit.

Internal Controls – Receipts (cont'd.)

SEPARATION OF DUTIES:

Recording (bookkeeping):

Should be handled by someone that is not involved in handling cash or making disbursements.

Reconciling:

Have someone other than the counters and person who deposits the money, reconcile the bank account.

Internal Controls - Disbursements



Try to make all disbursements by check.

Include the original invoice with the check when submitting it for approval. **Require two signatures on all checks.**

Cash disbursements should only be issued when coming from the petty cash fund and should be approved and documented.

Mark invoices "paid" to prevent someone from resubmitting it. Attach a copy of the check to the documents.

Internal Controls – Disbursements (cont'd.)

- Lock up all blank checks

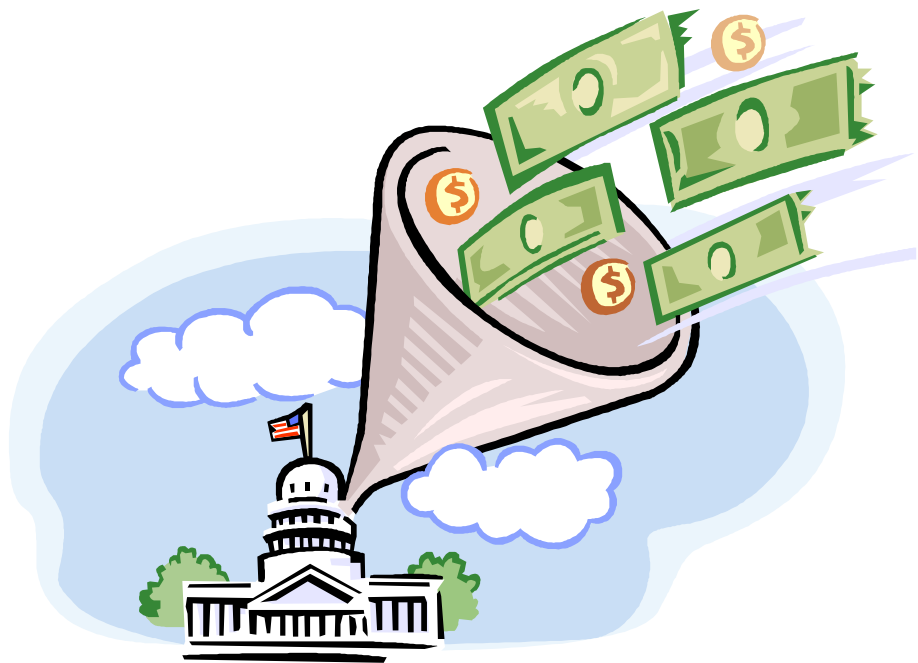
SEPARATION OF DUTIES:

- Have someone other than the person preparing checks do the bank reconciliations
- Have a well-documented financial policy with details describing different people's roles and a system of checks and balances

Loss Prevention Tips

- http://www.insuranceboard.org/safety_solutions/
(Insurance Board website)

- **Questions on internal controls**



Tax Issues



Federal Government (IRS)

Tax-Exempt Status

- 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.
- Although it is not required, many churches seek recognition of tax-exempt status from the IRS. This assures church leaders, members, and contributors that the church is recognized as exempt and qualifies for related tax benefits.

Tax-Exempt Status (cont'd.)

IRC Section 501(c)(3) requirements:

- the organization must be organized and operated exclusively for religious, educational, scientific, or other charitable purposes,
- net earnings may not benefit 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.

Tax-Exempt Status (cont'd.)

- Churches and Associations that are in good standing with the United Church of Christ (and listed in the United Church of Christ yearbook) are recognized as tax exempt under 501(c)(3) through a group exemption of the United Church of Christ national organization.

*To use this group exemption number, churches must contact the Conference Minister's office for approval.

Page 2 of UCC Yearbook:

FEDERAL INCOME TAX EXEMPTION THE UNITED CHURCH OF CHRIST

The Internal Revenue Service issued a letter ruling on June 10, 1964 granting a group tax exemption to the United Church of Christ and its conferences, associations, synods, councils, and educational, charitable, and religious organizations as listed in the Yearbook & Directory.

Tax-Exempt Status (cont'd.)

- Churches are exempt from filing the annual Form 990 under Section 6033 of the tax code.

Employer Identification Number (EIN)

- Every tax-exempt organization should have an EIN, whether or not the organization has any employees.
- Examples in which an EIN is necessary:
 - to open a bank account
 - to be listed in a group ruling
 - to file returns with the IRS (e.g., Forms W-2, 1099).

Payroll Taxes

- Churches are NOT exempt from payroll taxes. They are required to withhold, report, and pay income and FICA (social security and medicare) taxes for their employees, except ministers (see below).
- Required tax and information filings include Form W-2 (wage & tax statement), Form 941 (employer's quarterly federal tax return), Form 1099 (if church pays an unincorporated individual or entity more than \$600).
- For purposes of Social Security and Medicare, ministers are considered self-employed and pay the full self-employment tax (SECA).

Affordable Care Act

- Churches with less than 50 full time employees and an insured group health plan generally have no reporting obligation.
- Their group plan insurer will file the required forms with the IRS (Forms 1094-B and 1095-C).

Housing Allowance

- Housing allowance is nontaxable in computing a minister's federal income taxes only if the following requirements are met:
 - 1) allowance is designated in advance by official action of the church board or congregation (minutes)
Don't forget to do this before the end of the year!
 - 2) allowance is used by the minister to pay for housing-related expenses
 - 3) allowance does not exceed the fair rental value of the minister's home

Federal Unemployment Tax (FUTA)

- Churches and religious organizations are not liable for FUTA tax.
- Churches are liable for SUI (State Unemployment Insurance). However, this does not apply to ordained ministers.

Unrelated Business Income Tax (UBIT)

- Even though an organization is tax exempt, it still may be obligated for taxes on its unrelated business income
- Unrelated business income is:
 - Income from a trade or business
 - regularly carried on
 - not substantially related to the charitable, educational, or other purpose of the organization's exemption

Unrelated Business Income (cont'd.)

- Examples of unrelated business income are: renting out property on which there is a mortgage, if personal services are rendered in connection with a rental, or parking lot rentals
- An exempt organization that has \$1,000 or more of gross income from an unrelated business must file [Form 990-T](#) and pay the appropriate tax
- More information can be found on the IRS website, Publication 598 <http://www.irs.gov/pub/irs-pdf/p598.pdf>

Member Contributions

- A donor cannot claim a tax deduction for any contribution of cash, a check or other monetary gift unless the donor maintains a record of the contribution in the form of:
 - a bank record (such as a cancelled check),
 - or a written communication from the church (such as a receipt or a letter)
- A single contribution of \$250 or more requires a written acknowledgment from the church

Member Contributions (cont'd.)

- Churches should provide a timely (in time for the donor to prepare their taxes) statement containing the following information:
 - name of the church,
 - date of the contribution,
 - amount of any cash contribution, and
 - description (but not the value) of non-cash contributions
 - statement that no goods or services were provided by the church in return for the contribution

Form 5578

- Churches that operate, supervise, or control a “private school” (including preschools) must file a certification of racial non-discrimination (Form 5578) with the IRS each year
- This is one of the most commonly ignored federal reporting requirements
- <http://www.irs.gov/pub/irs-pdf/f5578.pdf>

Tax reference for churches:

- **IRS Tax guide for Churches and Religious Organizations:**
 - <http://www.irs.gov/pub/irs-pdf/p1828.pdf>
- **Pension Boards 2016 Federal Reporting Requirements for churches:**
 - https://www.pbucc.org/images/pbucc/publications/TaxResources/FRR_20161152016WEB.pdf



State Tax Issues

General Excise Tax

- Churches are NOT exempt from General Excise Tax (GET)
- Dues, donations, or gifts are not subject to the GET.
- Gross income from any activity of which the primary purpose is to produce income are subject to the GET even though it is used to fund the exempt purposes or activities of the organization.

General Excise Tax (cont'd.)

- Gross income received from any fundraising activity is subject to the GET
- “Fundraising activity” also includes white elephant sales, fairs, luaus, bazaars, etc.
- Rental income is also subject to the GET, regardless of whether it is called “rental”, “user donation”, or “donation”
- <http://files.hawaii.gov/tax/legal/taxfacts/tf98-03.pdf>

General Excise Tax (cont'd.)

- State Tax Department issued an advisory on the application of the GET to tourist wedding activities of churches (handout)
- Even though wedding activity is conducted by the church minister, if weddings are arranged, packaged and conducted through a commercial entity, the wedding activity will be considered fundraising in nature.

Act 155

- **Also referred to as the “General Excise Tax Protection Act”**
- **Became a law on July 1, 2010**
- **Basically two parts to Act 155**

Act 155 (cont'd.)

- First part is Administrative requirements
- Requires taxpayers that receive gross income or gross receipts as defined by HRS sec 237-3 to obtain a general excise tax license and to file the annual return.
- Failure to comply with this administrative requirement will result in the taxpayer's loss of any benefit available under the GET law, including exemption from the law.

Act 155 (cont'd.)

- Second part creates liability for certain “key individuals” involved in the financial management of the organization
- “Key individuals” will be personally liable for unpaid general excise tax
- “Key individual” includes any officer, member, manager, or other person having control or supervision over amounts of gross proceeds or gross income to be held in trust; as well as person responsible for filing or paying general excise tax

Act 155 (cont'd.)

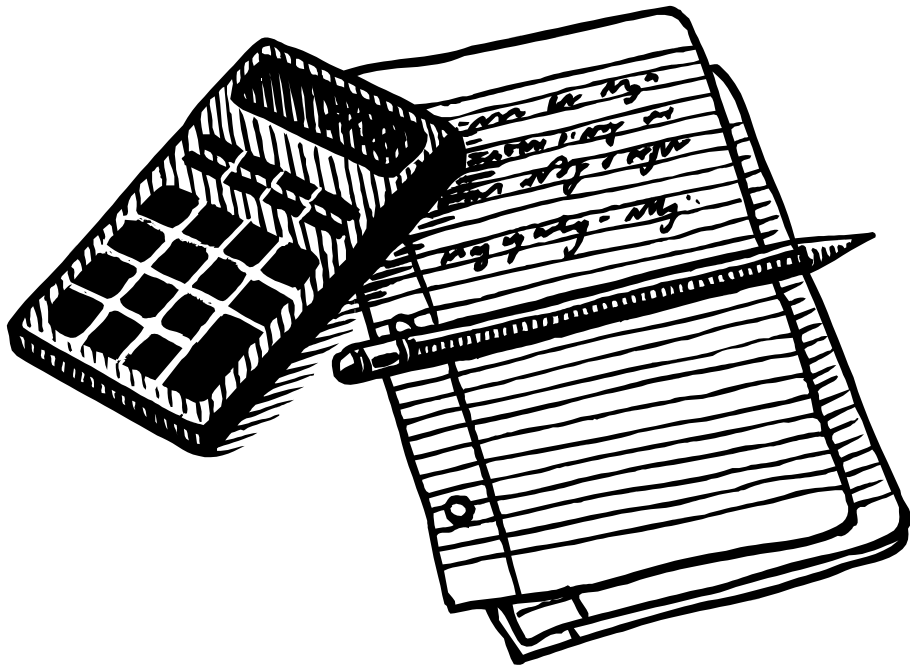
- Tax information release no. 2010-05 provides guidance on the state tax department's interpretation of Act 155. Link is below:
- <http://files.hawaii.gov/tax/legal/tir/tir10-05.pdf>
- Tax information release no. 2011-04 provides information on General Excise tax reporting for non-profits.

<http://files.hawaii.gov/tax/legal/tir/tir11-04.pdf>

Hawaii Prepaid Health Care Act

- Employers must provide health care coverage to employees who work at least twenty (20) hours per week.
- If an eligible employee waives coverage, they are required to complete “Employee Notification to Employer” ([Form HC-5](#)) every calendar year.
- Form HC-5 is available at:
<http://labor.hawaii.gov/dcd/files/2015/08/HC5-2016-Rev-9.151.pdf>

- **Questions on tax issues**



Recordkeeping Requirements

Recordkeeping

- All tax-exempt organizations, including churches and religious organizations, are required to maintain books of accounting and other records necessary to justify their claim for exemption in the event of an audit.
- There is no specific format for keeping records. Types of required records usually include organizing documents (charter, constitution, articles of incorporation) and bylaws, minute books, property records, general ledgers, receipts and disbursements journals, payroll records, banking records, and invoices.



Audits

Audits

- There are different kinds of financial review services available to churches and other organizations.
- The most formal is an independent audit of financial statements performed by a firm of Certified Public Accountants (CPAs). These audits result in an opinion on the fairness of the organization's financial statements. They can be quite costly.

Audits (cont'd.)

- **Regardless of whether a church decides to do an independent audit, a church should conduct periodic internal audits of their financial records. An internal audit is conducted by church members that are independent from church management.**
- **Audits can be performed by anyone, but certain types of audits require certain characteristics and qualifications. Audits of financial reports require that the individuals performing the audit have a financial background.**

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