

A
CHURCH
FINANCE
HANDBOOK

FOR CHURCH TREASURERS
& FINANCE COMMITTEES

MASSACHUSETTS CONFERENCE



UNITED CHURCH
OF CHRIST

2010

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of the United Church of Christ

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FOREWORD & ACKNOWLEDGEMENTS

Thank you for agreeing to serve your church as its Treasurer or Finance Team member. Your work is essential to the ministry of your own congregation as well as the larger United Church of Christ. As you carry out your leadership responsibilities, you may find that you need information beyond what you currently know about non-profit financial management, legal and tax matters, employer responsibilities, or communications with the wider church. We offer this handbook in the hope that it will be helpful to you and your work with your church.

The first edition of this handbook was prepared in 1998 by Dawn Hammond, now Associate Conference Minister for Policy and Finance, at the request of the Commission for Leadership Development for the Massachusetts Conference of the United Church of Christ, in order to provide guidance regarding some of the questions commonly asked by church treasurers and finance committees. This second edition has been updated by Rev. Karen McArthur, Affiliate Minister of Stewardship and Finance at First Church in Cambridge, Congregational, UCC and a consultant to numerous congregations. It incorporates updated resources and requirements, along with new information about financial reporting. Some sections are excerpted from Karen McArthur's unpublished work-in-progress entitled *Prophetable Stewardship: What Every Pastor (and Leader) Needs to Know about Church Finance*. The drawings were contributed by Maureen Devey Jones, a member of the Congregational Church of South Dartmouth.

Special thanks to Dawn Hammond, Associate Conference Minister for Policy and Finance; Andy Gustafson, Associate Conference Minister for Stewardship and Financial Development; Brian James, Treasurer of First Church in Cambridge; Stow Walker, Treasurer, and Ken Taylor, Trustee, of Old North Church in Marblehead; and Bob Stolte, Treasurer of West Parish of Barnstable, who have read drafts and made suggestions along the way.

If you have questions that are not addressed in this handbook, feel free to call the Massachusetts Conference office (508-875-5233) and speak with Dawn Hammond.

In addition to this printed resource, the Massachusetts Conference provides Treasurers' Workshops as a part of its program. These half-day workshops take place at several locations throughout the state. Information about the programs is included on the MACUCC website and is e-mailed to each church throughout the year. Additional information may be obtained from the Massachusetts Conference.

IMPORTANT DISCLAIMER:

This Handbook seeks to provide current and accurate information about the topics presented. However, it is offered with the understanding that if you need accounting advice, you should contact an accountant who can review your situation personally and offer her or his professional advice.

Again, thank you for all you do for our local churches, the Massachusetts Conference, and the United Church of Christ!

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I. THE ROLE OF THE TREASURER

The Treasurer is one of the central leaders of a congregation, with a role that is both macro and micro – monitoring the big picture as well as paying attention to the details. The Treasurer is called upon to explain the church’s financial resources, thereby assisting the members of the congregation as they make decisions about the mission and ministry of the church. The



Treasurer is also responsible for making sure that all financial details are handled with accuracy, including recording contributions, paying bills, issuing paychecks, and making payroll tax deposits. In addition, the Treasurer establishes procedures for ensuring that funds

are adequately safeguarded and files are clearly organized and maintained. It’s a big job!

Massachusetts law requires a non-profit corporation to have at least three officers: a President, a Clerk, and a Treasurer.¹ The President is the elected leader of the congregation. The Clerk keeps the official records and minutes. (Note that Massachusetts law requires that the clerk be a resident of Massachusetts, or that a resident agent be appointed.) The Treasurer is legally responsible for all financial aspects of the church for all groups within the church, such as the youth group, women’s fellowship, nursery school, and any other groups who handle money or bank accounts. The Treasurer is also responsible for com-

¹ Massachusetts General Laws – Chapter 156, Section 21.

pliance with federal and state requirements for payroll reporting and withholding.

Many churches today are finding that the best person for the Treasurer's position does not necessarily have the time or skill available to perform the day-to-day bookkeeping tasks, which can take quite a few hours per week. These churches have either decided to hire a bookkeeper or have incorporated the day-to-day bookkeeping tasks into the job description of the church administrator or other employee. This allows the Treasurer to fill a broader role: signing checks, managing cash flow, and interpreting financial reports.

In all cases, it is essential that the Treasurer and any financial personnel have a basic understanding of non-profit finance and church finance, so that financial recordkeeping and reporting is transparent, accurate, and in compliance with legal requirements. In this way, the church's financial resources can be fully supportive of the congregation's mission and ministry.

II. THE LEGAL STATUS OF CHURCHES



Each United Church of Christ congregation is a separate legal entity, with its own officers, its own leadership, and its own budget. Although we are members of the larger denomination, we are independent fellowships, making our own decisions about how we worship, what we teach our children, what hymns we sing, and how we give, spend, and save our money. Like other non-profit organizations, a congregation has its own by-laws. These define the membership of the church and set the date for the annual meeting, along with outlining the process for electing officers and a leadership team, which could be called the Council, Governing Board, Executive Committee, Trustees, or some other name.

As United Church of Christ congregations, we are also members of an Association, a Conference, and the United Church of Christ as a whole. Each of these memberships includes benefits and responsibilities as we covenant with each other to be the church together. Our polity (the way we organize ourselves) insists that we have a “bottom-up” organizational structure rather than being subject to a “top-down” authority. Financially, it means that we are free to determine our own methods for managing our financial resources, as long as we follow the relevant federal, state, and local laws. However, it’s not necessary to re-invent the wheel. We can share resources and learn from each other, seeking to identify the most efficient and best practices for the stewardship of the funds that have been entrusted to us.

A. Incorporation

A local United Church of Christ congregation may be either a non-profit corporation or a non-profit unincorporated association. A church that has not completed the legal procedures necessary to incorporate is, by default, an unincorporated association. In Massachusetts, many older churches incorporated in the early 20th century when it became legally possible to do so. If you are not sure whether your church is incorporated, you can find out by contacting the Secretary of the Commonwealth's Corporations Division by telephone at (617) 727-9640 or by web at www.sec.state.ma.us/cor. If the church is incorporated, the office of the Secretary of the Commonwealth can also provide a certified copy of the church's charter (Articles of Incorporation) for a nominal fee. It is important to have copies of this document as part of your church's permanent records. Also, the date of incorporation is often needed for routine reporting and banking. Including your corporate status and the date of incorporation in the opening paragraph of your by-laws will make the information easily available.

Incorporation has certain advantages for local churches. Richard R. Hammar, author of numerous books and articles on legal and tax subjects of interest to churches, strongly recom-

Incorporation has certain advantages for local churches.

mends incorporation as a means of protecting church members from personal liability for the actions of other members or of the church as a whole. In some in-

stances lawsuits have named all church members individually, or "individually and severally," as defendants. The personal liability

of church officers is further discussed in [section IX.D](#) of this Handbook.

Legal counsel for the Massachusetts Conference suggests that church leaders consider the church's risk tolerance and the nature of its activities in deciding whether or not to incorporate. Churches considering by-law changes or other structural changes should consider incorporating as a part of the process. Those churches operating programs such as pre-schools, adult day care centers, thrift shops, or soup kitchens, should either incorporate or consider creating a separate corporation to run those activities. It should be noted that incorporation of a separate organization is likely to incur a number of additional annual costs for separate liability and workers' compensation insurance policies, mandated accountants' fees, unemployment insurance, etc.

The process of incorporation is best handled with the assistance of an attorney. The church must prepare and adopt Articles of Organization and by-laws. The Articles of Organization are filed with the Secretary of the Commonwealth for a nominal fee. Sample by-laws may be obtained from the Massachusetts Conference office.

B. Reporting Compliance and Exemptions

Although churches are non-profit organizations, they are exempt from many of the reports that are required from most non-profit organizations. For example, most not-for-profit corporations are required to file two annual financial reports: IRS Form 990 (Return of Organization Exempt from Income Tax) and Massachusetts Form PC (Public Charities). However,

churches are not required to file either the IRS form ² or the Massachusetts form. ³ Churches are also exempt from Massachusetts' Annual Report filing, which lists names and addresses of the officers. ⁴ Churches are not permitted to participate in federal ⁵ or Massachusetts ⁶ unemployment systems. Although this reduces both reporting and the payment of payroll taxes, it also means that any church employees whose employment is terminated will not be able to collect unemployment benefits based on their church employment.

A useful resource containing information on current federal tax laws is *Federal Reporting Requirements for Churches*, which is listed in the Bibliography and available online or from the Pension Boards of the United Church of Christ. For Massachusetts requirements, the MA DOR WebFile for Business is a useful starting place at <https://wfb.dor.state.ma.us/webfile/business/> .

1. Employer Identification Number (EIN)

Each local church needs its own Employer Identification Number (EIN) in order to open a bank account, report employee payroll taxes, file 1099 forms, or obtain a state sales tax exemption. The EIN is used by both the IRS and the MA DOR.

If you do not already have one, you can obtain an EIN for your local church by applying online at www.irs.gov/businesses/small, listing the UCC general exemption number (1665) under

² IRS, Instructions for Form 990

³ Massachusetts General Laws, Chapter 12, Section 8F(4)

⁴ Massachusetts General Laws, Chapter 180, Section 26A(5)

⁵ Internal Revenue Code Section 3306(c)(8)

⁶ Massachusetts General Laws, Chapter 151A, Section 6(r) and Section 6(s)

item 8a. If you file a paper form SS-4, it must be signed by the president (or comparable officer, such as the moderator) if your church is incorporated, or by “a responsible and duly authorized member or officer” if your church is an unincorporated association. The IRS advises that the paper form will take about four weeks to process; an EIN can be obtained immediately if the application is made online.

Each church should have only one EIN, even if a program of the church operates with its own budget and leadership, as do some church pre-schools or women’s fellowships.

Each church should have only one EIN.

Reporting under multiple EINs would cause numerous problems, since federal tax deposit requirements, 1099 reporting, and health insurance compliance are based on total figures for the entire corporation. If a program of the church is incorporated separately, apart from the church, then it must have its own EIN.

2. Massachusetts Reporting Requirements

Churches are required to file a number of payroll-related reports. The state reports and tax payments can be filed using the Massachusetts Department of Revenue website, WebFile for Business (<https://wfb.dor.state.ma.us/webfile/business>) and the Massachusetts Division of Unemployment Assistance website www.mass.gov/uima. Both sites also contain valuable resources and announcements.

New Hire Reporting is required by federal and state law to ensure compliance with child support laws. Any newly hired employee must be reported within two weeks of hire. Any independent contractor who will be paid \$600

or more in a calendar year must be also be reported within two weeks of hire. The employer is required to report the person's name, address, and tax ID number.

MA Form M-3 or M-3M, Reconciliation of Massachusetts Income Taxes Withheld for Employers, is used to report and remit the amount of state income tax withheld from employees, either on a monthly or quarterly basis. These forms and payments are generally due on the 15th of the month following the end of the period, although the due date is later at the end of each quarter.

MA Employment and Wage Detail Report is a quarterly wage report that includes all employees, listing for each person: their social security number, gross wages paid, MA withholding, and number of hours worked during the quarter.⁷ It is filed through the MA DUA QUEST website and is due at the end of the following month.

Fair Share Contribution Report and Employer Health Insurance Responsibility Disclosure (HIRD) – Compliance with state health insurance requirements is based on the number of full-time equivalent employees, as reported in this annual report. Those churches with 11 or more full-time equivalent employees or who provide group health insurance are subject to the law. Requirements include paying premiums without discrimination, offering a pre-tax medical spending program, and making a reasonable contribution to health insurance for their employees. A table showing requirements is included as

⁷ Beginning in January 2010, responsibility for collecting wage reporting data was transferred from the Department of Revenue to the Division of Unemployment Assistance (DUA). All employers are required to register and file their Quarterly Wage Reports via the DUA online QUEST system.

[Appendix C](#). A sample IRS Section 125 Plan is included as [Appendix D](#). Fair Share Contribution Filing instructions and further information are available at <https://fsc.detma.org/Default.aspx>. Recently enacted federal health care reform may add further requirements and benefits for church employers.

3. Federal Reporting Requirements

There are important federal requirements, depending on whether you hire employees, engage independent contractors, or run a school.



Quarterly 941 or Annual 944 – Employer’s Quarterly or Annual Federal Tax Return. If a church has employees, this form calculates the federal tax deposit that is due. Depending on the dollar

amount, the taxes must be deposited either annually, quarterly, monthly, semi-weekly, or daily. The IRS will notify you whether you will need to file quarterly (941) or annually (944).

Annual W-2s and W-3 – Wage and Tax Statement. These forms report wage and withholding information for each employee and for the employer as a whole and are due to employees by January 31 and to the Social Security Administration and MA DOR by February 28/29. The extra month allows the employer to make corrections *much* more easily before submitting the information to the SSA and MA DOR.

Forms 1099-MISC and 1096 – Miscellaneous Income. If a church pays any unincorporated independent con-

tractor \$600 or more in a calendar year, it must file a Form 1099 for each contractor, along with a Form 1096 to summarize the individual forms. These are due by January 31 to contractors and by February 28/29 to the IRS and MA DOR.

IRS Form 5578 -- Annual Certification of Racial Nondiscrimination for a Private School Exempt from Federal Income Tax. This information is required only if you operate a school and is included with the IRS Form 990. However, since churches are exempt from filing Form 990, this form is required in its place and is due annually four and half months after the end of your fiscal year. To fill out the form, you will need the UCC address (700 Prospect Avenue, Cleveland, OH 44115-1131), EIN (34-1927041) and 501(c)3 group exemption number (1665) for item 2a.

C. Tax Compliance and 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 the church does not pay corporate income tax on its profits, and therefore can operate at a much lower cost than would be possible otherwise. Also, the tax-exempt status means that most contributions made to the church are tax-deductible for the donors. It is important to safeguard this status by using it appropriately.

1. Federal Income Tax Exemption

The Internal Revenue Service has issued a ruling, dated June 10, 1964, which as subsequently amended, grants 501(c)3

status and blanket federal income tax exemption to the United Church of Christ and all member churches. The IRS group exemption number for the United

The IRS has granted 501(c)3 status to the United Church of Christ and all member churches.

Church of Christ is 1665. A letter documenting this ruling is attached as [Appendix B](#). A copy of this letter should be a part of your permanent records.

If you are asked to document the exempt status of your church, simply copy this letter

along with the page of the United Church of Christ *Yearbook* on which your church is listed. The *Yearbook* is available annually from the Research Office of the UCC. This will satisfy most grant-makers, tax authorities and others who may be interested. If you need further documentation, feel free to contact the Associate Conference Minister for Policy and Finance for assistance.

2. State Income Tax Exemption

Under Massachusetts law, all local UCC churches, Associations, and the Conference are exempt from state corporate income tax by virtue of our federal exemption.

3. State Sales Tax Exemption

Churches are exempt from paying Massachusetts sales tax. 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.

Each church must apply for its own Massachusetts sales tax exemption. To obtain a sales tax exemption certificate for your church, contact the Massachusetts Department of Revenue at (617) 887-6367. You will need your federal EIN, along with a copy of the UCC federal

Each church must apply for its own Massachusetts sales tax exemption.

income tax determination letter ([Appendix B](#)), and a copy of the United Church of Christ *Yearbook* page listing your local church. The sales tax exemption is good for five or ten years. To renew your exemption, you may need to file MA DOR Form ST-ER as the expiration date nears.

Although the church is exempt from paying sales tax, it is not exempt from collecting it. A church that regularly sells products that are taxable, such as books or CDs, is required to collect MA sales tax and submit it to the MA DOR on an annual, quarterly, or more frequent basis. Likewise, if a church were to operate a restaurant, it would be required to collect and submit meals tax. Further information is available at www.mass.gov/. If your church sells any products, you should consult an accountant to be sure that you are in compliance with the law.

4. Massachusetts Hotel Room Use Tax

Religious organizations are not exempt from Massachusetts tax on hotel room use. Churches that hold retreats or other events at hotels should be prepared to pay this tax. However, churches that hold conferences at Craigville Conference Center

on Cape Cod, or at other church-operated retreat centers, are not subject to this room use tax.

5. Local Property Taxes

A church's house of worship, the parsonage occupied by its ordained minister, 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

Your town
may require
you to file
Form 3ABC,
due March 1st.

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. If a church decides to rent or lease its parsonage to someone

other than its minister, the church will likely have to pay property taxes. Similarly, if a church leases its steeple to a cellular telephone company, the church may be assessed property tax on the steeple. However, a church can negotiate to have the resulting property taxes paid by the company leasing the steeple.⁸

In order to maintain their property tax exemption, non-profit organizations are required to file an annual form 3ABC, due March 1st, although some towns waive this requirement for churches. Check with your town's board of assessors to find out your requirements.

Many churches lease or rent space to day care centers or other community groups. Leasing or renting church property to

⁸ Letter from Richard B. Osterberg, 11/5/96, www.macucc.org/communication/TaxImplications.pdf

individuals or to other organizations, including non-religious non-profit organizations, could 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. Again, consult a local CPA or tax attorney to be sure.

6. Federal Excise Taxes

Religious organizations are not exempt from federal excise taxes such as those charged on telephone service.

7. Unrelated Business Income Tax

Although churches are exempt from filing IRS Form 990 -- Return of Organization Exempt from Income Tax -- some churches may be required to file IRS Form 990T -- Exempt Organization Business Income Tax Return -- and pay income tax on the profits from trade or business that is regularly carried on, yet is not substantially related to an exempt purpose. Examples of unrelated business income include: operating a retail store, renting out debt-financed property, or renting parking lot spaces during the week. The leasing of church steeples by cellular telephone companies is usually not subject to UBIT,⁹ although the IRS has issued conflicting rulings.¹⁰

Exemptions from UBIT include income-producing activities that are staffed by unpaid volunteers, use donated goods, or are operated for the convenience of the members, such as an occasional car wash, bake sale, or church supper. For a more com-

⁹ www.macucc.org/communication/TaxImplications.pdf

¹⁰ Richard Hammar, *2009 Church & Clergy Tax Guide*, p. 608.

plete discussion of this tax, see Richard Hammar, *2009 Church & Clergy Tax Guide*, pp. 600-612.

8. Payroll Tax Deposits

Churches must be especially careful to be in full compliance with all federal and state payroll tax regulations. It is crucial that someone in the church understand church and clergy payroll tax issues. Whether or not you contract with a payroll service, it is ultimately the Treasurer's responsibility to get it right.

Federal tax deposits – Tax deposits for federal withholding, FICA (social security) and Medicare may be made online or by telephone via EFTPS. Although small employers may still take their federal tax deposit checks to a local bank, the IRS requires most employers to remit tax deposits electronically, and prefers that all do. Enrollment forms and instructions are available at www.eftps.gov. After you enroll electronically, the IRS will mail you a 4-digit PIN. Allow about two weeks.

Massachusetts withholding – Massachusetts withholding tax deposits may be made on-line via WebFile for Business or with a paper Form M-2 and check mailed to the MA DOR. Further instructions are available at <https://wfb.dor.state.ma.us/webfile/business>.

Child Support -- If an employee or independent contractor is required to make child support payments through their employer, the state will contact you. Payments may be made by paper check or electronically at <https://ma.smartchildsupport.com/>

Wage Garnishments – If an employee or independent contractor is required to repay the government for things such as back taxes or student loans, the appro-

ropriate agency will contact you. If you receive any other wage garnishment request, be aware that employers are only required to comply with some of them.

D. Banking

There are a number of options for money management in today's economy, including banks, credit unions, and investment firms. It is important that you have a written church policy regarding who is authorized to open accounts or borrow money in the church's name. Including this in your by-laws can simplify the process of opening an account or applying for a credit card at a financial institution.



1. Bank Accounts

Churches often keep a number of bank accounts – checking accounts, money market accounts, savings accounts, and Certificates of Deposit. The application process to open an account usually includes first, a Corporate Resolution, which indicates the officers who are authorized to sign checks, and second, signature “cards” (now usually papers), which can then be updated when officers change. It is important to have multiple signers in case the primary signers are unavailable.

In addition to the regular operating accounts, there may be other accounts for groups such as a youth group, women's fellowship or nursery school. In all cases, it is essential that all bank accounts use the church's federal EIN number and address. It

may be easier for a church member to open a Youth Group account using his/her own Social Security Number, but there could be tax implications, as well as charitable contribution consequences for any

It is essential that all bank accounts use the church's federal EIN number and address.

funds deposited into that account. Also, all employees and independent contractors must be reported through the same EIN. Bank statements should be mailed to the church office and kept in the church files, with photocopies made if others need to review them. This way, the church Treasurer is aware of all financial activity and the church properly retains its records.

You should check the limits of the FDIC insurance (Federal Deposit Insurance Corporation) or its counterparts for savings and loans (Federal Savings and Loan Insurance Corporation), for savings banks (Deposit Insurance Fund) or for credit unions (National Credit Union Share Insurance), to be sure that your funds are adequately insured. The FDIC limit per customer is currently \$250,000 through December 31, 2013, after which it reverts to \$100,000. If you keep more than that on deposit at your bank, you may wish to consider opening additional accounts in separate financial institutions.

2. Credit Cards

A church credit card can simplify recordkeeping and reimbursement for the minister and other church employees. However, it is important to have a written policy regarding acceptable purchases, including a prohibition on use of the card for personal

purchases. Many small business credit card applications require that the cards be issued using the Treasurer’s personal credit rating. If you do this, the Treasurer should be fully aware of the implications. Some banks will issue credit cards based on a line of credit from the church.

3. Loans and Lines of Credit

There are times when a church needs to borrow money, often for a capital project. In addition to loans from financial institutions in the community, the UCC has established the



Cornerstone Fund, which offers Certificates of Deposit to local UCC churches

and members and then offers loans to churches for building projects. For further information, see www.cornerstonefund.org.

Churches have also applied for lines of credit or loans at commercial banks. It is a bit more difficult for a church to obtain a loan than it is for a business. Be prepared – most banks will ask for 2-3 years of financial statements as a part of the application process. If your reports are in the standard GAAP (Generally Accepted Accounting Principles) format, you will have a stronger application. See [Section VII](#) for further information about non-profit financial reports.

Some churches borrow from themselves, taking from their investment funds with a specific agreement as to how and when the funds will be replenished. This makes sense if the cost of borrowing money at a local bank is greater than the anticipated rate of return on your invested funds. Any agreements should be

clearly documented in writing so that subsequent leadership understands the intentions.

III. RECEIVING CONTRIBUTIONS

In addition to the exemption from corporate income tax, the 501(c)3 status of the local church also allows those who make charitable contributions to the church to receive a federal income tax reduction if they itemize the deductions on their federal income tax return.

A. Contributions from individuals

Contributions from members and friends are the primary source of income for most local churches. Such contributions are usually tax-deductible. To be deductible, a contribution must meet the following six conditions.¹¹ The contribution must be:

1. a gift of cash or other property;
2. claimed as a deduction in the year in which the contribution is made,
3. unconditional and without personal benefit to the donor,
4. made “to or for the use of” a qualified charity,
5. within the allowable legal limits, and
6. properly substantiated.

For the IRS, it is the date of the check and the date that the church receives the contribution that matters, even if it is payment of a prepaid pledge for a future year. In the case of a mailed check, the postmark determines the date of receipt.

¹¹ Richard Hammar, *2009 Church and Clergy Tax Guide*, p. 339.

Determining the IRS Deduction Year	IRS deduction year
Checks dated in December 2009 and received in 2009	2009
Checks dated in December 2009 and received in offering in January 2010	2010
Checks dated in January 2010 and received in offering in December 2009	2010
Checks dated in December 2009, postmarked in 2009, and received by church in January	2009
Checks dated in December 2009, postmarked in 2010, and received by church in January	2010

The third requirement – that a contribution be unconditional – means that fees for specific services do not constitute tax-deductible contributions. For example, if your church charges fees for the use of its facilities for weddings or other events, those who pay such fees may not claim a tax deduction for the fees. This unconditional requirement does not mean that every gift must be unrestricted, however. If a contribution is given to purchase Bibles, it is considered a temporarily restricted contribution, but is still “unconditional” since the Bibles are for the church and not for the donor’s personal use.

The fourth of these requirements is important in considering contributions designated for particular purposes. A contribution restricted for the Capital Fund or to purchase a new piano or for One Great Hour of Sharing is tax-deductible. Payments made directly to individual ministers, missionaries or individuals in need are not tax-deductible. Likewise, a contribution given to a church with the stipulation that it be passed along to a particular individual will not generally be deductible. The IRS assumes, in such instances, that the contribution is made to benefit a par-

ticular individual rather than the programs and projects of the church. However, a contribution to a missions board earmarked for a particular missionary is tax-deductible as long as the missions board “has full control of the donated funds, and discretion as to their use, so as to insure that they will be used to carry out its functions and purposes.”¹²

Item six concerns substantiation of contributions. As of January 1, 1994, donors must receive written acknowledgement from the church in order to substantiate individual contributions of \$250 or more. Cancelled checks no longer constitute sufficient documentation for these large contributions. The written acknowledgement must include the donor’s name and an itemized list of each contribution of \$250 or more. Check numbers and dates will help to distinguish between multiple checks of the same amount. Also, as of January 1, 2007, a cash contribution of any amount must be documented by a receipt or statement. The letter or statement must also include a statement to the donor, such as the following:

Pursuant to Internal Revenue Code requirements for substantiation of charitable contributions, other than “intangible religious benefits,” no goods or services were provided in return for these tax-deductible contributions.

The only circumstance under which this statement should be omitted is if the donor in fact received tangible goods or services in exchange for his or her contribution. In this case, the goods and services should be listed along with a fair estimate of their value. The amount of the charitable contribution is then the

¹² Richard Hammar, *2009 Church and Clergy Tax Guide*, p. 367.

difference between the amount given to the church and the value of the goods or services received in exchange. (Note that services typically offered to church members -- such as attendance at worship and Sunday School, pastoral guidance, and participation in fellowship and mission opportunities -- are not considered by the IRS to be tangible goods or services.)

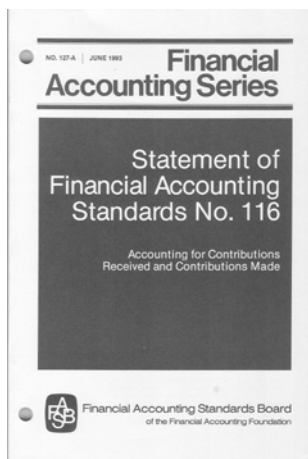
Finally, the acknowledgement must be received by the donor(s) before they file their tax return. Since contributors may file tax returns as early as mid-January for the preceding year (especially for those applying for financial aid for their children's education), it is advisable to provide these statements in very early January. Sample formats for written acknowledgement of contributions are attached as [Appendix E](#).

B. FASB116: Accounting for Contributions

If a church receives a contribution for a specific purpose, the church must keep track of it until it is used for that purpose. However, many churches do not have a good system in place for monitoring restricted funds. Since churches are not required to have annual audits and are exempt from most external reporting requirements, many have not kept up with recent changes in non-profit accounting.

In 1993, the Financial Accounting Standards Board issued their Statement No. 116 (known as FASB116), which addressed donor contributions and helped to standardize non-profit financial reporting. First, they consolidated various kinds of funds (operating, restricted, capital, endowment, etc.) and named only three types of funds.

A contribution may be either:



Unrestricted — the funds may be used for any purpose within the mission of the organization.

Temporarily Restricted — the donor’s funds may all be spent, but only for a specific purpose or at a specific time. Note that contributions may be restricted either by purpose (a contribution for the Organ Fund) or by time (a contribution for next year).

Permanently Restricted — the donor stipulates that the funds must be invested in perpetuity, with the income used for either unrestricted or temporarily restricted purposes.

Note that a church board may not restrict funds — only a donor can do so. If a Board sets aside unrestricted funds for a specific purpose, they can be listed as “Board Designated Funds,” which would be a subcategory of the Unrestricted Funds. In this case, the Board can also vote to remove the designation at a future time. The only way to remove a donor restriction is to ask the donor to change the restriction, or to ask a court to do so. Since this distinction is so important in non-profit accounting, it is helpful to reserve the word “restricted” for donor-restricted funds and use other words such as “designated” or “reserve” for actions taken by the Church Council.

C. Gifts of Stock

When a donor gives a stock gift to the church, the stock gift is usually received into the church's investment account. The amount of the gift is calculated as the average of the high and low cost on the day the stock is given. It is this amount that is recorded as income on the books of the church and on the donor's contribution statement. If the church subsequently sells the stock, the increase or decrease in value is booked as investment return, but does not change the amount of the donor's gift.

For example, if Mary Smith gives 50 shares of stock to the church on November 1st as payment for her pledge, and the high value on that day was \$20.11 per share and the low value was \$20.01, then the value of her gift would be $50 \times \$20.06 = \$1,003$. This is recorded as a \$1,003 contribution to the church on November 1st with a receipt issued to Mary Smith for that amount. If the church sells the stock on November 6th for \$1,037 and transfers \$1,037 to the checking account, then the \$34 difference is booked as an investment gain, and \$1,037 is recorded as a transfer from the investment account to the checking account. One important requirement of a charitable gift is that the donor relinquishes all control over the gift – so any investment gain or loss after the date of the gift is the church's responsibility, not the donor's gift.

D. Gifts of Property

IRS regulations require that individual contributions of property valued at less than \$250 be substantiated via a receipt from the church. The receipt should include the name of the

church, the date and location of the contribution, and a description of the donated property. The church should not attempt to estimate the value of the property, though the receipt may state that “the donor has valued the property as of the date of the contribution at (estimated value)”.

The rules governing substantiation of gifts of property valued in excess of \$250 can be very complicated. If a member of your church wants to make such a gift, call the Associate Conference Minister for Policy and Finance or refer to Richard Hammar’s *Church and Clergy Tax Guide* for further information.

E. Payment Methods

Throughout the centuries, churches have received contributions in all kinds of forms: livestock, crops, and coins. Today, it is cash, checks, and increasingly, electronic transactions. If your church is interested in receiving donations via your website, the UCC has developed “Still Speaking Money” in partnership with Vanco Services. This system allows direct transfers from a donor’s bank account to the church’s bank account – entirely paperless transactions! Vanco also offers Remote Deposit Capture, which allows you to scan checks at the church for direct deposit into your bank account. For further information, you may contact them at www.vancoservices.com/.



F. Fundraising Events

Money paid to the church in exchange for goods or services (such as concert tickets or craft items) is tax-deductible only to

the extent that the amount paid exceeds the fair market value of the goods or services purchased. IRS regulations require that tickets or receipts issued in connection with a fundraising event state clearly how much of the amount contributed is deductible.

In Massachusetts, raffles of any kind require a raffle permit, as issued by the town.¹³ Some raffle winnings may need to be reported on Form W-2g, depending on the ratio between the ticket price and the amount won. If your church plans a raffle, it is important to know these legal requirements in advance.

G. Annual Stewardship Campaigns

In our congregational tradition, each church raises its own funds to support its mission and ministry. There are three kinds of fundraising endeavors: annual, capital, and planned giving.

Annual campaigns take many forms – mail solicitation, visitation programs, personal testimony, luncheons or dinners – and have many names -- Consecrating Stewards, Faith Promise, Pony Express, Letters from the Heart, Cottage Meetings – and a variety of results – loose cash, love offerings, offering envelopes, electronic giving, stock gifts, time and talent cards -- all of which seek to expand and deepen our regular giving in support of the day-to-day ministry and mission of our church. Just as there is no right or wrong way to carry out an annual campaign, there is



¹³ Massachusetts General Laws, Chapter 271. Section 7A.

no quick solution to a deficit budget. Christian stewardship is a way of life that grows out of a deepening commitment to God and to Christ.

For further guidance and resources, the Conference offers workshops and resources throughout the year, at annual meetings and other Conference and Association gatherings, as listed at www.macucc.org/stewardship/. For a printed review of annual stewardship programs, see *Annual Enlistment Programs* published by the Massachusetts Conference of the UCC and available free of charge at www.macucc.org.

H. Capital Campaigns

A capital campaign is a major endeavor, undertaken periodically for a specific purpose, usually related to a building or to establishing or increasing an endowment fund. Very often, there will be a mission component as well. Campaigns are often tied to a church's history, carried out during a milestone anniversary year, such as a 100th, 225th, or in Massachusetts' case, even a 375th anniversary.

Setting a goal for funds to be raised is an important consideration. If it's too small (less than 150% of the annual amount raised for mission and ministry expenses), then it is likely to decrease overall giving to the church as people divide their loyalties between capital projects and operating expenses. Successful capital campaigns range between 150% and 400% of the amount of annual gifts and

Successful capital campaigns range between 150% and 400% of annual giving.

have actually *increased* overall annual giving. As Treasurer or a Finance Team member, it is important to have your financial reporting and recordkeeping in order so that contributors are confident that their capital campaign contributions will be directed to the proper place and spent accordingly.

For a comprehensive review of the process of planning and conducting a capital campaign, see *A Guide to Capital Campaigns* published by the Massachusetts Conference of the UCC and available free of charge at www.macucc.org. You may also call the Associate Conference Minister for Stewardship and Financial Development at the Massachusetts Conference office.

I. Planned Giving

The third component of financial support of a church is referred to as “planned giving.” Church members may wish to

The simplest form of planned giving is a bequest, in which a person includes a gift in their will.

make a provision for the church in their wills, or to contribute to the church through life income gifts. These types of gifts aren’t received often, but can make a big difference in the long life of a congregation. Churches or individuals may obtain further information and assistance by calling the Associate Conference Minister for Stewardship and Financial

Development at the Massachusetts Conference office. Likewise, a church seeking to invite or administer such gifts may call the Conference, which makes available periodic educational events and other resources concerning options for planned giving.

IV. GIVING TO OTHERS

One of the most important decisions a congregation makes is how to participate in and financially support community outreach, service opportunities throughout our country, and global missions. As individual members of our communities, we are invited to support many worthy causes. When we give to our church, and our church gives to the community, we work together to make a difference. Likewise, through our participation in the United Church of Christ, we are able to do far more together than we could do as an independent congregation. Not only do these activities carry out Jesus' commandments to feed the poor, house the homeless, and heal the sick, but the process of deciding how much to give also models for your members and friends how much they might decide to give to the church and to others beyond their own families.

A. Supporting the Mission and Ministry of the United Church of Christ

1. Fellowship Dues



Fellowship Dues are one of the ways that our UCC churches fund the ministry and services that we share. The dues rate is comprised of two components: Conference dues and Association dues. The Conference dues rate is established by vote of the Annual Meeting of the Conference; the Association dues rates are set by the Annual Meetings of each Association. Both components of dues are to be paid for all active members

reported by the church as of December 31 of the preceding year. This reported membership figure is a part of the UCC Annual Report filed each January or February. Federated churches -- those with standing in more than one denomination -- report and pay the per-member rate on those members who belong to the United Church of Christ.

The Treasurer of your Association will bill your church for Fellowship Dues. Most Association Treasurers do this on a quarterly basis (calendar year) with an initial invoice sent in March or April after membership numbers have been reported. Please remit dues payments to the Association Treasurer, who will retain the Association portion of the dues and send the Conference portion to the Framingham office.

2. Our Church's Wider Mission Basic Support

Our Church's Wider Mission Basic Support is contributed by local churches to support United Church of Christ mission and program in wider settings. It supports the ongoing work included in the operating budgets of the Conference and the national UCC. A portion of Basic Support (45% in 2010) is retained by the Massachusetts Conference; the remainder (55% in 2010) is sent on to the United Church of Christ. These proportions are voted by the Annual Meeting of the Massachusetts Conference.

Changing Lives: That's Our Church's Wider Mission

For a fuller description of the purposes of Basic Support and guidelines for setting a Basic Support goal for your church, check out the resources available at www.ucc.org/ocwm/ or www.macucc.org/stewardship/ocwm.htm. See also *Mission Giv-*

ing in the United Church of Christ by Stephen Gray, or *A Mission Handbook and Yellow Pages for Mission/ Outreach Committees* by the Commission for Stewardship of the Massachusetts Conference.

Just as it is helpful to the local church when members make regular payments on their pledges throughout the year, it is also helpful to the wider church to receive regular Basic Support contributions from member churches, rather than waiting until the end of the year. Our Church's Wider Mission Basic Support contributions should be mailed to the Conference office along with a transmittal form ([Appendix F](#)). A supply of transmittal forms may be obtained by calling the Framingham office. Please include your church number on your transmittal form, as this helps to ensure that the correct church receives credit for the contribution. Your church number is a 2-, 3- or 4-digit number and may be found in the church directory on the MACUCC website at www.macucc.org/churchdirectory/index.cfm.

3. Our Church's Wider Mission Special Support

Our Church's Wider Mission Special Support comprises gifts for particular offerings, projects, agencies or institutions of the United Church of Christ. Special offerings of the UCC include One Great Hour of Sharing, Neighbors in Need, Strengthen the Church, and the Christmas Fund. Churches that contribute to all four of these offerings, as well as Our Church's Wider Mission, earn a "5 for 5" designation.



a. **One Great Hour of Sharing** supports international programs of health, education and agricultural



development, relief, and refugee assistance. The Global Sharing of Resources section of Wider Church Ministries administers the OGHS fund for the United

Church of Christ. The offering is received most often during Lent. In recent years, approximately \$3 million has been collected annually.

b. **Neighbors in Need** supports ministries of justice and compassion throughout the United States, including

the Council for American Indian Ministries (CAIM). NIN funds are used for justice, advocacy, and direct service projects sup-



ported through the national setting of Justice and Witness Ministries. The offering is received annually on World Communion Sunday, the first Sunday of October.



c. **Strengthen the Church** supports leadership for new and revitalizing congregations; programs for youth and young

adults; leadership development; efforts to grow as a multi-racial, multicultural church, open and affirming and accessible to all; and the Stillspeaking Ministry. These ministries are carried out by UCC Conferences and through the national setting of Local Church Ministries. The offering is often received on Pentecost.

d. The Christmas Fund supports pension and health premium supplements for low-income retired church workers, emergency assistance for clergy families in need, and Christmas checks for



hundreds of annuitants, as administered by the UCC Pension Boards. The offering is received on the Sunday before Christmas.

In addition to these special offerings, donations to the Global Ministries, Seminaries, and other institutions listed in the Directory of the United Church of Christ *Yearbook* also fall into the Special Support category. Gifts for particular projects of the Massachusetts Conference likewise constitute OCWM Special Support. Fellowship Dues are also included in Special Support, although they are collected through the Associations as described above.

Although you may send contributions directly to UCC-related organizations, the Massachusetts Conference strongly encourages local churches to send Our Church's Wider Mission Special Support contributions to the Conference office in Framingham. This simplifies bookkeeping for recipient organiza-

tions and allows better records to be kept by the Conference. Each check should be accompanied by a transmittal form ([Appendix F](#)) indicating the amount and destination of each contribution. You may remit Basic Support and Special Support using a single check, listing the separate components of your church's gift on the transmittal form.

B. Community and Global Ministries

Your church may also choose to support mission projects that are not carried out under the direct auspices of a UCC group listed in the national *Yearbook*. In general, such contributions should be sent directly to the recipient organizations.

The exception is money for disaster relief, which is best sent through the Massachusetts Conference office with a transmittal form clearly stating to which disaster your church is responding. The Conference can then make certain that the money is directed to the appropriate UCC, ecumenical, or interfaith agency.



V. SPENDING FOR MINISTRY

In the congregational tradition, a budget is presented to the members of the congregation who vote to approve it. The officers and staff are then authorized to spend within that budget, and to return to the congregation, if necessary, to make amendments to the budget. Some churches call it a “Mission Spending Plan” and others call it a “Budget.” Whatever you call it, it is important to make plans for the year ahead.

A. The Budgeting Process

The first task in budget preparation is to assess the resources that will be available as the approaching year begins. What funds does the church have? What restrictions are there? What is Permanently Restricted? Temporarily Restricted? Unrestricted? See [Section VII.B.3](#) for definitions of these terms.

Second, the church will need to estimate the resources that will need to be saved for the next year and beyond. What long-term needs are anticipated? Are there roof repairs, a building expansion, ministry projects? Are you actively saving money for future expenses? Do you need to build up your reserves? Or do you have more than you need – making it possible to expand your ministry and mission? Is cash flow constant throughout the year? Or does income drop off during the summer months? How much of a cash reserve is recommended?

Non-profit organizations will have a deficit some years and a surplus other years. Rarely will the budget be exactly balanced. If a church has a surplus year after year, then perhaps there is more ministry that could be offered. If a church has a deficit year

after year, then it will either have to increase income or decrease expenses in order to regain financial sustainability.

As you develop your budget, there are a number of important considerations, including:

- What level of detail is presented to the congregation? What level of detail is voted on? If a congregation approves a budget with three pages of line item detail, is there authority granted to shift funds between line items? If not, then if the Christian Education Team wants to spend less on snack and more on curriculum, they would need to request that change from the congregational meeting. If the congregation approves a summary budget, then the individual boards have more flexibility to adjust their sub-accounts.
- Is the budget approved *before* the new year begins? Technically, without a budget, the Treasurer doesn't have the authority to disperse any funds at all.
- Is there a multi-year capital budget in place? Is there a Capital Reserve established? This helps to even out large expenditures from year to year.

B. Types of Budgets

There are a number of different types of budgets. Whichever format you choose to present, it will need to be consistent with your bookkeeping chart of accounts so that bookkeeping and reporting are efficient and in line with the approved budget.

Line item budget – this detailed budget lists income and expenses, usually with subtotals for various types of income or expenses or by areas of ministry. Many churches build their budget based on last year’s budget, with incremental adjustments as needed.

Summary budget – this shorter budget includes the areas of ministry, but not the sub-accounts. It allocates funds to a board or committee, but does not include the line item detail.

Zero-based budget – this method begins from scratch, asking “what will we do this year?” and “what resources do we need to fund it?”.

Program Budget – this looks at the various programs of the church (worship, outreach, pastoral care, education, women’s fellowship, etc.) and identifies income and expenses for each program. Staff time is allocated to the relevant program(s).

Narrative Budget – this takes a budget and tells the story with words and only a few numbers, listing goals, accomplishments, and resources.

However you prepare and present your budget, it is important to remember that the church is not a business – it is not required to make a profit every year. The church is not a person – it is not saving for retirement. The church seeks to be a faithful gathering of God’s people, entrusted with resources from the past, engaged in ministry and mission in the present, and looking

ahead to a long and vibrant future. A sample one-page budget summary based on this understanding is included as [Appendix G](#).

C. Monitoring your Budget

Once you have developed your annual budget and received congregational approval, it is important to monitor your actual income and expenses and compare them to your budget. The Treasurer often presents monthly reports to the Church Council and should include detailed reports to the various Ministry Team Leaders or Board Chairs on a quarterly basis. This way, each leader can monitor his or her budget and stay within it.

What happens if someone needs to go over budget? Rather than just ignore the budget, it is essential to honor the congregation's authority in setting spending limits. Thus it is important to have a process for dealing with unanticipated expenses or opportunities.

One suggestion is to establish who has the authority to approve unplanned expenses that exceed the budgeted amounts. For small amounts, the ministry team leader should have that authority. For somewhat larger amounts, the Treasurer should also have to approve the excess. That way, if every team is running over its budget, the Treasurer is aware of the situation. For even larger amounts, a vote of the Church Council ensures that the Council (with representation from all of the teams) approves the extraordinary expenditure. Finally, above some threshold, the congregation would need to amend the annual budget. Given the challenge of scheduling and the notification required to call a special congregational meeting, it is important to set this threshold high enough to cover unexpected emergencies.

Depending on the size of your overall budget, a spending resolution could be:

BUDGET RESOLUTION

The Treasurer is authorized to disburse funds in accordance with the annual budget, as approved by the Ministry Team Leaders or their designates. In the event of an unplanned or unbudgeted financial need, approval of these additional expenditures is required as follows:

Ministry Team Leader	up to \$100 over budget
Ministry Team Leader and Treasurer	\$101 to \$500 over budget
Vote of Church Council	\$501 to \$5,000 over budget
Vote of Congregation	more than \$5,000 over budget

All unbudgeted expenditures shall be reported to the Church Council at its next scheduled meeting, and to the congregation annually.

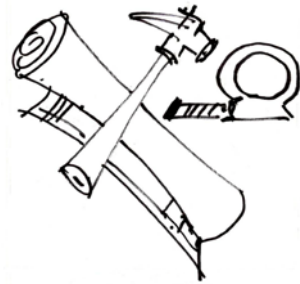
The congregation’s authority in matters of the budget is an important distinction of our church organization and governance. We have an opportunity to model responsible spending and oversight, balanced with an abiding trust that God will provide for us and our ministry.

VI. SAVING FOR THE FUTURE

Many churches have a long history, thanks to the generations of generous and faithful people who gathered and nurtured our communities of faith. From these ancestors in faith, we have inherited traditions, buildings, furnishings, and financial resources; it is our responsibility to provide for those who will come after us – our descendants in faith. Planning for the future involves capital projects, cash reserves, investments, and endowments.

A. Capital Planning

A capital budget helps a congregation to plan for those expenditures that don't happen often, but usually cost a significant amount of money. In accounting language, "capital" refers to anything that lasts longer than the budget period. Churches, along with most non-profit organizations, usually budget for a period of one year. Thus, a capital item is something that won't be used up during the year, such as a building, building improvements, musical instruments, office equipment, bookshelves, or even church library books. It is helpful to develop a multi-year budget for capital expenditures, revising it each year as a part of the budgeting process. Many churches set aside a certain amount each year for capital expenditures, establishing a Capital Reserve from which planned and emergency capital projects are funded.



A sample capital projects plan might look like this:

Capital Projects Plan
Grace United Church of Christ

Project	Year	Esti- mated current cost	Cost when done *	Capital Fund accrual or gifts	12/31 Capital Reserve balance
Beginning balance					\$ 11,367
Add to reserve	2010			8,000	19,367
Gift	2010			1,800	21,167
Paint church	2011	20,000	20,000		1,167
Add to reserve	2011			8,000	9,167
Parsonage stove	2011	600	618		8,549
Add to reserve	2012			8,000	16,549
Kitchen remodel	2012	6,000	6,365		10,184
Replace copier	2012	9,150	9,707		477
Add to reserve	2013			8,000	8,477
4 New computers	2013	3,200	3,497		4,980
Add to reserve	2014			9,000	13,980
Add to reserve	2015			9,000	22,980
Paint parsonage	2015	7,000	8,115		14,865
Roof replacement	2025	90,000			

* Assume 3% inflation per year.

In this example, the projects are listed by anticipated year; cost estimates are obtained, and then adjusted for future inflation. The annual allocation can then be calculated so that the reserve balance is sufficient to cover costs, including large future costs such as roof work.

B. Cash Reserves

A related aspect of planning for the future involves general unrestricted cash reserves. Since the church is a non-profit organization, that doesn't mean that it doesn't ever have a profit -- rather, it means that the church doesn't pay out its profits to its shareholders at the end of the year. Instead, the church carries over its cumulative surpluses and deficits from year to year.

The cumulative surpluses and deficits from the annual budget are called the General Fund, or the Operating Fund, or in non-profit accounting terms, Unrestricted Net Assets. In general, in order to maintain a healthy cash flow throughout the year, an organization will need to have an unrestricted net asset balance equal to at least 2-3 months of expenses. If it's less than that, the church would be wise to seek surplus budgets while the reserves are built up again.

C. Investment Accounts

A third aspect of planning for the future involves Investment and Endowment Policies. For planning purposes, it is essential that a church have knowledge of where its funds have come from (original gifts, dates, and what restrictions, if any, the donors have stipulated), how they are invested, and how the amount to be spent is determined. Invested funds occasionally include stock gifts that have been received as payment of pledges, but not yet transferred to the operating checking account.

1. Investment Definitions

“Endowment” and “invested funds” are often used interchangeably, which can lead to unfortunate confusion among church leaders and congregation members. Investment accounts most often have four types of funds within them:

Endowment Funds are defined as funds given by a donor to a non-profit organization with the stipulation that the funds never be spent, but invested in perpetuity. These are also called “Permanently Restricted” net assets or funds.

Board-Designated Funds are funds that the donor has not restricted, but that the congregation or a Board has voted to use in a certain way, for example, by placing them in the investment account. These are sometimes referred to as “quasi-endowment.”

Accumulated Investment Earnings include interest, dividends and capital gains, along with realized and unrealized gains and losses earned by invested funds, less the management fees charged by the investment company.

Unrestricted Funds are operating funds that are present in the investment account on a short-term basis, often as the result of a stock gift to the church.

Churches often talk about their “Endowment” as in “we have \$1 million in our Endowment” or we have been “spending down the Endowment.” It is important to save the word “en-

dowment” for the permanently restricted portion of our invested funds so that we are sure to follow state law regarding the actual endowment (see [Section VII.D.2](#)) – but also so that we know what decisions we can and cannot make regarding our non-endowment resources. There are some rules that apply to permanently restricted funds (endowment) but do not apply to board-designated funds. This is not to suggest that we embark on a spending spree. On the contrary, it is to remind us that as a congregation, we are free to decide to save or spend any unrestricted funds – and therefore, it is crucial to have clear decision-making processes in place to safeguard the funds.

When the church gathers to discuss finances and the budget, there are often more opinions than there are people in the room. Agreed-upon definitions are a step towards understanding and prudent decision-making. Deciding how much to save and how much to spend is addressed in [Section VII.D.2](#). Safeguarding investments is covered in [Section IX.B.2](#).

2. Investment Opportunities Related to the UCC

There are three organizations related to the Massachusetts Conference that provide investment opportunities for local churches.

The Massachusetts Congregational Fund was created in 1945 by the predecessors of the Massachusetts Conference. Its purpose is to provide UCC churches and affiliated organizations with investment products designed to meet their needs. The Congregational Fund presently offers two investment alternatives: a fixed income fund (invested in bonds,

mortgages and similar holdings) and a balanced fund (invested in a mix of fixed-income securities and equities). Investment criteria for both funds follow guidelines for socially responsible investing established by the Annual Meeting of the Massachusetts Conference. These guidelines presently prohibit investments in firms whose business involves alcohol, tobacco, nuclear weapons or gambling. Further information may be obtained by calling the Fund Administrator at 508-872-6453 or writing to One Badger Road, Framingham, MA 01702.

The United Church Funds, formerly the United Church Foundation, is a corporation created by the United Church of Christ to manage investments for churches, Associations, Conferences and other entities related to



the UCC. The Funds are managed in accordance with corporate responsibility guidelines determined by its Investment Committee. The website for the United Church Funds is www.unitedchurchfunds.org. The address is 475 Riverside Drive, Room 1020, New York, New York 10115; telephone numbers: 212-729-2600 or 877-806-4989.

The Cornerstone Fund was established in 1995 to offer loans to local churches and other organizations related to the United Church of Christ. Cornerstone

loans may be used for virtually any property-related project -- from repairing or remodeling an existing structure to acquiring additional land or building a new sanctuary. Working much like a bank, the Cornerstone Fund offers interest-bearing investments to United Church of Christ churches and members - and that principal is used in turn to fund loans to other churches and organizations throughout the denomination. The Cornerstone Fund offices are located at 700 Prospect Avenue, Cleveland, OH 44115; phone number 216-736-3829 or 888-UCC-FUND (888-822-3863). The website is www.cornerstonefund.org .



3. Investment Regulations

The Investment Committee of your local church should become familiar with the new Uniform Prudent Management of Institutional Funds Act (UPMIFA) requirements enacted in 2009 regarding Permanently Restricted Funds. Despite our exemption from IRS reporting and annual CPA audits, churches are still required to follow the law, even if the amounts invested are small. Financial reporting issues related to UPMIFA and investments are discussed in [Section VII.D.2](#). Sample Investment and Endowment Policies are available from the Associate Conference Minister for Stewardship and Financial Development at the Massachusetts Conference office.

VII. MANAGING YOUR FINANCIAL RECORDS

Faithful stewardship of the church's resources requires careful organization and clear procedures. This includes a basic knowledge of non-profit accounting practices and financial reporting as well as adherence to established procedures in order to safeguard the money entrusted to the church by its members and the community.

A. Recordkeeping

As with any organization, all financial records kept for a church should be clear and easy to follow. Good documentation of procedures and transactions helps the church to operate smoothly and to ensure that resources contributed by individuals 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. Bookkeeping Basics

1. Assets, Liabilities, Income, Expenses

You don't have to know everything to understand church finance. But you do have to have a grasp of the basics, as well as a sense of the big picture, so that you can put the pieces together coherently. In order to make financial decisions, churches need to keep track of how much money they have and how much they owe to others, as well as categorizing money received and money disbursed.

These are the four primary bookkeeping terms that form the basis of accounting:

An asset is a thing of value that you own: a checking account, a Certificate of Deposit, 10 shares of stock, \$50 on deposit at the post office for postage due items. Buildings, land, and equipment are called fixed assets. A petty cash account is an asset.

A liability is anything you owe to others, *outside* of your organization: the balance due on a bank loan, payroll tax withheld from paychecks, a telephone bill that hasn't been paid yet.

An expense is money you give or spend for office supplies, candles, a salary, or a donation to a community outreach organization or your denomination.

Income is money you receive, such as contributions, program fees, event income, investment income, or grant income.

Many transactions are clearly one type, although sometimes it's not so clear-cut. For example, if a church purchases a ream of paper, it is an expense. If someone gives money in the offering plate, it is income. However, sometimes money is received that is actually a liability – a deposit for a wedding next year is a liability called “Deferred Revenue” since the service has not yet been provided and you would refund the deposit if you had to cancel the wedding. Once the wedding takes place, and you have provided the services, then the liability becomes income. Some transactions are combination transactions: a mortgage payment has an interest portion (which is an expense) and a principal portion (which reduces a liability). Payroll is also a combination transaction.

2. Double-entry Bookkeeping

In the late 15th century, a Franciscan monk named Lucas Pacioli developed the system of double-entry bookkeeping that is still in use today. This method connects the four types of transactions (assets, liabilities, expenses, and income) with offsetting entries. For example:



- If you purchase coffee for coffee hour, you increase your fellowship line (expense) and decrease your bank account balance (an asset).
- If you receive \$25 in the offering plate, you increase your plate offering (income) and increase your bank account (asset).
- If you purchase stamps using a church credit card, then you increase your postage line (expense) and increase your credit card balance (liability). When you make a payment on your credit card, you decrease your credit card balance (liability) and decrease your checking account (asset).
- If you make a mortgage payment, you decrease your bank account (asset), increase mortgage interest (expense), and decrease mortgage principal (liability.)

Those who have studied bookkeeping or accounting know these transactions as debits and credits. The advent of computerized bookkeeping has made double-entry accounting much more

accessible to small organizations. A picture of a check comes up on the screen – you fill in the date, the payee, the amount, and what you’re charging it to – and the software creates the correct debits and the credits. This can be a good thing ... increasing the ability of churches to monitor their financial activity and be faithful stewards of their resources. But “with great power there must also come great responsibility.”¹⁴ If you don’t know just what you’re doing, the tasks of bookkeeping can feel confusing and overwhelming and your books can become messy. If so, it’s best to get training so that your financial records are in order. The Conference office can connect you with a consultant or a trainer.

3. Net Assets: The Heart of Non-Profit Accounting

Once we have the vocabulary (assets, liabilities, expenses, income) and the relationships (the double-entry concept), we’re ready to put them together. If you add up an organization’s financial assets (all that it owns) – and subtract its liabilities (all that it owes to others), then you will be left with its “Net Assets.” In a business, this would be “Equity” – the value of the company to its owners or shareholders. For an individual or a family, this is “Net Worth.” For a non-profit organization, it’s “Net Assets.” Although it is the same concept (assets minus liabilities), having vocabulary that is unique to non-profits reminds us that the church is not the same as a business, nor is it the same as our personal finance.

In the following example, assets total \$651,884.72. Subtracting liabilities of \$ 2,584.72 results in Net Assets of \$649,300:

¹⁴ Spider-Man Amazing Fantasy #15

Grace United Church of Christ as of 12/31/2008

ASSETS		LIABILITIES	
Petty Cash	\$ 52.60	Accounts Payable	\$ 1,020.00
Checking Acct	29,075.10	Payroll Liabilities	564.72
Money Market	82,623.66	Deferred Revenue	1,000.00
Investments	540,133.36		
TOTAL	651,884.72	TOTAL	2,584.72

NET ASSETS	649,300.00
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TOTAL ASSETS	651,884.72	TOTAL LIABILITIES & NET ASSETS	651,884.72
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Net Assets are basically the accumulation of all the surpluses and deficits of the church over the years. If a church takes in more than it gives out, its Net Assets increase. If a church spends more than it takes in, its Net Assets decrease. Faithful stewardship involves not only keeping track of income and expenses for a given year, but also monitoring and reporting Net Assets, so that a congregation is aware of the whole picture. If Net Assets are too low, a church may have difficulty paying bills or making payroll, even with a balanced budget. If Net Assets are too high, a church may not be doing all of the mission and ministry that is possible. For a congregation, knowing the value of the Net Assets is essential – a \$10,000 deficit budget means one thing to a church that starts the year with Net Assets of \$300,000, while it means something entirely different to a church with Net Assets of \$7,000 !

4. Fixed Assets or Capital Expenditures

A business usually includes the value of fixed assets (land, buildings, building improvements, and equipment) and inventory among its assets, depreciating them over time. It's like buying a machine or a vehicle and paying for it for the next ten years. This helps to reduce the corporate income tax that the business has to pay each year.

However, churches don't pay corporate income tax. Church buildings are often over 50 years old, so the cost of the building, less its depreciation over 50 years would be zero any-

Churches usually include only financial assets on their books.

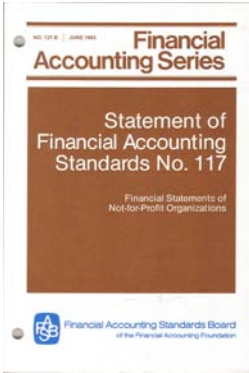
way. (Accounting uses the cost of buildings, not the current market value.) The purchase of a new photocopier could be included as a fixed asset (equipment), but then the asset would be depreciated over the *next* five years – which means that 1/5 of the cost of the copier would show up as an expense for each of the next five years. This confuses congregation members, especially if the copier was paid for at the time of its purchase. Therefore, churches usually

include only financial assets on their books. In your annual report, you may wish to include a listing of Fixed Assets or a footnote regarding the value for which your church building and furnishings are insured.

The issue of the regular upkeep of physical assets, including buildings and equipment such as musical instruments and furnishings, is addressed in [Section VI.A](#) above. It is crucial to invest adequate resources in maintaining the beautiful houses of

worship with which we have been entrusted so that future generations have a faith home that is in good condition.

C. Financial Reporting: FASB 117



The Treasurer should provide monthly financial reports to the governing board of the church, as well as providing an annual report to the congregation 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, along with net assets and any restrictions. 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.

In June 1993, the Financial Accounting Standards Board issued their Statement No. 117, which outlined new formats for “external financial statements.” This means that any time a non-profit organization is required to submit its financial reports to someone outside of the organization, the reports will be expected in this format.

“The primary purpose of financial statements is to provide relevant information to meet the common interests of donors, members, creditors and others who provide resources to not-for-profit organizations.”¹⁵

¹⁵ FASB 117, paragraph 4

Although churches are free from many government requirements, there are a number of scenarios in which a church would want to be able to produce full reports in the accepted format. One church found out that the land adjacent to their church was for sale. They went to the bank to inquire about a loan and were asked to provide three years of financial statements. Applications for grants often ask for the organization's financial statements. If a church is able to provide the requested statements in a timely manner and standard format, it will raise the level of confidence in its financial oversight and subsequently improve its chances of receiving the grant, loan, or contribution.

1. Cash or Accrual?

When preparing financial reports, there are two methods of bookkeeping: Cash and Accrual. FASB 117 requires that non-profit financial reports be presented on an accrual basis, rather than a cash basis, because it is a more accurate presentation of the church's financial situation. In the past, accrual bookkeeping by hand was tedious and time-consuming. With computerized bookkeeping, accrual accounting is relatively easy to maintain.

Cash accounting recognizes income when cash is received and expenses when they are actually paid. Cash accounting may be simpler, but it is less complete, and therefore less helpful. Using cash accounting, a church with \$5,000 in the bank may

Accrual accounting is a more accurate presentation of the church's financial situation.

think it's doing okay, but if it has \$8,000 in unpaid bills, that wouldn't show on the cash basis financial reports at all.

Accrual accounting recognizes income when it is earned and expenses when they are incurred. So if the electric company sends you a bill dated October 24th, and you pay it on November 3rd, using accrual accounting, the electricity expense will increase on October 24th, along with Accounts Payable. Then, on November 3rd, Accounts Payable decreases, along with the checking account balance. With cash accounting, the expense for October's electricity wouldn't show until November 3rd, on the date that the check is written. With cash accounting, you might end up with eleven electric bills in one year, and thirteen in the next, and subsequently think that your electricity costs have increased more than they really have. Accrual accounting would include twelve bills each year. Accrual accounting also makes the Treasurer's life less hectic, since an expense is counted on the date of the bill, and the Treasurer doesn't have to be sure to prepare checks by the 31st of the month in order to include the expenditure in the monthly financial reports.

Note that in accrual accounting, insurance bills are counted as expenses in the period they cover, not the date they are paid. Unlike regular bills like utilities or office supplies, insurance is almost always prepaid. If you were to cancel the insurance, your payment for the unused portion of the policy would be refunded. For example, the Pension Boards of the UCC bills for first quarter (January – March) pension dues and health insurance in late November with payment due by the end of December. By recording this as a January 1 expense, your financial reports will accurately reflect your financial position.

Most church income, including contributions, is recorded when received. This is because contributions are not “earned.” This way, your income shows only the contributions that have actually been received. If you have tuition from a nursery school or rent from some building use, you can record this on an accrual basis since you have “earned” the income, whether or not the church has received the money. In this way, your bookkeeping software will help you to keep track of the money that people owe to the church. Using accrual accounting gives you stronger tools for analysis and clearer financial reports, as outlined in the next section.

2. Statement of Financial Position with Net Assets

The first report, the Statement of Financial Position, lists an organization’s assets, liabilities, and net assets at one moment in time. It’s like a snapshot – on the day before this fiscal year began, how much money did the church have? Where was it held? What was owed to the church and what did the church owe to others? If you record each transaction in your financial software, this report should print automatically.

Usually the most “liquid” assets are listed at the top. “Liquid” refers to how quickly something can be turned into cash. A \$10 bill is more liquid than a checking account, which is more liquid than a savings account (because you presumably have to go to the bank to access the cash). Bank accounts are more liquid than stocks, which are more liquid than fixed assets such as buildings, vehicles, and equipment. “Current” Assets are those that could be used within a year, e.g. cash, checking or savings accounts, money market accounts, pledges or grants promised but

not yet received, CDs maturing within one year, prepaid expenses (insurance, fuel oil on a budget plan, bulk mail account at the post office). Other assets include loans made to others that are not due for a number of years. “Fixed” assets are tangible – land, buildings, building improvements, equipment. Churches do not typically include fixed assets in their financial reports, as discussed above in [Section VII.B.4](#).

Liabilities include everything that is owed to others. Current Liabilities are those that are due to be paid within one year: Accounts Payable, Payroll Liabilities, and Deferred Revenue (money received as payment for something that will take place next year). Long-term liabilities are those things that are not due within one year. One measure of financial health compares Current Assets with Current Liabilities to be sure that an organization has enough available to cover its current obligations.

The difference between total assets and total liabilities is called Net Assets. This is listed in three categories: Unrestricted Net Assets, Temporarily Restricted Net Assets, and Permanently Restricted Net Assets. Only the totals are necessary. However, a church will want to be able to produce a report that details the subcategories of these Net Assets, and any restrictions on them.

Examples of Unrestricted Funds could include the Operating Fund, Investment Fund, Nursery School Fund, or the Women’s Fellowship Fund. Temporarily Restricted Funds might include a Capital Campaign Fund, Endowment Income Funds, Mission Funds (One Great Hour of Sharing, Neighbors in Need, etc.), Next Year’s Funds, or a Youth Mission Trip Fund. Permanently Restricted Funds could be funds such as a Smith Music Endowment or General Endowment Fund.

Grace United Church of Christ

Statement of Financial Position

Fiscal year ending December 31, 2009,

with comparative figures for 2008

	31 Dec 2008	31 Dec 2009
ASSETS		
Petty Cash	\$ 52.60	\$ 25.50
Checking Accounts	32,075.10	5,491.35
Money Market	82,623.66	85,979.19
Investments	537,133.36	559,141.16
TOTAL ASSETS	\$ 651,884.72	\$ 650,637.20
LIABILITIES		
Accounts Payable	\$ 1,020.00	955.78
Payroll Liabilities	564.72	734.44
Deferred Revenue	1,000.00	
TOTAL LIABILITIES	2,584.72	1,690.22
NET ASSETS		
Unrestricted	548,850.56	549,522.39
Temporarily Restricted	55,449.44	53,424.59
Permanently Restricted	45,000.00	46,000.00
TOTAL NET ASSETS	649,300.00	648,946.98
TOTAL LIABILITIES & NET ASSETS	\$ 651,884.72	\$ 650,637.20

One church treasurer wanted to know if there was one magic number that he could monitor so that he could compare how the church was doing financially from year to year. That magic number is a church's Unrestricted Net Assets. In the above example, although Total Net Assets decreased, the Unrestricted Net Assets increased by \$ 671.83.

Grace United Church of Christ

Statement of Net Assets

Fiscal year ending December 31, 2009,

with comparative figures for 2008

	31 Dec 2008	31 Dec 2009
Unrestricted		
Operating Fund	\$ 52,317.55	\$ 52,568.72
Investment Funds	460,256.12	473,472.87
Women's Fellowship Fund	36,276.89	23,480.80
Total Unrestricted	\$ 548,850.56	\$ 549,522.39
Temporarily Restricted		
Capital Campaign Fund	12,389.75	7,389.75
Endowment Income Funds		
General Endowment Income	19,952.71	21,268.29
Smith Endowment Income	1,924.53	2,400.00
Total Endowment Income Funds	21,877.24	23,668.29
Mission Funds		
Christmas Fund	462.00	512.00
Neighbors in Need Fund	216.00	0.00
Total Mission Funds	678.00	512.00
Music Fund	2,386.45	3,342.55
Next Year's Funds	13,468.00	18,400.00
Youth Mission Trip Fund	4,650.00	112.00
Total Temporarily Restricted	55,449.44	53,424.59
Permanently Restricted		
General Endowment Fund	25,000.00	26,000.00
Smith Music Fund	20,000.00	20,000.00
Total Permanently Restricted	45,000.00	46,000.00
Total Net Assets	\$ 649,300.00	\$ 648,946.98

3. Statement of Activities

It is likely that this next report looks more familiar to most church people. The Statement of Activities shows the organization's income and expenses over a period of time. If the Statement of Financial Position is a snapshot, the Statement of Activities is like a video, showing how much income was received and how much was spent over the course of the year.

The particular income and expense line items depend on the congregation's needs. Some churches present a program budget, with expense items such as "Worship," "Mission," "Education," etc., allocating staff costs to the particular ministries of the church. Other churches include line items such as "Minister", "Salaries", "Building," "Programs," etc. However line items are determined, it is useful to have accounts and sub-accounts, so that it is easy to generate a summary report as well as the detail.

Common categories for income accounts include Contributions (donations that are tax-deductible for the donors such as pledge payments, plate offering, One Great Hour of Sharing and other restricted gifts), Building Use Income (rents, steeple lease payments, donations from 12-step groups, weddings, etc.), Fundraising Event Income (concerts, fairs, church suppers), Investment Income (bank interest, dividends), and Program Fees (nursery school tuition, retreats, etc.).

On the Statement of Activities, it is important to include only income received from outside the organization. When money is transferred from another church bank account, it is not income to the church. Likewise, a gift from the Women's Fellowship for operating expenses is not church income; it is a transfer between two asset accounts.

Grace United Church of Christ
Statement of Operating Activities vs. Budget

January – December 2009

	2009 Actual	2009 Budget
INCOME		
Bequests	2,000.00	
Contributions	140,711.15	145,000
Donations for Building Use	7,500.00	7,000
Event Income	19,232.00	17,000
Investment Return	18,884.56	19,000
Program Fees	3,400.00	4,000
Miscellaneous Income	412.67	400
TOTAL INCOME	\$ 192,140.38	\$ 192,400
EXPENSES		
Missions & Outreach	19,062.15	19,400
Administration	9,854.20	10,000
Care	4,450.00	5,000
Communication	6,245.26	6,000
Education	3,900.50	4,000
Evangelism & Membership	2,155.00	2,000
Fellowship	1,825.00	2,000
Minister's Compensation & Benefits	112,000.00	112,000
Property	20,018.39	20,000
Stewardship	892.67	1,000
Worship & Music	11,571.55	11,000
TOTAL EXPENSES	\$ 191,974.72	\$ 192,400

4. Accounting for Restricted Funds

A Statement of Activities can be limited to certain funds (i.e. Operating Fund or Mission Fund or Restricted Fund) as long as an equivalent report is also presented for the entire organization. The line items are listed as rows, with the net asset classifications in separate columns. In order to create this report accurately, a net asset designation is required for every income and expense transaction. That is, if you purchase postage, you'll need to indicate whether it is from the Operating Fund, or another fund, such as a Temporarily Restricted fund. If someone makes a restricted contribution for building repairs, it is included as a contribution in the temporarily restricted column. When the building repairs are made, the expense comes from that column.

This classification method also helps to keep track of funds that are "off-budget". That is, the income and expenses that are not a part of the Operating Fund Budget will show in the other columns. Some churches maintain a "Reimbursable Fund" for things such as netting out fundraising expense or retreat costs that are covered by participant fees. Those amounts won't show as income in the Operating Fund column of the Statement of Activities. For a church supper, if you want to include only the net profit as Operating income, you can include church supper expenses in the reimbursable fund, and divide the church supper income between the reimbursable fund and the operating fund so that the reimbursable fund balance is \$0 and the church supper net income shows in the operating fund column.

Grace United Church of Christ
Statement of Activities by Fund
 January – December 2009

INCOME	Operating Fund	Other Un- restricted Funds	Tempora- rily Re- stricted	Perma- nently Re- stricted	TOTAL
Bequests	\$ 2,000			\$ 1,000	\$ 3,000
Contributions	140,711	1,000	7,699		149,410
Donations for Building Use	7,500				7,500
Event Income	19,232	4,512			23,744
Investment income	18,885	11,506	2,679		33,070
Program fees	3,400				3,400
Miscellaneous	413				413
Total Income	\$ 192,141	\$ 17,018	\$ 10,378	\$ 1,000	\$ 220,537
EXPENSE					
Missions	19,062	2,256	1,857		23,175
Administration	9,854				9,854
Care	4,450				4,450
Communication	6,245				6,245
Education	3,901	2,256	4,538		10,695
Evangelism	2,155				2,155
Fellowship	1,825				1,825
Ministry	112,000				112,000
Property	20,018	12,000	5,000		37,018
Stewardship	893				893
Worship/Music	11,572		1,008		12,580
Total Expense	\$ 191,975	\$ 16,512	\$ 12,403	\$ 0	\$220,890
Change in Net Assets	\$ 166	\$ 506	(\$ 2,025)	\$ 1,000	(\$ 353)

5. Connecting the Two Reports

The two basic reports give you the information you need to make financial decisions. The Statement of Financial Position tells you what resources you have before you begin the year. The Statement of Activities tells you what has happened during the year.

The two reports are related by the basic equation:

$$\text{Income} - \text{Expense} = \text{Change in Net Assets}$$

That is, on the Statement of Activities, if you take the total income for 2009 for all funds and subtract the total expenses, it will always equal the change in net assets between December 31, 2008 and December 31, 2009, as listed on the Statement of Financial Position. In the above example, the Change in Net Assets from Statement of Financial Position = \$ 648,947 - \$ 649,300 = decrease of \$ 353. On the Statement of Activities, overall Income less Expenses = \$ 220,537 - \$ 220,890 = an overall \$ 353 decrease in net assets for the year.

D. Recording Investment Income, Gains and Losses

Two years after the release of FASB Statements 116 and 117, there was a need for clarification of the treatment of investment returns. What happens when an organization invests its Permanently Restricted Funds in the stock market – an investment that could either gain or lose value? Some organizations were using the interest and dividends and leaving the market gains to accumulate, classifying the net gains as permanently restricted. FASB 124, issued in 1995, clarified these issues. More

recently, in July 2009, Massachusetts enacted UPMIFA, which made additional refinements for the investment of permanently restricted net assets.

1. FASB124: Classifying Investment Return

Statement No. 124, issued in 1995, stated that if permanently restricted net assets are invested and gain or lose value, the resulting gains or losses will not increase or decrease the permanently restricted net assets, unless the donor has stated otherwise. If permanently restricted net assets are invested and lose value, the organization must replace the lost funds so that the original gift remains in perpetuity. This honors the donor's wishes – that their funds be invested “in perpetuity” and that the income from that investment (whether interest, dividends or market gains) be used as the donor intended. FASB124 also stated that only the original gift is permanently restricted, and any investment gains would be unrestricted or temporarily restricted, according to the donor's stipulations. However, this has been superseded by recent UPMIFA legislation in Massachusetts and 46 other states.

2. UPMIFA: Uniform Prudent Management of Institutional Funds Act

In July 2009, new legislation was signed into law in Massachusetts regulating the management of permanently restricted endowment funds. The Uniform Prudent Management of Institutional Funds Act (UPMIFA) applies *only* to permanently restricted endowments, which are (by definition) restricted by the donor or by law. This is important because most churches use the word “endowment” to also include certain unrestricted funds

– either unrestricted gifts or accumulated surpluses that the church has chosen to invest. It is important to clarify and maintain the distinction between true endowment and other invested funds. See [Section VI.C.1](#).

UPMIFA governs two aspects of endowment policies for permanently restricted funds: investing and spending. It seeks to encourage investment at a rate that will preserve the purchasing power of the principal while spending according to the donor's intentions. The three stipulations are:

1. When a permanently restricted endowment gains in value, those net gains are temporarily restricted until they are released, usually by a spending policy.
2. The determination of how much to spend is left to the organization, as long as it acts “prudently.” Although the multi-state draft version of UPMIFA includes maximum annual spending of 7% of the average value of the fund, calculated based on a quarterly average over three years or more, the Massachusetts version chose not to include this stipulation, relying instead on the board to act in the best interest of the endowment fund. For example, a church might spend 0% for two years and then in the third year spend 10% of the fund for a major capital project.
3. Whatever policy or formula is used must now be disclosed in the footnotes to the annual financial statements.

Note that the classification of investment earnings as Temporarily Restricted differs from the previous FASB 124 guidance that said that such investment earnings were unrestricted unless the donor had stated otherwise.

What does this mean for churches? Four things are required:

1. The original gift is recorded among the Permanently Restricted Net Assets of the church.
2. Annual investment gains are recorded as Temporarily Restricted Net Assets in a fund such as “Accumulated Endowment Return.”
3. A church spending policy is established, such as spending 4.5% of the average balance of the Permanently Restricted and Temporarily Restricted portions of the Fund over the past 20 quarters. In accordance with the church policy, the calculated amount is transferred from the Temporarily Restricted “Accumulated Endowment Return” Fund to the appropriate Temporarily Restricted or Unrestricted Fund where it resides until it is spent for its donor-stipulated purpose.
4. The church’s spending policy is recorded in the footnotes of the Financial Statements.

For example, assume that five years ago, the Smith family gave a gift of \$20,000 to be invested in perpetuity, with the income to be used for the music ministry of the church. Assume also that the investment return (less management fees) has averaged 7% and that the church has voted to spend 4.5% per year of the investment fund balance, averaged over the past 20 quarters. After five years the total of the original gift and the accumulated unspent investment return would be approximately \$22,400. Of this, \$20,000 would be permanently restricted and \$2,400 would be temporarily restricted as “Accumulated Endowment Return”. The 4.5% as calculated would be \$1,008 available to be spent for

the Music program, and would continue to grow slightly each year.

These changes benefit the church by protecting the original gifts as permanently restricted, while setting aside excess gains as temporarily restricted funds so that they are available for those years when investment return is low or negative, as well as preserving the purchasing power of the original gift. However, the bookkeeping is a bit more complicated, especially when Permanently Restricted funds are co-mingled with other invested funds.

The new law is effective for the first fiscal year ending after December 15, 2008. For a church with a December 31 fiscal year end, any unspent endowment fund balances would be restated as of December 31, 2008, and investment income earned but not allocated by a spending policy would become temporarily restricted. For a church with a June 30 fiscal year end, the balances would be restated as of June 30, 2009 and the new classifications would begin July 1, 2009. Since this classification is somewhat subjective, especially with co-mingled funds, investment committees should include their rationale in minutes or their annual report to the congregation.

For further information, see Rebeka J. Mazzone, CPA, "Talking to Your Board about UPMIFA," as listed in the Bibliography.

E. Minister's Discretionary Fund -- Tax Implications

Many churches have special funds or budgeted amounts set aside for the discretionary use of the minister in response to needs or crises in the church or community. If not properly es-

tablished and documented, such funds can result in additional income tax liability for the minister, and the contributions made to such funds may not be tax-exempt.¹⁶

Specifically, unless there is a policy prohibiting the minister from making discretionary distributions to him/herself or his/her family, the IRS may consider the full amount of the fund to be income to the minister. This can happen even if the minister never makes a distribution for his/her own benefit. Furthermore, unless the fund is under the full control of the congregation or its governing board, donations to the fund will not be considered to be tax-deductible charitable contributions.

In order to avoid these consequences, the appropriate governing body of the church should establish a written policy indicating that the minister may make distributions from the fund only for specific purposes that are consistent with the congregation's mission. The policy should clearly prohibit any distribution from the fund for the benefit of the minister or any member of the minister's family. Finally, the church or its governing body should maintain administrative control over the fund. That is, someone other than the minister should review distributions periodically to make sure that they are consistent with the written policy.

A sample policy concerning a minister's discretionary fund might read as follows:

Grace United Church of Christ has established a Ministerial Emergency Fund. Contributions to this fund may be made by individuals or by allocations from the Missions budget as voted by the Missions Team. In order

¹⁶ Richard Hammar, *2009 Church and clergy Tax Guide*, pp. 169-171

to ensure that contributions to the Ministerial Emergency Fund are tax-deductible, no contribution may be designated for the benefit of any particular recipient.

Distributions from the Ministerial Emergency Fund may be made by the minister to provide confidential assistance to church or community members facing emergency financial need. No distribution may be made to the minister or to any member of his or her family at any time. Any distribution to a church employee must be paid through payroll so that payroll taxes and reporting are correctly calculated and reported.

The minister shall report to the Church Council annually all amounts paid out of the fund, listing the dates and purposes of the payments (but not the names of recipients). The Treasurer shall review the cancelled checks to confirm adherence to the written policy. If, for any reason, cash or gift cards are disbursed, the recipient shall provide a signed acknowledgement of receipt, including the date and amount of the gift. These receipts shall be kept on file by the church.

F. Computer Software for Church Accounting

There are many software products available as tools for church management, covering church membership, contributions, and financial accounting. Although there are some packages that offer all three modules, many churches use one software program for maintaining the membership and contribution records, while using a separate program for financial accounting.

Whatever you choose, your software should help you to provide transparent, up-to-the-minute reports for the congrega-

tion, leadership, and staff, as well as for any external reporting requirements, such as grant reporting. It should be efficient to use, both in terms of cost and training. It should balance accounting controls with ease-of-use. You should be able to:

- Use your own chart of accounts
- Generate a report of all restricted and unrestricted fund balances as of any date
- Easily track spending within each category of net assets, including all temporarily restricted funds
- Generate itemized expense reports
- Keep track of all payments to independent contractors
- Record all payroll data
- Print checks
- Track spending for grants
- Produce reports that are easily e-mailed
- Use passwords to protect data and keep previously entered data secure

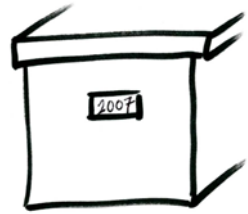
Costs vary significantly from under \$200 for software that has to be upgraded every few years to software that costs \$500 or more per year.

An additional consideration concerns payroll services. Some software packages offer a payroll subscription, which allows the user to calculate payroll deductions and prepare required IRS and state reports. If you use a commercial payroll company, be sure that the company understands the unique tax situation of churches and clergy regarding FICA, Medicare, and unemployment taxes. Furthermore, even if you use a payroll service, you

will still need to enter the payroll detail into your recordkeeping, including gross pay, withholdings, deductions, and payroll taxes.

G. Records Retention

The organization of your church files is important for a number of reasons. Files should be kept secure at the church's official location of business. Annual files should include bank statements, IRS and MA DOR correspondence and reports filed, vendor files for paid bills, and deposit records. Permanent files should include legal papers, as well as any documentation regarding restricted gifts.



Churches often ask how long they should retain certain financial records. In addition to protecting the history of the church, you will want to support your employees, your volunteers, and your contributors, so that if someone connected to your church is audited, you will be able to provide supporting documentation. For example,

- When a church leader was audited, the IRS questioned a number of deposits from the church to the individual's bank account. The payments had been reimbursements for refreshments that were purchased for church coffee hours. The church was able to produce the original receipts that the church member had submitted for reimbursement, along with each check stub. Photocopies of these receipts were sufficient to prove that the reimbursements were not taxable income.

- In the process of reviewing an individual's application for social security benefits, the SSA requested a monthly breakdown of wages paid to the employee more than 15 years ago, in order to determine the number of eligible quarters of employment for the former employee.
- In the course of an IRS audit, a donor's cash contributions may be questioned and any contributions without proper substantiation disallowed. Since the law requiring receipts for cash contributions is so new, it is unclear how the IRS might rule. The donor must have a proper statement (See [Appendix E](#)). However, if the church is also able to produce photocopies of the offering envelopes showing each cash contribution, the donor would have a stronger verification of the individual cash contributions.

In general, the following guidelines offer suggestions for the retention of financial records:

Permanently:

- Accountants' audited financial statements
- Annual financial statements
- Articles of incorporation
- By-laws
- Correspondence that is important
- Deeds, mortgages, and bills of sale
- Employee payroll summary for each year
- IRS correspondence
- IRS 501(c)3 letter for the UCC

- Property records: deeds, appraisals
- Restricted gift documentation (wills, bequests, etc.)
- Retirement and pension records
- Sales Tax exemption certificate

Eight years:

- Bank statements
- Contributions records and deposit slips
- Cancelled checks
- Employee payroll records
- Insurance policies
- Leases for equipment
- Quarterly and annual payroll reports (941 or 944, W-2, 1099)
- Vendor payment records

Three years:

- Employee HIRD Forms
- Employment applications for those not hired
- Routine correspondence

On a day-to-day basis, computer back-ups of financial records should be made daily or weekly and kept off-site to protect against computer theft, damage, or technological failure.

VIII. EMPLOYING INDIVIDUALS

The ministry and mission of churches are carried out by a combination of unpaid volunteers, paid staff, and occasional contractors. Whenever a church pays an individual in exchange for services rendered, it incurs a number of obligations for documentation, reporting, insurance, and fair employment practices.

A. Hiring

There are three ways to hire someone: as an employee, as casual labor, or as an independent contractor. The IRS and MA Department of Labor have detailed guidelines to help you to properly classify anyone you pay for services.

Casual labor is defined as work performed that is not in the course of the employer's trade or business and is occasional, incidental or irregular. The maximum amount you may pay someone for casual labor is \$50 per quarter. If you hire someone to clean up after the church tag sale and pay them \$40, no further documentation or reporting is required. However, if you pay that person \$50 or more, then you will need to hire them either as an employee or an independent contractor.

An independent contractor is someone who has established a business or trade who provides services for you.

An employee is someone you hire and supervise, either permanently or temporarily, full-time or part-time.

Determination of whether a person is an employee or an independent contractor is more fully delineated in [Section VIII.B](#) and [Appendix I](#).

If you hire a field education student or ministerial intern and pay the student a stipend, the IRS considers this earned income, whether it is paid in one large check or on your regular payroll schedule. The stipend is fully taxable and the regular process for a lay employee should be followed.

Current laws require all employers, including churches, to obtain proof of a prospective employee's identity and legal right to work in the United States prior to hiring him or her. A federal form I-9 Employment Eligibility Verification (available at www.uscis.gov) must be completed, verified, and kept on file for each employee. The form must be available for inspection by authorized U.S. Government officials (e.g., Department of Homeland Security, Department of Labor, or the Office of Special Counsel).

It is also necessary for each lay employee to complete a federal tax withholding form W-4, which instructs the employer regarding how much federal income tax to withhold from the employee's compensation, along with a state form M-4, which indicates state withholding. Note that these are *not* identical; both should be completed. A clergy person may complete a W-4 form at her or his option (see [section VIII.E.2](#), below). W-4 forms are available at www.irs.gov; M-4 forms are available at www.mass.gov.

New Hire Reporting is required within two weeks of hire. This is to ensure compliance with child support orders. This may

be completed on the MA DOR WebFile for Business website or by fax.

In Massachusetts, all teens under 18 years of age must complete a work permit application and obtain a work permit before starting a new job. This work permit must be signed by a school department official and/or a medical doctor, depending on the age of the employee. For further information, search for “Youth Employment Information” on the www.mass.gov website.

B. Independent Contractors

Some churches regard their clergy, organists, sextons, child care providers or other staff members as independent contractors rather than employees. Since this is seldom acceptable to the Internal Revenue Service or the Massachusetts Department of Labor, the Massachusetts Conference strongly recommends that a local church consult an accountant before classifying any regular service provider as an independent contractor.



Massachusetts law includes strict requirements defining employees so that employers are in compliance with workers' compensation insurance law, labor laws, and health care requirements. According to Massachusetts law,¹⁷ an independent contractor must:

¹⁷ Massachusetts General Laws, Chapter 149, Section 148B

- be free from control and direction in performance of the service;
- perform a service outside the usual course of the business of the employer; and
- be engaged in an independently established trade, occupation, profession or business of the same nature as that involved in the service performed.

So, a plumber hired to repair a faucet is pretty clearly an independent contractor, as is a trumpeter who plays only on Easter. However, a nursery caregiver who comes every Sunday under the direction of the Director of Christian Education, or a choir director would almost certainly be an employee.

Similarly, ministers are almost always considered to be employees by the Internal Revenue Service. The only clergy who might reasonably claim to be self-employed under current IRS regulations are occasional supply preachers or short-term interim ministers. Even interim ministers are almost always better off reporting their income as employees. The advantages are:

1. The value of fringe benefits will be non-taxable;
2. The risk of an IRS audit is generally lower for employees than for self-employed persons; and
3. A person claiming self-employed status who is audited by the IRS runs the risk of being reclassified as an employee. He or she may then be subject to additional taxes and penalties.¹⁸

Likewise, it is a rare organist, Christian Education director, sexton or secretary who could reasonably claim to be self-

¹⁸ Richard Hammar, *2009 Church & Clergy Tax Guide*, p.66 ff

employed. The IRS issued guidelines in 1987 and again in 1994 to help employers distinguish between independent contractors and employees. These guidelines are summarized in [Appendix I](#), and should be considered carefully if there is any question as to a church worker's employment status. In thinking about your church workers, you might begin by considering the following questions derived from the IRS guidelines:

1. Do church members expect that the worker will carry out the job him or herself, or is the worker free to delegate work to a subcontractor? If you expect the work to be done personally, the individual is probably an employee.
2. Are the worker's services integral to the operation of the church? If so, he or she is probably an employee.
3. Is there an ongoing relationship between the worker and the church? This, too, points toward an employer-employee relationship.
4. Is the individual paid by the hour, week or month? Contractors are typically paid by the job or piece.
5. Does the church provide the premises and equipment necessary for the individual to do the job? If so, he or she is probably an employee.

In addition to creating potential tax problems for the individual, treating clergy or other workers as self-employed contractors may render the church vulnerable to charges of tax evasion. The church could be required to pay overdue payroll taxes, interest and penalties in the event that the IRS determines that an individual claiming to be self-employed is actually an employee.

C. Personnel Policies and Compensation of Employees

Each local congregation of the United Church of Christ sets its own personnel policies and compensates employees based on its own programmatic and budgetary priorities. Because questions of personnel policy and compensation can be complicated, the Massachusetts Conference Commission for Leadership Development has published a series of booklets containing recommendations regarding the employment and compensation of clergy, church educators, musicians, administrative personnel, and sextons. These booklets are available from the Massachusetts Conference office or website.

Churches must pay at least the minimum wage – either the state or federal minimum wage, whichever is higher. Churches must comply with overtime laws as well. An employee is exempt from overtime only under specific situations, as outlined in the Massachusetts General Laws.¹⁹ In most churches, it is likely that only the minister(s) would qualify as an exempt employee, even if other employees are paid on a salaried basis.

D. Poster Compliance

By law, employers must post certain information regarding the rights of employees. These posters are available online at no cost or from a commercial enterprise for a fee. Churches are subject to the Fair Labor Standards Act (including minimum wage provisions) and the Occupational Safety and Health Act; both of these laws require postings. The situation with regard to

¹⁹ Massachusetts General Laws, Chapter 151, Section 1A.

the several Equal Opportunity acts is more complicated. Churches are subject to the Civil Rights Act of 1964, with the exception that we are allowed to discriminate on the basis of religion. Churches with twenty or more employees are subject to the Age Discrimination and Employment Act. Churches with fifteen or more employees are subject to the Americans with Disabilities Act. Thus, the church should comply with the postings on minimum wage and OSHA. It's less clear that churches with small staffs should post the EEO materials, since for the most part they don't apply. Note that the posters can be obtained free as follows:

Minimum wage law: US Dept. of Labor,
wage & hours division:

www.dol.gov/esa/whd/regs/compliance/posters/flsa.htm

OSHA: www.osha.gov/Publications/osha3165.pdf or any local office of the US Dept. of Labor, Occupational Safety & Health Administration

E. Payroll Taxes

All employers, including churches, are required to withhold and remit payroll taxes. However, requirements for clergy and lay employees differ. IRS Circular E is published annually and contains detailed instructions as to how to withhold and remit federal payroll taxes. The Massachusetts Department of Revenue publishes Circular M containing comparable information concerning Massachusetts income tax. All publications are available online.

Churches that are opposed for religious reasons to the payment of social security and Medicare taxes can elect to exclude their employees from FICA coverage by filing IRS Form 8274. However, in this case, each employee must pay self-

employment tax (15.3%) on the income. If your church has filed for this exemption, it is very important to clearly explain this to each employee.

All churches are exempt from federal and state unemployment taxes and the Massachusetts workforce training tax.²⁰

1. Lay Employees

Churches that employ non-clergy staff are responsible for withholding and remitting the following taxes from employee paychecks: federal income tax, Social Security and Medicare taxes, and state income tax. The church is responsible for paying the employer's portion of Social Security and Medicare taxes.

2. Clergy

Clergy have a unique tax status. They are considered to be employees for income tax purposes and to be self-employed for Social Security and Medicare purposes. Note that for tax purposes, the term "clergy" includes licensed and commissioned ministers, as well as those who have been ordained. According to IRS Publication 517, the church may not withhold or pay Social Security and Medicare taxes for an ordained, licensed or commissioned minister. Instead, Conference compensation recommendations include a provision for a "social security allowance" of one-half of the rate of self-employment tax, which is currently 15.3%. This amount should be paid to the minister as a taxable addition to his or her salary. The minister is then responsible to pay all Social Security taxes through SECA (Self-

²⁰ Internal Revenue Code Section 3306(c)(8) and Massachusetts General Laws, Chapter 151A, Sections 6(r) and 6(s)

Employment Contributions Act) rather than FICA (Federal Insurance Contributions Act). Both Acts generate contributions to the same retirement program managed by the Social Security Administration.

Those clergy who are conscientiously opposed to the acceptance of public insurance that makes payments in the event of retirement, disability, or death, or for medical care have a one-time opportunity to apply for an exemption from Self-Employment Tax by filing IRS Form 4361.

In addition to Self-Employment taxes, the minister is also responsible for paying all of his or her federal and state income taxes. There are three options among which the minister may choose:

1. The minister may save money from his or her paychecks to pay estimated taxes due quarterly April 15, June 15, September 15, and January 15.
2. The church may escrow some part of a minister's pay and issue it to the minister upon request or in advance of the due dates. The minister should determine the amount to be withheld.
3. The minister may elect voluntary withholding, increasing the amount of federal withholding sufficiently to cover the SECA taxes. Under no circumstances should FICA or Medicare be withheld from an ordained minister employed by a church.

For further information about clergy taxes, the Pension Boards of the United Church of Christ prepares an annual Tax Guide for Ministers. It is available on the Pension Boards' web-

site at www.pbucc.org or by mail if requested by telephone or email before December 1st.

F. Minister's Housing - Parsonages and Housing Allowances

For those clergy who do not live in parsonages, federal tax law allows clergy who are employed by churches as ministers to receive a portion of their income as a housing allowance. Provided certain guidelines are followed, the housing allowance is exempt from federal and Massachusetts income taxes, although the minister must pay self-employment (Social Security and Medicare) tax on housing allowance amounts.

1. Budgeted vs. Actual Housing Allowance Amounts

If a minister does not live in a church-owned and furnished parsonage, the IRS permits the church to designate a portion of compensation as a “housing allowance.” This does not result in any additional cost to the church. However, it results in a significant income tax benefit for the minister.



Determining the actual amount of the housing allowance is the minister's responsibility, based on the minister's estimation of housing costs for the coming year. See [Section VIII.F.4](#) below. After the church determines the total salary and housing compensation for the year, the minister

should then indicate the amount to be designated as the housing allowance. It is the minister's responsibility to retain proper records and, if necessary, prove to the IRS that amounts received as housing allowance were in fact spent on housing. If the housing allowance amount included in the church budget differs from the amount requested by the minister and voted in advance by the Board, it is the latter amount that should be used in calculating the amounts to report on the minister's W-2 form.

As an example, suppose the Grace UCC has the following lines in its budget for 2010:

Minister's Salary	\$50,000
Housing Allowance.	<u>\$28,000</u>
Total	\$78,000

Now suppose that the minister estimates that his actual housing costs for 2010 will be \$32,000. In November 2009, he requests that \$32,000 of his 2010 compensation be designated as housing allowance, and the Personnel Committee votes this amount at their December 2009 meeting. His 2010 compensation for purposes of tax reporting will then be as follows:

Salary (reported on W-2 form, Box 1)	\$46,000
Housing Allowance (W-2 form, Box 17)	<u>\$32,000</u>
Total	\$78,000

If the minister finds that his actual housing expenses total only \$31,567, it is his responsibility to report the \$433 difference to his taxable income when filing his tax return. If his actual

housing expenses are higher, he may not claim the excess as an additional housing allowance, since it was not voted in advance.

2. IRS Requirements for Designating Housing Allowances

A housing allowance must be designated in advance, in writing, by the Personnel Committee or other appropriate board of your church. It cannot be retroactive; that is, if your new minister begins work in September, it must be based on housing costs to be incurred from September through December only, and it must be voted before it is paid.

A housing allowance must be designated in advance.

It is not permissible for a minister to declare a housing allowance that exceeds the “fair rental value” of his or her home, including utilities and furnishings. This can be problematic, as it is easy for reasonable people to disagree as to the fair rental value of a piece of property. Fortunately, it is not the job of the church to worry about this -- if a minister is audited by the IRS, it will be his or her responsibility to negotiate with the auditor concerning a reasonable fair rental value to assign to the home.

3. Guidelines for Ministers Living in Church-owned Parsonages

If your ordained minister lives in a church-owned parsonage for the convenience of the church, the fair rental value of this housing should not be reported as income for federal or state income tax purposes. The minister will need to include it as

compensation in computing the correct amount of self-employment tax, but it should not appear on the W-2 form.

Your minister may also request that a part of his or her cash compensation be designated as a parsonage allowance and excluded from income taxation. The minister will request this amount based on anticipated out-of-pocket expenses he or she will incur in order to live at the parsonage. This could include costs (such as utilities, furnishings, repairs or trash pickup) that are not paid by the church. Suggested language for a board vote to designate a housing allowance is included in [Appendix J](#).

4. Guidelines for Clergy Who Rent or Own their Homes

If your minister rents or owns a home, she may request a housing allowance based on the expenses directly related to renting or owning, maintaining and furnishing this home. Again, in order for this exclusion to be legal, a rental or housing allowance must be designated in advance, in writing, by the appropriate church board. The amount thus requested and excluded is then exempt from income taxes and should be omitted from Box 1 compensation reported on the minister's W-2 form. It is recommended, although not required, that the housing allowance be included in Box 14 and labeled "Housing". This will be helpful to your minister when filing IRS Form SE.

If the minister rents a home, she should estimate anticipated expenses including rent, repairs, furnishings, renter's insurance and utilities. If your minister owns or will be purchasing a home, she should estimate anticipated expenses including down payment and legal fees associated with purchase of a home,

mortgage and interest payments, condominium fees, utilities, repairs, furnishings, real estate taxes and homeowner's insurance. She may request that the total of these amounts be designated as housing allowance unless, in the minister's estimation, the total exceeds the fair rental value of the home, in which case it is the minister's responsibility to request the fair rental value only. Also, as with a rental allowance, the housing allowance cannot exceed the total compensation paid to a minister. In either case, the housing allowance can be as much as 100% of cash compensation.

For a full discussion of clergy housing allowances, see Hammar, *2009 Church & Clergy Tax Guide*, pp. 223-249.

G. Tax Reporting

When a church pays someone for services, it pays that person either as an employee or as an independent contractor. First, determine whether the person is an employee using the IRS 20-point guidelines ([Appendix I](#)). Other than reimbursements for purchases the employee makes, any payment to an employee is taxable income. If your organist is an employee and plays an extra concert and you pay him \$500 out of the proceeds, it must be reported as taxable income, with the appropriate taxes withheld. If you give a holiday bonus, it must likewise be reported as taxable income with taxes withheld. If you give money from your Deacons' Fund to an employee who has an emergency, it must be reported as taxable income with taxes withheld.

The only exception to this practice would be if an employee also has an established business that is entirely different from the church staff responsibilities. That is, if your organist is an em-

ployee and is also a licensed plumber with an established plumbing business – you could pay her for plumbing services as an independent contractor.

1. Employees

All employers responsible for tax withholdings must file payroll tax reports with the IRS (quarterly Form 941 or annual Form 944), the Massachusetts DOR (monthly or quarterly withholding report), and the Massachusetts DUA (quarterly Employment and Wage Detail Report via QUEST).

All employers must file a W-2 form annually for each employee. The form must be provided to the employee by January 31 for the year ended December 31. Copies must be sent to the IRS and the MA Department of Revenue by February 28/29, along with a Form W-3 or a Form M-3 summarizing the church's forms.

For clergy (including licensed and commissioned ministers), the following amounts should be included in Box 1, if your minister receives them. Note that Boxes 3 and 5 will always be blank for clergy.

- a. Salary
- b. Social Security (or Self-Employment Tax) Allowance
- c. "Allowances" for travel, books, professional development, etc., unless proper documentation has been provided for each expense. (Such business expenses are best handled through an accountable reimbursement arrangement rather than an allowance; see [section VIII.H](#) below.)

- d. Gifts from the church to the minister, including Christmas and retirement gifts ²¹
- e. Life insurance premiums for benefit amounts in excess of \$50,000 per employee ²²

The following payments are exempt from income taxation and should *not* be included as compensation in Box 1 on the W-2 form:

- a. Housing allowance amounts for clergy, designated and recorded in advance by the appropriate Board of the church
- b. Health and disability insurance premiums paid by the church to the Pension Boards or other insurance company
- c. Wages excluded by Medical 125 or Dependent Care Assistance Plans
- d. Pension contribution amounts paid by the church to the Pension Boards or other 403(b) plan
- e. Life insurance premiums paid by the church to the Pension Boards or other insurance company, except to the extent that the amount of coverage exceeds \$50,000 per employee. If an employee is insured for a benefit amount higher than \$50,000, you must calculate the value of the additional insurance according to the Uniform Premium Table as prescribed by IRS regulation 1.79-3. This table is reproduced as [Appendix K](#). The value of the additional life insurance indicated by this table is included as income to the employee.

²¹ Richard Hammar, *2009 Church & Clergy Tax Guide*, pp. 151-155.

²² See IRS Publication 15-B, *Employer's Tax Guide to Fringe Benefits*

- f. Business expenses reimbursed under an “accountable reimbursement arrangement” (see [section VIII.H](#)).

For more detailed information concerning clergy income taxes, see Richard Hammar’s publications, mentioned above and listed in the Bibliography.

2. Independent Contractors

Any church purchasing services from an independent contractor should report that individual’s compensation to federal and state tax authorities annually on a 1099-MISC form, unless the amount of compensation was less than \$600 for the year. At the time of hire, and if compensation is anticipated to be \$600 or more, request an IRS Form W-9 from the contractor. This information is also required for the mandatory New Hire Reporting within two weeks of hire. It is infinitely easier to obtain the tax identification number *before* you issue a check than it is to try to track it down in January.

Be sure to report independent contractors within two weeks of hire.

Although there is an exemption from the requirement of issuing a 1099 form to incorporated independent contractors, it is often difficult to determine whether the independent contractor is incorporated. Thus, as a practical matter, it is better to issue 1099 forms to all independent contractors where the amount paid by the church during the year was \$600 or more. Like W-2 forms, 1099 forms must be sent to independent contractors by January 31.

Any employer who issues one or more 1099 forms must file Form 1096, due by February 28/29 to both the IRS and the MA DOR. Whenever you hire an independent contractor, be sure to obtain a workers' compensation insurance certificate. You may be required to pay workers' compensation insurance on any independent contractors for whom you do not have proof of their own insurance.

H. Reimbursement of Business Expenses

Under present tax regulations, the best way to handle employees' business expenses is to establish what is known as an "accountable reimbursement arrangement." Under this kind of arrangement, an employee is reimbursed for amounts he or she spends on business-related expenses, such as travel, training events, books, subscriptions, vestments, and professional dues. Amounts reimbursed to an employee do not constitute income for tax purposes and are not reported on the employee's W-2 form. Likewise, they are not deducted by the employee as business expenses on his or her tax return.

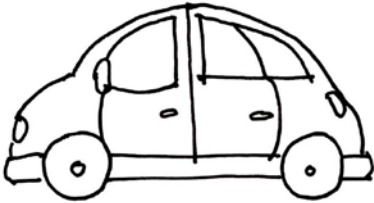
In order for an employee's business expenses to be reimbursable under an accountable arrangement, two requirements must be met:

1. The expenses must be substantiated within sixty days. "Substantiation" includes a description of each expense including the amount, date, place, and business purpose of the expense. For any expense of \$75 or more, the employee must also provide a receipt. (Note that this requirement for a receipt applies to *any* reimbursement request, including those from volunteers.)

2. Any excess reimbursement must be returned to the employer within 120 days after the expense was incurred.

“Excess reimbursement” refers to the amount paid out in advance of actual purchases that is not spent. For example, suppose the church advances a minister \$300 for expenses associated with attendance at a clergy development retreat. The minister must, within sixty days, provide a detailed report of the expenses she incurred in order to attend the retreat. If she did not use (or cannot substantiate) the entire \$300 that was advanced, she must return any excess amount within 120 days.

In order to substantiate his or her business expenses, each employee should keep an itemized log or worksheet showing



each expense incurred and listing the date, place and purpose of the expense. In the case of travel expense, the log should include the date, starting location, destination, purpose of the trip,

and number of miles traveled. Mileage should be reimbursed at an agreed-upon rate per mile. The current IRS rate (50 cents per mile for 2010) is available at www.irs.gov or by googling “IRS mileage rate.”

An accountable reimbursement arrangement should be adopted as a written policy, approved by the personnel committee or other appropriate body of the church. The policy should indicate the types of expenses that will be reimbursed to employees, and state clearly that reimbursements are not a part of

any employee's salary or wages. A sample policy is attached as [Appendix L](#).

It is important for the church to retain the logs or worksheets and receipts submitted by employees under an accountable reimbursement plan (as well as those submitted by church members) for at least eight years, as they would be needed in the event that the church or one of its employees or members is audited.

I. Employee Use of Church-Owned Vehicles

Another way to provide for a minister's travel expenses is for the church to purchase or lease a vehicle for the minister's use. In this case there is no need for the minister to keep track of miles traveled on church business. However, the value of any *personal* use of an employer-provided vehicle is considered by the IRS to be a taxable fringe benefit. Therefore, the minister must keep track of any personal mileage and submit that on at least a quarterly basis. The employer must calculate the value of any personal use of such a vehicle and enter it into payroll for inclusion on the quarterly 941 form as well as the minister's W-2 form. For a discussion of the four different options allowed by the IRS for making this calculation, see Hammar, *2009 Church & Clergy Tax Guide*, pp. 253-264 or consult a tax accountant.

J. Benefit Plans Offered by the Pension Boards of the United Church of Christ

Employees of United Church of Christ congregations are eligible for a number of benefits, including health, dental, vision, life, disability, and long-term care insurance, as well as the UCC pension plan. All are available for lay employees as well as clergy.

Although many churches are able to offer some benefits as a part of employee compensation, it is also possible to offer additional benefits to employees by payroll deduction, at no cost to the church. Information and enrollment forms are available at www.pbucc.org. The Pension Boards will bill your church for the cost of the benefits, and the church will make payments directly to the Pension Boards.



1. Pension Plan

Pension benefits are provided through participation in the Annuity Fund of the United Church of Christ. This plan is available to all employees, lay and ordained, full- and part-time. The Conference compensation guidelines for full-time clergy recommend that the church contribute 14% of the minister's salary basis (including housing) to his or her pension account. General Synod also recommends that the church provide a *minimum* contribution of 3% of salary for lay employees.

In order to calculate the quarterly amounts due, the Pension Boards sends a pink "Salary Report Form" to each church in November, to be completed by the church and returned to the Pension Boards. If your church adjusts the salary for any employee at another time of year, the Treasurer must notify the Pension Boards as soon as possible. If a church fails to take this initiative and the minister's contract specifies an amount for pension dues such as "14% of salary plus housing," then the church will be billed retroactively for any missed dues. Given the

volatility of the investment market, a delay can have difficult results. It is best to report salary changes immediately!

Contributions to the UCC Annuity Fund (pension plan) are fully vested as soon as they are received by the Pension Boards. They may not be withdrawn prior to retirement or “rolled over” into other investment accounts. The pension plan has a particular advantage for clergy over IRAs and other types of investment accounts: a portion of a retired clergyperson’s pension benefit may be designated as housing allowance (thus reducing the minister’s income taxes) because the plan is sponsored by a church. Clergy may not designate as housing allowance any other kind of retirement income. The ability to designate a housing allowance can make a considerable difference in clergyperson’s disposable income in retirement, as during his or her working life. In addition, the amount of income that can be sheltered from income taxes often exceeds that which can be contributed pre-tax to other plans.

New 403(b) rules have recently taken effect as of January 1, 2009, but implementation has been delayed until January 2010. If your only retirement plan is through the Pension Boards of the UCC, they will comply with the reporting requirements of the law. However, if you offer a plan through a private vendor, or offer multiple plans, or offer a plan from another denomination, you should consult an attorney or a CPA who is familiar with the new rules.

2. Health Benefits

The Pension Boards’ Health Benefits Plan is available for any employee who works at least 20 hours per week for a local

church or UCC-related institution. This plan, administered by Highmark Blue Cross/Blue Shield, provides comprehensive coverage including a mail order prescription drug component. Employees are eligible to join without showing evidence of good health during the first 90 days of their initial employment by a UCC entity. Pension Boards health rates are set annually and may be obtained from the MACUCC website.

Employees who do not enroll in the UCC Health Benefits Plan within 90 days of their initial employment by a UCC entity may join at a later date only if they and their family members can show “evidence of good health.” In other words, after the first 90 days of employment, or if a person declines UCC insurance in one church, and then later takes a job in another UCC church and wishes to enroll in the UCC health plan, acceptance is not automatic. If any family member has significant health issues, they are unlikely to be accepted into the plan at a later date.

The Massachusetts Conference Leadership Commission recommends that all UCC clergy participate in the UCC health plan, because it provides clergy with consistent coverage throughout their ministry and allows them to move anywhere within the UCC without forfeiting health coverage. That is, they can keep the same coverage as they move from one UCC church job to another. There are currently three plans offered with varying premiums, deductibles, and out of pocket maximums. All three plans are certified by the Commonwealth of Massachusetts as “minimally creditable coverage” for 2009 and 2010. Once enrolled in the UCC health plan, an employee may switch among Plans A, B, and C each year in November, for the year beginning January 1st.

Some churches and clergy may consider using alternative health insurance providers because a minister's spouse is able to obtain coverage through his or her employment or because the UCC plan may be more expensive than some less comprehensive plans, especially for younger clergy. While this can be tempting and may save money in the short run, it can be very costly in the long run. Note that for older employees, the UCC plans are significantly cheaper than many other plans. Declining UCC insurance may save the church money at first, but if the spouse leaves his or her job, then the church may have difficulty finding health insurance for the pastor.

Suppose, for example, that Rev. Jones begins work at Grace UCC in the Massachusetts Conference. She and her family members are young and healthy, and they decide to join an HMO rather than the Pension Boards plan. The HMO has a slightly lower premium and will cost Rev. Jones less in out-of-pocket expenses than the Pension Boards plan does. She works at Grace UCC for eight years, during which time she is diagnosed with diabetes. She then receives a call to Faith UCC in the Midwest. She cannot stay with her HMO because she is moving out of its geographic range. She is unlikely to be admitted by the Pension Boards plan because of her potentially costly illness. She may likewise have difficulty obtaining comparable coverage in another state given her diagnosis of a chronic illness (although national health care reform will eventually make it somewhat easier). Thus, she may find herself unable to obtain adequate insurance for herself and her family if she takes the new job.

There are circumstances under which it may make sense for an employee to decline the initial opportunity to enroll in the

Pension Boards plan. However, the employee should carefully consider his or her long-term plans in making this decision.

Most churches are too small to be required to offer COBRA benefits to those who leave their employment. However, the Pension Boards allows former employees to continue health coverage for up to 24 months, or up to 90 days after taking a new position that is 20 hours per week or more. In this case, the former employee would pay the church and the church would continue to pay the quarterly insurance bill. This is essential if the employee wishes to continue UCC coverage in a new job.

3. Dental Benefits

The dental plan is available to all employees who work twenty or more hours per week in a UCC setting, whether or not the employee chooses health coverage. If an employee chooses not to enroll within ninety days of initial employment, he or she must wait until an “open enrollment” period in October to join the plan. When an employee joins through open enrollment rather than during the first ninety days of employment, the maximum benefits for the first year are significantly lower (50%) than in subsequent years. Dental rates are set annually and may be obtained from the MACUCC website.



4. Vision Plan

The vision plan is available to all UCC employees, regardless of



number of hours worked per week, and whether or not the employee chooses other health benefits. There is an open enrollment period in March with the benefit year running from April 1 – March 31. Note that if a new employee signs up for the plan mid-year, the full cost is due for the partial year. Vision rates are set annually and may be obtained from the MACUCC office or website.

5. Life Insurance/Disability Income Benefit Plan

The LIDI Plan provides the employee with life insurance and some income replacement while they are on short-term disability (STD) or long-term disability (LTD). The plan is available only to active participants in the annuity plan at a cost of 1.5% of salary plus housing. This amount is calculated by the Pension Boards based on the annual Salary Report submitted by the church. See [Section VIII.J.1](#). As with the health benefits plan, employees who do not apply for LIDI coverage within the first ninety days of their initial employment in a UCC setting will be required to submit an extended medical application, which is then reviewed by the Pension Boards' underwriting department. It is therefore important for employees to enroll promptly and for churches to maintain this coverage.

The disability benefit payable under this plan begins thirty days after an employee ceases work due to a disability, provided the insurance company has accepted proof of the disability. Note that it is up to the employing church to determine its own policy as to whether to continue to compensate the minister during the first thirty days of disability. If member remains disabled more than 22 weeks, LTD benefits generally continue until age 65.

Under the Pension Boards Disability Plan, contributions to a disabled employee's pension account are continued as a part of the disability benefit. When a disabled employee reaches retirement age, disability payments stop and pension payments begin. This integration of disability and pension benefits is particularly valuable in ensuring adequate income for a disabled individual during his or her later years.

The Massachusetts Conference strongly recommends that local churches provide disability insurance for their employees. In the absence of such insurance, the long-term disability of an employee can present a church with a serious ethical and financial dilemma. The church must either continue to provide support for an employee no longer able to do his or her job, or consign the employee to live on the very limited income that may be available through the Social Security disability system. Long-term disability insurance thus protects not only the employee but the church as well.

6. Long-Term Care Insurance

Long-term care insurance is available for active and retired UCC employees and their family members through LTC Financial Partners. Further information is available at www.ltcfpusa.com/pbucc/

7. Life Insurance

The separate term life insurance coverage offered by the UCC has been eliminated, although some long-time employees are still grandfathered in. The annual cost is \$50 per year.

K. Workers' Compensation Insurance

As explained in [section IX.A.1](#), every local church that has employees or uninsured independent contractors is required to purchase Workers' Compensation insurance. In the absence of such coverage, Massachusetts law holds an employer directly responsible for medical costs resulting from any job-related injury or illness on the part of an employee. In the case of a serious injury, the church could also be responsible for partial income replacement for the duration of a work-related disability -- in other words, for years. Health and accident insurance policies routinely exclude work-related conditions from coverage, as do disability and general liability policies. Workers' compensation coverage may be obtained through the United Church of Christ Insurance Board, or through a local insurance agent.

L. Housing Equity Allowances

Some churches wish to provide their clergy who live in parsonages with a housing equity allowance. This allows the minister to build some savings toward the eventual purchase of a home, because clergy living in parsonages do not have the opportunity to build equity in a home through home ownership.

A church wishing to provide a tax-deferred housing equity allowance may do so, within legal limits, by giving the minister an amount of compensation to be placed in an Individual Retirement Account, or by making excess payments to the minister's retirement account with the UCC Pension Boards. (At retirement, a minister may request up to 20% of his pension account be paid to him, which would provide funds for a down payment

on a house. However, this approach would not work if a minister needed to purchase a home before retirement – which could be the case if he were called to a church without a parsonage.)

If the funds are held in a church-controlled account, they should be released to the minister upon request. At that point, they would become taxable income reported on the 941 and W-2. A minister might also examine the use of a Roth IRA as a place to deposit housing equity amounts. These amounts, if deposited in an IRA, may be subject to a penalty if withdrawn before retirement. If contributed to a Pension Boards account, the funds are completely inaccessible until retirement.

The law sets limits as to the percentage of an individual's income that may be protected from immediate taxation. Any contribution to the Pension Boards or a comparable retirement plan counts toward this limit. Therefore, if a church wishes to establish a housing equity allowance for a minister for whom retirement contributions are also being made, it is important to consult with the Pension Boards (or, if another retirement vehicle is being used, with a tax accountant). If you write a letter to the Member Services Division of the Pension Boards, including the minister's name, member number, current year salary and housing allowance, and current year retirement contribution amount, they can calculate how much additional money may be contributed on a tax-deferred basis.

IX. MANAGING LEGAL AND FINANCIAL RISKS

It is very important to protect your church, its members, and its employees 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. 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.

The United Church of Christ Insurance Board offers a comprehensive program of insurance for local churches. Participation in this plan has a number of advantages. It is designed by professionals who understand the particular needs of churches. It affords higher levels of coverage than would otherwise be feasible because it is a group plan. Also, the Insurance Board is a corporation formed by the Conferences of the United Church of Christ and is thus accountable to the Conferences. The Insurance Board plan is made available in Massachusetts through two agents whose names and addresses may be found in [Appendix A](#).

Some churches find insurance through local agents or other sources. If you do, it is very important to verify that your coverage is adequate for the types of situations that churches may face. The Insurance Board makes available a checklist ([Appendix M](#)) that may be useful to members of church boards in evaluating their church's insurance coverage. This checklist provides a good

starting point for considering various risks for which churches may want to carry insurance.

1. Workers' Compensation Insurance

Churches are subject to workers' compensation laws in Massachusetts, and therefore it is required that all churches have workers' compensation insurance for all employees and for all independent contractors who do not have their own insurance. Most health insurance programs, as well as most liability insurance policies, exclude coverage for work-related injuries. This is true of the Pension Boards health plan and of liability insurance purchased through the Insurance Board. If an employee is injured in the course of his or her work, and the employing church has no workers' 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 workers' compensation insurance policy may be obtained through a local insurance agent, or through the Insurance Board via the agents listed in [Appendix A](#).

Workers' Compensation Insurance premiums are based on estimates of employee compensation and independent contractor payments. Following the conclusion of the policy year, the insurance carrier will conduct an annual audit, requesting IRS Form 941s, W-2s, MA quarterly Employment and Wage Detail reports, and / or IRS 1099 forms, along with certificates of insurance for all 1099 contractors. From these, they will calculate the actual

premium and will refund any overpayment or bill for any additional premiums.

Any independent contractor engaged by the church should be asked to provide proof of up-to-date workers' compensation insurance coverage. If the church cannot produce this document at the time of their audit, they will have to pay the premiums.

2. Property Insurance

Property insurance is an important protection for church-owned buildings and their contents. While the church policy would cover the church-owned parsonage, the minister should purchase "tenant's insurance" to cover the personal property of the parsonage residents.

In determining an adequate level of property 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"). The United Church of Christ insurance program offers coverage for all properties at full replacement cost. This enables a church, in the event of a major loss, to rebuild a structure essentially identical to that which was destroyed, including features such as ornate woodwork and stained glass.



Alternatively, the UCC insurance program provides that a particular building or buildings may be insured at "functional replacement cost" if a church so requests. A church choosing this

option would estimate the cost that would be required to replace its existing structures with lower-cost buildings that could serve the same functions as its existing structures. This option must be specified in writing for particular buildings. The benefit payable in the event of a loss would be based on the lower values indicated. This option helps to keep the church's insurance costs down. However, if the building were to be destroyed, the structure built to replace it would probably look quite different than the original building.

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 video, 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 underestimate the loss and the appropriate settlement. If your church is in an area prone to flooding, you should verify the details of your coverage for flood risk.

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. 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. Ideally, church insurance should include coverage for sexual misconduct, as this is presently one of the greatest areas of risk for churches. As in the case of Workers' 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. The Insurance Board policy covers all who perform work for the church, whether employees, elected officers, or volunteers.

4. Vehicle Insurance

If your church owns a vehicle such as a church van, you will need to purchase insurance for it. The Insurance Board offers such a policy, as do local insurance agents. Be sure to purchase coverage that is adequate for any situation that you might anticipate, including collision, liability, and out-of-state travel.

If your church rents vans to use for occasional church trips, be sure to verify insurance for each of the drivers. Many personal auto insurance policies do not cover the rental of commercial vehicles, such as 14 or 15 passenger vans. In that case, you will want to be sure that any drivers are adequately insured when transporting people on church-sponsored trips.

5. Use of Church Buildings by Other Organizations

Churches frequently ask about the insurance implications of allowing other organizations (Scouts, twelve-step programs, exer-

cise classes, etc.) to use their facilities. The Insurance Board's plan includes protection for a local church that makes its facilities available to informal interest or support groups as part of its ministry to the wider community.

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 pre-school or soup kitchen or other program 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 aspects of your ministry and mission.

B. 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 the resulting financial loss, such events can be quite damaging to the relationships within a church community. One important role of the Treasurer and Governing Board members is to seek to prevent such losses.

1. Internal Controls

Your church should have adequate procedures for handling financial 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 is out of print. Holck’s words are shown in boldface; comments in plain text are added.

“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, [signing] 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, a team of two or more individuals should record the weekly offering and make the bank deposit. Likewise, the person who can sign checks should not be allowed to authorize payments, but only respond to requests from those individuals re-

sponsible for implementing the church budget. The bank accounts should be reconciled by someone who is not a check signer.

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. Your procedure should include checks and balances that safeguard and audit the amount collected, as well as keeping the actual money safe from loss or theft. Whether or not you need two people at all times depends on the amount of money involved -- \$12 cash is not the same as \$3,000!

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 records incoming checks should not reconcile the bank statement.

iv. Encourage all members to use envelopes [for cash contributions].

As of January 1, 2007, the IRS requires that a donor has

a receipt or statement for any cash contributions in order to claim them as a charitable contribution. The amount of the cash contribution should be noted on the envelope and initialed by the counter. Then the envelopes can be photocopied along with the checks and stapled to the weekly deposit report and bank deposit slip in order to provide a clear record of contributions. Quarterly contribution statements should be issued for those who pledge as well as for all cash contributors. All of this should be kept in a secure place.

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 who has authority to sign checks on behalf of the church, and record this vote in the minutes of the committee.

vi. Insist that all [disbursements] be by check [or electronically.]

The check provides a more reliable record of the payment than is possible for a cash transaction. Any petty cash transactions should be closely monitored with a handwritten ledger and receipts turned in for all disbursements. Any electronic payments should be approved by a check signer.

vii. Require two signatures on every check.

There should be at least three designated signers, with at least two signing for each transaction. 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 under \$1000) but require two signatures for any check in an amount exceeding the threshold. Note that this will not necessarily be enforced by the bank, although you can have “Two signatures required over \$1,000” printed on your checks. A person should not be the only signer on a check payable to themselves. For electronic bill payments, the check signer(s) should initial the vendor’s paperwork that is kept in the files.

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. The cancelled check records should be reviewed to verify that each check has been signed by an authorized signer and that no checks are missing.

ix. Use a church budget effectively.

In general, expenses should be consistent with the planned budget; spending to meet unanticipated needs should be approved by appropriate church leaders or, in

the case of a large unbudgeted expense, by the congregation. (See [Section V.C.](#))

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. Some churches automatically write off all unpaid pledges at the end of each year. Others include unpaid pledges as “pledges receivable.” If so, and if an old unpaid pledge is to be written off, this decision should be made and voted by the finance or stewardship committee of the church. No individual acting alone should write off pledges. This is important in reconciling the amounts contributed with the amounts recorded as income on the church books. In addition, if contributions are recorded using software that is separate from the bookkeeping software, it is important to reconcile the total amounts acknowledged on contributions statements with the total amounts recorded as income in the budget.

Many churches question whether the minister should be aware of who contributes to the church and how much. In general, the minister is the one person who knows most people in the congregation, along with the circumstances of their lives. If you can’t trust the minister with this information, whom can you trust?

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

Some documents should be protected from theft, fire or flood. A safe deposit box at a local bank offers both security and off-site storage. A flash-key taken off-site protects valuable electronic data, although there are privacy implications to this arrangement. See [Section IX.E](#) below.

xii. Maintain an inventory of assets.

Document office equipment, furniture, musical instruments and other valuables with lists and/or photos. 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. (See [section IX.A.2.](#))

xiii. Make sure an annual audit is conducted.

See [section IX.B.2.](#) below.

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

A written policy is essential for clarifying expectations, and is especially helpful when substitutes fill in for regular staff or volunteers.

xv. Get a fidelity bond for all cash handlers.

See [section IX.B.4](#) below.

For more information concerning internal controls and the separation of duties, see "Protecting the Assets of Your Church" by R. Vargo in *Church Treasurer Alert!*, July 1995.

2. Protecting 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 that 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.

The Conference recommends that each church adopt a written gift acceptance and investment policy, approved by its governing body. This policy should provide guidelines as to

- 1) when a gift may be accepted, depending on restrictions;
- 2) how church assets may be invested;
- 3) who has the authority to make investment decisions within these guidelines; and
- 4) what amount from the invested funds may be spent, by whom, and for what purpose.

Sample investment policies may be obtained from the Associate Conference Minister for Stewardship and Financial Development at the Conference office in Framingham.

As with accounting procedures, responsibilities related to church investments should be distributed among several individuals. In particular, no individual 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 should also write to banks, brokers and investment firms for independent confirmation of assets held in custody for the church.

3. Audits

The Conference strongly recommends that the financial records of each local church be examined annually by a knowledgeable individual not otherwise involved in the financial management of the church. This can take a number of forms depending on the size and scope of the church financial affairs. Some churches name a member of the church as auditor, while others have an audit committee in place. Some churches arrange to have their books audited by an outside professional such as a Certified Public Accountant. It is essential that the CPA have experience with not-for-profit organizations and understand the unique features of church accounting.

A Certified Public Accountant may conduct an audit, a review, or a compilation. In some cases, such as when a church receives federal or state funds to operate a program of the

church, a full audit is required. At other times, a review may be sufficient. A compilation restates financial data in the generally accepted formats for non-profit organizations but does not verify the accuracy of the data provided by the church. Although there are some aspects of a CPA audit that are very useful for a church, it is important to be sure that the CPA has the specialized knowledge that churches require, including non-profit accounting with the relevant FASB statements, along with an understanding of the organization and decision-making process of the congregation.

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. Another possibility is that an audit committee from a local congregation could audit another church, while a committee from that other church provides a similar service for your church.

4. Bonding of Staff and Volunteers

The Massachusetts Conference recommends that each local church carry a fidelity bond to cover staff and volunteers who have responsibility for handling money. Such a bond is a form of insurance that compensates the church in the event that it loses money due to the dishonesty of employees or volunteers. This insurance is included in the package offered by the United Church of Christ Insurance Board (see [section IX.A.3](#)); it may also be purchased through a local insurance agent (see [Appendix A](#) for contact information).

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 churches 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.

C. 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. Things to consider include personnel policies, screening and supervision of volunteers and employees, evaluation of physical hazards on the premises, policies concerning the use of church vehicles, copyright regulations, and environmental hazards (such as oil tanks, asbestos, etc.).

Church officers have a profound ethical as well as legal responsibility to implement policies that 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 often devastating and deeply disruptive, especially when 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. The Massachusetts Conference Commission for Leadership Development has developed a packet of materials entitled *The Local Church and Sexual Abuse*, which may be obtained upon consultation with Su-

san Dickerman, Associate Conference Minister for Leadership Development. Another useful publication is *Reducing the Risk of Child Sexual Abuse in Your Church*, by Hammar et.al., published by Christian Ministry Resources. An excellent tool for evaluating such risks is *Risk Management for Churches - A Self-Directed Audit* by Grange, et al, available from *Church Law & Tax Report*, PO Box 1098, Matthews, NC 28106, (704) 841-8066.

D. Minimizing Legal Risks to Church Volunteers

In recent years a number of lawsuits have tried to impose personal liability on volunteer officers of churches, especially those that are not incorporated. Areas of potential liability include the following:

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, or negligent operation of a motor vehicle.

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 (example: "Signed by Mary Jones, Treasurer, for Grace UCC, a Massachusetts non-

profit corporation”) in order to avert the possibility of being held personally liable.

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.

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.²³ 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. 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.

The risk that officers will be held personally liable can be reduced by making certain changes to the church’s legal documents. Churches that are incorporated may amend their Articles of Organization to include a paragraph that effectively exempts

²³ Internal Revenue Code, Section 7202

officers from liability for honest mistakes (but not for “bad faith” acts such as knowing violations of the law.) A proposed motion for such an amendment is attached as [Appendix N](#). Churches that 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. Sample wording for such an amendment appears in [Appendix O](#). A higher level of protection is afforded by 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.

E. Protecting the Privacy of Employees and Donors

Beginning January 1, 2010 in Massachusetts, new rules took effect to minimize the risk of identity theft.²⁴ They require any-

New Massachusetts privacy rules became law in 2010.

one storing or maintaining certain information about a resident of the Commonwealth to protect that information and to maintain a Written Information Security Program (WISP). The full text of the regulations may be found at

www.mass.gov/Eoca/docs/idtheft/201CMR17amended.pdf

The personal information covered under these rules are a resident’s first name and last name, or first initial and last name,

²⁴ Massachusetts General Laws, Chapter 93H, 201 CMR 17.00

in combination with any one or more of the following “data elements that relate to such resident:”

- a) Social Security number;
- b) driver’s license number or state-issued identification card number; or
- c) financial account number, or credit or debit card number.

For a local church, this may include:

- a) Personnel records, which generally include a name and a social security number for each employee, including W-4, M-4 and I-9 forms;
- b) Records concerning independent contractors, including 1099 forms;
- c) Pledge cards and other donor records that include credit or debit card or bank account information; or
- d) Photocopies of checks, or checks themselves.

The regulations require individuals and organizations to go to considerable lengths to protect such information. The requirements include:

- Designating one or more individuals to implement and maintain a security program;
- Assessing risks to the security of information and working to limit such risks;
- Limiting the information collected and maintained to what is really necessary, and keeping it only as long as necessary;
- Making sure that the protected information is accessible only to those current employees and volunteers who need it in order to do their jobs;

- Verifying that any third-party service provider (such as a payroll processing company or bank) is protecting the church’s information in compliance with the regulations;
- Storing physical records in locked containers;
- Making sure electronic records are password-protected;
- Encrypting personal information that is sent across public networks or stored on laptops or portable devices;
- Maintaining “reasonably up-to-date” firewall protection, operating system security patches, and malware and virus-protection software set to receive current updates on a regular basis; and
- Developing written policies to implement the security program.

1. Issues to Consider

In general, the rules codify best practices, which some churches already follow. However, many will need to make changes in procedures, including the development of a written plan. A sample plan is included as [Appendix P](#). While compliance with these regulations will look a bit different for each local church, here are some things to consider:

- These rules highlight the risk of volunteers carrying pledge cards or personnel records home in briefcases, leaving them in their cars, etc. Paper records need to be kept in locked cabinets, ideally in a lockable room in the church building. Only the people who really

need them should have keys to the cabinets. Since the people who need to see pledge cards may not be the same as those who need to see personnel records, you may need separate cabinets with separate sets of keys.

- An individual should be designated to be responsible for making sure software permissions are kept up-to-date, so that only people who currently need access to personal information can view it. Passwords should be changed whenever there is staff turnover, or whenever there is reason to believe a password may have been compromised. Password records should be kept in a secure location separate from the computer.
- It's a good idea to obtain and maintain written documentation from third-party vendors stating their compliance with these regulations.
- Many standard data backup procedures are out of compliance with these regulations, which require that personal information on portable devices be encrypted. Make sure that information on portable devices is encrypted and password protected.

2. What Should Go into a Plan Document?

According to the regulations, a written plan should include the following:

- Identification of the volunteer or staff position whose occupant will be responsible for maintaining the “comprehensive information security program”;
- A description of the kinds of paper and electronic records protected by the program, where they are stored, who has access to them, and how access is controlled;
- A statement as to how long records will be maintained, and how and by whom they will be destroyed when no longer needed;
- The process for withdrawing access from those no longer employed or in relevant volunteer posts;
- Identification of the individual responsible for computer security, including access, encryption of information to be sent over the Internet, virus and firewall protection updates, and general due diligence;
- Whether, when and how anyone is allowed to remove such records from the church building (or other building in which it is kept, if the church has no office);
- Measures to be taken to ensure that any third parties with access to the church’s protected information are in compliance with the regulations;
- Disciplinary consequences for staff and volunteers who violate the rules of the security program;

- Procedures for documenting and reviewing any breach of security in order to learn what went wrong and to improve protection in the future; and
- A stipulation that the security program be reviewed at least annually, including who is responsible for this review.

3. Resources

Because the new law is affecting every business and non-profit organization in the Commonwealth, there are many articles and resources available on the Internet, such as <http://bt-securethinking.blogspot.com/2009/06/mass-201-cmr-17-compliance-what-this.html> .

In order to facilitate conversation as churches work to comply with the new rules, Dawn Hammond has posted the content of this section on Mac's List at the MACUCC website in the "Person to Person" section at www.macucc.org/macslist/

X. UNITED CHURCH OF CHRIST REPORTING

Each UCC church is asked to complete an annual report to the national United Church of Christ, updating names and contact information for church officers, membership data, clergy compensation, and financial data. This information is an **UNITED CHURCH OF CHRIST** important part of our covenant as member churches of the United Church of Christ.

The forms and instructions are mailed to each church from the Massachusetts Conference office annually in December. The information is compiled at the Conference office and forwarded to the national UCC in Cleveland. Some of the data is included in the annual *Yearbook* and on the UCC website. Membership figures as of December 31 are used to calculate per capita Fellowship Dues for the following year.

For your church, a number of people will have input into these annual reports, including the Minister, Clerk, Treasurer, and Administrator. Financial information is a part of Form F, Ministerial Support Form and Form G, United Church of Christ Local Church Report. Detailed line-by-line instructions are included with the report form. Completing these forms annually assures that when your church needs to access historical data for a ministerial search process or historical research, it will be ready and available through the UCC.

XI. CONCLUSION

Serving as Treasurer or as a Finance Team member is a significant responsibility and a gift not only to your local congregation but to the wider church as well. Your leadership and expertise, along with your attention to detail, can ensure that the congregation is able to make decisions that will lead to greater vitality and deepened faith, bearing witness to the gospel of Jesus Christ.

We hope that this *Handbook* has provided useful information for you about legal and tax issues, as well as providing guidance for you as you raise funds and plan your mission and ministry: giving to others, spending for ministry, and saving for the future.

If you have questions or comments, corrections or clarifications, please contact Dawn Hammond at the Massachusetts Conference office. Thank you again for all that you do for your congregation, for the Massachusetts Conference, and for the United Church of Christ.



BIBLIOGRAPHY AND RESOURCE LIST

A. Stewardship and Church Finance Websites

UCC Resources:

www.macucc.org – the Massachusetts Conference, UCC

www.ucc.org/stewardship -- stewardship resources on the UCC webpage

www.pbucc.org – The Pension Boards of the UCC (pension and individual/family health, dental, life, disability, vision, and long-term care insurance)

www.insuranceboard.org – The Insurance Board (property, liability, and workers' compensation insurance)

www.cornerstonefund.org – The Cornerstone Fund (investments and loans for UCC churches)

Financial Reporting and legal issues:

www.stewardsprophet.com – Rev. Karen McArthur's website with resources for the financial management of churches and faith communities; includes QuickBooks tips, links to FASB 116, 117 and 124, and information on UPMIFA and WISP

www.churchlawtoday.com -- Richard Hammar's website, available for an annual fee

www.amsolutions.net/pdfs/talking_to_your_board_vf.pdf
-- for an explanation of UPMIFA

Tax reporting and remittance:

www.irs.gov -- Internal Revenue Service, forms and publications

www.eftps.gov -- for payment of federal tax deposits

www.mass.gov -- Massachusetts Department of Revenue

Tax reporting and remittance (cont'd):

<https://wfb.dor.state.ma.us/webfile/business> -- for MA DOR reporting and payment of state tax deposits

www.mass.gov/uima – Massachusetts QUEST system for wage reporting and Fair Share Contributions Reporting (health insurance)

Financial products:

www.vancoservices.com – electronic giving solutions for churches (website giving and direct deposit for payroll)

www.compuchecks.com – inexpensive printable checks with free logo (send the UCC logo in jpg format)

Bookkeeping and payroll software:

www.quickbooks.com – for QuickBooks Pro software

Software for recording contributions, along with membership and mailing lists:

www.churchwindows.com, www.servantkeeper.com,
www.powerchurch.com, www.cdmplus.com,
www.fellowshipone.com

Clip-art for newsletters and websites:

www.newsletternewsletter.com

Written Information Security Program compliance:

bt-securethinking.blogspot.com/2009/06/mass-201-cmr-17-compliance-what-this.html

B. Source Materials

Published by the Pension Boards of the United Church of Christ

2010 Federal Reporting Requirements for Churches. Prepared by Church Law & Tax Report. Available at www.pbucc.org/interior_pub.asp?id=tax

2009 Tax Guide for Ministers. Prepared by Church Law & Tax Report. Available at www.pbucc.org/interior_pub.asp?id=tax

Published by the Massachusetts Conference of the United Church of Christ

A Guide to Capital Campaigns, available at www.macucc.org/stewardship/capitalcampaign.htm

A Mission Handbook & Yellow Pages for Mission/Outreach Committees, Revised Edition, January 1997, published by the Commission for Stewardship and Mission Interpretation.

A Practical Guide for Mission/Outreach Committees, by Paul C. Clayton, www.macucc.org/stewardship/APracticalGuideForMissionOutreachCommittees.htm

Annual Enlistment Programs, available at www.macucc.org/stewardship/services.htm

Compensation Booklets published by the Commission for Leadership Development:

Clergy Compensation and Sample Contract Booklet, 2000

Compensation Guidelines for Sextons/Custodians, 1999

2006 Educational Ministries Compensation Booklet

Office Personnel Compensation Book, 1999

Published by the American Guild of Organists

Compensation guidelines for Church Musicians are posted on the American Guild of Organists' website at www.agohq.org/profession/guidelines.htm

Published by Christian Ministry Resources

PO Box 1098, Matthews, NC 28106, (704) 841-8066

Church Finance (formerly *Church Treasurer Alert!*), published monthly.

Church Law and Tax Report (published monthly).

Grange, Hammar & Cobble, *Risk Management for Churches – A Self-Directed Audit*, 1994.

Hammar, Richard R., *Church and Clergy Tax Guide* (published annually).

Hammar, Richard R., *Pastor, Church & Law*, Second Edition, 1991.

Hammar, Klipowicz and Cobble, *Reducing the Risk of Child Sexual Abuse in Your Church*, 1993.

C. Glossary of Financial Terms

These pages summarize financial terms that are useful for congregational financial literacy.

ASSETS

Bank Accounts – checking, savings, CDs, petty cash, investment accounts

Undeposited Funds – cash and checks in transit to the bank

Pledges Receivable – a promise to contribute; only included by a church in rare circumstances or at the end of a year to show December income received in January

Other Accounts Receivable – amounts due to the church for services rendered, such as building use or tuition

Other Current Assets – other assets that could be turned into cash within the current year, such as an amount on deposit at the post office or an oil delivery company

Fixed Assets – tangible assets that have not yet been entered as expenses on the books of the church; usually only included on church books if there is a loan against them. Since fixed assets are normally not included in church financial reports, it is important to plan for major maintenance and capital improvements through a Capital Plan and Capital Reserve.

LIABILITIES

Accounts Payable – expenses incurred but not yet paid

Accrued Payroll – gross pay due to an employee for hours worked, but not yet paid, including unpaid vacation

Payroll Liabilities – taxes withheld or due on payroll that has already been paid

LIABILITIES (cont'd)

Loan Payable – the principal amount of a loan due to a lender (does not include interest)

Deferred Revenue – payment received for a future service, such as space for a wedding or a tuition deposit; would have to be returned if the event were cancelled

NET ASSETS or FUND BALANCES

Unrestricted Funds – may be used for any purpose consistent with the mission of the church

Board-Designated Funds – unrestricted funds set aside by a church board for a specific purpose or time

Temporarily Restricted Funds – funds restricted by the donor for a specific purpose or time

Permanently Restricted Funds – funds restricted by the donor with the stipulation that they be held in perpetuity by the organization

ENDOWMENT consists of permanently restricted funds, along with the temporarily restricted unspent accumulated gains associated with a specific permanently restricted investment.

INVESTMENTS are any funds that are held in investment accounts for the purpose of earning investment return to be used by the church; includes endowment. Note that investments usually include endowment (both permanently and temporarily restricted funds), investments (often board-designated), and operating funds (stock gifts received as payment of an annual pledge).

INCOME

Bequest income – contribution to a church given in a will or by the estate of someone who has died. This is counted as income when it is received, not when it is promised.

Contributions – includes only tax-deductible contributions

Contributions, In-kind – non-cash contributions such as supplies or postage for which receipts are submitted, but no reimbursement is requested. Volunteered services are usually only included if the services require specialized training and would have to be purchased if they were not donated (such as accounting, but not preparing a newsletter.)

Donations for use of property – income given in exchange for the use of church space

Event income – income received at an event such as a concert or a supper

Program fees – fees for participation in programs of the church, such as a retreat, a church trip, or a nursery school

EXPENSE

Operating expenses – annual expenses for the ministry and mission of the church

Capital expenses – building improvements or purchases of furnishings or equipment that lasts longer than a year. Note that churches almost always fully expense these purchases, rather than depreciating them over future years.

FUND TRANSFERS

Fund transfer -- a transfer from one fund to another, such as from the women's guild fund to the youth group fund for their mission trip; note that this is neither income nor expense

Capital reserve transfer – a transfer into a capital reserve for future capital expenses

CHANGE IN NET ASSETS – two possible outcomes over time:

Deficit – a decrease in net assets over a period of time, for either one fund or for a combination of funds

Surplus – an increase in net assets over a period of time, for either one fund or for a combination of funds

THREE TYPES OF STEWARDSHIP CAMPAIGNS

Annual Giving – seeks funding for annual budget

Capital Campaign – seeks funding for capital projects such as buildings and building improvements, as well as what accountants call “furniture and equipment”, such as an organ or computers

Planned Giving – seeks gifts via wills and estates, planned in advance

TWO TYPES OF ACCOUNTING

Accrual accounting – a system of accounting that recognizes income when it is earned and expenses when they are incurred. Required for all external non-profit financial statements.

Cash accounting —a system of accounting that recognizes income when cash is received and expenses when they are actually paid

APPENDICES

- A. Useful Addresses and Contact Information
- B. Letter documenting United Church of Christ Tax-Exempt status
- C. Massachusetts Health Care Reform Compliance
- D. Sample Medical 125 Plan
- E. Sample Charitable Contributions Receipt
- F. Massachusetts Conference Transmittal Form
- G. Sample One-Page Budget Summary
- H. Personnel File Checklist
- I. IRS Guidelines for Classifying Employees
- J. Sample Vote Designating a Housing Allowance
- K. Uniform Premium Table for Group-Term Life Insurance
- L. Sample Accountable Reimbursement Plan
- M. Property and Liability Insurance Checklist
- N. Sample Amendment to Articles of Organization to Protect Church Officers
- O. Sample By-Law Indemnifying Church Officers
- P. Sample Written Information Security Plan

Appendix A

Useful Addresses and Contact Information

I. Massachusetts Conference of the United Church of Christ

Framingham Office

One Badger Road
Framingham, MA 01702
Phone: 508-875-5233

macucc@macucc.org
www.macucc.org
fax: 508-875-5485

Staff at Framingham include:

Dawn Hammond Associate Conference Minister
for Policy & Finance

Andrew Gustafson, Associate Conference Minister
for Stewardship & Financial Development

Ludlow Office (Western Massachusetts)

51 Center Street, PO Box 443
Ludlow, MA 01056
Phone: 413-589-7034

western@macucc.org
fax: 413-589-7035

Plymouth Office (Southeastern Massachusetts)

225 Water St., Suite A-115
Plymouth, MA 02360
Phone: 508-746-8330

plymouth@macucc.org
fax: 508-746-8339

Waltham Office (Boston and Northeastern Massachusetts)

230 Second Ave., Suite #110
Waltham, MA 02451
Phone: 781-890-1444

macucc.waltham@verizon.net
fax: 781-890-1777

Worcester Office (Central Massachusetts)

1102 Pleasant St., Box 843
Worcester, MA 01602
Phone: 508-963-8106

central@macucc.org
fax: 508-752-4636

II. The United Church of Christ

700 Prospect Street
Cleveland, OH 44115
Phone: 216-736-2100

www.ucc.org

III. The Pension Boards - United Church of Christ

475 Riverside Drive, Room 1020 info@pbucc.org
New York, NY 10115
Phone: 800-642-6543

www.pbucc.org

Fax: 212-729-2701

IV. Agents for the Insurance Board

Jim Stewart
Chase, Clarke & Stewart Insurance
1200 Main Street, PO Box 9031
Springfield, MA 01102
Phone: 413-788-4531 or 800-501-2780
e-mail: jhs@chaseins.com

George Hulme, CPCU CIC
Fitts Insurance Agency, Inc.
40 Union Avenue
Framingham, MA 01704
Phone: 508-620-6200 or 888-697-6542
e-mail: ghulme@fittsinsurance.com

Note that from time to time, some businesses solicit UCC churches with letters stating that they provide insurance for UCC congregations. While this may be true, they are not necessarily the denomination's plan. If you have any questions, call the Insurance Board.

Appendix B

Letter Documenting United Church of Christ Tax-Exempt Status



U.S. TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

JUN 14 1964

PROPERTY OF THE
TREASURY DEPARTMENT
CSG

United Church of Christ
Seventh Floor
297 Park Avenue South
New York 10, New York

Gentlemen:

This has further reference to the information submitted for use in issuing a group ruling holding you and your conferences, associations, synods, councils and educational, charitable and religious organizations exempt from Federal income tax as organizations described in section 501(c)(3) of the Internal Revenue Code of 1954.

The information presented shows that you were formed as a merger of the Evangelical and Reformed Church and the General Council of the Congregational and Christian Churches. This merger became effective on July 4, 1961, the date your constitution and bylaws were declared in force.

In a ruling dated January 14, 1953, the Evangelical and Reformed Church was held exempt from Federal income tax under the provisions of section 101(6) of the 1939 Code, which corresponds to section 501(c)(3) of the 1954 Code. In a group ruling dated March 23, 1956, it was held that the affiliated synods and churches listed in the 1956 Evangelical and Reformed Church Yearbook, which are located in the United States, its territories and possessions, are exempt from Federal income tax as organizations described in section 501(c)(3) of the 1954 Code. The latest supplemental group ruling was issued on April 8, 1960. The General Council of the Congregational and Christian Churches was held exempt from Federal income tax under the provisions of section 101(6) of the Revenue Act of 1936, in a ruling dated December 15, 1955.

In a conference held in this office on October 23, 1963, your authorized representative, Mr. Loren T. Wood, asked that the request for a group ruling, both on a national and conference basis, be withdrawn. Inasmuch as we have not received

United Church of Christ

confirmation of the request for withdrawal, we have further considered the matter and we believe that a group ruling covering the Evangelical and Reformed Churches and those Congregational Christian Churches which voted to join you may be issued.

Based upon the information presented, it is held that you and the conferences, associations, synods, councils, and educational, charitable and religious organizations listed in your 1963 Yearbook are exempt from Federal income tax as organizations described in section 501(c)(3) of the Internal Revenue Code of 1954, as it is shown that you and your listed conferences, associations, synods, councils, and educational, charitable and religious organizations are organized and operated exclusively for religious, charitable and educational purposes.

You and your listed conferences, associations, synods, councils, and educational, charitable and religious organizations are not required to file Federal income tax returns so long as you and your listed conferences, associations, synods, councils, and educational, charitable and religious organizations retain a tax exempt status.

It will not be necessary for you and your listed conferences, associations, synods, councils, and educational, charitable and religious organizations to file the annual return of information, Form 990-A, generally required of organizations exempt under section 501(c)(3) of the Code, as you and your listed conferences, associations, synods, councils, and educational, charitable and religious organizations come within the specific exceptions contained in section 6033(a) of the Code.

Contributions made to you and to your listed conferences, associations, synods, councils, and educational, charitable and religious organizations are deductible by donors as provided in section 170 of the Code. Bequests, legacies, devises, transfers, or gifts to or for the use of you and your listed conferences, associations, synods, councils, and educational, charitable and religious organizations are deductible for Federal estate and gift tax purposes as provided in sections 2055, 2106 and 2522 of the Code.

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You and your listed conferences, associations, synods, councils, and educational, charitable and religious organizations are not liable for the taxes imposed under the Federal Insurance Contributions Act (social security taxes) unless waiver of exemption certificates are, or have been, filed as provided by that Act. Inquiries about the waiver of exemption certificates should be addressed to your District Director. You and your listed conferences, associations, synods, councils, and educational, charitable and religious organizations are not liable for the tax imposed under the Federal Unemployment Tax Act.

Please send us the following information annually not later than 45 days after the close of your annual accounting period.

1. Lists showing the names and mailing addresses of your new conferences, associations, synods, councils, and educational, charitable and religious organizations and the names and addresses of any conferences, associations, synods, councils, and educational, charitable and religious organizations which have ceased to exist or have changed their names or addresses. The names should be arranged in alphabetical order. In lieu of the lists referred to above you may furnish us a copy of your published directory. Please send one copy for each district in which your conferences, associations, synods, councils, and educational, charitable and religious organizations are located.
2. A statement signed by one of your principal officers stating whether or not the information upon which your original group ruling was based is applicable in all respects to the new conferences, associations, synods, councils, and educational, charitable and religious organizations.
3. A statement if, at the close of the year, there were no changes in your roster.

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4. A statement of any changes in the character, purposes or method of operation of your organization or those of your conferences, associations, synods, councils, and educational, charitable and religious organizations.

5. Duplicate copies of amendments to charters or bylaws of your organizations or those of any of your conferences, associations, synods, councils, and educational, charitable and religious organizations.

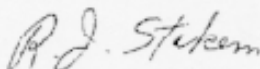
This ruling is not applicable to those Congregational Christian Churches listed in your 1963 Yearbook under Schedule I which have not voted or which have abstained from voting on the merger and those under Schedule II which have voted not to be a part of the United Church of Christ.

Your tax exempt status and that of your conferences, associations, synods, councils, and educational, charitable and religious organizations is predicated on the understanding that upon dissolution all of your assets and those of your conferences, associations, synods, councils, and educational, charitable and religious organizations shall be distributed to organizations organized and operated exclusively for educational, charitable or religious purposes.

The ruling of January 14, 1953, holding the Evangelical and Reformed Church exempt under section 101(6) of the 1939 Code, the group ruling of March 23, 1956, and subsequent supplemental group rulings, holding its listed affiliated synods and churches exempt as organizations described in section 501(c)(3) of the 1954 Code, and the ruling of December 16, 1955, holding the General Council of Congregational and Christian Churches exempt under section 101(6) of the Revenue Act of 1936, are terminated as of July 4, 1961, the date the merger between those organizations became effective.

The District Directors concerned are being notified.

Very truly yours,



Chief, Exempt Organizations Branch

Appendix C

Massachusetts Health Care Reform Compliance

Non-Discrimination

Any employer that offers group insurance in Massachusetts must comply with two requirements:

Participation -- The employer must allow every eligible full-time employee (the number of hours required will be defined as a part of the group contract) to join any health plan that the employer offers.

Premiums -- The employer may not make different premium contributions for employees based on their compensation.

This means that the employer must have one policy for all employees, such as paying 100% of the cost of an individual premium for all full-time employees. Employers are not allowed to pay for family coverage for some full-time employees and not offer any insurance to other full-time employees. Employers may pro-rate benefits based on time worked, for example, paying half the benefit for a half-time employee.

Note that employees may use Section 125 plans to use pre-tax dollars to pay their share of premiums.

Fair Share Contribution and Reporting

Fair Share requirements are based on the number of full-time equivalent employees. To determine the number of FTEs, divide the total annual payroll hours by 2,000, assuming that any full-time employee works a maximum of 2,000 hours per year.

For any employers with eleven or more full-time equivalent employees, there are four requirements:

- 1) **Fair Share Contribution** – The employer must file a Fair Share Contribution Report and must make a “fair and reasonable” contribution to employees’ health insurance, as defined by the law. The penalty for non-compliance is up to \$295 per employee.
- 2) **Section 125 Plan** – The employer must establish a Section 125 plan so that employees can designate a pre-tax portion of their compensation for medical expenses. The “Free Rider Surcharge” will be assessed for non-compliance.
- 3) **Employee HIRD Form** – The employer must collect and keep the signed employee HIRD form for three years. Penalties for non-compliance range from \$1,000 to \$5,000.
- 4) **Employer HIRD Form** – The employer must file online with the DUA quarterly. Employers who have easily passed the Fair Share Contribution Test may receive a waiver for reporting until the following January. Penalties for non-compliance will also include interest.

Appendix D

Sample Medical 125 Plan

Grace United Church of Christ
IRS Section 125 Plan
Election and Salary Reduction Agreement
Plan Year January 1, 2010 – December 31, 2010

All employees of the Church are eligible to designate a portion of their compensation as a flexible spending account for the reimbursement of eligible medical or dependent care expenses. The amount(s) so designated are not considered wages and therefore are not taxable for federal or state income tax purposes and are not subject to FICA and Medicare taxes. The amount(s) must be designated before January 1st and may not be revoked except under a “change of status” as defined by the IRS. **Any amounts unused by the employee after March 15, 2011 are forfeited to the church.**

The employee must submit receipts to the church office for reimbursement. For medical expenses, any expense allowed as a deduction on IRS Schedule A may be reimbursed, such as physician care or co-payments, prescriptions, dental care, eyeglasses, or vision care. Reimbursement may only be made for care received between January 1, 2010 and March 15, 2011, regardless of when the employee is billed or pays for it.

The maximum amounts that may be designated are:

Medical expenses: 50% of compensation

Dependent care expenses: \$5,000

A full copy of the IRS summary of Section 125 Cafeteria Plans is available in the church office.

Sample Medical 125 Plan (cont'd)

Employee name _____

(Check one) _____ I do not wish to participate in the Plan.

_____ I wish to participate in the Plan.

According to the rules of the Section 125 Plan, I elect the following benefits for the Plan Year specified above.

_____ Medical expenses \$ _____

_____ Dependent Care expenses \$ _____

Any previous election and salary reduction agreement under the Section 125 Plan is hereby revoked.

Grace UCC and I agree that my cash compensation will be reduced by the amount(s) listed above as I have elected under the Section 125 Plan, effective January 1, 2010 and continuing for each succeeding pay period until December 31, 2010.

Employee Signature _____

Date _____

This form must be returned to the church office by December 31, 2009.

Appendix E

Sample Charitable Contribution Receipt

January 2, 2010

Grace UCC

316 Main Street Plymouth, Massachusetts 01620
(508) 465-3787

Statement of Contributions For the year ending December 31, 2009

Jane Doe
123 Main Street
Plymouth, MA 01620

<u>Date</u>	<u>Amount</u>	<u>Check #</u>	<u>Fund</u>	<u>Tax-deductible?</u>
1/ 5/09	\$ 75	2142	General	Y
3/15/09	\$ 150	2161	General	Y
3/29/09	\$300	2167	Missions	Y
4/12/09	\$ 75	2172	General	Y
4/26/09	\$250	2178	OGHS	Y
6/14/09	\$ 150	2197	General	Y
7/10/09	\$ 150	online	General	Y
9/10/09	\$ 75	online	General	Y
9/15/09	\$ 24	online	Chicken BBQ	N
10/10/09	\$ 75	online	General	Y
11/10/09	\$ 75	online	General	Y
11/10/09	\$300	2237	Missions	Y
12/10/09	\$ 75	online	General	Y
12/24/09	\$ 20	cash	Christmas Fund	Y
12/31/09	<u>\$ 100</u>	online	General	Y
Total	\$ 1,870	tax-deductible		
	\$ 24	non-deductible		
	\$ 1,894	total received		

Pursuant to Internal Revenue Code requirements for substantiation of charitable contributions, other than “intangible religious benefits,” no goods or services were provided in return for these tax deductible contributions.

**** Please save this receipt for income tax purposes. ****

Appendix F Massachusetts Conference Transmittal Form

MASSACHUSETTS CONFERENCE of the UNITED CHURCH OF CHRIST
One Badger Road, Framingham, Massachusetts 01702

Enclosed is the Contribution of _____ For _____ (month) _____ (year) Total \$ _____

CHURCH IN

(Please make check payable to "MACUCC" and mail to the above address. Your cancelled check will be your receipt.)

Church Number
 in MACUCC Year
 Book required

Benevolence Contributions as follow:

OUR CHURCH'S WIDER MISSION

- Basic Support** - (Support the Conference and the National U.C.C.) \$ _____

- Special Support - (1) One Great Hour of Sharing \$ _____
- (2) Neighbors in Need (Including American Indian) \$ _____
- (3) Strengthen the Church \$ _____
- (4) Christmas Fund (Veterans of the Cross) \$ _____
- Disaster Relief (Specify) \$ _____
- \$ _____
- \$ _____
- \$ _____
- \$ _____
- Other Directed Gifts (Itemize) \$ _____
- \$ _____
- \$ _____
- \$ _____

Treasurer _____

1. Please forward white copy to Conference.
2. One copy for your pastor.
3. One copy for your file.

Appendix G

Sample One-Page Budget Summary

2010 at GRACE UNITED CHURCH OF CHRIST

What we have as a gift from the past:

UNRESTRICTED FUNDS	549,522	
TEMPORARILY RESTRICTED FUNDS	53,425	
PERMANENTLY RESTRICTED FUNDS	46,000	
TOTAL		\$648,947

What we expect to receive in 2010:

CONTRIBUTIONS	154,000	
DONATIONS FOR USE OF BUILDING	7,000	
EVENT INCOME	20,000	
INVESTMENT RETURN – (5- yr avg) 4%	16,000	
PROGRAM FEES	4,000	
TOTAL	\$201,000	

What we plan to give in 2010:

UCC MISSION & MINISTRY	(10,050)	
COMMUNITY OUTREACH & SUPPORT	(10,050)	
TOTAL (= 10% of total in- come)	(\$20,100)	

Sample One-Page Budget Summary (cont'd)

What we plan to spend on ministry in 2010:

ADMINISTRATION	(11,000)	
CARE	(5,000)	
COMMUNICATIONS	(6,000)	
EDUCATION	(4,000)	
EVANGELISM & MEMBERSHIP GROWTH	(2,000)	
FELLOWSHIP	(2,000)	
MINISTERIAL	(115,000)	
PROPERTY	(21,000)	
STEWARDSHIP	(1,000)	
WORSHIP	(12,000)	
TOTAL	(\$179,000)	1,900

What we plan to invest in our future

BEQUESTS		10,000
CAPITAL EXPENDITURES		(6,000)

What we plan to save for our future

UNRESTRICTED FUNDS	557,812	
TEMPORARILY RESTRICTED FUNDS	46,035	
PERMANENTLY RESTRICTED FUNDS	51,000	
TOTAL		\$654,847

Appendix H Personnel File Checklist

Name _____

Date Hired _____ Position _____

Start Date _____

Starting Hours and Pay rate _____

- Letter of agreement
- INS Form I-9 with document copies
- CORI
- IRS Form W-4
- MA DOR Form M-4
- New Hire Report filed _____
- Medical 125 Plan _____
- Eligible for Health insurance
 - Application to employee _____
 - Application to insurer _____
 - Enrollment complete _____
 - Initial Employee HIRD Form _____
- Dental Insurance _____
- Vision Insurance _____
- Eligible for Pension
 - Application to employee _____
 - Application to insurer _____
 - Enrollment complete _____
- Eligible for Life Insurance and Disability
 - Application to employee _____
 - Application to insurer _____
 - Enrollment complete _____

Appendix I

IRS Guidelines for Classifying Employees

The “20-factor” test

The IRS issued a "20-factor" test in 1987 (Revenue Ruling 87-41), as an aid in determining whether or not an individual is an employee. The IRS cautioned that the degree of importance of each factor may vary according to the specifics of the case; it is not necessary for all of the following factors to apply in order for an individual to be considered an employee. The following factors tend to indicate employee status:

1. The individual must comply with instructions about when, where and how to work.
2. The individual is trained by an experienced employee or by other means.
3. The person's services are integrated into the business operations of the organization.
4. The services must be rendered personally by the individual in question. (In contrast, an independent contractor may delegate responsibilities to another individual in his or her employ.)
5. Any persons hired to assist the worker in question are hired, supervised and paid by the employer rather than the individual in question.
6. There exists a continuing relationship between an individual and the organization for whom he or she performs services.
7. Set hours of work are established by the employer.
8. The worker is required to devote full time to the business of the employer. (However, the fact that an individual works part-time does not, in itself, indicate that he or she is an independent contractor.)

9. Work is done on the employer's premises.
10. The worker is required to perform services in an order or sequence set by the organization for whom he or she performs the services.
11. A worker must submit regular oral or written reports to the employer.
12. The individual is paid by the hour, week or month rather than by the job in a lump sum.
13. The employer pays the worker's business or travel expenses.
14. Tools or materials are furnished by the employer.
15. All necessary facilities (equipment and premises) are furnished by the employer.
16. The worker is not in a position to realize a profit or loss from the provision of services to the organization.
17. The worker serves one organization at a time, rather than working for several persons or organizations.
18. The worker does not make his or her services available to the general public.
19. The organization has the right to discharge the individual.
20. The individual has the right to terminate the job at any point without incurring legal liability.

Tax Reporting Status of Clergy: the “seven-factor” test

In 1994 the US Tax Court made use of a “seven factor” test in two rulings regarding the tax reporting status of clergy. The test requires consideration of the following factors:

1. The degree of control exercised by the employer over the details of the work
2. Which party invests in the facilities used in the work
3. The opportunity for the individual to realize a profit or loss
4. The right of the employer to discharge the individual
5. Whether the work is part of the employer’s regular business
6. The permanency of the relationship
7. The relationship the parties believe they are creating

The court further stated that “the threshold level of control necessary to find employee status is generally lower when applied to professional services than when applied to non-professional services.”²⁵

²⁵ Richard Hammar, *2009 Church & Clergy Tax Guide*, p.71

Appendix J

Sample Vote Designating a Housing Allowance

Motion: that beginning January 1, 2010, the housing allowance paid to the Rev. John Smith shall be \$27,000 annually, or \$2,250 monthly. This amount shall be designated as a housing allowance pursuant to section 107 of the Internal Revenue Code. Furthermore, the designation of \$27,000 as an annual housing allowance shall apply to 2010 and to all future years unless otherwise provided.

****Note that the housing allowance must be voted prior to the start of the period for which it is granted.****

Appendix K

Uniform Premium Table for Group-Term Life Insurance

The taxable cost of insurance that is in excess of \$50,000 is determined from the uniform premium cost rates contained in Table I of Reg. 1.79-3 (p.6364) and not on the basis of the employer's actual premium costs for the insurance coverage. This table provides per-month premium cost rates for \$1,000 of insurance, based on five-year age brackets. The uniform premium cost table for group-term life insurance provided after 1988 is reproduced below.

Cost Per \$1,000 of Protection for one Month	
Age	Cost
Under 25	\$.05
25 through 29	\$.06
30 through 34	\$.08
35 through 39	\$.09
40 through 44	\$.10
45 through 49	\$.15
50 through 54	\$.23
55 through 59	\$.43
60 through 64	\$.66
65 through 69	\$1.27
70 and above	\$2.06

The cost of each month of coverage is computed by multiplying the number of thousands of dollars of insurance, computed to the nearest tenth, by the appropriate amount in the above table. If group-term life insurance is provided for less than one month, the amount shown in the table is prorated over the month (Reg. 1.79-3(d)(1)).

(Source: 982 CCH—Standard Federal Tax Reports Reg. 1.79-4T P.6367.023)

Appendix L

Sample Accountable Reimbursement Plan

Grace UCC hereby establishes an accountable plan to reimburse its employees for business expenses incurred in the course of their work.

Substantiated expenses are to be reported to the church treasurer on a regular basis (at least every other month) and will be reimbursed by the treasurer. Substantiation must include the date, place, amount, and business purpose of each expense. Travel mileage will be reimbursed at the rate allowed by the IRS. Any cash advance must be accounted for and any excess returned to the church within 120 days of the advance.

Expenses that may be reimbursed include the costs of automobile mileage and tolls, lodging and meals, supplies, books and periodicals, continuing education and training events, and dues for membership in professional associations.

Line items for the reimbursement of business expenses will be established in the church operating budget each year. These reimbursements are not to be considered part of any employee's salary; rather, they are operating expenses of the church.



Grace United Church of Christ

Request for payment

Pay to: _____

Address: (if not on file) _____

Check to be mailed _____ or given to _____

Date needed _____

ITEM	AMOUNT	ACCOUNT	APPROVAL

Please attach receipts or for mileage reimbursement, date and beginning and ending odometer readings.

TOTAL

Appendix M

Property and Liability Insurance Checklist



1.800.437.8830
www.InsuranceBoard.org

2009 - 10 COVERAGE COMPARISON

Page 1 of 4

Revised 10/09

Coverage Description

IB Program

Property Insurance

Blanket Limit – Building(s)/Contents Limit	\$ per Memorandum of Insurance	_____
Agreed Amount/Replace Cost w/no Coinsurance Penalty	Included	_____
Unintentional Underinsurance	+ 25% of the Blanket Limit	_____
Increased Cost of Construction / Demolition	\$500,000 combined	_____
	Included - except Zones starting with A & V, then \$10,000 sub-limit provided	_____
Water Damage and Sewer Backup	Included	_____
All Risk of Direct Physical Loss	Included	_____
Terrorism Coverage	Included	_____
Deductible Options	\$1,000 - \$50,000	_____
Named Storm Wind (Hurricane) Limit	\$50M Per Occurrence	_____
	5% Florida & Tier 1 counties in NC, SC, GA, AL, MS, LA & TX	_____
Named Storm Wind (Hurricane) Deductibles		_____

2% Hawaii & Tier 2 counties in same states _____ (percent of values at affected locations)

Included	_____
Included	_____
Included	_____
Included	_____
Included	_____
Included	_____

Included in Blanket Limit:

- Building Ordinance Allowance
- Glass / Organ Coverage
- Appurtenant Structures Coverage
- Exterior Signs and Fence Coverage
- Equipment / Mechanical Breakdown
- Removal of Vacant Property Restrictions

Actual Loss Sustained - Up to \$500,000	_____
Included in \$500,000 limit	_____
Included in \$500,000 limit	_____
Included in \$500,000 limit	_____

Business Income: (increased limits available)

- Business Income
- Tuition & Fees w/365 Day Extension Period
- Loss of Rents; Extra Expense
- Off-Premises Power Failure

As scheduled	_____
\$1,000,000 / 180 Days	_____
\$100,000	_____
\$100,000	_____
\$100,000	_____
\$50,000 limit for increased cost	_____

Coverage Extensions

- Owned Watercraft
- Coverage for Newly Acquired Property
- Premises Not Described
- Property in Transit (Named Perils only)
- Personal Effects of Clergy & Officers
- Upgrade to Green* Coverage

Upgrade to Green* Coverage	\$50,000 limit for increased cost	_____
Valuable Papers & Records	\$25,000	_____
Accounts Receivable	\$25,000	_____

2009 - 10 COVERAGE COMPARISON

Page 2 of 4

Revised 10/09

Coverage Description	IB Program
<u>Property Insurance (cont.)</u>	
EDP – Computer Equipment	\$25,000 (increased limits available)
EDP - Computer Data & Media	\$10,000 (increased limits available)
Unscheduled Fine Arts	\$25,000
Trees, Shrubs & Plants	\$1,000/Item, \$10,000/occurrence
Statement of Loss Preparation	\$5,000
Fire Department Service Charge	\$15,000
Pollutant Clean-up & Removal	\$10,000
Recharge of Fire Protection Equipment	\$10,000
Arson Reward Coverage	\$10,000
Debris Removal	25% of Direct Loss
Re-keying Coverage	\$1,000
Optional Coverages	
Earthquake with 5% deductible – All States	\$75M Annual Program Aggregate, except CA - \$25M Annual Program Aggregate

Mine Subsidence Coverage	Included in Earthquake Coverage
Flood (not available in zones A & V)	\$75M Annual Program Aggregate
Scheduled Fine Arts (including Breakage)	Available
Scheduled Property Floater	Available
Crime Insurance	
Employee Dishonesty Coverage	\$1,000,000
Forgery or Alterations Coverage	\$1,000,000
Theft, Disappearance & Destruction of Money & Securities	\$1,000,000
Money Orders & Counterfeit Paper Currency	\$1,000,000
Computer Fraud	\$1,000,000
Deductible	\$1,000 standard

Differences to Consider when Reviewing Other Property and Crime Coverages - the IB offers:

- Automatic Agreed Amount – no co-insurance. Others have co-insurance, a penalty for underinsuring
- Unintentional underinsurance up to 25% of Blanket
- \$10,000 coverage on backup of sewers in Flood Zones starting with A & V
- Building ordinance protection up to blanket limit
- \$500,000 business income limit, including 365 Day Extension Period from date of restoration for Tuitions & Fees
- Broad range of optional property coverage including earthquake and flood coverage
- \$1M limit for employee dishonesty and money & securities which is substantially higher than most
- *Upgrade to Green Coverage* - allows for rebuilding with environmentally friendly materials and appliances
- Terrorism coverage included for destructive acts intended to promote or further any political, ideological, racial or religious cause.

NOTE: The descriptions of coverage are general only and are not statements of an insurance contract. All coverage descriptions and limits are

2009 - 10 COVERAGE COMPARISON

Coverage Description	IB Program
----------------------	------------

Primary Liability Insurance (Limits apply per Participating Member)

Commercial General Liability	\$2M per occurrence; \$4M aggregate \$1M per victim/\$2M annual limit
Sexual Misconduct Liability (Claims-made*)	(Occurrences prior to 10/1/06 limited to \$1M)
Pastoral Counseling (Claims-made*)	\$2M/each claim & \$2M aggregate
Hired & Non-Owned Automobile Liability	\$2M/occurrence; \$4M agg. (excess basis)
Hired Automobile Physical Damage	\$35,000 Limit; \$1,000 deductible
Directors & Officers (Claims-made*)	
Including Employment Practices Liability	\$3M/loss & \$3M aggregate
Employee Benefits Liability (Claims-made*)	\$2M/occurrence & \$2M aggregate
Products & Completed Operations	\$2M/occurrence & \$4M aggregate
Privacy Breach Protection	\$25,000 limit; \$500 deductible
Nurses Professional Liability	Included
Libel, Slander & Invasion of Privacy	Included
Advertising Liability	Included



	Blanket Contractual	Included
	Host Liquor Law Liability	Included
	Additional Interest of Employees & Volunteers	Included
	Employers' Liability (Stop Gap)	Included
	Newly Acquired Operations	Automatic for 90 Days
	Off-Premises Church Sponsored Activities	Included
	Non-Owned Watercraft (less than 51 ft.)	Included
	Corporal Punishment	Included
	Medical Payments	\$25,000
	Damaged Property Rented To You	\$500,000
	Cemetery Professional Liability	Included
	Blanket Additional Insured - if required by Contract	Included
	Broad Form Named Insured	Included
	Church Day Care & Nursery Schools	Per Application
	Church Owned Camps	Per Application

plies only to events occurring on or after your individual retro dates.

* For Claims-made coverages, refer to your insurance documents; coverage ap

Umbrella & Excess Liability

ing Liability, Employers' Liability, Automobile Liability,

- \$30M limit each occurrence / \$30M limit general aggregate per participant
- Coverage provides excess for Commercial General Liability, Pastoral Counseli
- Employee Benefits Liability, and Cemetery Liability, where purchased
- Excess Sexual Misconduct \$2M per victim/\$5M per participant if purchased in

primary, non-ult retro date.

Sexual Misconduct \$2M per victim/\$5M per participant if purchased in primary - consult retro date.
red & Non Owned Auto Liability included - excess of other valid insurance

• Hi

2009 - 10 COVERAGE COMPARISON

Page 4 of 4

Revised 10/09

Coverage Description	IB Program
Owned/Leased Automobiles (optional)	
Owned Automobile Liability	\$2M Combined Single Limit
Comprehensive (Deductible)	Actual Cash Value (\$1,000)
Collision (Deductible)	Actual Cash Value (\$1,000)
Personal Injury Protection	Statutory
Uninsured / Underinsured Motorists	\$1,000,000
Towing & Labor – Private Passenger only	\$30 per disablement
Rental Reimbursement – Private Passenger only	\$30 for 30 days, \$900 total
Drive Other Car Coverage	Optional
Volunteers as Insureds	Included
Auto Medical Payments	\$5,000 (scheduled autos)
Workers' Compensation (optional)	
Workers' Compensation Liability	Statutory
Employers' Liability – Bodily Injury by Accident	\$1,000,000

odily Injury by Disease per Emp.	\$1,000,000	Employers' Liability – E
odily Injury by Disease per Policy	\$1,000,000	Employers' Liability – E
t	Included	All States Endorsemen

Consider when Reviewing Other Liability Coverages – the IB Offers:

per participant which is much higher than most
 liability coverage of \$1M per victim, \$2M per Occurrence; plus Excess \$2M per victim/\$5M per participant if purchased
 result retro date
 s coverage includes Employment-Related Practices Liabilities such as sexual harassment, wrongful termination & discrimination
 00,000 for damage to premises rented to you
 d Auto liability included with \$2M primary limit, plus \$30M Umbrella
 ent liability included

Differences to Co:

- \$30M liability limit
- Sexual Misconduct in primary - oc
- Directors & Officer
- Coverage up to \$5
- Hired & Non-Owned
- Corporal punishment

the Insurance Board Program provides excellent claims service!

I

Appendix N

Sample Articles of Organization Amendment to Protect Church Officers

No officer or director of the corporation shall be personally liable to the corporation or its members for monetary damages for breach of fiduciary duty as an officer or director, provided, however, that this provision shall in no way be construed to eliminate or limit the liability of an officer or director (i) for any breach of his or her duty of loyalty to the corporation or its members, (ii) for acts or omissions not in good faith or involving intentional misconduct or a knowing violation of the law, or (iii) for any transaction from which the officer or director derived an improper personal benefit.

Appendix O

Sample By-Law Indemnifying Church Officers

This is an example only, and should not be adopted as written without considering your own church's structure. Massachusetts Conference legal counsel has cautioned us that "the by-law example refers to the "Governing Board" as the decision making authority ... the decision making authority may be a different Board or Committee in a different church depending on the by-laws of that church. It is difficult to recommend an indemnification provision for use by all churches without reviewing the existing by-laws of the particular church to ensure that the appropriate bodies are named in the indemnification provision and that the provision is not contrary to other provisions of the by-laws."

ARTICLE: Indemnification

A. Indemnification for Officers and Members of Boards and Committees. To the extent legally permissible, the Church shall indemnify each present or former Officer or Member of a Board or Committee of the Church against all liabilities, costs and expenses, including but not limited to amounts paid in satisfaction of judgment, in settlement or as fines and penalties, and counsel fees and disbursements, reasonably incurred by him or her in connection with the defense or disposition of or otherwise in connection with or resulting from any action, suit or other proceeding, whether civil, criminal, administrative or investigative before any court or administrative, legislative or investigative body, in which such person may be or may have been involved as a party or otherwise or with which such person may be or may have been threatened, while in office or thereafter, by reason of his or her being or having been such an Officer or Member of a Board or Committee, or by reason of any action taken or not taken in any such capacity, except with respect to any matter as to which such person shall have been found by vote of a majority of the disinterested trustees of the whole Governing Board then in office not to have acted in good faith in the reasonable belief that his or her action was in the best interests of the Church. Expenses, including but not limited to counsel fees and disbursements, so incurred by any such person in defending any such action, suit or proceeding, may be paid from time to time by the Church in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the person indemnified to repay the amounts so paid if it shall ultimately be determined that indemnification of such expenses is not authorized hereunder which undertaking shall be accepted

without reference to the financial ability of such person to make payment.

B. Settlements. As to any matter disposed of by settlement by any such person, pursuant to a consent decree or otherwise, no such indemnification either for the amount of such settlement or for any other expenses shall be provided unless such settlement shall be approved as in the best interests of the Church, after notice that it involves such indemnification, (a) by vote of a disinterested majority of the whole Governing Board then in office, or (b) by vote of a majority of the whole Governing Board then in office, but only if the Governing Board shall have been furnished with an opinion of independent legal counsel to the effect that such settlement is in the best interests of the Church and that such person appears to have acted in good faith in the reasonable belief that his or her action was in the best interests of the Church. No such approval shall prevent the recovery from any such Officer or Member of a Board or Committee of any amounts paid to such person or on his or her behalf as indemnification in accordance with the preceding sentence if such person is subsequently adjudicated by a court of competent jurisdiction not to have acted in good faith in the reasonable belief that his or her action was in the best interests of the Church.

C. Insurance. By action of the Governing Board, notwithstanding any interest of the Governing Board in such action, the Church may purchase and maintain insurance, in such amounts as the Governing Board may from time to time deem appropriate, on behalf of any person who is or was an Officer or Member of a Board or Committee of the Church against any liability incurred by such person in any such capacity, or arising out of his or her status as such, whether or not the Church would have the power to indemnify such person against such liability.

Appendix P

Sample Written Information Security Plan

Grace United Church of Christ

Written Information Security Plan

Grace UCC adopts this policy for the protection of personal information entrusted to the church by employees, volunteers, donors, independent contractors, or anyone associated with the church.

These policies apply any time an individual's name is kept along with his or her Social Security number, passport number, driver's license number, state-issued identification card number, or banking information, including a financial account number or credit or debit card number.

In general, information collected and maintained will be limited to what is really necessary, and will be kept only as long as necessary, according to records retention requirements for employment and financial records.

Protected information should be accessible only to those current employees and volunteers who need it in order to do their jobs.

Any paper records containing this information will be kept in locked containers as follows:

Personnel files and payroll records, including I-9s, W-4s, M-4s, direct deposit forms are kept in a locked cabinet in the _____ office. _____ and _____ have access to these files.

CORI forms are kept in a locked cabinet in the _____ office. _____ and _____ have access to these files.

Paper copies of contributions records and deposits are kept in a locked cabinet in the _____ office. _____ and _____ have access to these files.

Electronic information is kept in _____ computer files. These are password protected. _____ and _____ have access to these files.

The following third-party service providers have provided their WISPs, which are kept on file in the _____ office.

- Payroll company: _____
- On-line contribution provider: _____
- UCC Pension Boards

Any protected information may only be sent across public networks or stored on laptops or portable devices if it has been encrypted.

All computers maintain reasonably up-to-date firewall protection, operating system security patches, and malware and virus-protection software set to receive current updates on a regular basis. All church computers and networks are monitored by _____.

This policy is overseen by _____ in her position as _____.

Annually in _____ each year, the _____ Committee will assess risks to the security of this information and make recommendations to limit such risks.

