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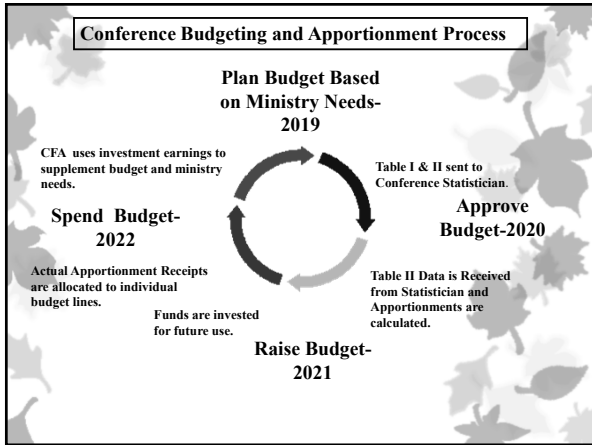


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Role of the Local Church
Treasurer and Financial Secretary

- Tab B
- 2016 Discipline, Paragraph 258.4
- Job Descriptions – www.gbod.org

4



5

Apportioned Giving

Mission and Service Commitments Booklet

6

Calculating Apportionments

- Tab D
- Statistical Tables I, II, and III
- Apportionment Report
- Apportionment Calculation

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Church Remittances

- Tab E
- Remittance Forms:
www.nccumc.org/treasurer
- Cutoff for 2019 – Wednesday, January 15, 2020
- After January 8, mail to Garner office
- Check apportionment balances:
 - Treasurer's Office Website
 - On-line Data Collection System
- EFT Enrollment for remittances

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Pension & Insurance Payment Pointers

- Write SEPARATE checks for Pension and Insurance and Apportionment Payments
- Pension = GREEN Envelope; Insurance = BROWN Envelope
- Note on memo line that payment is for Pension or Insurance and if possible include the pastor's name or church ID # found on bill
- Verify that all the info on your statement (amount, church, billing address, pastor name, etc.) is correct
- Easiest way to ensure proper payment is to enroll in EFT program

9

Internal Controls

- Tab F

Policies And Procedures That We Use To Ensure Completeness, Accuracy, Authorization And Validity Of Data.

10

Internal Controls Are Necessary to...

- 1. Protect Innocent Workers**
- 2. Prevent And Detect Error**
- 3. Deter Fraud**

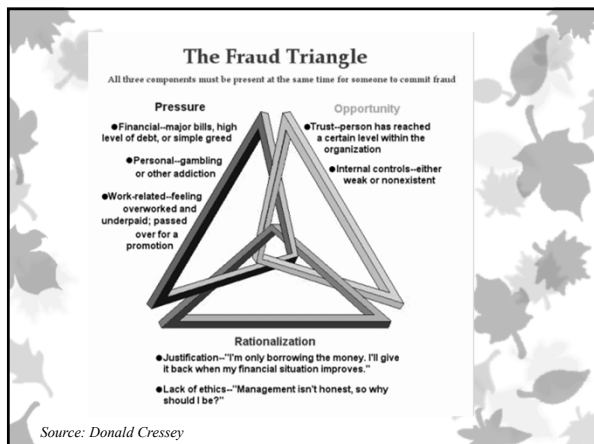
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Internal Controls Defined

"methods and policies designed to prevent fraud, minimize errors, promote operating efficiency, and achieve compliance with established policies. Even more narrowly, procedures and policies designed to prevent or uncover errors and fraud."

-CWA

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- ### Enablers of Fraud in the Church
1. No surprise audits/financial and bank account reviews.
 2. No required vacations of staff.
 3. No criminal background or credit checks of staff.
 4. Same person deposits and records bank deposits.
 5. No “term limits” for financial volunteers (treasurer, counters, etc.)
 6. No financial expert on Finance Committee
 7. Same person writes checks, deposits cash and reconciles bank accounts
 8. Related persons on Finance Committee or familial relationships with financial staff
 9. References are not checked when employees are hired.
- In a survey of 132 churches of various sizes and denominations, 13.2% reported a fraud within the last 5 years. Due to under-reporting issues, the actual frequency is believed to be materially higher. Fraud Magazine, Jan/Feb 2012.*

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- ### Internal Control Policy
- Tab F
 - Minimum Internal Control Standards
 - Templates available on Training Materials website:
 - <https://nccumc.org/treasurer/training-materials/>

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Authorization

- Financial policy and authority guidelines should be written and approved by the Finance Committee
- Program leaders (with authority by Finance Committee) authorize expenses- not Treasurer
- Invoices required for all payments from all accounts
 - Treasurer disburses funds once invoices are approved
- At least 2 persons listed as authorized signatures on all accounts

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Recordkeeping

- Financial Secretary records offering count details received from Counters
- Offering totals should be given to the treasurer or financial secretary to record deposit
- Financial Secretary's deposit log should be compared to the bank statement to verify deposits (by bank reconciliation reviewer)

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Custody

- Counting team: at least two unrelated persons
- Count offerings and document totals – not treasurer and not financial secretary
- Offerings deposited the same or next business day

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Reporting and Review

- Reconcile all accounts monthly
- Someone other than treasurer or fin. sec. review bank recs at least semi-annually
 - Includes statements, invoices, checks written, financial reports
- Treasurer makes at least quarterly detailed reports of budget and designated fund activities to the Finance Committee

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Reporting and Review (cont.)

- There must be an annual evaluation of financial records
 - details >= Local Church Audit Guide
 - including **ALL** accounts of the church (but UMW may be under separate evaluation/audit)
 - ALL include the general fund, building funds, designated accounts, cemetery funds, discretionary funds, Sunday school accounts, etc.

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Reporting and Review (cont.)

- External audit of **ALL** accounts at least every 3 years for churches with disbursements > \$500k/yr
 - An annual evaluation should be performed during the interim years.
- External audit of **ALL** accounts annually for churches with disbursements > \$1 mil/yr

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Segregation of Duties

- Ideally, 4 individuals needed for regular financial procedures:
 - Treasurer
 - Financial Secretary
 - Invoice review and approver
 - Bank reconciliation reviewer

3 possible with proper segregation

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Local Church Audits

- Tab G
 - Frequently Asked Questions
 - Local Church Audit
- What is an audit? (pg 1)
 - "an independent evaluation of the financial reports and records and the internal controls of the local church"
 - Not a symbol of distrust!

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Local Church Audit FAQs

- Who can do an audit? (pg 2)
 - Independent
 - Qualified
 - Not necessarily a CPA

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Local Church Audit FAQs

- Restricted Gifts (pg 3)
 - Temporarily Restricted
 - Permanently Restricted
- Designated Fund (pg 4)
- Even for small churches? (pg 12)

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Tax Guide for Churches

- Tab H – Publication 1828
 - www.irs.gov
- Tax Exempt Status (pg 2)
 - What does that mean?
 - Group ruling

26

Tax Guide for Churches

- Jeopardizing Tax Exempt Status (pg 4)
 - Inurement
 - Substantial Lobbying
 - Political Campaign
- Unrelated Business Income Tax (pg 19)
 - Income
 - Examples
 - Tax
 - *New for 2019 – UBIT related to free parking for employees! →*

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UBIT – Parking Lot Tax

- Churches must determine if UBIT is due for qualified transportation costs for employees (specifically for our discussion – free parking)
 - Step 1: Determine the number of spaces specifically reserved for the church's employees.
 - REPEALED!!**
 - Step 2: If the parking spaces are not primarily used for the general public, then determine the number of spaces reserved for non-employee use.
 - Step 4: If it is determined in Step 2 that the parking spaces are not primarily used for the general public, then it must be determined what expenses will be allocated to the employee spaces.
- Most nonprofits may avoid filing Form 990-T if their unrelated business income amount is less than \$1,000 during the year.

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Tax Guide for Churches

- Employment Tax (pg 21)
 - FICA
 - FUTA
- Clergy Compensation (pg 22)
 - Discussed in detail in W-2 slides later
- Business Expenses (pg 24)
 - Accountable Reimbursement Plans
 - Non-accountable Reimbursements

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Tax Guide for Churches

- Filing Requirements (pg 27)
- Charitable Contributions (pg 29)
 - Substantiation
 - Quid Pro Quo
 - Disclosure Exception
- IRS Audits of Churches (pg 31)
 - Audit process

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Record Retention

- Tab I – www.gcfa.org – Local Church link
- Auditor recommendations at:
www.nccumc.org/treasurer - Downloads link

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Group Tax Exemption Ruling

- Tab J – www.gcfa.org
- Each church should have own Employer Identification Number (EIN)
 - General IRS information
<http://www.irs.gov/businesses/small/article/0,,id=98350,00.html>
 - Apply for EIN Online
<http://www.irs.gov/businesses/small/article/0,,id=102767,00.html>
- Church letter – umgroupruling.org
- Questions on group ruling?
 - Email legal@gcfa.org

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Accountable Reimbursement Plans

- Tab K - Q&A from
<http://www.gcfa.org/services/legal-services/gcfa-tax-packet/>
- What is an Accountable Reimbursement Plan (ARP)? (Q1)
 - "a method for claiming and reimbursing professional or business expenses"

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Accountable Reimbursement Plans

- Advantages (Q3)
 - Convenience
 - Data
 - No complex rules
 - Fewer limits
 - Tax savings
- Disadvantages (Q4)
 - More church review of expenditures
 - Use it or lose it (can't be paid as salary if not used)

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Accountable Reimbursement Plans

- What is in an ARP? (Q5)
 - Sample policies available at <http://www.gcfa.org/services/legal-services/gcfa-tax-packet/>
- When should an ARP be set up? (Q6)
 - In advance of budget year
 - Can be changed with new agreement

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Accountable Reimbursement Plans

- What can be included in an ARP? (Q11)
 - Office supplies
 - Office equipment
 - Office postage
 - Software
 - Professional books
 - Continuing education
 - Etc....

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Accountable Reimbursement Plans

- What is not included?
 - Mileage to church from home
 - Mileage to home and back to church for lunch
 - Vacations
 - Trips to visit sick relatives
 - Computer used by family
 - More examples in appendix to Q&A

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Accountable Reimbursement Plans

- Who should be paid? (Q12)
 - Pay directly to vendor
 - Reimburse staff member
 - Either method is OK!
- Are there required documents? (Q13)
 - Actual receipts
 - Documentation of business purpose
 - Listed property – vehicles, etc.

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Accountable Reimbursement Plans

- What is a business expense? (Q 21)
 - Related to purpose and goals of church
 - Same requirements for churches as for other businesses
- Can church not pay related business expense?
 - Yes! Payments approved by church. (Q 22)
- Who owns what is bought with ARP?
 - The church (Q 24)

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Accountable Reimbursement Plans

- IRS Standard Business Mileage Rate
 - Current 2020 Rate - \$0.575 per mile
 - Medical or Moving Rate - \$0.17 per mile
 - Charitable Mileage Rate - \$0.14 per mile

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Housing Allowances

- Tab L - Q&A from <http://www.gcfa.org/services/legal-services/gcfa-tax-packet/>
- What is a housing allowance? (Q 1-2)
 - An exclusion from taxable income for federal income tax purposes

41

Housing Allowances

- How much can an allowance be? (Q 4)
 - The lesser of:
 - The amount designated as the housing allowance,
 - The amount of actual expenses, or
 - The fair rental value of the property (furnished plus utilities)
- How is an allowance set up? (Q 9)
 - In advance and changed prospectively if needed
 - Charge Conference resolution
 - Attachments A & B provide examples

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Housing Allowances

- What can be included in actual expenses? (Q10)
 - Attachment C provides a worksheet
 - Examples include:
 - Utilities
 - Furniture and appliances
 - Building repairs and remodeling
 - Insurance and taxes
 - Maintenance items

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Housing Allowances

- What if allowance is more than actual? (Q 12)
 - Can be paid to pastor as taxable income
- How is the allowance reported? (Q 13)
 - Can include in box 14 on W-2
 - Not reported in box 1 if not more than actual
- Is allowance excluded from social security? (Q 16)
 - No! Included for social security purposes.

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Utilities Allowances

- Tab M - Utilities same as housing cost for IRS
- NC Conference Cabinet policy
 - Pay directly to utility company
 - Put parsonage utilities in church name
 - Include full amount in budget
- What is a utility?
 - Water/sewer, electricity, heat, trash pickup, local phone, internet access, cable

45

Employment Status?

- Tab N – www.irs.gov, Publication 1779
- Employee vs. Independent Contractor
 - Behavioral Control
 - Financial Control
 - Relationship
- Employee? Withhold tax and W-2
- Ind. Contractor? No withholding and 1099

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Employment Status?

- Tab O - Exempt or Non-exempt Status
- New Overtime regulations eff. Jan. 1, 2020
 - Salary Test Increased to \$684/week (\$35,568/year)
 - Job Duties Test Unchanged
 - Enterprise and Individual Exemptions

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Employment Status?

- What should churches do now?
 - Remember that clergy are not covered by this
 - Think about other positions
 - How are current employees classified?
 - Would anyone be due overtime pay?
 - Is overtime pay included in the budget?
 - Are job descriptions clear for what is expected?
- Employee Exemption Questionnaire

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Health Insurance Changes

- Tab P – Health and Life Insurance Notes
- Conference Rates for 2020
 - <http://nccumc.org/treasurer/insurance/health-life-insurance-rates/>

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Clergy Pension

- Tab Q
- Clergy Retirement Security Program (CRSP)
- Comprehensive Protection Plan (CPP)
- United Methodist Personal Investment Plan (UMPIP)
- Ministers' Transition Fund (MTF)
- Clergy Compensation Worksheet – Online Data Collection System
- Clergy Compensation Calculator - www.nccumc.org/treasurer/pension
- Clergy Pension Benefits Guide
- Pension and Insurance Arrearages

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Clergy Pension Changes

- Effective January 1, 2020:
 - CRSP-DB billing rate reduction to 7.8%
 - UMPIP-C billing rate reduction to 11.5%
 - Transition Fund contribution basis changing to Plan Compensation (changing TF withholding amount)

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Clergy Income Reporting

- Tab R – Completing a Clergy W-2
 - www.gcfa.org, Pastor link, Tax Packet link
- Box B – Employer Identification Number
 - Each church should have its own
- Boxes C, D, E, F – Name and Address Information

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Clergy Income Reporting – W2

- Box 1 – Compensation – includes:
 - Salary
 - Gifts
 - Allowances (other than housing)
 - Per diem or mileage in excess of IRS rates
 - Taxable Fringe Benefits
 - All moving expense reimbursements

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Clergy Income Reporting – W2

- Box 1 – Compensation – does not include:
 - Pension withholdings
 - Housing and utilities allowances
 - Health premiums
 - Accountable reimbursement plan payments
 - MRA or DCA
 - Excludable fringe benefits

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Clergy Income Reporting – W2

- Box 2 – Tax Withholdings
 - Any voluntary withholdings for clergy
- Boxes 3, 4, 5, 6 – Blank for clergy
 - Because clergy are considered self-employed for social security purposes
- Boxes 7, 8, 9 – Not applicable

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Clergy Income Reporting – W2

- Box 10 – Dependent Care Benefits Paid
- Box 11 – Not Applicable for Most Clergy
 - Applies to non-qualified pension plans
- Box 12 – Clergy Contributions – most used:
 - C – Life insurance benefits > \$50,000
 - E – 403(b) employee salary reduction contributions

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Clergy Income Reporting – W2

- Box 13 – Check if on retirement plan
- Box 14 May report housing and utilities allowances here
 - If do not list, must tell clergy separately
- Boxes 16-20 – State and local wages and tax withholdings

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Clergy Income Reporting – W2

- Example information and W2 in Tab R

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Clergy Income Reporting - 941

- Tab S – IRS Form 941 – Employer’s Quarterly Federal Tax Return
- Part 1
 - Line 1 – Number of employees
 - Line 2 – Wages subject to federal income tax
 - Line 3 – Tax withholdings
 - Line 4 – Check if not subject to social security or Medicare

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Clergy Income Reporting – 941

- Part 1
 - Line 5 – if 4 is not checked, enter wages subject to social security and multiply by percentages
 - Line 7 – Adjustments for cents
 - Line 8 – Adjustments for sick pay
 - Line 9 – Adjustments for tips and life ins.
 - Line 10 – Calculation
 - Line 11 – Tax deposits made for the quarter

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Clergy Income Reporting - 941

- Part 1
 - Line 12 – Balance due
 - Line 13 – Overpayment
- Parts 2-5 – Information and signature
- Form 941 Exception
 - If one minister and no other staff, 941 not required

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Clergy Income Reporting

- Other Reporting
 - State Reporting
 - Withholding Forms (W-4, NC-4)
 - I-9 Compliance
 - State Reporting of New Hires for Child Support Enforcement:
 - www.ncnewhires.com

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Church Incorporation

- Tab T
- Some guidance and sample forms available at www.gcfa.org – Local Church link

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Local Church Insurance

- Tab U
- Worker's Compensation Coverage
- Property Insurance
 - United Methodist Insurance
 - Recommended minimum coverage
 - Safety and Insurance Handbook – free ebook

<http://www.gcfa.org/new-insurance-resource-for-churches>

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Sales Tax

- Tab V
 - State Taxation and Nonprofit Organizations
 - www.dor.state.nc.us/publications/nonprofit.html
 - Sales and Use Tax (pg 5)
 - Sample Form E-585 and instructions
 - Frequently asked questions (pg 21)
 - Forms and Legislative Changes
 - www.dor.state.nc.us/downloads/sales.html
 - Application for Employer Identification Number
 - www.4.irs.gov

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Escheat Property

- Tab W - www.nccash.com
 - Annual Reporting of Unclaimed Property
 - Holder Reporting Guide

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Other Resources

- Website Resources – Tab X
 - Treasurer’s Office Website
 - Training Materials
 - Frequently Asked Questions
 - LCFinance Email list

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Questions?

Thank you for coming!

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