

FOR CHURCH TREASURERS  
& FINANCE COMMITTEES

MASSACHUSETTS CONFERENCE  
UNITED CHURCH  
OF CHRIST  
2018



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For additional copies, please contact the  
Massachusetts Conference, United Church of Christ  
One Badger Road  
Framingham, MA 01702  
508-875-5233 [www.macucc.org](http://www.macucc.org)

## FOREWORD



Thank you for taking responsibility for the financial management and ministry of your church. Whether you think of what you do as *ministry* or not, you're using your gifts to help the church steward its resources well so that it can be a life-enhancing, life-changing outpost of God's love in the world. Without committed, faithful people like you, this wouldn't be possible!

This work and ministry is particularly important today, with new challenges – often with financial implications – adding stress to the already challenging project of being church together. This *Church Finance Handbook* is designed to help make your work and ministry easier by bringing together a wealth of information pertaining directly to the role you play. As you read through the *Handbook*, you will find general concepts and guidance in the first nine chapters, followed by chapters with UCC-specific resources, federal and IRS requirements, and finally, Massachusetts information in the final chapters. While the *Handbook* may not answer every question you may have, it's a good place to start, and we hope you'll find it a trusted companion along the way.

In addition to this *Handbook*, the Massachusetts Conference offers resources, workshops, and consultations to churches on matters of finance and stewardship throughout the year. We encourage you to consult the Conference website and, in particular, its resource webpages: [www.macucc.org/resources#prcli](http://www.macucc.org/resources#prcli). Twice yearly Super Saturday gatherings offer 40-50 workshops on a

wide variety of topics, many of which are related to stewardship or finance. Church Treasurer gatherings are also held periodically. Information about these programs may be found on the Conference website, where you can also sign up for electronic newsletters of interest to you or other church leaders. For more information, contact Jonathan New, Associate Conference Minister for Stewardship and Financial Development, at 508-875-5233 ext. 231 or [newj@macucc.org](mailto:newj@macucc.org).

This *Handbook* and the Conference resources and staffing noted within are made possible by the partnership of the 350+ congregations of the Massachusetts Conference. Your church's financial expression of covenant through Our Church's Wider Mission (OCWM) and Fellowship Dues, or through United Church Mission is critical to the faithfulness and effectiveness of our common mission as local churches, associations, the Massachusetts Conference, and the national setting of the UCC. And, on the eve of an historic coming together with the Rhode Island and Connecticut Conferences, you can know that your church's contributions are having an even wider effect as part of a larger pool of resources. Together, As One, we are nearly 650 churches strong and we're making a difference!

Thanks again for all you are doing to help your church be a vital place of mission and ministry that's blessing the world and its people in a multitude of ways.

Rev. Jonathan New  
Associate Conference Minister  
for Stewardship & Financial Development

Dawn Hammond  
Associate Conference Minister for Policy & Finance

## ACKNOWLEDGEMENTS

This handbook has changed and adapted over its twenty-year history. The first edition was prepared in 1998 by Dawn Hammond, at the request of the Commission for Leadership Development for the Massachusetts Conference of the United Church of Christ, to provide guidance regarding some of the questions commonly asked by church treasurers and finance committees. In 2010, Dawn and I updated and expanded the *Handbook*, incorporating additional resources and requirements, along with new information about financial reporting. Now, in this third edition, I have further updated and re-organized the content so that state-specific editions can be prepared. The drawings were contributed by Maureen Devey Jones, a member of the Congregational Church of South Dartmouth.

### **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 a qualified accountant or qualified attorney who can review your situation personally and offer professional advice.**

Thank you to the numerous treasurers, administrators, and Finance Team members who have asked questions, shared ideas and frustrations, and worked countless hours over the years to develop and refine the procedures and policies that are included

in this *Handbook*. We come to this work with a variety of financial backgrounds and experiences, both within and beyond the church. If we do our job well, each of us will leave a legacy of improved transparency and greater clarity for those who follow.

Special thanks to Brian James, Bob Stolte, and Stow Walker, each of whom served many years as Treasurer of their respective congregations in Cambridge, Marblehead, and West Barnstable, Massachusetts. These churches, with their roots in the early 17<sup>th</sup> century, helped to develop the congregational decision-making, accountability, and financial transparency that have been central to our heritage for nearly 400 years. In our polity, it is the members who have the authority to make financial decisions, along with the responsibility to understand the rules, the possibilities, and the limitations of their congregation's financial resources. Brian's insistence on capital planning and emphasis on long-term financial sustainability are two of the many legacies he leaves behind in the church he loved.

As things change – as they surely will – updates will be available on the Conference website, as well through posts on my own website. Hopefully, you will find that this *Handbook* is a valuable resource for your role in the stewardship of your church's financial resources.

Rev. Karen McArthur  
Congregational Finance LLC  
[www.congregationalfinance.com](http://www.congregationalfinance.com)

Minister of Stewardship & Finance  
First Church in Cambridge, Congregational, UCC

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A  
CHURCH  
FINANCE  
HANDBOOK



## 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, both in



the current year and in the years to come. The Treasurer is also responsible for making sure that all financial details are handled with accuracy, including recording contributions, paying bills, issuing paychecks, filing mandatory reports, 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!

Each state has specific requirements for members and officers of a non-profit corporation, and most states require at least a President, a Clerk, and a Treasurer.<sup>1</sup> The President is the elected leader of the congregation. The Clerk keeps the official records of membership and minutes of meetings. The Treasurer is responsible for all financial aspects of the church for all groups within the church, including the youth group, women's fellowship, nursery school, and any other groups who handle money or bank accounts. The Treasurer is also legally responsible for

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<sup>1</sup> [www.harborcompliance.com/information/nonprofit-governance-by-state](http://www.harborcompliance.com/information/nonprofit-governance-by-state)

compliance with federal and state requirements for payroll reporting and withholding and for payments to contractors. Therefore, it is critical that the responsibilities are clearly understood and adequately fulfilled, in alignment with legal requirements and best practices.

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 each 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 another employee. This allows the Treasurer to fill a broader role: signing checks, managing cash flow, interpreting financial reports, and facilitating the congregation's financial decision-making process. Treasurers may be paid or unpaid, as long as they are members of the organization. Whether they oversee a team of individuals or complete most of the tasks by themselves, checks and balances, transparency, and documented procedures are critically important for security and for continuity.

In all cases, it is essential that the Treasurer and any financial personnel have a basic understanding of non-profit finance and church finance, maintaining the distinction between unrestricted and restricted funds so that financial recordkeeping and reporting are 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, furthering our faithful, effective, and resilient church.

## 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 bylaws. 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, Consistory, 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. Although the history of many congregations extends back for centuries, many churches incorporated in the early 20<sup>th</sup> century when it became legally possible to do so.

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.

Church leaders should consider the church’s risk tolerance and the nature of its activities in deciding whether or not to incorporate. Churches considering bylaw changes or other structural changes should consider incorporating as a part of the process. Those churches operating programs such as preschools, 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 bylaws. The Articles of Organization are filed with the state for a nominal fee. Sample bylaws may be obtained from your Conference office.

It is important to have documentation of your incorporation 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 bylaws will make the information easily available.

## **B. Federal Recognition**

Although an organization is incorporated in a specific state, recognition of the organization is granted at the federal level for two purposes: receiving contributions and employing individuals or independent contractors.

### **1. Federal Income Tax Exemption – 501(c)3 status**

The Internal Revenue Service 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, including New Ministry Initiatives that have been granted Proposed Congregation / New Church Start status by their Association. The IRS group exemption number for the United Church of Christ is 1665. A letter

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

documenting this ruling is included as Appendix A. 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 & Directory* or UCC DataHub on which your church is listed. The *Yearbook & Directory* is available annually from the UCC Center for Analytics, Research and Data. This will satisfy most grant-makers, tax authorities and others who may be interested. If you need further documentation, contact your Conference office for assistance.

## **2. Employer Identification Number (EIN)**

Each local church needs to have its own federal 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 same EIN is used by the IRS, the Social Security Administration, and the state.

If you do not already have one, you can obtain an EIN for your local church by applying online. On the IRS website, [www.irs.gov](http://www.irs.gov), search EIN to find IRS Form SS-4. In item 9a, list the UCC group exemption number 1665. 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.

## C. Communications

Just as the church is set up as a legally recognized organization, it is important to establish a distinct financial presence as well. Using a financial e-mail address allows you to consolidate



all financial correspondence in one place, simplifies recordkeeping for your vendors, safeguards the church's financial assets, and makes it easy to transfer to the next Treasurer. All vendor accounts should use the church address, church telephone, and church finance e-mail. All payments should be made in the name of the church.

Similarly, all financial files, whether paper or electronic, should be kept at the church office with adequate backup kept securely offsite.

## D. Banking

Once you are legally recognized, 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 bylaws can simplify the process of opening an account or applying for a loan or line of credit at a financial institution.



### 1. Bank Accounts

Churches often maintain several bank accounts – checking accounts, money market accounts, savings accounts, and/or Certificates of Deposit. Prior to the advent of personal computers, separate bank accounts were often necessary to keep track of various church funds. However, now that bookkeeping software can easily track fund balances, consolidating accounts can help to lower bank fees, guard against embezzlement, and ensure timely compliance with various federal and state reporting requirements.

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

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.

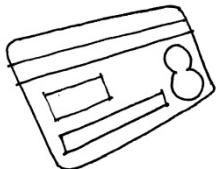
In addition to the regular operating accounts, there may be other accounts for groups such as a youth group, women's fellowship, or nursery school. In all cases, it is essential that all bank accounts use the church's federal EIN number and address. It may be easier for a church member to open a Youth Group account using their own Social Security Number, but there could be tax implications for the individual, as well as charitable contribution consequences for any funds deposited into that account.

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. Security of the church's funds is paramount; two unrelated people should have access to all account activity records. It's important to monitor the account balances so that any unauthorized transactions can be reported in a timely manner.

Online banking has brought a number of conveniences to the management of bank accounts. However, some online features can be problematic for a church. Usernames and passwords should be issued to at least two people, but only those with authority to sign checks should be authorized to use online bill pay. Also, be cautious if you download bank activity, making sure that your records include all checks you have written, not just those that have cleared your bank. The IRS requires that payroll be recorded according to the date that the employee was paid – not the date that the check cleared your bank. See Section VIII.E.

You should check the limits of the FDIC insurance (Federal Deposit Insurance Corporation) or, if applicable, the Deposit Insurance Fund or National Credit Union Share Insurance, to be sure that your funds are adequately insured. The FDIC limit per customer is currently \$250,000.<sup>2</sup> If you keep more than that amount on deposit, you may wish to consider opening additional accounts in separate financial institutions.

## 2. Credit Cards



A church credit or debit 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. A sample credit or debit card policy is included as Appendix B.

It is very important to understand that many small business credit card applications require that the cards be issued using the owner or officer's personal credit rating. If the church chooses this option, the individual should be fully aware of the personal implications for incurring the debt, as well as its effect on the individual's personal credit rating and availability. Some banks will issue credit cards based on a line of credit from the church, but there may be difficulty with the application process, which is designed for a business with an owner and with assets that can be provided as collateral.

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<sup>2</sup> [www.fdic.gov/deposit/deposits/](http://www.fdic.gov/deposit/deposits/)

### **3. Debit Cards**

Church debit cards provide the same convenience as a credit card for purchases and online payments, but do not require the same credit application process, since, by definition, the funds are available before they are accessed. However, banks will usually only issue debit cards to the signers on the bank account, and adding or removing a card may then require new signature cards. Furthermore, using a debit card puts the entire balance in the account at risk for being fraudulently withdrawn. It is important to monitor any debit card accounts closely and often.

Another option that has worked well for churches is a pre-paid debit card service, such as Pexcard, [www.pexcard.com](http://www.pexcard.com). Through online access, the Treasurer can transfer funds from the church bank account to the church's Pexcard account, and then can add or subtract funds to or from individual cards as needed. This provides staff and volunteers with their own cards, gives them the means to upload receipts, and allows the Treasurer or bookkeeper to monitor the cards' activity. Discounted rates may be available through Congregational Finance LLC.<sup>3</sup>

### **4. Loans and Lines of Credit**

There are times when a church needs to borrow money, often for a capital project. The



UCC has established the Cornerstone Fund, which offers Certificates of Deposit to local UCC churches and members and then

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<sup>3</sup> [www.congregationalfinance.com/pexcard](http://www.congregationalfinance.com/pexcard)

leverages the funds, offering loans to churches for building projects. Further information about the program is available online at [www.cornerstonefund.org](http://www.cornerstonefund.org).

**United Church of Christ  
Church Building  
& Loan Fund**

for worship or service. More information is available on their website at [www.cblfund.org](http://www.cblfund.org).

Churches have also applied for lines of credit or loans at local banks. It may be 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 format (Generally Accepted Accounting Principles), you will have a stronger application. See Section VII.C for further information about non-profit financial reports.

Some churches borrow from themselves, taking from their unrestricted 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 externally 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 and can carry them out.

Dating back to 1853, the UCC Church Building & Loan Fund assists Christian churches that are buying, building, or renovating space

### **III. RECEIVING CONTRIBUTIONS**

In addition to the exemption from corporate income tax, the 501(c)3 status of a 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 satisfy the following six conditions.<sup>4</sup> The contribution must be:

1. a gift of cash or 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.

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<sup>4</sup> Richard Hammar, *2018 Church and Clergy Tax Guide*, p. 365.

## Determining the IRS Deduction Year

IRS  
deduction  
year

Checks dated in December 2018 and received in December 2018	2018
Checks dated in December 2018, postmarked in 2018 and received by church in January 2019	2018
Checks dated in December 2018 and received in offering in January 2019	2019
Checks dated in December 2018, postmarked in 2019 and received by church in January 2019	2019
Checks dated in January 2019 and received in offering in December 2018	2019

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 donor-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 particu-

lar individual will not generally be deductible. The IRS assumes, in such instances, that the contribution is made to benefit a particular 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.”<sup>5</sup>

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. Whether emailed or mailed, 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 the contribution. In this case, the goods

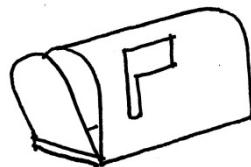
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<sup>5</sup> Richard Hammar, *2018 Church and Clergy Tax Guide*, p. 395.

and services should be listed along with a fair estimate of their value. The amount of the charitable contribution is then the 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 and friends – 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 late January for the preceding year, it is advisable to provide a statement for the preceding calendar year as early as possible in January. A sample format for written acknowledgement of contributions is included on the following page.

Besides the annual contribution statement, sending two or three mid-year statements to regular donors can provide several benefits. It offers an opportunity to thank donors for their generosity, reminding them of the amount of their pledge and reporting their progress toward fulfilling their pledge. Second, it gives donors a chance to report any errors or omissions. It also protects the financial volunteers who record the gifts, since the statements show all cash donations, and presumably if any were missing, the discrepancy would be reported to the church.



# Sample Charitable Contribution Receipt

January 12, 2019

## Grace UCC

316 Main Street Plymouth, Massachusetts 01620  
(508) 746-0000

### Statement of Contributions For the year ending December 31, 2018

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/ 7/18	\$ 75	2142	General	Y
3/11/18	\$ 150	2161	General	Y
3/25/18	\$300	2167	Missions	Y
4/15/18	\$ 75	2172	General	Y
4/29/18	\$250	2178	OGHS	Y
6/10/18	\$ 150	2197	General	Y
7/ 8/18	\$ 150	online	General	Y
9/10/18	\$ 75	online	General	Y
9/12/18	\$ 24	online	Chicken BBQ	N
10/10/18	\$ 75	online	General	Y
11/12/18	\$ 75	online	General	Y
11/10/18	\$300	2237	Missions	Y
12/10/18	\$ 75	online	General	Y
12/24/18	\$ 20	cash	Christmas Fund	Y
12/28/18	<u>\$ 100</u>	online	General	Y
<b>Total</b>	<b>\$ 1,870</b>		tax-deductible	
	<b>\$ 24</b>		non-deductible	
	<b>\$ 1,894</b>		total received	

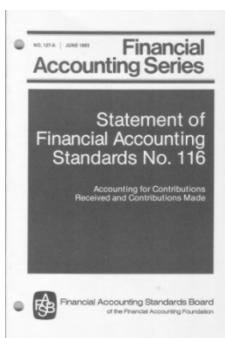
Pursuant to Internal Revenue Code requirements for substantiation of charitable contributions, other than "intangible religious benefits," no goods or services were provided in return for these tax deductible contributions.

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

## B. Accounting for Contributions

If a church receives a contribution for a specific purpose, the church is required by law to honor the donor's restrictions and keep track of the funds until they are used for that purpose. However, many churches do not have an adequate system in place for monitoring these donor-restricted funds. Unlike their secular non-profit counterparts, churches and religious organizations are not required to have annual audits and are exempt from most external reporting requirements. Therefore, many have not kept up with best practices for non-profit accounting. And yet, the distinction between funds is essential for understanding the church's financial resources and long-term financial sustainability.

In 1993, the Financial Accounting Standards Board issued their Statement FASB 116,<sup>6</sup> which standardized non-profit financial reporting by consolidating various kinds of funds (general operating, restricted, capital, endowment, etc.) and naming them based on whether or not the contributions included any donor restrictions and whether those restrictions were temporary or permanent. This resulted in 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

<sup>6</sup> FASB Accounting Standards Codification 958-605-05-3

purpose (a contribution for the Organ Fund) or by time (a contribution for next year).

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

Based on these definitions, note that a church board cannot restrict funds — only a donor may do so. If a Board sets aside unrestricted funds for a specific purpose, the funds should 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 release the restriction, or to ask a court to do so. Since this distinction is so important in non-profit accounting, it is helpful to save the word “restricted” for donor-restricted funds and use other words such as “designated” or “reserve” for actions taken by the Church Council or other Board.

In 2009, the accounting rules were re-organized and re-numbered,<sup>7</sup> and in 2016, the classifications were further combined and renamed so that financial statements are now only required to show two categories: Net Assets with Donor Restrictions and Net Assets without Donor Restrictions. However, a non-profit organization must still be able to report on the nature of any restrictions in the notes that accompany their financial statements, and therefore must still be able to distinguish between temporarily and permanently restricted Funds. Section VI.C.3 includes information about requirements for managing any permanently restricted funds.

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<sup>7</sup> Financial Accounting Standards Board, Accounting Standards Codification

## C. Electronic 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. For churches interested in receiving donations through their website, the UCC has developed e-Giving opportunities in partnership with Vanco. This system allows direct transfers from a donor's bank account to the church's bank account, and includes features that are tailored especially for churches. There are several programs available with varying costs:



- GivePlus+ allows you to design your giving page, using elements of your own website, and listing the various accounts or funds to which a donor may give, either one-time or recurring, monthly or weekly.
- The Vanco GivePlus+ app offers the same convenience for donors using a smartphone.
- Vanco's pledge feature allows a church to set up online pledging, in which a donor can choose to fulfill the pledge by cash, check, or online, either one-time or by setting up regular recurring payments.
- Using Give by Text, a donor can text a dollar amount to the church's give-by-text number and link their phone to their personal debit or credit card.

For further information, you may contact Vanco at [www.vancopayments.com](http://www.vancopayments.com) or refer to the UCC's electronic giving page at [www.ucc.org/stewardship\\_electronic-giving](http://www.ucc.org/stewardship_electronic-giving).

## **D. Gifts from Donor-Advised Funds**

Some people may choose to make charitable donations to the church using a charitable donor-advised fund. First, they make tax-deductible gifts to the Fund, receiving documentation from the Fund for their gift. They can then request that grants be made from the fund to various charitable organizations. The Charitable Fund will send a check to the church with a letter that says, “This is a gift from the Chris Smith Charitable Fund. Please do not issue a tax receipt for this gift.” Since churches are not required to file IRS Form 990, it is not necessary to distinguish between gifts made through charitable funds and other individual contributions. In December 2017, the IRS issued a notice that permits the acceptance of distributions from Donor Advised Funds that fulfill a donor’s pledge as long as certain conditions are met.<sup>8</sup> If you have further questions, you should consult a qualified accountant or attorney.

## **E. Gifts of Stock**

When a donor gives a stock gift to the church, the stock is usually received into the church’s investment account. (If the church receives the actual shares, it is essential that the documentation be kept in a secure place and recorded on the church books so that the gift is not forgotten!) The amount of a stock gift is calculated as the average of the high and low cost on the day the stock is given. This amount is recorded as income on the books of the church and on the donor’s contribution statement. When the church subsequently sells the stock, the increase or de-

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<sup>8</sup> IRS Notice 2017-73

crease 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 March 1<sup>st</sup> 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 March 1<sup>st</sup> with a receipt issued to Mary Smith for that amount. If the church sells the stock on April 6<sup>th</sup> 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.

## **F. Gifts of Property**

IRS regulations require that individual contributions of property valued at less than \$250 be substantiated with a receipt from the church if the donor wishes to claim a charitable deduction. The receipt must 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 \$xxx."

The rules governing substantiation of gifts of property valued in excess of \$250 can be very complicated, both for the donor and for the church. If the donor is claiming non-cash gifts that total more than \$500 in a calendar year, the donor must file

IRS Form 8283. Gifts valued over \$5,000 require an appraisal and the appraiser's signature on the IRS Form 8283. If a vehicle is donated, the church must issue IRS Form 1098-C. If the church sells or disposes of the gift within three years, IRS Form 8282 must be filed by the church within 125 days of the sale or disposal. If a member of your church wants to make such a gift, please refer to Richard Hammar's *Church and Clergy Tax Guide* for further information, or call your Conference office for guidance. In all cases it is recommended that the donor consult with their own accountant and/or attorney.

Gifts of real estate can involve significant complications, including environmental cleanup, liability, property taxes, and restrictions on future use. Before accepting such a gift, churches should retain an independent attorney, complete an environmental study, obtain an appraisal, and carefully consider any restrictions placed on the gift by the donor (e.g., use of building, future sale, etc.). In general, churches should analyze the full present and future cost of accepting and maintaining the gift.

## **G. Donated Services**

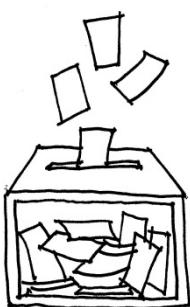
In the course of ministry, many people donate countless hours of service within and beyond the church. Although the services are very much appreciated, and the volunteers should be thanked for their time, the services should not be acknowledged as a tax-deductible charitable contribution. Note that accounting rules stipulate that services that require professional expertise and are required for the continuation of the organization, such as donated legal services, or services that require professional expertise and enhance a nonfinancial asset, such as carpentry or plumbing

services, should be booked as both an in-kind contribution and a corresponding expense. However, such services should not be acknowledged as a tax-deductible charitable contribution.

## H. 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 addition, if the fundraising event is “regularly carried on” and not related to the organization’s exempt purpose, then the proceeds from the event are reportable on IRS Form 990-T and taxable as Unrelated Business Income, as noted in Section XI.D.



Raffles may necessitate additional federal and state considerations as well. Some states prohibit raffles entirely, while others require a permit and subsequent reporting. Some raffle winnings may need to be reported to the IRS on Form W-2g, depending on the amount won and the ratio between the payout and the ticket price.

You may be required to withhold federal or state income taxes. If your church plans a raffle, it is important to know these legal requirements in advance and to obtain the necessary tax information from the winners before prizes are distributed.

Online services have added a new way to promote an event or a mission project to your broader community. Tickets can be sold using SquareUp, EventBrite, SeatYourself, or other platforms. Silent Auctions can be managed and publicized with 32auctions or other services. Crowdfunding has become popular in recent years, offered by GoFundMe, Kickstarter, Facebook, and others. Whichever you choose, be sure that you register the account using the church's name and tax ID, and that you understand the process associated with each method that you consider. Look carefully at the percentage and/or fees taken, the process for recording each gift and its associated fees in your bookkeeping system, and the timing of when or even if the funds are transferred.



Fundraising can be outreach, giving people from the community an invitation to participate in the life of your congregation. Balance convenience for your donors with the secondary aspects of their giving experience. For example, donations made through your website may lead a community member to explore other pages of your website. Your job as treasurer is to make sure that the proper financial recordkeeping is in place and followed, and to advise on the costs of the various payment options considered.

## **I. Annual Stewardship Campaigns**

In our congregational tradition, each church raises its own funds to support its mission and ministry. There are three categories of contributions: 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 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, many UCC Conferences offer workshops and resources throughout the year, at annual meetings and other Conference and Association gatherings. In addition, the Conference staff is available to assist, to advise, or to offer suggestions.

## **J. 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 even a 400th 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 usually range between 150% and 400% of the amount of annual gifts and have actually *increased* overall annual giving following the campaign. As the Treasurer or a Finance Team member, it is important to have your financial reporting and recordkeeping organized so that contributors are confident that their capital campaign contributions will be directed to the proper place and spent accordingly.

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

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: [www.macucc.org/capitalcampaigns](http://www.macucc.org/capitalcampaigns) or resources provided by the UCC Building and Loan Fund: [cblf.uccpages.org/capital-campaign-services.html](http://cblf.uccpages.org/capital-campaign-services.html)

## **K. Planned Giving**

The third component of financial support of a church is referred to as “planned giving.” Church members may wish to make a provision for the church in their will, or to contribute to the church through life income gifts or charitable remainder trusts that provide a stream of income during the donor’s lifetime, and then become a gift to the church after their death.

These types of gifts aren't received often, but can make a big difference in the long life of a congregation.

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

Because gifts of this kind can have significant income and estate tax implications, it is important for donors to seek the advice of an independent financial planner. *Church Law & Tax Report* offers an important note of caution concerning the involvement of churches and pastors in the decision-making process, to be sure that the donor's decision is not coerced.<sup>9</sup>

Definitions, resources, and further information for churches and for individuals are available through the United Church of Christ website: [www.ucc.org/planned\\_giving\\_opportunities](http://www.ucc.org/planned_giving_opportunities), as well as through your Conference. 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.

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<sup>9</sup> Smietana, Bob, *Encouraging Estate Gifts in Your Church*, Church Finance Today, June 2018. [www.churchlawandtax.com/blog/2018/june/estate-gifts-dont-get-too-involved.html](http://www.churchlawandtax.com/blog/2018/june/estate-gifts-dont-get-too-involved.html)

## IV. GIVING TO OTHERS

One of the most important decisions a congregation makes is how to participate in and financially support outreach efforts in their local community, service opportunities in our country, and international missions around the globe. 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 independent congregations. 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 family.

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



Every Conference is unique, but we each contribute to our common ministry. Support for our work as Associations, Conferences and the national setting of the United Church of Christ is collected through Our Church's Wider Mission Basic Support, four special offerings, and Other UCC Giving.

## 1. Our Church's Wider Mission Basic Support

Our Church's Wider Mission is contributed by local churches to support United Church of Christ mission and program in our wider settings. OCWM



Basic Support funds the ongoing work included in the operating budgets of the Conferences and the national setting of the UCC. When you forward OCWM Basic Support to your Conference office, a portion is retained by the Conference for its programs and the remainder is forwarded to the national office. These proportions are voted by the Annual Meeting of each Conference. For a fuller description of the purposes of this support and guidelines for setting a goal for your church, check out the resources available at [www.ucc.org/ocwm/](http://www.ucc.org/ocwm/)

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 Church Contribution Form (Appendix L); a supply of forms may be obtained by calling the Conference office. Please include your church number on the form, as this helps to ensure that the correct church receives credit for the contribution. Your church number is a six-digit number, beginning with two digits for your Conference and four digits for your church. Your Conference office can provide the number if needed.

## 2. Special Offerings of the United Church of Christ

The United Church of Christ collects four special mission offerings each year: 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.



**One Great Hour of Sharing** supports international programs of health, education and agricultural development, relief, and refugee assistance. In recent years, approximately \$20 million has been collected annually from numerous Protestant denominations. For the United Church of Christ, the Global Sharing of Resources section of Wider Church Ministries administers the OGHS fund. The offering is received most often during Lent.

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

**Strengthen the Church** supports the expansion of ministry and growth of UCC local congregations, helping the UCC to fulfill its commitment to creating a just world for all by investing in new ministries and practices that meet the emerging needs of local communities. These ministries are carried out by UCC Conferences and through the national setting of the UCC. The offering is often received on Pentecost Sunday in the late spring.



## STRENGTHEN THE CHURCH OFFERING

Materials available at <http://www.ucc.org/stc>



**The Christmas Fund** provides direct financial assistance to retired and active United Church of Christ authorized ministers and lay employees and their surviving spouses, including pension and health premium supplementation, emergency assistance, and Christmas checks for hundreds of annuitants, as administered by the UCC Pension Boards. The offering is received on the Sunday before Christmas.

### 3. Other United Church of Christ Giving

Additional donations to any UCC-related entities are categorized as Other UCC Giving. The UCC occasionally conducts Capital Campaigns such as Generations of Service, [www.pbucc.org/capital-campaign](http://www.pbucc.org/capital-campaign), which seeks



to raise funds for the programs of the United Church Board for Ministerial Assistance. Other UCC Giving includes giving to disaster relief, Global Ministries, Seminaries, and other institutions listed in the United Church of Christ *Yearbook & Directory*. A full list is included on the UCC website: [www.uccfiles.com/pdf/Other-UCC-Giving.pdf](http://www.uccfiles.com/pdf/Other-UCC-Giving.pdf). Gifts for particular projects of your Conference likewise constitute Other UCC Giving.



Although you may send contributions directly to UCC-related organizations, local churches are strongly encouraged to send Other UCC Giving contributions to their Conference office. This simplifies bookkeeping for recipient organizations and allows better records to be kept by the Conference. Each check should be accompanied by a Church Contribution Form (Appendix L) indicating the amount and destination of each contribution. You may remit contributions using a single check, listing the separate components of your church's gift on the form.

#### 4. Fellowship Dues



Several Conferences of the United Church of Christ assess Fellowship Dues on a per member basis, as one of the ways that our UCC churches fund the ministry, staffing, and resources that we share in Association and Conference settings. For more information about your Conference, see Section XIII. Your payment of Fellowship Dues, if applicable, is included in Other UCC Giving.

## **B. Community and Global Missions**

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 & Directory*. In general, such contributions should be sent directly to the recipient organizations.

## **C. Disaster Relief**

When natural disasters displace people from their homes and threaten their lives and health, people in our churches and our communities are eager to help with donations of money, supplies, and labor. The UCC is able to respond quickly through our network of churches and relief specialists, supporting volunteer teams who help in the work of rebuilding and recovery. Current information about specific needs is available at [www.ucc.org/disaster](http://www.ucc.org/disaster).



Donations for disaster relief are best sent through your own Conference office with a Church Contribution 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. Together, we can make a difference in our world!

## **V. SPENDING FOR MINISTRY**

In the congregational tradition, a budget is presented to the members of the congregation, who vote whether or not 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 have the donors specified? What is Permanently Restricted? Temporarily Restricted? Unrestricted? See Section III.B 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, long-term 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 the congregation approves a budget with three pages of line item detail, and there is no authority granted to shift between line items, then if Christian Education wants to spend less on snacks and more on curriculum, they would need to request that change from the congregational meeting. Instead, if the congregation approves a summarized budget, then the individual boards have more flexibility to adjust their sub-accounts during the year, while staying within their total allotted funds.
- Is the budget approved *before* the new year begins? Technically, without an approved budget, the Treasurer doesn't have the authority to disburse any funds.
- Is there a multi-year capital budget in place? Is there a Capital Reserve established? Section VI.A explains how 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.

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

**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 boards and committees, but does not include the line item detail.

**Program Budget** – this identifies income and expenses for various programs of the church, such as worship, outreach, pastoral care, education, men’s fellowship, etc. 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 for its owner. 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 vibrant future. A sample one-page budget summary based on this understanding might look like this:

## 2019 at GRACE UNITED CHURCH OF CHRIST

### *What we have as a gift from the past:*

UNRESTRICTED FUNDS	550,824
General Fund	52,483
Other Unrestricted Funds	498,341
DONOR-RESTRICTED FUNDS	28,908
ENDOWMENT FUNDS	69,215
<b>TOTAL FUNDS as of 31 Dec 2018</b>	<b>648,947</b>

### *What we expect to receive in 2019:*

Contributions	151,500
Donations for Use of Building	8,000
Event Income	17,000
Transfer from Investments (4%)	21,000
Program Fees	4,500
<b>TOTAL</b>	<b>202,000</b>

### *What we plan to give in 2019:*

UCC Mission & Ministry	(10,100)
Community Outreach & Support	(10,100)
<b>TOTAL = 10% of total income</b>	<b>(20,200)</b>

### *What we plan to spend on ministry in 2019:*

Administration	(9,800)
Care	(4,500)
Communications	(6,200)
Education	(3,900)
Fellowship	(1,800)
Membership Growth	(2,000)
Ministerial Support	(114,000)
Property	(28,000)
Stewardship	(900)
Worship	(11,200)
<b>TOTAL</b>	<b>(182,300)</b>

### *What we plan to save for the future:*

Decrease in the General Fund	(500) → 51,983
Increase in the Capital Reserve	10,000 → 21,367
Projected UNRESTRICTED FUNDS	571,793
Projected DONOR-RESTRICTED FUNDS	5,444
Projected ENDOWMENT FUNDS	70,600
<b>TOTAL FUNDS as of 31 Dec 2019</b>	<b>647,837</b>

## 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. Expenditures should be approved by a designated lay or staff person, according to your documented procedures. For some expenses, this could be a blanket approval to pay a monthly bill, while for others, specific approval should be given in writing, either with a paper form or by e-mail. A sample Request for Payment form is included in Appendix F.

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 at least a quarterly basis. This way, each leader can monitor their part of the budget.

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 or allocate unplanned income that exceeds 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 an emergency. 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 \$500 over budget
Ministry Team Leader and Treasurer	\$501 to \$2,000 over budget
Vote of Church Council	\$2,001 to \$20,000 over budget
Vote of Congregation	more than \$20,000 over budget

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

In the event of unexpected income received without restrictions, such as a bequest or other large gift, the same thresholds could be used to guide the decision of how to use the gift, such as in the General Fund, Memorial Fund, Building Fund, or Long-Term Investments.

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, computers and 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	Estimated current cost	Cost when done*	Capital Fund accrual or gifts	12/31 Capital Reserve balance
Beginning balance					\$ 11,367
Add to reserve	2019			10,000	21,367
Refinish floors	2019	4,000			17,367
Promised gift	2019			4,000	21,367
Add to reserve	2020			10,200	31,567
Paint church	2020	20,000	20,400		11,167
Parsonage stove	2020	600	612		10,555
Add to reserve	2021			10,400	20,955
Kitchen remodel	2021	6,000	6,242		14,713
Replace copier	2021	9,150	9,520		5,193
Add to reserve	2022			10,600	15,793
4 new computers	2022	3,200	3,396		12,397
Add to reserve	2023			10,800	23,197
Add to reserve	2024			11,000	34,197
Paint parsonage	2024	7,000	7,729		26,468
Roof replacement	2040	90,000	136,410		

\* Assume 2% inflation per year for both expenditures and annual allocation from operating budget.

A capital plan is easily developed in a simple spreadsheet. First, list the projects by anticipated year. Then, obtain cost estimates and adjust them by formula for future inflation. Enter an amount to be added to the reserve in the first year, and then adjust the annual amounts by formula with the same inflation rate, and round to the nearest hundred dollars. The running balance will show how much will be available in the Capital Reserve as of the end of each year. Finally, increase or decrease the initial amount of the addition to the Capital Reserve so that the balance will be sufficient to cover anticipated costs, including large future costs such as roof work. In this example, approximately half of the annual allocation will eventually support the roof work needed more than twenty years in the future.

## **B. Cash Reserves**

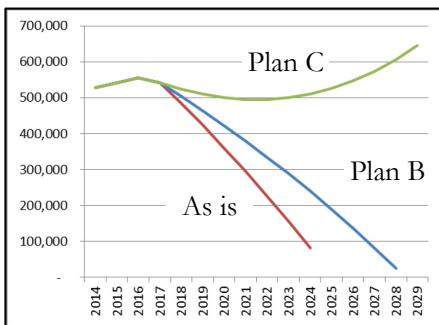
A related aspect of planning for the future involves general unrestricted cash reserves. Since the church is a non-profit organization, that doesn't mean that it doesn't ever have a profit – rather, it means that the church doesn't pay out its profits to its owners or shareholders at the end of the year. 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 in non-profit accounting terms, Unrestricted Net Assets. As a guideline, in order to maintain an adequate cash flow throughout the year and to allow for an unexpected shortfall in contributions or other income, 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

congregation would be wise to seek surplus budgets in order to replenish its reserves.

It is also very important to be able to project cash reserves into the future so that the congregation and its leadership can

### Grace UCC – Three Possible Plans



make decisions based on financial transparency and shared understanding. This is one of the Treasurer's primary responsibilities.

As demographics, technology, and patterns of congregational involvement continue to shift and

change, long-term financial sustainability is a concern for many congregations. It is important not to be caught by surprise, so that there is time to respond and plan. Financial decline doesn't happen overnight, but usually develops over many years. Likewise, financial health can't be remedied with a single large donor, but may be able to be restored over time with a realistic and invigorating approach to change. When churches address these issues earlier, more options for the future remain open to them.

The Treasurer is in a unique position to guide the congregation through this process by distilling countless details into clear and concise scenarios, so that the members can make informed decisions when they vote on important issues such as adequate staffing and compensation or the acquisition, maintenance, and selling of properties. A method for evaluating the long-term financial viability of the various decisions facing a congregation is included in Section VII.F.

## 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 the funds are invested, and how the amount to be spent is determined. Note that these historic funds' balances are not necessarily the same as a church's Investment Account balance. For example, unrestricted bequests are often deposited into the investment account, along with stock gifts that have been received as payment of pledges, but have not yet been transferred to the operating checking account.

### 1. Investment Definitions

Clear, consistent definitions are crucial. “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 are not to be spent, but invested in perpetuity or for a specified period of time. These are also called “Permanently Restricted” net assets or funds.

**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. These will either be Restricted or Unrestricted, depending on whether there are donor-imposed restrictions on the underlying invested 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.

**Unrestricted Funds** are general 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.

Church members often talk about the “Endowment” as in “we have \$1 million in our Endowment” or “we have been spending down our Endowment.” It is important to make a distinction between restricted and unrestricted resources and to save the word “endowment” for the permanently restricted portion of the invested funds, along with the associated accumulated gain/loss, so that you are sure to follow state law regarding your actual endowment (see Section VII.D.2) – but also so that you know what decisions you can and cannot make regarding your non-endowment resources. There are some rules that apply to endowment funds but do not apply to board-designated funds. It is likely illegal to spend your entire Endowment, while unrestricted investments can be spent in their entirety. This is not to suggest that you exhaust your unrestricted funds. On the contrary, it is a reminder that a congregation is 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 toward 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 two organizations related to the United Church of Christ that provide investment opportunities for local congregations.

**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.ucfunds.org](http://www.ucfunds.org). The address is 475 Riverside Drive, Room 1020, New York, NY 10115; 212-729-2600.

**The Cornerstone Fund** was established in 1995 to offer loans to local churches and other organizations related to the United Church of Christ. Working much like a credit union, 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 churches and organizations throughout the denomination. 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. The Cornerstone Fund offices are located at 700 Prospect Avenue, Cleveland, OH 44115; 216-736-3829 or 888-UCC-FUND. More information is available on the website at [www.cornerstonefund.org](http://www.cornerstonefund.org).



### **3. Investment Regulations**

The Investment Committee of your local church should become familiar with your state's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requirements enacted in 2006 regarding the investment of Permanently Restricted Funds. Despite our exemption from IRS reporting and annual CPA audits, churches are required to follow this law, even if the amounts invested are small. Your state's Attorney General is responsible for enforcing UPMIFA.

The 2006 Act replaced its 1972 predecessor, UMIFA, shifting the decisions about spending from the concept of maintaining the historic dollar amount of the original gift to the goal of preserving its purchasing power over the expected life of the fund, increasing its value to allow for inflation. UPMIFA states that the organization should determine its spending rules based on multiple factors, including:

- the expected total return from income and the appreciation of investments,
- the economy and possible inflation, and
- the needs of the institution and the fund to make distributions and to preserve capital.

Financial reporting issues related to UPMIFA and investments are discussed in Section VII.D.2. Sample Investment and Endowment Policies are available from your 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 policies and 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 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, ten shares of stock, \$50 on deposit at the post office for postage due items. Buildings, land, and equipment are called fixed assets. Petty cash in an envelope 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, such as 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 that is received 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 the church 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 15<sup>th</sup> century, a Franciscan monk named Luca Pacioli documented the system of double-entry bookkeeping that had been developed by the merchants of Venice and is still in use today. This method connects the four types of transactions (assets, liabilities, expenses, and income) with offsetting double 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. In some software programs, 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.”<sup>10</sup> 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. Your 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 called “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 is “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 finances.



**NET  
ASSETS**

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

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<sup>10</sup> Spider-Man Amazing Fantasy #15

## Grace United Church of Christ as of 12/31/2017

ASSETS		LIABILITIES	
Petty Cash	\$ 52.60	Accounts Payable	\$ 1,020.00
Checking Acct	32,075.10	Payroll Liabilities	564.72
Money Market	80,223.66	Deferred Revenue	1,000.00
Plg Receivable	2,400.00		
Investments	537,133.36		
<b>TOTAL</b>	<b>651,884.72</b>	<b>TOTAL</b>	<b>2,584.72</b>

NET ASSETS	649,300.00
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TOTAL ASSETS	<b>651,884.72</b>	TOTAL LIABILITIES & NET ASSETS	<b>651,884.72</b>
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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 its 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 !

Since keeping track of net asset balances is vitally important to non-profit accounting and to your awareness of the financial viability of your church, your bookkeeping software should be able to track your Net Asset balances as of any date.

Keep in mind that your General Fund balance is not the same as your checking account balance, since your Sunday offerings may have included a mixture of unrestricted and donor-restricted contributions. With the development of computerized software, it is no longer necessary or practical to have a separate bank account for each organization or fund.

An analogy illustrates this recordkeeping concept. If you have a basket of apples and you count them and find that you have 99 apples, and then if you add one apple, you know that you have 100 apples without having to re-count the whole basket. If you know that you began with 60 red apples and 39 green apples and you add an apple, then *as long as you keep track of the color of each apple that is added or removed*, you will be able to keep track of your apple inventory without having to re-count. Similarly, if you know your Net Asset balances as the year begins, then as long as your software tracks the fund for each income or expense transaction (General Fund, Capital Reserve, One Great Hour of Sharing Fund, etc.), then you will be able to adequately monitor your Net Asset or Fund Balances.



Bookkeeping software such as the desktop version of QuickBooks can do this easily. Other software may require more cumbersome data entry involving general journal entries and extra net asset accounts. For further information on this method, search triple-entry at [www.congregationalfinance.com](http://www.congregationalfinance.com).

## 4. Fixed Assets or Capital Expenditures

A business will usually include the value of fixed assets (land, buildings, building improvements, and equipment) 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 pays 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.

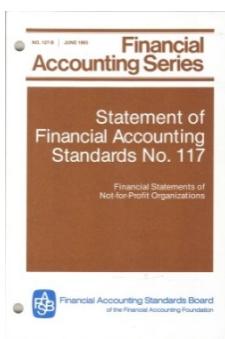
way. (Accounting uses the cost of buildings, not the current market value.) The purchase of a new copier could be included as a fixed asset, but then the asset would be depreciated over the *next* five years – which means that 1/5 of the cost of the copier would show up as an expense for each of the 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

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 help 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,<sup>11</sup> 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.”<sup>12</sup>

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

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<sup>11</sup> FASB Accounting Standards Codification 958-205-05-5

<sup>12</sup> FASB 117, paragraph 4

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.

The need for financial statements is not limited to large growing churches. A church in decline that decided to close was required to provide three years of financial statements before the Attorney General would grant approval to dissolve the corporation. So whether you are large or small, expanding or shrinking, it is a good idea to keep financial reports in an acceptable and recognized format.

## **1. Fiscal Year**

The fiscal year of an organization is defined in its bylaws. Many churches find that a fiscal year ending December 31 is simplest, since it matches the calendar year requirements for IRS reporting of contributions. Beginning a new budget year in January also allows the congregation to fund new initiatives more quickly in the middle of the September-June program year.

## **2. Cash or Accrual?**

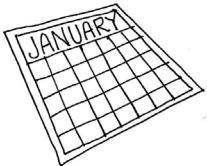
When preparing financial reports, there are two methods of bookkeeping: cash and accrual. FASB 117 requires that non-profit financial reports be presented on an accrual basis, rather than a cash basis, because it is a more accurate presentation of the church's financial situation. In the past, accrual 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 think it's doing okay, but if it has \$8,000 in unpaid bills, they wouldn't show on the cash basis financial reports at all until they are paid.

**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 24<sup>th</sup>, and you pay it on November 3<sup>rd</sup>, using accrual accounting, the electricity expense would increase on October 24<sup>th</sup>, along with Accounts Payable. Then, on November 3<sup>rd</sup>, Accounts Payable would decrease, along with the checking account balance. With cash accounting, the expense for October's electricity wouldn't show until November 3<sup>rd</sup>, the date that the check was 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 31<sup>st</sup> of the month in order to include the expenditure in the monthly financial reports.

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



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 Insurance Board bills for first quarter (January – March) in mid-November with payment due by the end of December. By recording this as a January 1 expense, rather than November, your financial reports will accurately reflect your financial position and expenses.

If you receive tuition from a nursery school or rent from some building use, you can record it 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. On the other hand, most church income, including contributions, is recorded when received because contributions are not “earned.” This way, your income shows only the contributions that have actually been received.

The only contributions that should be recorded on an accrual basis are those that are received in a different year than they are intended, e.g. prepaid and prior year pledges. Accrual accounting allows you to record contributions in the year they are actually given (as the IRS requires), but show them in your financial reports based on the year for which they are intended.

- For prepaid pledges, enter them as a restricted contribution on the date received, using a fund such as “Next Year’s Funds.” Then on January 1, release the restriction, moving the amount to the General Fund.

- For prior year pledges, enter an invoice at the end of the year on December 31 showing the outstanding pledges that will definitely be received during the next year, either because they already have been received (in January/February), or because the donor has reaffirmed the pledge. As these pledged contributions are received, record them as payments against the invoice.

Recording pledge income this way enables an accurate comparison of pledges to the amount received, as well as a helpful comparison of contributions from one year to the next.

In the following example, the two methods result in different annual totals. Cash basis accounting shows that \$147,043 was received in 2018 by adding lines 3, 4 and 5. However, accrual accounting includes the amounts designated for 2018; adding lines 2, 4 and 6, results in a total of \$142,711.

\$ 135,600	2017 pledges and gifts received in 2017
13,468	Prepaid 2018 pledges, received in 2017
2,400	2017 pledges received in 2018
126,243	2018 pledges and gifts received in 2018
18,400	Prepaid 2019 pledges, received in 2018
3,000	2018 pledges received in 2019
129,100	2019 pledges and gifts received in 2019
10,000	Prepaid 2020 pledges, received in 2019

	Cash basis	Accrual basis
2017	149,068	138,000
2018	147,043	142,711
2019	142,100	147,500

Even more importantly, note that cash and accrual accounting yield can entirely different answers to the question of whether pledges are increasing or decreasing during the three-year period. Accrual accounting will ensure that your analysis is based on accurate comparisons.

### **3. Statement of Financial Position with Net Assets**

FASB117 requires two main reports. 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 the number of electronic transfers per month is limited), and bank accounts are more liquid than stocks. “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, or 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, or 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 in the future). 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 two categories: Unrestricted Net Assets and Donor-Restricted Net Assets. Only the totals are necessary. However, the church must also include notes describing the nature of any restrictions and whether the restrictions are temporary or permanent.

Examples of Unrestricted Net Assets could include the General Fund, Investment Fund, Nursery School Fund, or the Women's Fellowship Fund. Donor-Restricted Net Assets might include a Capital Campaign Fund, Mission Funds (One Great Hour of Sharing, Neighbors in Need, etc.), Next Year's Funds, or a Youth Mission Trip Fund. Donor-Restricted Net Assets with permanent restrictions could be funds such as a Smith Music Endowment or General Endowment Fund. The unspent accumulated net gains and losses from the Endowment Funds are also considered to be temporarily donor-restricted, as discussed in Section VII.D.

**Grace United Church of Christ**  
 Statement of Financial Position  
 Fiscal year ending December 31, 2018,  
 with comparative figures for 2017

	31 Dec 2017	31 Dec 2018
<b>ASSETS</b>		
Petty Cash	\$ 52.60	\$ 25.50
Checking Account	32,075.10	15,491.35
Money Market	80,223.66	72,979.19
Pledges Receivable	2,400.00	3,000.00
Investments	<u>537,133.36</u>	<u>559,141.16</u>
<b>TOTAL ASSETS</b>	<b>\$ 651,884.72</b>	<b>\$ 650,637.20</b>
<b>LIABILITIES</b>		
Accounts Payable	\$ 1,020.00	955.78
Deferred Revenue	1,000.00	
Payroll Liabilities	<u>564.72</u>	<u>734.44</u>
<b>TOTAL LIABILITIES</b>	<b>2,584.72</b>	<b>1,690.22</b>
<b>NET ASSETS</b>		
Unrestricted	548,850.56	550,823.96
Donor-Restricted:		
Temporarily Restricted	55,449.44	53,123.02
Permanently Restricted	<u>45,000.00</u>	<u>46,000.00</u>
<b>TOTAL NET ASSETS</b>	<b><u>649,300.00</u></b>	<b><u>648,946.98</u></b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 651,884.72</b>	<b>\$ 650,637.20</b>

One church treasurer wanted to know if there was one magic number that could be monitored for a comparison of how the church was doing financially from year to year. That single number is a church's Unrestricted Net Assets. In the above example, although Total Net Assets decreased, the Unrestricted Net Assets increased by \$1,973.40.

# Grace United Church of Christ

## Statement of Net Assets

Fiscal year ending December 31, 2018,  
with comparative figures for 2017

	31 Dec 2017	31 Dec 2018
<b>Unrestricted Funds</b>		
General Fund	\$ 52,317.55	\$ 52,483.34
Capital Reserve	20,076.40	11,367.00
Investment Funds	460,256.12	469,670.87
Women's Fellowship Fund	<u>16,200.49</u>	<u>17,302.75</u>
<b>Total Unrestricted</b>	<b>\$ 548,850.56</b>	<b>\$ 550,823.96</b>
<b>Donor-Restricted Funds</b>		
Mission Funds		
Christmas Fund	462.00	512.00
Missions 10% Fund		151.85
Neighbors in Need Fund	<u>216.00</u>	<u>0.00</u>
Total Mission Funds	678.00	663.85
Music Fund	14,776.20	9,732.30
Next Year's Funds	13,468.00	18,400.00
Youth Mission Trip Fund	<u>4,650.00</u>	<u>112.00</u>
<b>Total Donor-Restricted</b>	<b>33,572.20</b>	<b>28,908.15</b>
<b>Endowment Funds</b>		
Endowment Income Funds		
General Endowment Income	19,952.71	20,851.87
Smith Endowment Income	<u>1,924.53</u>	<u>2,363.00</u>
Total Endowment Income Funds	21,877.24	23,214.87
Permanently Restricted Funds		
General Endowment Fund	25,000.00	26,000.00
Smith Endowment Fund	<u>20,000.00</u>	<u>20,000.00</u>
Total Permanently Restricted	<u>45,000.00</u>	<u>46,000.00</u>
<b>Total Endowment</b>	<b><u>66,877.24</u></b>	<b><u>69,214.87</u></b>
<b>Total Net Assets</b>	<b>\$ 649,300.00</b>	<b>\$ 648,946.98</b>

## 4. 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 like 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 pledged contributions, 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, retreat fees, 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 net asset accounts within the church.

**Grace United Church of Christ**  
**Statement of General Fund Activities vs. Budget**

January – December 2018

	2018 Actual	2018 Budget
<b>INCOME</b>		
Bequests	2,000.00	
Contributions	140,711.15	145,000
Donations for Building Use	7,500.00	7,000
Event Income	16,557.00	17,000
Investment Income	20,682.56	20,600
Program Fees	4,277.00	4,000
Miscellaneous Income	412.80	400
<b>TOTAL INCOME</b>	<b>\$ 194,140.51</b>	<b>\$ 194,000</b>
<b>EXPENSES</b>		
Missions & Outreach	19,414.00	19,400
Administration	9,854.20	10,000
Care	4,450.00	5,000
Communication	6,245.26	6,160
Education	3,900.50	4,000
Fellowship	1,825.00	2,000
Membership Growth	2,155.00	2,000
Minister's Compensation & Benefits	112,000.00	112,000
Property	21,818.39	21,240
Stewardship	892.67	1,000
Worship & Music	11,419.70	11,200
<b>TOTAL EXPENSES</b>	<b>\$ 193,974.72</b>	<b>\$ 194,000</b>

## 5. Accounting for Restricted Funds

A Statement of Activities can be limited to certain funds (e.g. General 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 General Fund, or another fund, such as a Donor-Restricted fund. If someone makes a restricted contribution for building repairs, it is included as a contribution in the donor-restricted column. When the building repairs are made, the expense comes from that column, showing that the restriction has been released.

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 General 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 General Fund column of the Statement of Activities. For a church supper, if you want to include only the net profit as General Fund income, you can include church supper expenses in the reimbursable fund, and divide the church supper income between the reimbursable fund and the General Fund so that the reimbursable fund balance is \$0 and the church supper net income shows in the General Fund column.

# Grace United Church of Christ

## Statement of Activities by Fund

January – December 2018

<b>INCOME</b>	General Fund	Other Un- restricted Funds	Donor- Restricted	Endow- ment	<b>TOTAL</b>
Bequests	\$ 2,000			\$ 1,000	\$ 3,000
Contributions	142,711		8,444		151,155
Donations for Building Use	7,500				7,500
Event Income	16,557	4,978			21,535
Investments	20,683	9,415	877	1,338	32,312
Program fees	4,277				4,277
Miscellaneous	413				413
<b>Total Income</b>	<b>\$ 194,141</b>	<b>\$ 14,393</b>	<b>\$ 9,321</b>	<b>\$ 2,338</b>	<b>\$ 220,192</b>
<b>EXPENSE</b>					
Missions	19,414		5,064		24,478
Administration	9,854				9,854
Care	4,450	44			4,494
Communication	6,245				6,245
Education	3,901				3,901
Fellowship	1,825	3,832			5,657
Membership	2,155				2,155
Ministry	112,000				112,000
Property	21,818	8,709	3,000		33,528
Stewardship	893				893
Worship/Music	11,420		5,921		17,341
<b>Total Expense</b>	<b>\$ 193,975</b>	<b>\$ 12,585</b>	<b>\$ 13,985</b>	<b>\$ 0</b>	<b>\$ 220,545</b>
Change in Net Assets	\$ 166	\$ 1,808	(\$ 4,664)	\$ 2,338	( \$ 353)
Jan 1 balances	52,318	496,533	33,572	66,877	649,300
Dec 31 balance	52,483	498,341	28,908	69,215	648,947

## 6. 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 2018 for all funds and subtract the total expenses, it will always equal the change in net assets between December 31, 2017 and December 31, 2018, 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 = \$ 220,192 - \$ 220,545 = an overall \$ 353 decrease in net assets for the year.

You can make the same comparison for any of your funds. **The change in Net Assets for your Unrestricted Funds is the single most important figure for monitoring your overall long-term financial sustainability.** It incorporates all of the year's contributions, expenditures, and unrestricted bequests, removes last year's bills paid this year, and sets aside pledges pre-paid for future years, prepaid insurance, and restricted contributions.

If you report only your operating budget surplus or deficit, you will miss the context of the year in the larger picture. If you look only at your checking account balance, you may be lulled

into thinking that the church is solvent, when in fact, it is not. One church thought that all was well because they had \$50,000 in the bank; unfortunately, \$60,000 of that was donor-restricted. They had received funds for missions and for a building project, but they hadn't realized they had improperly spent some of those funds to pay their bills. Another church thought they were running out of money, but had been accumulating funds in their investment account because some pledges had been received as stock gifts and hadn't yet been transferred.

As you interpret your congregation's financial health, you should be able to analyze your fund balances, bank account balances, and budget surpluses and deficits and understand how they are related. Refer back to Section VI.B for the discussion of projecting cash reserves.

## **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 all of the net gains as permanently restricted. FASB 124, issued in 1995, clarified these issues. Then, in 2006, UPMIFA – the Uniform Prudent Management of Institutional Funds Act was developed, and by 2012 had been enacted in 49 states, making additional refinements for the investment of permanently restricted net assets.

## 1. FASB124: Classifying Investment Return

Statement No. 124,<sup>13</sup> 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, as governed by each individual state.

## 2. UPMIFA: Uniform Prudent Management of Institutional Funds Act

In 2006, new legislation was developed to regulate the management of permanently restricted endowment funds. Each state developed their own version and as of 2012, 49 states and the District of Columbia had passed their own legislation. Only Pennsylvania and Puerto Rico have not. 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 many churches use the word “endowment” to also include cer-

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<sup>13</sup> FASB Accounting Standards Codification 958-320-50

tain 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. Its three stipulations are:

1. When a permanently restricted endowment gains 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 the most recent three or more years, many states chose not to include this stipulation, relying instead on the board to act in the best interest of the endowment fund. Consult Section XII for information on your state. 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 notes 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? There are four requirements:

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% 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 notes 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 6.25% and that the church has voted to spend 4% 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 \$22,363. Of this, \$20,000 would be permanently restricted and \$2,363 would be temporarily restricted as “Accumulated Endowment Return”. The 4% as calculated would be \$856 available to be

spent for the Music program this year, an amount that 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; the purchasing power of the original gift is preserved. However, the bookkeeping is a bit more complicated, especially when Permanently Restricted funds are co-mingled with other invested funds.

The new law was effective for the first fiscal year ending after December 15, 2008 with the new classifications beginning July 1, 2009. Since this classification of historical gifts is somewhat subjective, especially with co-mingled funds, investment committees should include their rationale in their meeting minutes and in their annual report to the congregation.

## **E. 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. This makes it easier to keep donor information confidential, while making financial reporting more available and transparent.

Whatever you choose, your software should help you to provide transparent, up-to-the-minute reports for the congregation, 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 donor-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 shared electronically
- 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 \$2,000 or even more per year. Some software is offered to churches at a discounted price.

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, whether or not you use a payroll service, you will need to enter the payroll detail into your recordkeeping, including gross pay, withholdings, deductions, and

payroll taxes so that your financial reports are complete and accurate.

Keep in mind that while bookkeeping software can help you to analyze the past and keep track of the present bank balances and bills due, it cannot predict the future. Your bookkeeping software should be able to download reports into a spreadsheet such as Excel or Google Sheets for further analysis.

## **F. Financial Sustainability**

When finances are tight, it may seem that the church doesn't have any choice other than to cut expenses. Some costs increase due to inflation, some building maintenance can't be deferred, and energy costs rise or fall depending on winter temperatures. However, sometimes changes in expenses can cause increases or decreases in participation. For example, if a church eliminates August worship, contributions will likely decrease as well. If the church takes too large of a transfer from its investment funds, the depletion of unrestricted funds could accelerate. How can a church determine its financial future, harness the gifts of the present, and remain a faithful steward of the resources it has inherited from its past history?

A congregational financial projection is an interactive model with many interdependent variables. As discussed in Section VI.B, developing a spreadsheet model and then changing the variables can help you to determine which small decisions have significant effects, and can help you evaluate how much time you have to make adjustments.

To develop a model, begin with a very condensed report of your income and expenses, including Contributions, Investment

transfers, and other income, Missions, Ministry and Capital Expenditures. Include your beginning unrestricted, donor-restricted and endowment fund balances at the top of the first column and use formulas to calculate the ending balances. Carry those over to the top of the next column and use formulas and a percentage increase or decrease to calculate the next year's figures. Note that only the eight shaded 2018 numbers and four percentages are entered as numbers. Every other figure is calculated by formula. You can override a formula if you have additional information, such as the next year's budget or the figures representing capital expenditures in 2019 and 2020.

### Grace UCC

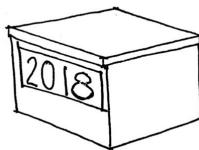
#### Financial Sustainability Projection

	12/31/2017	12/31/2018	12/31/2019
Beginning balances			
Unrestricted funds	548,851	549,016	548,516
Donor Restricted funds	33,572	33,572	15,172
Endowment funds	66,877	68,215	69,579
Total Balances	649,300	650,803	633,267
Income	2018	2019	2020
Bequests	2,000		
Contributions	2.0%	142,711	151,500
Building Use		7,500	8,000
Fundraisers		21,247	21,500
Investment Draw	4.0%	20,683	21,000
Total Income	194,141	202,000	204,577
Expenses			
Outreach (10%)	19,414	20,200	20,458
Ministry	2.0%	174,561	172,300
Capital expenses		10,000	10,200
Total expenses	193,975	202,500	206,404
Ending Balances	12/31/2018	12/31/2019	12/31/2020
Unrestricted funds	549,016	548,516	546,689
Donor Restricted funds	33,572	15,172	15,172
Endowment funds	6.0%	68,215	69,579
Total Balances	650,803	633,267	632,831

Now, by copying the third column and its formulas, you can extend your model twenty years, and observe what happens to your all-important unrestricted fund balance. Using the chart feature of the spreadsheet, you can create a line graph as in Section VI.B. Keep in mind that this is a simplified projection, but it can help you identify a beginning point for further analysis and discernment. What happens if contributions don't increase? How quickly would a 6% investment draw deplete the investments? You can make the model as complex as you wish by including additional line items. It is crucial that Treasurers and all church leaders be transparent about the financial sustainability of the path the church is on.

## **G. Records Retention**

The organization of your church files is important for a number of reasons. Files should be securely kept at the church's official location of business. Annual files should include bank statements, IRS and state 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 individually 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 to the IRS 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 were questioned and any contributions without proper substantiation disallowed. The donor must have a proper statement (See Section III.A). If the church is also able to produce photocopies of the offering envelopes showing each cash contribution, the donor would have an even 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
- Bylaws
- 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:**

- 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 securely 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.

Payroll requirements can be complex and daunting, and many churches may choose to contract with a payroll service to handle direct deposit, payroll taxes, and payroll reporting. However, the church still remains responsible for accurate reporting, and the payroll service can only report the data that the church provides, so it is important that the Treasurer understands all applicable payroll requirements.

### A. Hiring

There are three ways to hire someone: as an employee, as casual labor, or as an independent contractor. The IRS and state 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 calendar quarter. If you hire someone to clean up after the church tag sale and pay them \$40, no further documentation, tax withholding, 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 and provides services for you.

**An employee** is someone you hire and supervise, either long-term 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 C.

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 non-ordained 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. A federal form I-9 Employment Eligibility Verification (available at [www.uscis.gov](http://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, Immigration and Customs Enforcement, 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 withholding form. Note that these are *not* identical; both should be completed. A clergy person may complete a W-4 form voluntarily (see Section VIII.E.2). W-4 forms are available from the IRS at [www.irs.gov](http://www.irs.gov),

and a withholding calculator for taxpayers is available at [www.irs.gov/w4app](http://www.irs.gov/w4app). See Section XII.I for state information.

New Hire Reporting is required by either federal or state law, usually within two weeks of hire, in order to ensure compliance with child support orders. See Section XII.I.

## 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 state Department of Labor, a local church should consult an accountant before classifying any regular service provider as an independent contractor.



The law includes strict requirements defining employees so that employers are in compliance with income tax withholding requirements, payroll tax payments, workers' compensation insurance law, labor laws, and health care requirements. An independent contractor must:

- be free from control and direction in performance of the service;
- be engaged in an independently established trade, occupation, profession or business and provide her/his own tools and supplies; and
- perform work that is not a key aspect of the employer's business.<sup>14</sup>

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<sup>14</sup> [www.irs.gov/businesses/small-businesses-self-employed/independent-contractor-self-employed-or-employee](http://www.irs.gov/businesses/small-businesses-self-employed/independent-contractor-self-employed-or-employee)

So, a plumber hired to repair a faucet is 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, the Internal Revenue Service almost always considers ministers to be employees. 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:

- the value of fringe benefits is non-taxable;
- the risk of an IRS audit is generally lower for employees than for self-employed persons; and
- a minister claiming self-employed status who is audited by the IRS runs the risk of being reclassified as an employee, and may then be subject to additional taxes and penalties. The employer may possibly be subject to penalties as well.<sup>15</sup>

Likewise, it is a rare organist, Christian Education director, sexton, or secretary who could reasonably claim to be self-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 IRS Publication 15-A and Appendix C, and should be considered carefully if there is any question as to a church worker's employment status.

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<sup>15</sup> Richard Hammar, *2018 Church & Clergy Tax Guide*, p.60 ff

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 personally, 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, the worker is likely 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, employee is the proper status.

In addition to creating potential tax problems for the individual, treating employees 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 Employee Compensation**

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. However, a

number of federal and state requirements must be met regarding pay rates, overtime, and safety considerations. Developing and maintaining an Employee Handbook will help to clarify your policies and procedures, and provide valuable information for your employees. A personnel checklist for each employee is helpful for keeping track of forms and benefits offered or declined. See Appendix D for a sample form that you can customize.

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, generally paying at least 150% of the hourly rate for any hours over 40 worked in a week. An employee is exempt from overtime only under specific situations, as outlined by state law. In most churches, it is likely that only the ministers would qualify as exempt employees, even if other employees are paid on a salaried basis.

Most states require employers to establish a regular pay day that meets specified pay frequency requirements. Specific state requirements are included in Section XII. For churches, it is important to differentiate between hourly employees, who are usually required to be paid on a weekly or bi-weekly basis, and salaried employees, whose compensation for the year is set by their contract and/or your annual budget, and are most easily paid semi-monthly or monthly.

Paying salaried employees on a bi-weekly schedule can cause difficulties:

- Since there are 52 weeks plus one or two days in each calendar year, dividing an annual salary into 26 paychecks would result in either underpaying or overpaying the employee. Some years, there will be 27 paydays.

- Comparing actual payroll with the budget is not straightforward, and inadvertent errors are more difficult to notice, as there would be either two or three paydays each month, rather than a consistent 1/12<sup>th</sup> of the annual amount.
- If a salaried employee participates in any of the Pension Boards' voluntary plans, such as the Tax Sheltered Annuity or Medical Flex Spending, it is difficult to match the Pension Boards' monthly billing with bi-weekly payroll, which would include either two or three paychecks each month.

## 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 both federal and state regulations, including the Fair Labor Standards Act (including minimum wage provisions)<sup>16</sup> and the Occupational Safety and Health Act<sup>17</sup>; both of these laws require postings.

The situation with regard to the several Equal Employment Opportunity acts is more complicated. Churches are subject to the Civil Rights Act of 1964, with the exception that discrimination on the basis of religion is allowed for certain tions. Churches with fifteen or more employees are subject to the Americans with Disabilities Act<sup>18</sup> and the Equal Pay Act of 1963.<sup>19</sup> Churches with twenty or more employees are subject to

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<sup>16</sup> [www.dol.gov/whd/resources/posters.htm](http://www.dol.gov/whd/resources/posters.htm)

<sup>17</sup> [www.osha.gov/pls/publications/publication.html](http://www.osha.gov/pls/publications/publication.html)

<sup>18</sup> [www.ada.gov/2010\\_regs.htm](http://www.ada.gov/2010_regs.htm)

<sup>19</sup> [www.eeoc.gov/laws/statutes/epa.cfm](http://www.eeoc.gov/laws/statutes/epa.cfm)

the Age Discrimination and Employment Act, although there is a U.S. Supreme Court case that held that age discrimination laws do not apply to ministers and teachers of church trine. Churches with fifty or more employees are required to comply with the Family and Medical Leave Act and to offer health benefits to eligible employees or pay a penalty. Individual states may have their own poster requirements.

Thus, the church should comply with the postings on minimum wage and OSHA. It's less clear that a church with a small staff should post the EEOC materials, since for the most part they don't apply.

## **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 con-



The logo for the Electronic Federal Tax Payment System (EFTPS) features the acronym "EFTPS" in large, bold, blue letters, with a registered trademark symbol (®) to the right. Below the acronym, the full name "Electronic Federal Tax Payment System" is written in a smaller, blue, sans-serif font. The background of the logo is a grid of blue and white squares.

contains detailed instructions as to how to withhold and remit federal payroll taxes. Each state provides its own publication containing comparable information concerning state and local income taxes. All publications are available online. Note that churches are exempt from federal unemployment taxes and reporting.<sup>20</sup>

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-

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<sup>20</sup> Internal Revenue Code Section 3306(c)(8)

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 and to your payroll service.

## 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 and local income tax, if applicable. 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 or Medicare taxes for an ordained, licensed or commissioned minister. Instead, many 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 would be paid to the minister as a taxable addition to salary. The minister is then responsible to pay all Social Security taxes

The church  
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Social Security or  
Medicare taxes  
for a minister.

through SECA (Self-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 for medical care or in the event of retirement, disability, or death 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, ministers are also responsible for paying all of their federal and state income taxes. There are three options among which the minister may choose:

1. The minister may pay estimated taxes due quarterly April 15, June 15, September 15, and January 15.
2. 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 a minister employed by a church.
3. 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 of after-tax income to be withheld.

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' website at [www.pbucc.org](http://www.pbucc.org) or by mail if requested by e-mail or telephone before December 1st.

## **F. Minister's Housing - Parsonages and Housing Allowances**

Since 1920, federal tax law has exempted the value of clergy housing from federal and some state income taxes, provided certain guidelines are followed. The minister must still pay self-employment tax (Social Security and Medicare) on the parsonage value or housing allowance amount.

### **1. Guidelines for Ministers Living in Church-owned Parsonages**

If your ordained, licensed or commissioned 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 on IRS Form SE, but it should not appear on the W-2 form.

Your minister may also request that a part of 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 incurred while living 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 prospective housing or parsonage allowance is included in Section VIII.F.3.



## 2. Guidelines for Clergy Who Rent or Own their Homes

A minister who rents or owns a home may request a housing allowance based on the expenses directly related to renting or owning, maintaining and furnishing this home.<sup>21</sup> In order for this exclusion to be allowed, a rental or housing allowance must be designated in advance and in writing by the appropriate

*An October 2017 court case in Wisconsin has declared that clergy housing allowances that are exempt from federal income tax are an “unconstitutional preference for religion.” The decision is currently being appealed. Although it would only apply initially to the 7<sup>th</sup> Circuit (Wisconsin, Illinois and Indiana), the IRS often applies such cases nationally in order to promote consistency. This ruling could reduce the after-tax income of clergy by as much as 30% of their housing allowance, depending on their particular household tax bracket. The ruling would not apply to those who live in a church-owned parsonage.*

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.

A minister who rents a home should estimate anticipated expenses including rent, repairs, furnishings, renter’s insurance, and all utilities. Ministers who own or will be purchasing a home should estimate anticipated expenses including the down payment and legal fees associated with the purchase of a home, mortgage and interest payments,

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<sup>21</sup> [www.ucc.org/news\\_ucc\\_counsel.warns.that\\_housing\\_allowance.may\\_end\\_03192018](http://www.ucc.org/news_ucc_counsel.warns.that_housing_allowance.may_end_03192018)

condominium fees, utilities, repairs, furnishings, real estate taxes, and homeowner's insurance. The minister 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, but can be as much as 100% of cash compensation.

### **3. IRS Requirements for Designating Housing Allowances**

A housing or parsonage allowance must be designated in advance and in writing, by the personnel committee or other appropriate board of your church.

A housing allowance must be designated in advance and in writing.

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.

It is not permissible for a minister to declare a housing allowance that exceeds the "fair rental value" of the 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 the minister's responsibility to negotiate with the auditor concerning a reasonable fair rental value to assign to the home.

A sample format for a housing allowance resolution is as follows:

Motion: that beginning January 1, 2019, the housing allowance paid to the Rev. Jordan 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 2019 and to all future years unless otherwise provided.

#### **4. Budgeted vs. Actual Housing Allowance Amounts**

The designation of a housing allowance does not result in any additional cost to the church. However, it can result 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. After the church determines the total of 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 2019:

Minister's Salary	\$50,000
Housing Allowance	<u>\$27,000</u>
Total	\$77,000

Now suppose that the minister estimates that actual housing costs for 2019 will be \$32,000. In November 2018, the minister requests that \$32,000 of the 2019 compensation be designated as housing allowance, and the personnel committee votes this amount at their December 2018 meeting. The 2019 compensation for purposes of tax reporting will then be as follows:

Salary (reported on W-2 form, Box 1)	\$45,000
Housing Allowance (W-2 form, Box 14)	<u>\$32,000</u>
Total	\$77,000

If the minister finds that actual housing expenses total only \$31,567, it is the minister's responsibility to add the \$433 difference to taxable income when filing Form 1040. If actual housing expenses are higher, the minister may not claim the excess as an additional housing allowance, since it was not voted in advance.

For a full discussion of clergy housing allowances, see Hammar, *2018 Church & Clergy Tax Guide*, pp. 239-281.

## 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 C). 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 \$500 out of the proceeds, the payment must be reported as taxable income, with the appropriate taxes

withheld. If you give holiday bonuses to your employees, they 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 employee and is also a licensed plumber with an established plumbing business, you could pay for plumbing services as an independent contractor and issue the appropriate 1099, along with a W-2 for the compensation paid as the Organist.

## 1. Employees

All employers responsible for tax withholdings must file payroll tax reports with the IRS (quarterly Form 941 or annual Form 944), depending on the size of their payroll.

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 Social Security Administration by January 31, along with a Form W-3 summarizing the church's forms, and, if applicable, to the state as well.

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

- a. Salary
- b. Self-Employment (Social Security/Medicare) 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.1 below.)
- d. Gifts from the church to the minister, including Christmas and retirement gifts <sup>22</sup>
- e. Moving expenses, whether paid by the church or reimbursed (effective January 1, 2018)
- f. Life insurance premiums for benefit amounts in excess of \$50,000 per employee. <sup>23</sup> 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 in Section VII.I.5. The value of the additional life insurance indicated by this table is included as taxable income to the employee in Box 1.

*Example: Pastor Smith, age 38, receives a salary of \$50,000 and housing allowance of \$27,000. Therefore, according to her age (See Section VIII.I.5) the death benefit would be 200% of her salary basis of \$77,000, or \$154,000. Again according to her age, the imputed cost of employer-provided coverage is \$0.09 per month per \$1,000 of coverage in excess of \$50,000, or  $\$0.09 / \$1,000 * 12 * \$104,000 = \$112.32$  per year, which is added to Box 1, and Box 16, depending on state requirements.*

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

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<sup>22</sup> Richard Hammar, *2018 Church & Clergy Tax Guide*, pp. 151-161.

<sup>23</sup> See IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits

- a. Housing allowance amounts for clergy, designated and recorded in advance and in writing 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. Deductions for Tax-Sheltered Annuity plans – the amount should be included in Box 12, Code E
- f. Life insurance premiums paid by the church to the Pension Boards or other insurance company, for coverage up to \$50,000
- g. Professional expenses reimbursed under an “accountable reimbursement arrangement” (See Section VIII.H.1)

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 and risk the consequences of failing to report the new 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.

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

Any employer who issues one or more 1099 forms must file Form 1096, due by January 31 to both the IRS and the state DOR. Whenever you hire an independent contractor, be sure to obtain a certificate of workers' compensation insurance. You may be required to pay workers' compensation insurance on any independent contractors for whom you do not have proof of their insurance.

## **H. Non-compensation Payments to Employees**

Any payment to an employee that is not a reimbursement with proper documentation is reportable taxable income. It can sometimes be difficult to obtain receipts from church employees or volunteers in a timely manner, but that does not eliminate the requirement to report undocumented payments as taxable income.

## 1. Reimbursement of Employee Expenses

Under present tax regulations, the best way to handle employees' expenses is to establish what is known as an "accountable reimbursement arrangement." Under this kind of arrangement, an employee is reimbursed for amounts spent 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 the individual's 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 incurred in order to attend the retreat. If the minister did not use

(or cannot substantiate) the entire \$300 that was advanced, any excess amount must be returned to the church within 120 days.

In order to substantiate their business expenses, employees 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 (54.5 cents per mile for 2018) is available at [www.irs.gov](http://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 E.

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. See Section VII.G.

## 2. 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 established 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.<sup>24</sup>

Specifically, unless there is a policy prohibiting ministers from making discretionary distributions to themselves or their family, the IRS may consider the full amount of the fund to be income to the minister. This can happen even if ministers never make a distribution for their own benefit. Furthermore, unless the fund is under the full control of the congregation or its governing board, donations to the fund cannot 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.

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<sup>24</sup> Richard Hammar, *2018 Church and clergy Tax Guide*, pp. 174-176

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 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 and member of the minister's 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.

### **3. Staff Gifts**

Gifts to employees are usually taxable, unless it's too burdensome to calculate the value. For example, a staff holiday luncheon is not taxable, since it's not feasible to determine how much each employee eats. (Although, note that the recent 2017 Tax Cuts & Jobs Act has imposed a new 21% tax on meals pro-

vided to employees by non-profit organizations. See Section XI.D.) Gift cards provided to employees are taxable, since it's very straightforward to determine the value of a \$50 gift card. The value of these gifts must be added to an employee's W-2, with taxes withheld and the employer taxes paid. If you contract with a payroll service, you must report the gift to the payroll service for proper reporting.

#### **4. Personal Assistance**

A payment to an employee for personal assistance, for example to pay for unforeseen medical expenses, is also taxable income, and recorded as indicated above.

#### **5. 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, *2018 Church & Clergy Tax Guide*, pp. 163-168 or consult a tax accountant.

## I. 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



Pension Boards-UCC

available for lay employees as well as clergy. Although many churches are able to offer some benefits as a part of employee

Every UCC employee working 20 or more hours should understand that *not* enrolling in the UCC health or disability insurance may make them ineligible for the insurance in the future.

compensation, it is also possible to offer additional benefits to employees by payroll deduction, at no cost to the church. It is extremely important for the church and for every employee working 20 or more hours per week to understand that *not* enrolling in the UCC health or disability insurance may make them ineligible for the insurance in the future, whether they are employed by your church or any other UCC entity. This applies even if the insurance is not offered as a benefit by the church.

Information and enrollment forms are available at [www.pbucc.org](http://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 General Synod of the UCC recommends that the church contribute 14% of a minister's salary basis (including housing) to the minister's pension account. General Synod also recommends that the church provide a minimum contribution of 3% of salary for lay employees.

All participating employers must complete and sign an Employer Adoption Agreement, available from the Pension Boards, send a copy to the Pension Boards, and keep a copy in their records. A full copy of the Annuity Plan is available at [www.pbucc.org/index.php/menu-pension-land](http://www.pbucc.org/index.php/menu-pension-land).

In order to calculate the monthly amounts due, the employer must report each employee's salary to the Pension Boards. In the past, this has been reported with a paper "Salary Report Form" mailed to the Pension Boards. Beginning in early 2019, the Pension Boards will begin using a new employer portal so that employers can monitor their accounts, enter salary updates, and make payments. If a church fails to take the initiative to report updated salaries, 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. If the missed dues are for a prior year, they will be considered extra dues for the current year. Given the volatility of the in-



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vestment 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. Prior to retirement, they may not be withdrawn 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 able to 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. Note that this benefit is threatened by the court case as noted in Section VIII.F.2.

The IRS requires that participating churches complete a Church Plan Eligibility and Employer Adoption Agreement, provided by the Pension Boards. Under new 403(b) rules that took effect in 2010, if your only retirement plan is through the Pension Boards of the UCC, this form 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 current rules.

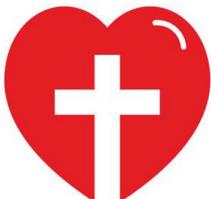
## **2. Medical Benefits**

The Pension Boards’ Medical 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 your Conference website.

Employees who do not enroll in the UCC Medical 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 (*even if the church does not offer the benefit*), and then later takes a job in another UCC church and wishes to enroll in the UCC Medical Benefits 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.

It is recommended that all UCC clergy participate in the UCC Medical 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 of which qualify as “Minimum Essential Coverage” for federal health insurance requirements. To determine if the plans meet your state’s requirements for minimum coverage, contact the Pension Boards.

Once enrolled in the UCC Medical plan, an employee may switch among Plans A, B, and C each year in November, for the year beginning January 1<sup>st</sup>.

Some churches and clergy may consider using alternative health insurance providers because a minister's spouse is able to obtain coverage through their employment or because the UCC plan may be more expensive than some less comprehensive plans, especially for younger employees. 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 medical coverage may save the church money at first, but if the spouse leaves their job, then the church may have difficulty finding health insurance for the employee.

Also, keep in mind that it is illegal (not just taxable, but illegal with very large penalties) for an employer to reimburse an employee for insurance coverage that they have purchased in the individual market, except when a small employer offers no group health insurance at all to any of any of its employees.<sup>25</sup>

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 lower premium and will cost Rev. Jones less in out-of-pocket expenses than the UCC Medical plan does. She works at Grace UCC for eight years, during which time she is diagnosed with a chronic illness. She then receives a call to Faith UCC in the Midwest. She cannot stay with her HMO because she is moving out of its

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<sup>25</sup> 21<sup>st</sup> Century Cures Act of 2016

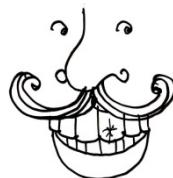
geographic range. She is unlikely to be admitted by the UCC Medical Benefits Plan because of her potentially costly illness. She may likewise have difficulty obtaining comparable coverage in another state given her diagnosis of a chronic illness, although health care reform may make it somewhat easier in some states. 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 UCC Medical Benefits Plan. However, the employee should carefully consider long-term plans in making this decision.

Most churches are too small to be required to offer COBRA<sup>26</sup> 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 monthly insurance bill. This is essential if the employee wishes to continue UCC coverage in a new job. Once an employee reaches age 55, the individual may pay the Pension Boards directly for this UCC medical coverage.

### **3. Dental Benefits**

The UCC 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. Employees



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<sup>26</sup> Consolidated Omnibus Budget Reconciliation Act of 1986

who choose not to enroll within ninety days of initial employment must wait until an “open enrollment” period in October to join the plan beginning January 1. 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 Pension Boards’ website.

#### **4. Vision Plan**

The UCC Vision Plan is available to all UCC employees, regardless of the number of hours worked per week, and whether or not the employee chooses other health benefits. There is an open enrollment period February 15 - March 15 for 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 Pension Boards.



#### **5. Life Insurance/Disability Income Benefit Plan**

The UCC Life Insurance and Disability Income Benefit Plan (LIDI) provides employees with life insurance and some income replacement if 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 Sec-

tion VIII.I.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 insurance company's underwriting department. It is therefore important for employees to enroll promptly and for churches to maintain this coverage. Note that if an employee leaves UCC employment, LIDI coverage ceases, but can be reinstated without evidence of good health, as long as the new employer begins payment of premiums immediately upon hire.

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. 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 a member remains disabled more than 22 weeks, LTD benefits generally continue until age 65.

Under the UCC 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 older disabled individuals.

The United Church of Christ 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 work, 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.

The life insurance benefit payable depends on the age of the insured employee, and is listed as a percentage of salary basis as reported to the Pension Boards (salary plus housing).

Age	Life Insurance Benefit
under 45	200%
45-54	150%
55-64	100%
65 and over	50%

If the benefit is more than \$50,000, then a portion of the premium must be reported as taxable income on the employee's IRS Form W-2.

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.<sup>27</sup> This table provides per-month premium cost rates for \$1,000 of insurance, based on five-year age brackets. The cost of each month of employer-paid coverage is computed by multiplying the number of thousands of dollars of insurance in excess of \$50,000, computed to the nearest tenth, by the appropriate amount in the above table. If group-term life insurance is provided for less than

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<sup>27</sup> (Source: 982 CCH—Standard Federal Tax Reports Reg. 1.79-4T P.6367.023)

one month, the amount shown in the table is prorated over the month. (Reg. 1.79-3(d)(1)).

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

## 6. Medical Flex Spending

The IRS allows employees to set aside a portion of their wages to be used to pay medical or dependent care expenses on a pre-tax basis. The Pension Boards administers a plan for UCC employees in which a designated amount is withheld from employee paychecks and paid to the Pension Boards. Further information, worksheets, fees, and enrollment forms are available at [www.pbucc.org/index.php/flexible-spending-account-forms](http://www.pbucc.org/index.php/flexible-spending-account-forms).

It is also possible for an employer to set up and administer its own plan, as long as the plan meets strict IRS requirements. A sample plan is included in Appendix G.

## 7. Long-Term Care Insurance

Long-term care insurance is available for active and retired UCC employees and their family members through LTC Finan-

cial Partners. Further information is available at [www.ltcfpusa.com/pbucc/](http://www.ltcfpusa.com/pbucc/)

## **8. Life Insurance**

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

## **J. 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, an Annuity Fund member may request up to 20% of the employers' contributions and up to 100% of their own contributions to their pension account be paid to them, 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 a church did not own 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 a tax accountant, so that the maximum allowable contribution can be calculated.

## **K. Using a Payroll Service**

Payroll can definitely be complex and complicated. Nonetheless, it is essential to compensate employees fairly and to report compensation accurately to the congregation, to the employee, to the IRS, and to state authorities. If you choose to contract with an outside payroll service, hopefully this *Handbook* – especially the many details included in Section VIII – will help you to understand the requirements and verify that your payroll company is filing accurate and complete reports.

## **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 Insurance Board offers a comprehensive program of insurance for local churches and New Ministry Initiatives. 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, Alliance of Baptists, Presbyterian Church USA, and the Disciples of Christ. The Insurance Board plan is made available in each Conference through agents whose names and addresses may be found in Appendix M.

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 H) 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. 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 Insurance Board's 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 Insurance Board 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.

## **2. 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 (See Section IX.A.3), any contractor hired by the church should provide the church with a Certificate of Insurance showing evidence of liability insurance coverage, with limits of liability 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, but not independent contractors.

### **3. Workers' Compensation Insurance**

In most states, churches are subject to workers' compensation laws, 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 while working, 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 as required by law, and may be subject to state law penalties for failure to carry workers' compensation insurance. 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 by contacting one of the agents listed in Appendix M.

Workers' Compensation Insurance premiums are based on estimates of employee compensation and independent contractor payments, and are paid in advance. Following the conclusion of the policy year, the insurance carrier will conduct an annual audit, either online, by phone, or in person, requesting IRS Form 941s 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 certificate of insurance at the time of their audit, the church will have to pay the premiums.

#### **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, out-of-state travel, and the operation of the vehicle by non-owner operators such as church volunteers.

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, and fully understand the personal risk they are undertaking.

## **5. Use of Church Buildings by other Organizations**

Churches frequently ask about the insurance implications of allowing other organizations (Scouts, twelve-step programs, exercise classes, etc.) to use their facilities. 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 workers' compensation and 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 Financial Assets of the Church**

All of us expect that our congregations 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. in 1984 and unfortunately 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 responsible 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].**

Since January 1, 2007, the IRS has required 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 or use a debit card on behalf of the church, recording this vote in the minutes of the committee.

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

Paying by 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 hand-

written ledger and receipts turned in for all disbursements. Any electronic payments should be approved by a check signer.

**vii. Require two signatures on every [transaction].**

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. Another possibility is to have one person approve the Request for Payment and another sign the 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 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.**

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 or a cloud backup service can protect valuable electronic data, although privacy implications must be considered. See Section IX.E.

**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 if church property is lost through fire or theft. See Section IX.A.1.

**xiii. Make sure an annual audit is conducted.**

A combination of annual internal audits and regular external audits can provide an effective review of financial reports and procedures. See Section IX.B.3.

**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.

For more information concerning internal controls and the separation of duties, see *Internal Controls for Church Finances*, available on the Church Law & Tax Store website.

## 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.

Each church should 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 or may not be accepted;
- 2) the procedure for reviewing and accepting restricted gifts;
- 3) how church assets may be invested;
- 4) who has the authority to make investment decisions within these guidelines; and
- 5) what amount from the invested funds may be spent, by whom, and for what purpose.

Such a policy may also encourage potential donors to consider making a gift. Sample investment policies may be obtained from your Conference office.

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 or internal audit committee 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 United Church of Christ 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 Insurance Board (see Section IX.A.3); it may also be purchased through a local insurance agent. See Appendix M 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 or friend 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 UCC

offers a sample policy as a starting place for the development of a policy for a local church: [www.ucc.org/ministers\\_safe](http://www.ucc.org/ministers_safe). You may also consult with your own Conference office for further guidance about complying with your own state or local requirements.

Another useful resource is *Reducing the Risk: A Child Sexual Abuse Awareness Program*, by Richard Hammar, developed by Christian Ministry Resources. An excellent tool for implementing a policy is the *Church Board Guide to a Child Sexual Abuse Prevention Policy*, available from Church Law & Tax Report, [www.churchlawandtax.com](http://www.churchlawandtax.com).

## **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 officers must explicitly include on the document the church's name, corporate status, and the capacity in which they are 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.** Volunteers may be vulnerable to this charge if their 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.<sup>28</sup> 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. Church officers are usually considered to be liable only for those decisions in which they are 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

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<sup>28</sup> 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 I. 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 K. 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**

Over the past decade, many states have enacted data security laws to minimize the risk of identity theft. They require anyone who stores or maintains certain information about an individual to maintain a written plan to protect that information. While each state’s requirements are different, Massachusetts’ example can provide a template for your own data security.

The personal information covered under these rules are a person’s name in combination with their Social Security number, state-issued identification card number, or financial account, credit or debit card number. For a local church, this information may be a part of personnel records, 1099 forms, pledge cards, photocopies of checks, or the checks themselves.

The regulations require that organizations go to considerable lengths to protect such information by making a plan, assessing risks, limiting the information collected and maintained to what is really necessary, 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, storing physical records in locked containers, making sure electronic records are password-protected, encrypting data, maintaining adequate computer protection. A sample plan is included as Appendix K.

These rules highlight the risk of volunteers carrying pledge cards or personnel records home in briefcases, leaving them in their cars, etc. Paper records must 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 nets. Passwords should be changed whenever there is staff turnover, or whenever there is reason to believe a password may have been compromised.

## X. UCC REPORTING

While every church has its traditions of reporting internally to its membership, there are a number of instances where the United Church of Christ collects data for historical record, ongoing research and analysis, and to assist with a local congregation's search for new ministerial leadership.

For many years, information was collected and published annually only in book form as the *UCC Yearbook & Directory*, [www.ucc.org/research\\_yearbook](http://www.ucc.org/research_yearbook). Recently, the UCC has transitioned to an online platform, DataHub, which Conferences and Associations can use to enter and retrieve data. See Section XIII for reporting and making payments to your Conference.

### A. Annual Yearbook & Directory Reporting

Each UCC church is asked to complete an annual report to the national setting of the United Church of Christ, updating membership and participation figures, financial data, and clergy compensation. This information is an important part of our covenant as member churches of the United Church of Christ. The data is collected by the Center for Analytics, Research and Data at the UCC in Cleveland through our UCC DataHub.



The DataHub is available for local church data entry between mid-January and early-March. The login information, forms, worksheets, and instructions are e-mailed to several leaders in each church from their Conference office annually in December.

For your church, a number of people will have input into these annual reports, including the Minister, Clerk, Treasurer, and Administrator. During the data entry period, each person can log in multiple times to complete the data entry. Detailed line-by-line instructions are included with the instructions. Submitting this information 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. Some of the data is included in the annual *Yearbook & Directory* and on the UCC website.

## **B. Pension Boards**

### **1. Employer Adoption Agreement**

All participating employers must complete and sign an Employer Adoption Agreement, available from the Pension Boards, send a copy to the Pension Boards, and keep a copy in their records. A full copy of the Annuity Plan is available at [www.pbucc.org/index.php/menu-pension-land](http://www.pbucc.org/index.php/menu-pension-land).

### **2. Salary Reporting**

It is essential that timely and accurate salary updates are provided to the Pension Boards so that the billing for pension dues and insurance is accurate. In the past, the Pension Boards sent a paper “Salary Report Form” to each church to be completed and returned to the Pension Boards. Beginning in early 2019, the salary update process will be completed online. If your church adjusts the salary for an employee, the Treasurer must update the Pension Boards in a timely manner. See Section VIII.I.1.

### **3. Benefits**

Once an employee enrolls in a benefit plan, such as health, dental, vision, or pension, the appropriate benefits specialist will communicate directly with the employee. The employer's responsibility is to make payments promptly and to relay to the Pension Boards any changes in employment, eligibility, or compensation.

### **C. Local Church Profile**

When a church searches for a new member of its staff, it completes a local church profile, which includes a variety of financial data and information.

When completing the information regarding financial compensation to be offered to the candidate, be sure that your information is not misinterpreted. Salary Basis is defined as Salary plus either a Housing Allowance or the value of living in the Parsonage. Next, indicate whether or not benefits (see Section VIII.I) are included, choosing one of three options:

- Benefits are provided in addition to this amount
- Salary Basis includes Optional Benefits
- No Benefits

It is absolutely essential to answer this correctly, so that the time of the candidate and search committee is not wasted with a costly misunderstanding. A compensation package with benefits can be as much as twice the cost of a salary and housing package with no benefits.

The Church Finances section of the local church profile asks you to attach a copy of your most recent financial report as

shared with your congregation, along with various subtotals from the most recent fiscal year, and information on capital campaigns, indebtedness, endowment, and support of the Wider Church. Your Conference office can assist you in completing this section.

## **D. Cornerstone Fund and UCC Building & Loan**



If a church applies for a loan, several legal documents and financial reports will be required, including a Statement of Financial Position, Net Assets, and information about the building project you are funding. Once approved, borrowers are required to submit annual financial reports including Financial Position, Net Assets, and a Statement of Income and Expenses.

If you keep your financial records according to Generally Accepted Accounting Principles (GAAP), you will have the financial information you need to complete the application and the required follow-up reporting.

## XI. FEDERAL REPORTING AND TAXES



Department of the Treasury  
**Internal Revenue Service**

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important federal requirements, depending on whether you hire employees, engage independent contractors, offer employee benefits, or run a school.

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.

### A. IRS Form 990

Although most not-for-profit corporations are required to file an annual financial report: IRS Form 990, Return of Organization Exempt from Income Tax, churches are not required to file this IRS form.<sup>29</sup>

### B. IRS Form 8822-B

As of March 1, 2014, the IRS began requiring that non-profit organizations indicate who is financially responsible for the organization. Whenever a new Treasurer begins, an IRS Form 8822-B Change of Address or Responsible Party must be filed within 60 days, including the individual's name, address, and So-

Churches and religious organizations are non-profit organizations, but are exempt from many of the reports that are required from secular non-profit organizations. There are, however, im-

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<sup>29</sup> IRS, Instructions for Form 990

cial Security number. In order to protect your privacy, you may wish to complete the form without your Social Security number, make a copy for the church files, and then add your Social Security number before mailing to the IRS.

## **C. Federal Income Tax Exemption**

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.

## **D. Unrelated Business Income Tax**

Although churches are exempt from filing IRS Form 990, Return of Organization Exempt from Income Tax, some may be required to file IRS Form 990-T, Exempt Organization Business

Effective January 1, 2018, the cost of providing certain employee benefits, including parking, must be added to UBTI on Form 990-T.

Income Tax Return. If the total of gross income from business that is regularly carried on, yet not substantially related to an exempt purpose plus the cost of providing certain qualified transportation fringe benefits is \$1,000 or more, then Form 990-T is due four and a half months after the end of your fiscal year.

Examples of unrelated business income may include: operating a retail store, renting out debt-financed property, or renting out parking lot spaces during the week.<sup>30</sup> The leasing of church steeples by cellular telephone companies is usually not subject to UBIT, as it usually qualifies as passive rental income,<sup>31</sup> although the IRS has issued conflicting rulings.<sup>32</sup>

Exemptions from Unrelated Business Taxable Income 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 complete discussion of this tax, see Richard Hammar, *2018 Church & Clergy Tax Guide*, pp. 662-675.

Recent legislation effective January 1, 2018 requires non-profit organizations to include as UBTI the cost of providing certain employee benefits, including employee parking that is paid to a third-party facility or provided on church property, as well as some entertainment and meals expenses. Preliminary guidance issued by the IRS details the method to calculate the portion of expenses to be allocated to employee parking.<sup>33</sup> Guidance has not yet been issued regarding meals and entertainment. After an exclusion of \$1,000, any UBTI is taxed at 21%. If the resulting tax is \$500 or more, quarterly estimated payments must be made in advance. The UCC General Counsel therefore recommends that each church that provides these employee benefits review the IRS guidance carefully, obtain the advice of a CPA if needed,

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<sup>30</sup> IRS Publication 1828

<sup>31</sup> [www.macucc.org/communication/TaxImplications.pdf](http://www.macucc.org/communication/TaxImplications.pdf)

<sup>32</sup> Richard Hammar, *2018 Church & Clergy Tax Guide*, p. 669.

<sup>33</sup> [www.irs.gov/pub/irs-drop/n-18-99.pdf](http://www.irs.gov/pub/irs-drop/n-18-99.pdf)

calculate their tax liability, and, if required, make quarterly payments and prepare IRS Form 990-T.

### **Grace UCC**

Employee parking in church-owned lot with 20 spaces total.

- \$ 5,000 total 2018 expenses (snow removal, maintenance)
- 7 employees, collectively parking 160 hours per week
- Church activities, programs, 12-step groups 9am - 9pm most days, totaling 80 hours per week \* 20 spaces = 1,600
- Employee portion each week =  $160 / 1600 = 10\%$
- Remaining spaces available for congregants and public

Therefore, the primary use of the parking lot (90%) is for the general public and there is no UBTI to be included on Form 990-T.

Note that if the church reserves specific spaces for staff, the cost of those spaces is added to UBTI, regardless of the 50% use threshold, and a snowy winter could increase the cost of employee parking above \$1,000, resulting in tax payable to the IRS.

As of December 2018, several amendments have been proposed that would repeal this provision. Churches are advised to keep themselves informed and to comply with the current law.

## **E. Federal Excise Taxes**

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

## **F. Federal Payroll Tax Deposits**

Churches must be especially careful to be in full compliance with all federal payroll tax regulations. All payroll tax liabilities are based on the date that the employee is paid, not the dates that

they perform the work. The due dates for the tax deposits are based on the total amount paid during the past year, with significant penalties for late payments. It is crucial that someone in the church understand church and clergy payroll tax issues. For further information, refer to chapter 11 of Richard Hammar's *2018 Church & Clergy Tax Guide*, or IRS Publication 15. 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 using EFTPS. The IRS now requires all employers to remit tax deposits electronically. Enrollment forms and instructions are available at [www.eftps.gov](http://www.eftps.gov). After you enroll electronically, the IRS will mail you a 4-digit PIN within two weeks.

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

## **G. Federal Employment Tax Reporting**

**IRS Quarterly Form 941 or Annual Form 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).

**IRS Quarterly Form 940** – Churches are not permitted to participate in the federal unemployment system and do not file IRS Form 940.<sup>34</sup> 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.

## **H. Federal Annual Reporting**

**IRS Annual Forms W-2 and W-3** – Wage and Tax Statement. These forms report wage and withholding information for each employee, along with totals for the employer and are due to employees and to the Social Security Administration by January 31.

**IRS Forms 1099-MISC and 1096** – Miscellaneous Income. If a church pays any unincorporated independent contractor \$600 or more in a calendar year, it must file a Form 1099 for each contractor, along with Form 1096, which totals the individual forms. These are due to contractors and to the IRS by January 31.

**IRS Form 5578** – Annual Certification of Racial Nondiscrimination for a Private School Exempt from Federal Income Tax. This form is required only if you operate a school and do not file IRS Form 990. It is due annually four and a 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.

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<sup>34</sup> Internal Revenue Code Section 3306(c)(8)

## **XII. MASSACHUSETTS STATE AND LOCAL REPORTING AND TAXES**

In Massachusetts, the Attorney General's Office oversees the operation of all Public Charities, including churches. Religious institutions are exempt from some requirements and subject to others.



Massachusetts law requires a non-profit corporation to have at least three officers: a President, a Treasurer, and a Secretary.<sup>35</sup> If the Secretary is not a resident of Massachusetts, then a Resident Agent must be appointed. This means that these three offices may never be vacant. It is legally possible, although not recommended, for one person to simultaneously hold more than one office. Your bylaws should define the responsibilities of each officer.

If you are not sure whether your church is incorporated, you can find out by contacting the Secretary of the Commonwealth's Corporations Division at [www.sec.state.ma.us/cor](http://www.sec.state.ma.us/cor) or (617) 727-9640. If the church is incorporated, the office of the Secretary of the Commonwealth can provide a certified copy of the church's charter (Articles of Incorporation) for a nominal fee.

### **A. Annual Reporting**

Churches are exempt from filing the annual Massachusetts Form PC.<sup>36</sup> Churches are also exempt from Massachusetts' An-

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<sup>35</sup> Massachusetts General Laws, Chapter 156, §21

<sup>36</sup> Massachusetts General Laws, Chapter 12, §8F(4)

nual Report filing, and the Change of Officer filings, which list names and addresses of the officers.<sup>37</sup> Copies of original incorporation documents and articles of organization may sometimes be found on the website of the Secretary of the Commonwealth, Corporations Search page, depending on how long ago your church was incorporated, or by searching at the Massachusetts Archives on Columbia Point in Dorchester.

## **B. State Corporate 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.

## **C. Written Information Security Plan**

As noted in Section IX.E, Massachusetts' law,<sup>38</sup> effective January 1, 2010 requires every organization who has access to personal information, including bank account numbers, credit/debit card numbers, or Social Security numbers, to implement a written plan to keep that information secure, and to review that plan annually. A sample plan is included as Appendix K.

The full text of the regulations may be found at [www.mass.gov/files/documents/2017/10/02/201cmr17.pdf](http://www.mass.gov/files/documents/2017/10/02/201cmr17.pdf)

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<sup>37</sup> Massachusetts General Laws, Chapter 180, §26A(5)

<sup>38</sup> Massachusetts General Laws, Chapter 93H, 201 CMR 17.00

## D. Massachusetts UPMIFA

Massachusetts signed into law its version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA)<sup>39</sup> on July 2, 2009. This act applies only to endowments – funds that have been permanently restricted by the donor. In some cases the donor has included specific instructions to determine the amount to be spent, such as “up to 4% of the balance may be spent each year” or “any amount above the historic value of the fund may be spent.” If the wording only refers to the fund as “endowment” or “held in trust”, or instructs the organization to spend the “income” or “interest only” or to “preserve the principal,” then UPMIFA provides default instructions.

The church must act in the best interest of the endowment fund – not in the best interest of the church, but in the best interest of the endowment fund. In determining the amount to spend, a Massachusetts church must act “prudently,” but is not limited to a 7% rule or to the historical value of the fund.

Effective January 1, 2011, the Supreme Judicial Court issued a rule<sup>40</sup> that allows organizations to modify restrictions on small funds where the restriction has become unlawful, impracticable, impossible to achieve or wasteful. The restrictions may be modified administratively with the consent of the Massachusetts Attorney General if the fund has been in existence for twenty years

The church must act in the best interest of the endowment fund.

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<sup>39</sup> Massachusetts General Laws, Chapter 180A, §5A

<sup>40</sup> Massachusetts SJC Rule 1:23

or longer and has a total value of \$75,000 or less as of the end of the last fiscal year by completing Form PC-IF.<sup>41</sup> Larger funds can be modified only with the approval of the courts.

## **E. New Hire Reporting**

Employers are 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 their first day of work. The employer is required to report the person's name, address, and tax ID number, either using the MassTaxConnect website or by fax. Further information is available at [www.mass.gov/how-to/report-new-hires](http://www.mass.gov/how-to/report-new-hires)

## **F. Teen Work Permits**

In Massachusetts, any teen 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. There are limitations to the teen's allowable job responsibilities and hours, based on age. For further information, search for "Youth Employment Information" on the [www.mass.gov](http://www.mass.gov) website.

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<sup>41</sup> Massachusetts Form PC-IF

## G. Employee Payroll

The Attorney General's office also oversees the fair treatment of employees and independent contractors. For example, Massachusetts churches must pay employees according to a regular pay period and pay schedule.

- Hourly employees must be paid at least bi-weekly within six days of the end of the pay period.
- Salaried employees must be paid at least semi-monthly, and may be paid monthly only at the employee's request.
- All employees must receive a paystub showing gross pay and any deductions.

Churches must pay at least the Massachusetts minimum wage, which is \$12 per hour as of January 1, 2019 and will increase each year. The current rate may be found on the Attorney General's page: [www.mass.gov/guides/pay-and-recordkeeping](http://www.mass.gov/guides/pay-and-recordkeeping)

While churches are exempt from the rule that retail organizations pay a higher wage on Sundays, they are not exempt from overtime laws.<sup>42</sup> Non-exempt employees who work more than 40 hours in a week must be paid at a rate of 150% of their regular hourly rate. Note that paid time off is not counted toward the 40 hours worked.

All employers must comply with the updated Massachusetts Equal Pay Act,<sup>43</sup> effective July 1, 2018. Employers must pay men and women equally for comparable work; compensation includes salaries, wages, bonuses, paid time off, insurance and other

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<sup>42</sup> Massachusetts General Laws, Chapter 151, §1A.

<sup>43</sup> Massachusetts General Laws, Chapter 149, §105A and [www.mass.gov/massachusetts-equal-pay-law](http://www.mass.gov/massachusetts-equal-pay-law)

benefits. In addition, when hiring, an employer may not, directly or indirectly, seek information about a candidate's prior salary history.<sup>44</sup>

## **H. Mandatory Sick Time – paid or unpaid**

Effective July 1, 2015, all Massachusetts employers are required to allow their employees to accrue and use sick time.<sup>44</sup> The law will help workers by giving them sick leave, and will help employers by allowing sick employees to stay home when they may be contagious, or to seek health or dental care. The sick time may be used for the employee or to care for a family member as defined by the law. For congregations, the law helps to clarify how sick time is to be accrued, and gives personnel committees a starting place for developing their own policies.



All Massachusetts employers are subject to the law and must provide sick leave, accrued at a rate of at least one hour for every thirty hours worked. If an employer had an average of eleven or more individuals employed during the preceding calendar year (whether full-time, part-time, or seasonal), the sick leave must be paid. Employers with 1-10 employees may offer unpaid leave. The church may choose to implement a policy that is more generous than the law, as long as the minimum benefits are granted. For example, a church offering two weeks per year of sick time could word their policy as follows:

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<sup>44</sup> Massachusetts General Laws, Chapter 149, §148C and §149D

## **Sample Employee Sick Leave Policy**

In compliance with Massachusetts General Laws, all employees accrue sick leave at the rate of 1 hour per 26 hours worked. This rate of accrual is equivalent to 10 sick days per year. Sick time is accrued and recorded each pay period. Full-time exempt employees are assumed to work 40 hours per week. Unused sick days are carried over from year to year, up to a maximum of 65 days (three months), but are not ever paid in cash.

Sick Leave may be used for illness, injury, medical care or the effects of domestic violence or for medical appointments for the employee, spouse, child, parent or spouse's parent. The employee must notify the Office Administrator of the absence.

Sick leave will be paid at the employee's regular rate. For those employees covered by the UCC Life Insurance and Disability Income Plan, sick leave will be paid according to the disability insurance requirements.

To make sure that all employers and employees are familiar with the new law, employers must post this documentation: [www.mass.gov/files/documents/2016/08/pn/est-employee-notice.pdf](http://www.mass.gov/files/documents/2016/08/pn/est-employee-notice.pdf)

## **I. State Tax Withholding**

Churches must be especially careful to be in full compliance with all state payroll tax regulations.

**Massachusetts Form M-4** – Each employee should complete a Massachusetts Form M-4, Employee's Withholding Exemption Certificate to indicate the number of state exemptions to be used in calculating Massachusetts withholding. Note that this

is similar, but not the same as the federal W-4 form. If you do not receive a completed M-4, the MA DOR instructs the employer to use same designation as the employee's federal W-4. Note however that the worksheets are entirely different and usually yield a different number of federal and state exemptions.

**Massachusetts withholding** – Massachusetts withholding tax deposits must be made on-line using MassTaxConnect, reporting and remitting the amount of state income tax withheld from employees, either on a monthly or quarterly basis. These payments are generally due on the 15<sup>th</sup> of the month following the end of the pay period, although the due date is later at the end of each quarter. Further instructions are available at [www.mass.gov/guides/withholding-taxes-on-wages](http://www.mass.gov/guides/withholding-taxes-on-wages).

**Family and Medical Leave tax** – There is a new payroll tax that will fund paid leave for many employees in Massachusetts with a payroll tax of approximately 0.315% withheld from wages beginning July 1, 2019. Employers with five or more employees will be required to match the amount. Benefits will be available to Massachusetts employees beginning in January 2021. It is not yet clear whether churches are subject to this new tax, and whether their employees can receive the benefit. More information will be available as the details are finalized in 2019.

**Child Support** – If an employee or independent contractor is required to make child support payments through their employer, the state will contact the employer. Payments may be made by paper check or electronically at [ma.smartchildsupport.com](http://ma.smartchildsupport.com)

**Wage Garnishments** – If an employee or independent contractor is required to repay the government for back taxes, the

appropriate 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.

## **J. Unemployment Taxes and Benefits**

Churches are not permitted to participate in Massachusetts unemployment systems.<sup>45</sup> 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. It is very important to include this in your employee handbook or letter of hire so that any departing employees are not caught by surprise at a potentially vulnerable time.

If you contract with a secular payroll service, remember that they may not be familiar with the requirements for churches. There are three related Massachusetts taxes from which churches are exempt:

- State Unemployment Tax (SUTA)
- Workforce Training Fund Tax (WTF)
- Employer Medical Assistance Contribution (EMAC)

Whether or not churches are exempt from the new Family & Medical Leave Tax is yet to be determined.

## **K. Quarterly Employment and Wage Reporting**

The Massachusetts Employment and Wage Detail Report is a quarterly wage report that includes all employees, listing each person's Social Security number, gross wages subject to unem-

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<sup>45</sup> Massachusetts General Laws, Chapter 151A, §6(r) and §6(s)

ployment insurance, wages subject to withholding, Massachusetts income tax withheld, and the number of hours worked during the quarter. It is filed through the MA DUA UI Online website and is due by 3pm on the last business day of the following month.

Note that since churches are not allowed to participate in the unemployment insurance program, UI wages will always be \$0 for each employee, and the question about whether employees worked in covered employment subject to Unemployment Compensation law during each month of the quarter will always be “no” for each employee and for each month.

## **L. Health Insurance Responsibility Disclosure**

Health Insurance reform has changed from year to year, at both the federal and state levels. Effective November 2018, any Massachusetts employer with six or more employees is required to complete a new Health Insurance Responsibility Disclosure (HIRD) form to determine eligibility for premium assistance for employees who receive group insurance.<sup>46</sup> The form is filed online through the MassTaxConnect account, and is available beginning November 1<sup>st</sup> with a due date of November 30<sup>th</sup>. Note that the new form is entirely different from the Employer HIRD form that was required from 2007-2013.

You are required to file if you reported six or more employees on the Quarterly Employment and Wage Detail report in any of the previous twelve months, from December of the previous year through November of the current year.

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<sup>46</sup> Massachusetts General Laws, Chapter 118E, §78

## **M. Annual W-2 and 1099 submissions**

It is the employer's responsibility to send copies of each Form W-2 filed to the MA DOR by January 31<sup>st</sup>. Forms may be submitted electronically using MassTaxConnect. If you have fewer than 50 forms, you have the option of mailing paper copies, along with Form M-3, to:

Massachusetts Department of Revenue  
PO Box 7015  
Boston, MA 02204

Copies of Form 1099 must also be submitted to the MA DOR by January 31<sup>st</sup>. Forms may be submitted electronically using MassTaxConnect. Employers filing fewer than 50 forms may mail paper forms, along with a copy of IRS Form 1096 to:

Massachusetts Department of Revenue  
PO Box 7045  
Boston, MA 02204

## **N. State Sales, Meals and Hotel Taxes**

Churches may apply for exemption from paying Massachusetts sales tax on purchases. 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 by applying through MassTaxConnect. You will need your federal EIN, along with a copy of the UCC federal income tax determination letter (Appendix A), and a copy of the United Church of Christ *Yearbook & Directory* page listing your local church. The

sales tax exemption is good for ten years. Assuming there are no changes in the organization, the MA DOR will issue a renewal notice approximately 30 days before your certificate expires.

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 Massachusetts sales tax and remit it to the MA DOR on an annual, quarterly, or more frequent basis. If your church sells any products, you should consult an accountant to be sure that you are in compliance with the law. 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](http://www.mass.gov).

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

## **O. 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 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.<sup>47</sup>

Your town  
may require  
you to file  
Form 3ABC,  
due March 1<sup>st</sup>

In order to maintain their property tax exemption in Massachusetts, non-profit organizations are required to file an annual form 3ABC, due March 1<sup>st</sup>, although some towns waive this requirement for churches. Check with your town's board of assessors before March 1<sup>st</sup> 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 individuals or to other organizations, including non-religious non-profit organizations, could result in a full or partial loss of the property tax exemption. Following a 2017 SJC ruling,<sup>48</sup> Massachusetts Conference, UCC legal counsel recommends that any church that rents property to an entity outside the church have a written lease with the tenant. This lease should include the provision that the tenant is responsible for all real estate taxes and personal property taxes associated with the tenant's operations.

Specifically, if the tenant is a non-profit charitable organization, the tenant must either claim a charitable exemption and file the appropriate paperwork with the city or town to avoid the as-

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<sup>47</sup> Letter from Richard B. Osterberg, 11/5/96,  
[www.macucc.org/communication/TaxImplications.pdf](http://www.macucc.org/communication/TaxImplications.pdf)

<sup>48</sup> Massachusetts SJC 12021, Shrine of Our Lady of La Sallette Inc. vs. Board of Assessors of Attleboro

essment of real estate taxes on the property they are leasing, or pay the assessed taxes.

If the tenant is a for-profit organization or individual, the lease clause would simply require that the tenant pay the taxes.<sup>49</sup> 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.

## **P. Raffle Permits and Reporting**

In Massachusetts, raffles of any kind require a raffle permit, issued by the town.<sup>50</sup> At the conclusion of the raffle, the organization must file a tax return with the Lottery Commission, pay a 5% tax on the gross proceeds within ten days, and file with the Town Clerk two copies of a financial report certified by the three members responsible for the event and an accountant. All records relating to the raffle must be kept for at least one year after the financial report is submitted.

## **Q. Local Inspections**

Many towns require inspections of kitchens,<sup>51</sup> boilers,<sup>52</sup> elevators,<sup>53</sup> fire extinguishers, or other aspects of buildings that involve the safety of the general public. Keep in mind there may be significant penalties for failure to obtain these inspections. For further information, contact your Town Hall.

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<sup>49</sup> Dawn Hammond, [www.macucc.org/propertytax](http://www.macucc.org/propertytax)

<sup>50</sup> Massachusetts General Laws, Chapter 271, §7A.

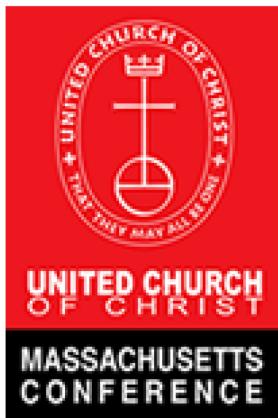
<sup>51</sup> Massachusetts General Laws, Chapter 94, §328

<sup>52</sup> Massachusetts General Laws, Chapter 146, §6

<sup>53</sup> Massachusetts General Laws, Chapter 143, §64

## XIII. MASSACHUSETTS CONFERENCE RESOURCES, STAFF & PAYMENTS

### A. Conference Resources



The Massachusetts Conference places great emphasis on helping our churches be more vital in health, faithfulness, and effectiveness. Together, we share resources, learn from each other's experiences, and know that each individual person and each congregation is a part of our larger community of faith. The Conference offers a number of opportunities to learn about and share financial stewardship resources.

Super Saturday workshops, Treasurers' gatherings, and online materials support clergy and lay leaders as they tend to the day-to-day stewardship of congregational resources.

You can learn more about the many church vitality programs, resources, and guidance on the Conference website.<sup>54</sup> There are options for churches that are facing financial difficulties,<sup>55</sup> and stories from those that are flourishing.<sup>56</sup> A number of churches have benefitted from programs such as the Crossroads: New Beginnings program<sup>57</sup> or have embarked on a turnaround

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<sup>54</sup> [www.macucc.org/growingyourchurch](http://www.macucc.org/growingyourchurch)

<sup>55</sup> [www.macucc.org/strugglingcongregations](http://www.macucc.org/strugglingcongregations)

<sup>56</sup> [www.macucc.org/storiesandlessonslearnedfromflourishingchurches](http://www.macucc.org/storiesandlessonslearnedfromflourishingchurches)

<sup>57</sup> [www.macucc.org/crossroads](http://www.macucc.org/crossroads)

program of redevelopment.<sup>58</sup> The Conference website also includes suggestions for allocating your missions giving<sup>59</sup> and guidelines for employee compensation.<sup>60</sup> As always, the Conference staff is available to answer questions and help you to explore options.

Whether your church is large or small, whether it is growing, stable, or struggling, whether financial resources are plentiful or rapidly disappearing, the Massachusetts Conference strongly encourages Treasurers and all church leaders to develop transparent financial reporting and procedures, and to evaluate the financial sustainability of your congregation's financial resources and decisions, sharing those observations with your congregation along the way. Recognizing and acknowledging whatever challenges you face will allow you the time and space to take appropriate and faithful steps as faithful stewards of the household of faith that you have inherited.

## **B. Conference Staff**

The Conference churches and Associations are divided into five regions: Western, Central, Northeast, Southeast, and Metropolitan Boston, each served by one or more Associate Conference Ministers, who are available to meet with you and connect you with resources.

As Associate Conference Minister for Policy and Finance, Dawn Hammond oversees the financial management of the Con-

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<sup>58</sup> [www.macucc.org/turnaround](http://www.macucc.org/turnaround)

<sup>59</sup> [www.macucc.org/givingguide](http://www.macucc.org/givingguide)

<sup>60</sup> [www.macucc.org/compensation](http://www.macucc.org/compensation)

ference, and can suggest resources regarding tax and legal questions.

Jonathan New is Associate Conference Minister for Stewardship and Financial Development, focusing on stewardship programs, capital campaigns, planned giving, United Church Mission, OCWM and financial sustainability.

For assistance with the development of safe church policies, contact Ellie Richardson, Associate Conference Minister for Lay and Clergy Leadership Development. She also oversees clergy and lay leadership training.

Nancy Stubbs is the Database Specialist who handles registration, DataHub, and annual reporting. She and other Conference staff members are available to you and your church. You will find the current staff listing on the MACUCC website: [www.macucc.org/staff](http://www.macucc.org/staff)

## **C. Making Payments to the MACUCC**

Payments for any of the UCC or MACUCC programs may be made using one combined check and a Church Contribution Form (See Appendix L) to indicate how the contribution is to be allocated. Checks should be payable to MACUCC and mailed to:

Massachusetts Conference UCC  
One Badger Road  
Framingham, MA 01702

Churches may make payments online with a church debit or credit card, or may set up a [paypal.com](https://paypal.com) account to pay using their church checking account and then complete the online form at [macucc-reg.brtapp.com/churchcontribution](http://macucc-reg.brtapp.com/churchcontribution).

Individuals may make online donations to the programs of the Massachusetts Conference at [www.macucc.org/donate](http://www.macucc.org/donate) or may mail payments to the Conference office.

## **D. United Church Mission**

In 2014, the Massachusetts Conference approved the creation of United Church Mission (UCM) as a new way to fund our common mission through local churches, Associations, the Conference, and the national setting of the United Church of Christ. Since then, nearly one in four Massachusetts Conference churches has made the transition to UCM. It is expected that, in time, UCM will replace Fellowship Dues and OCWM Basic Support for all Massachusetts Conference churches.

United Church Mission contributions are based on a percentage of the prior year's total income received by a local congregation as reported in its most recent internal Annual Report. Total income includes general operating income from all sources, as well as general missions giving, but not special giving such as capital campaign contributions, disaster relief, or special offerings.

Churches are asked, initially, to continue to give at least the same proportion of total income that they had been giving with their previous Fellowship Dues and OCWM Basic Support contributions. Gradually over time, similar to local church stewardship campaigns, churches will be encouraged to consider increasing this percentage as they are able. UCM churches do not receive Fellowship Dues bills; rather the Conference forwards a small portion of UCM back to the Association as a replacement for the Association portion of Fellowship Dues.

The Conference leadership believes this makes UCM a fairer giving system that is responsive to each church's financial health. It also simplifies giving to the Wider Church, mirrors biblical principles of percentage giving and stewardship best practices of proportional giving, and eliminates what some feel is a Fellowship Dues "head tax." Importantly, through UCM, all the settings of the Church continue to receive funding in the same overall proportion of contributions made by churches through dues and OCWM Basic Support. Currently 30% of UCM is forwarded to the national setting of the UCC and 70% remains in the Massachusetts Conference and Associations.

The Conference has developed two spreadsheets you can use: one to calculate your initial UCM giving percentage, and the other to apply this percentage to total income to determine the following year's UCM contribution. They are available at: [www.macucc.org/unitedchurchmission](http://www.macucc.org/unitedchurchmission). For further information about UCM, you may contact the Associate Conference Minister for Stewardship and Financial Development.

## **E. Our Church's Wider Mission**

Those congregations that have not opted in to United Church Mission are asked to make an annual contribution to Our Church's Wider Mission to support the United Church of Christ mission and program in its wider settings: in Massachusetts, nationally, and globally. Just over one-third of the MACUCC annual operating budget is funded by the portion of OCWM and UCM that is contributed by local churches.

As voted by the Annual Meeting of the Conference each year, a percentage of Basic Support (50% in 2019) is forwarded to

the national setting of the United Church of Christ, along with a percentage (30% in 2019) of United Church Mission.

## **F. Fellowship Dues**

Also for those congregations that have not opted in to United Church Mission, Fellowship Dues are one of the ways that our MACUCC churches fund the ministry and services that we share, supporting approximately 25% of our annual Conference budget. 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<sup>st</sup> 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.

Each Association decides how to bill its churches for Fellowship Dues; some are billed by the Treasurer of the Association and others choose to utilize the Conference office. 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.

## XIV. CONCLUSION

Serving as Treasurer or on the Finance Team 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 or Jonathan New 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.macucc.org/financial – Financial, Staff & Building Management resources on the MACUCC webpage
- www.macucc.org/safechurch – Safe Church & Safe Conduct resources
- www.macucc.org/stewardship – stewardship resources on the MACUCC webpage
- 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)
- www.cblfund.org – The UCC Building & Loan Fund (loans for churches)

#### **Financial Reporting and legal issues:**

- www.congregationalfinance.com – Rev. Karen McArthur's website with resources for the financial management of churches and faith communities; includes QuickBooks tips, links to resources, training, and vendors
- www.churchlawtoday.com – Richard Hammar's website, available for an annual fee

## **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
- mtc.dor.state.ma.us – MassTaxConnect, for MA DOR reporting and payment of state tax deposits
- www.mass.gov/unemployment-insurance-ui-for-employers for Massachusetts quarterly and new hire reporting

## **Financial products:**

- www.vancopayments.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.techsoup.com – for significantly discounted software
- www.quickbooks.com – for QuickBooks Pro software

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

- ServantKeeper – [www.servantkeeper.com](http://www.servantkeeper.com)
- Church Windows – [www.churchwindows.com](http://www.churchwindows.com)
- ACS / Realm – [www.acstechnologies.com](http://www.acstechnologies.com)
- CDM Plus – [www.cdmplus.com](http://www.cdmplus.com)
- Power Church – [www.powerchurch.com](http://www.powerchurch.com)

## B. Source Materials

### Published by Christian Ministry Resources

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

*Church Finance Today* (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*, 4th edition, 2008.

Hammar, Richard R., ed., *Your Guide to Ministry Employee Handbooks*.

Hammar, Klipowicz and Cobble, *Reducing the Risk II: Making Your Church Safe from Child Sexual Abuse*, 2003.

### Published by the Church Building & Loan Fund

*Church Building: A Resource Manual for Congregations Working with the Church Building & Loan Fund*

*Funding Your Future: A Capital Campaign Manual from the United Church of Christ*

*Living Legacy: Church Closure and Legacy Resource*. Available at [www.ucc.org/legacychurch](http://www.ucc.org/legacychurch)

### Published by the Pension Boards of the United Church of Christ

*2018 Federal Reporting Requirements for Churches*. Prepared by Church Law & Tax Report. Available at [www.pbucc.org/index.php/menu-news-sep/tax-resources](http://www.pbucc.org/index.php/menu-news-sep/tax-resources)

*2017 Tax Guide for Ministers.* Prepared by Church Law & Tax Report. Available at [www.pbcc.org/index.php/menu-news-sep/tax-resources](http://www.pbcc.org/index.php/menu-news-sep/tax-resources)

### **Published by United Church Funds**

*Building a Legacy: An Endowment Policy Handbook.* Prepared by United Church Funds, 2010

### **Available on [irs.gov](http://irs.gov)**

*Publications 15, 15-A, 15-B: Employer's Tax Guide*

*Publication 517: Social Security and Other Information for Members of the Clergy and Religious Workers*

*Publication 1828: Tax Guide for Churches and Religious Organizations*

### **Published by the Massachusetts Conference of the United Church of Christ**

*A Guide to Capital Campaigns*, available at [www.macucc.org/stewardship/capitalcampaign.htm](http://www.macucc.org/stewardship/capitalcampaign.htm)

*A Practical Guide for Mission/Outreach Committees*, by Paul C. Clayton, [www.macucc.org/stewardship/APracticalGuideForMissionOutreachCommittees.htm](http://www.macucc.org/stewardship/APracticalGuideForMissionOutreachCommittees.htm)

*Endowment Policy Manual*, published by the Massachusetts Conference UCC

Marino, Frank A., *Handbook for the Church Audit Committee*, 2001.



## **GLOSSARY OF FINANCIAL TERMS**

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

### **ASSETS**

**Bank Accounts** – checking, savings, CDs, petty cash, pre-paid debit card balances, 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. 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

**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

**Other Current Liabilities** – credit card balances

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

## **LIABILITIES (cont'd)**

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

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

## **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

**Donor-Restricted Funds** – funds restricted by the donor for a specific purpose or time:

**Temporarily Restricted Funds** – may be spent in their entirety once a specific purpose or time restriction has been met

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

**ENDOWMENT** consists of permanently and temporarily restricted endowment funds, along with the temporarily restricted unspent accumulated gains or losses associated with a specific endowment investment.

**INVESTMENTS** are any funds that are held in investment accounts for the purpose of earning investment return to be used by the church. Note that investments usually include endowment (both permanently and temporarily restricted funds), investments (often board-designated), and general operating funds, such as when stock gifts are 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 by means of 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. Letter documenting United Church of Christ Tax-Exempt status
- B. Sample Debit Card Policy for Staff or Volunteers
- C. IRS Guidelines for Classifying Employees
- D. Personnel File Checklist
- E. Sample Accountable Reimbursement Plan
- F. Sample Request for Payment form
- G. Sample Medical 125 Plan
- H. Uniform Premium Table for Group-Term Life Insurance
- I. Property and Liability Insurance Checklist
- J. Sample Amendment to Articles of Organization to Protect Church Officers
- K. Sample ByLaw Indemnifying Church Officers
- L. Sample Written Information Security Plan
- M. Massachusetts Conference Church Contribution Forms
- N. Useful Addresses and Contact Information

## Appendix A

### Letter Documenting United Church of Christ Tax-Exempt Status



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

JUN 1 1964

IN REPLY REFER TO  
T:R:EDC:J  
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, 1935.

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.

United Church of Christ

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.

United Church of Christ

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.

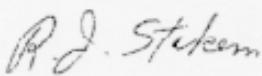
This ruling is not applicable to those Congregational Christian Churches listed in your 1963 Yearbook under Schedule I which have not voted or which have abstained from voting on the merger and those under Schedule II which have voted not to be a part of the United Church of Christ.

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 B

### Sample Debit Card Policy

#### Grace UCC Debit Card Policy

- Although this card is issued in your name, it belongs to the church and must be used with good judgment.
- The address on the card is 316 Main Street, Plymouth, MA 02360.
- If your card is lost or stolen, please report this immediately to the Treasurer.
- Purchases with the card may be made as a credit card or as a debit card, using PIN \_\_\_\_\_. Please keep the PIN separate from the card.
- The debit card cannot be used to obtain cash or cash back.
- Your usual card limit is \$ \_\_\_\_\_ and will be replenished weekly. If you anticipate a large purchase (more than your usual balance), please contact the Treasurer at least one week in advance so that funds can be transferred.
- Purchases should be approved in advance by the Treasurer, according to the budget for your program. If you need a copy of the church Sales Tax Exemption, please contact the church office.
- For each purchase, please obtain an original detailed receipt, sign or initial each receipt and indicate the line item to be charged.
- Note that if you do not submit receipts, your card will not be funded.

If you use your card for any unallowable purchase, it must be repaid to the church immediately. Misuse of your debit card or failure to follow any of the above policies and procedures may result in revocation of the privilege to use it.

## Appendix C

### 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, independent contractors may delegate responsibilities to other individuals in their 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 services are performed.
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 independent contractor status.)

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 which the services are performed.
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 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.”<sup>61</sup>

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<sup>61</sup> Richard Hammar, *2018 Church & Clergy Tax Guide*, p.66

## Appendix D

### Personnel File Checklist

Name \_\_\_\_\_

Date Hired \_\_\_\_\_ Position \_\_\_\_\_

Start Date \_\_\_\_\_

Starting Hours and Pay rate \_\_\_\_\_

- Letter of agreement
- US CIS Form I-9 with document copies
- CORI
- IRS Form W-4
- State Withholding Form
- New Hire Report filed \_\_\_\_\_
- Medical 125 Plan \_\_\_\_\_
- Eligible for Health insurance
  - Application to employee \_\_\_\_\_
  - Application to insurer \_\_\_\_\_
  - Enrollment complete \_\_\_\_\_
- Dental Plan \_\_\_\_\_
- Vision Plan \_\_\_\_\_
- 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 E**

### **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.

## Appendix F

## Sample Request for Payment Form



## 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 G

### Sample Medical 125 Plan

#### Grace United Church of Christ

IRS Section 125 Plan

Election and Salary Reduction Agreement

Plan Year January 1, 2019 – December 31, 2019

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 1<sup>st</sup> 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, 2020 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, 2019 and March 15, 2020, 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, 2019 and continuing for each succeeding pay period until December 31, 2019.

Employee Signature \_\_\_\_\_

Date \_\_\_\_\_

*This form must be returned to the church office by December 31, 2018.*

# Appendix H

## Property and Liability Insurance Comparison

2018 COVERAGE COMPARISON		
Page 1 of 4		
Coverage Description	IBpropertyCLASSIC	IBpropertyFLEX <small>Camps, schools &amp; other non-church entities are not eligible for FLEX</small>
<b>Property Insurance</b>		Differences Highlighted
Blanket Limit – Building(s)/Contents Limit	Included	Included
Agreed Amount/Replace Cost w/o Coinsurance Penalty	+ 25% of the Blanket Limit	Not Included
Unintentional Underinsurance	\$500,000 combined <small>(increased limits available)</small>	\$250,000 combined
Increased Cost of Construction (Code Requirements) / Demolition of Undamaged Bldg Portions	Included in blanket limit except Flood Zones starting with A or V, then \$10,000 sub-limit provided	Included in blanket limit except Flood Zones starting with A or V, then \$10,000 sub-limit provided
Backup of Sewers & Drains	Included in Blanket Limit	Included in Blanket Limit
Water Damage (below ground - not flood or sewer backup)	\$25,000 sub-limit applies	\$10,000 sub-limit applies
If Flood is available and selected	\$10,000 sub-limit provided for water damage and sewer backup combined	\$10,000 sub-limit provided for water damage and sewer backup combined
If Flood is available and NOT selected	Included	Included
If Flood is NOT available due to Flood Zone	\$1,000 & Up	\$1,000 & Up
All Risk of Direct Physical Loss	\$100M Per Occurrence	\$100M Per Occurrence
Terrorism	Included	Included
Deductible Options	\$1,000 & Up	\$1,000 & Up
Named Storm Wind (Hurricane) Program Limit	5% in FL & tier 1 counties in NC, SC, GA, AL, MS, LA & TX; 2% in HI & tier 2 cities/counties in VA and same named states	5% in FL & tier 1 counties in NC, SC, GA, AL, MS, LA & TX; 2% in HI & tier 2 counties in VA and same named states
<b>Included in Blanket Limit:</b>		
Building Ordinance Allowance	Included	Included
Stained Glass / Pipe Organs	Included	Included
Appurtenant Structures	Included	Included
Outdoor Objects/Structures, including Cemeteries	Included	\$15,000
Equipment / Mechanical Breakdown (Boiler)	Included	Included
Computer Equipment	Included	Included
Leashold Interest	Included	Included
<b>Business Income:</b> (higher limits available)		
Business Income	Actual Loss - Up to \$500,000	Actual Loss - Up to \$100,000
Tuition & Fees w/365 Day Extension Period	Included in \$500,000 limit	Included in \$100,000 limit
Loss of Rents; Extra Expense	Included in \$500,000 limit	Included in \$100,000 limit
Off-Premises Power Failure	Included in \$500,000 limit	Included in \$100,000 limit
Communicable Disease & Food Contamination	\$25,000	\$25,000
<b>Additional Coverage/Extensions/Sub-Limits</b>		
Coverage for Newly Acquired/Constructed Property	\$1,000,000 / 180 Days	\$1,000,000 / 180 Days
Buildings & Personal Property Not Described	\$100,000 per year	Not Included
Property in Transit	\$100,000 (named perils)	\$50,000 (named perils)
Personal Effects and Property of Others, incl. Clergy	\$100,000 / \$25,000 for Art	\$25,000
Upgrade to Green	Up to \$50,000 for increased cost	Up to \$50,000 for increased cost
Valuable Papers and Records	\$25,000	\$25,000

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*Serve God*

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# Property and Liability Insurance Comparison (cont'd)

Page 2 of 4

Revised 1/18

Coverage Description	IBpropertyCLASSIC	IBpropertyFLEX
Accounts Receivable	\$25,000	\$25,000
Property Off-Premises	\$25,000	\$25,000
Electronic Data	\$25,000 (incr limits available)	\$5,000 (incr limits available)
Unscheduled Fine Arts	\$25,000	\$25,000
Trees, Shrubs, Plants & Lawns	\$2,500/item up to \$10,000	\$2,500/item up to \$10,000
Statement of Loss Preparation	\$25,000	\$5,000
Fire Department Service Charge	\$15,000	\$15,000
Pollutant Clean-up & Removal	\$10,000	\$10,000
Recharge of Fire Protection Equipment	\$10,000	\$10,000
Event Cancellation	\$25,000	\$25,000
Information (Arson & Theft) Reward	\$10,000	\$10,000
Debris Removal	25% of Direct Loss	25% of Direct Loss
Re-Keying of Locks (after theft)	\$2,500	\$2,500
Supplemental Interior Damage (wind-driven rain, etc.)	\$10,000 (\$25,000 for organs)	Not Included
Mold, Mildew, Fungus (named perils)	Included in Blanket, up to \$3M	Included in Blanket, up to \$50,000
Vacancy Condition	Coverage restrictions do not apply to dwellings occupied by pastor or staff within 365 days	Coverage restrictions do not apply to dwellings occupied by pastor or staff within 365 days
<b>Optional Coverages</b>		
Earthquake (5% deductible for CA, 3% for all other states)	\$100M Annual Program Agg except CA - \$25M Annual Program Agg	\$100M Annual Program Agg except CA - \$25M Annual Program Agg
Landslide, Mine Subsidence & Volcanic Eruption	Included in Earthquake Coverage	Included in Earthquake Coverage
Flood (NA in Flood Zones A or V, or vacant bldgs)	\$100M Annual Program Aggregate	\$100M Annual Program Aggregate
Scheduled Fine Arts (including Breakage)	Available	Available
Scheduled Property / Inland Marine	Available	Available
<b>Crime Insurance</b>		
Employee Dishonesty	\$1,000,000	\$50,000
Forgery or Alterations	\$1,000,000	\$50,000
Theft, Disappearance & Destruction of Money & Securities	\$1,000,000	\$50,000
Money Orders & Counterfeit Paper Currency	\$1,000,000	\$50,000
Computer Fraud	\$1,000,000	\$50,000
Impersonation Fraud	\$250,000	\$25,000
Deductible	\$1,000 standard	\$1,000 standard

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

- Automatic Agreed Value with Replacement Cost – no co-insurance. Others may have co-insurance, a penalty for underinsuring
- Unintentional underinsurance up to 25% of blanket limit
- \$10,000 coverage on backup of sewers in Flood Zones starting with A or V; Covered up to Blanket Limit for all others
- Building ordinance protection up to blanket limit
- \$500,000 business income limit, including 365 Day Extension Period from date of restoration for Tuition & 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.

**DISCLAIMER:** Coverage cannot be placed, bound, or altered without written confirmation from a licensed agent. This communication, along with any attachment, does not amend, extend or alter the coverage terms, exclusions and conditions of insurance policies referenced herein. Policy language is controlling and supersedes. Guidance provided by the Insurance Board does not constitute legal advice; please seek the advice of an attorney if you wish to obtain legal advice.

# Property and Liability Insurance Comparison (cont'd)

Page 3 of 4

Revised 1/18

Coverage Description	IB property CLASSIC	IB property FLEX
<b>Primary Liability Insurance</b> (Limits apply per Participating Member)		
Commercial General Liability	\$2M/occurrence; \$4M aggregate	\$2M/occurrence; \$4M aggregate
Sexual Misconduct Liability (Claims-made*)	\$1M per victim/\$2M annual limit (Occurrences prior to 10/1/06 limited to \$1M)	\$1M per victim/\$2M annual limit (Occurrences prior to 10/1/06 limited to \$1M)
Pastoral & Professional Counseling (Claims-made*)	\$2M/each claim & \$2M aggregate	\$2M/each claim & \$2M aggregate
Hired & Non-Owned Auto Liability (if not otherwise insured)	\$2M/occurrence; \$4M aggregate (excess basis)	\$2M/occurrence; \$4M aggregate (excess basis)
Hired Auto Physical Damage (if not otherwise insured)	\$50,000 Limit (or \$100,000 option); \$1,000 deductible	\$50,000 Limit (or \$100,000 option); \$1,000 deductible
Owned, Licensed Trailers Liability (if not otherwise insured)	Included in CGL Liability Limit (excess basis)	Included in CGL Liability Limit (excess basis)
Owned, Licensed Trailers Physical Damage (if not otherwise insured)	\$50,000 Limit; \$1,000 deductible	\$50,000 Limit; \$1,000 deductible
Directors & Officers (Claims-made*), including Employment Practices Liability, Third-Party Violation, and Educator's Professional Liability	\$3M/loss & \$3M aggregate	\$3M/loss & \$3M aggregate
Employee Benefits Liability (Claims-made*)	\$2M/occurrence & \$2M agg	\$2M/occurrence & \$2M agg
Products & Completed Operations	\$2M/occurrence & \$4M agg	\$2M/occurrence & \$4M agg
Privacy Breach Liability & Event Mgmt. Expense	\$100,000 limit; \$500 deductible	\$100,000 limit; \$500 deductible
Crisis Response & Crisis Management	\$50,000 per occurrence & agg	\$50,000 per occurrence & agg
Active Assailant(s) Event	\$100,000 per occurrence & agg	\$100,000 per occurrence & agg
Legal Expense (when not otherwise covered)	\$10,000 (\$1,000 deductible)	\$10,000 (\$1,000 deductible)
Nurses Professional Liability	Included	Included
Compensation & Labor	\$25,000	\$25,000
Libel, Slander & Invasion of Privacy	Included	Included
Advertising Liability	Included	Included
Host Liquor Law Liability	Included	Included
Employees & Volunteers as Insureds	Included	Included
Employers' Liability (Stop Gap)	Included	Included
Newly Acquired Operations	Automatic for 90 Days	Automatic for 90 Days
Off-Premises Church Sponsored Activities	Included	Included
Non-Owned Watercraft (less than 51 ft.)	Included	Included
Corporal Punishment	Included	Included
Medical Payments	\$10,000	\$10,000
Damage to Premises Rented To You (Named Perils)	\$500,000	\$500,000
Cemetery Professional Liability	Included	Included
Blanket Additional Insured (if required by written or oral contract)	Included	Included
Broad Form Named Insured	Included	Included
Church Day Care & Nursery Schools & Owned Camps	Per Application	Per Application: Camps and other non-church entities are not eligible for IBpropertyFLEX

\* For Claims-made coverages, refer to your insurance documents; coverage applies only to events occurring on or after the individual retro dates.

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# Property and Liability Insurance Comparison (cont'd)

Page 4 of 4

Revised 1/18

Coverage Description	IB propertyCLASSIC	IB propertyFLEX
<b>Umbrella and Excess Liability</b>		
Coverage provides excess for Commercial General Liability, Pastoral Counseling, Employers' Liability, Automobile Liability, Employee Benefits, and Cemetery Liability, where purchased; Excess Sexual Misconduct \$2M per victim/\$5M per participant if purchased in primary (see retro date). Hired & Non Owned Auto Liability included – excess of other valid insurance.	\$30M each occurrence / \$30M general aggregate per participant	Options: waive, \$5M or \$30M each occurrence / with corresponding option general aggregate per participant
<b>Owned/Leased Automobiles</b> (If selected, options include:)		
Owned Automobile Liability	\$1M Combined Single Limit	\$1M Combined Single Limit
Comprehensive (Deductible)	Actual Cash Value (\$500 or \$1,000)	Actual Cash Value (\$500 or \$1,000)
Collision (Deductible)	Actual Cash Value (\$500 or \$1,000)	Actual Cash Value (\$500 or \$1,000)
Glass Repair Deductible	Waived for Repairs	Waived for Repairs
Personal Injury Protection	Statutory	Statutory
Uninsured / Underinsured Motorists	\$1,000,000	\$1,000,000
Towing & Labor – Private Passenger only	\$50-\$200 per disablement	\$50-\$200 per disablement
Rental Reimbursement - Private Passenger only	Optional	Optional
Transportation Expense (after theft; PPA only)	\$50/day; \$1,000 max	\$50/day; \$1,000 max
Airbag (even if no other damage)	Included	Included
Lease and Loan Gap	Included	Included
Hybrid, Electric, or Natural Gas Vehicle Replacement	+10%; Up to \$2,500	+10%; Up to \$2,500
Volunteers as Insureds	Included	Included
Auto Medical Payments	\$5,000 (scheduled autos)	\$5,000 (scheduled autos)
<b>Workers' Compensation</b> (If selected, options include:)		
Workers' Compensation Liability	Statutory	Statutory
Employers' Liability – Bodily Injury by Accident	\$1,000,000	\$1,000,000
Employers' Liability – Bodily Injury by Disease per Emp.	\$1,000,000	\$1,000,000
Employers' Liability – Bodily Injury by Disease per Policy	\$1,000,000	\$1,000,000
Other States Coverage	Included	Included

## Differences to Consider when Reviewing Other Liability Coverages – the IBpropertyCLASSIC Offers:

- \$30M liability limit per participant which is much higher than most
- Sexual Misconduct liability coverage of \$1M per victim, \$2M per Occurrence; plus Excess \$2M per victim/\$5M per participant if purchased in primary (see retro date)
- Directors & Officers coverage includes Employment-Related exposures such as sexual harassment, wrongful termination & discrimination, and Third-Party Violation
- Coverage up to \$500,000 for damage to premises rented to you (named perils basis)
- Hired & Non-Owned Auto liability included with \$2M primary limit, plus \$30M Umbrella
- Hired Auto Coverage extended for to Owned, Licensed Trailers Absent an Owned Power Unit (excess basis)
- Expanded host liquor liability to cover all church-sponsored events
- Personal injury coverage includes broadcasting and streaming of church services
- Corporal punishment liability included



**DISCLAIMER:** Coverage cannot be placed, bound, or altered without written confirmation from a licensed agent. This communication, along with any attachment, does not amend, extend or alter the coverage terms, exclusions and conditions of insurance policies referenced herein. Policy language is controlling and supersedes. Guidance provided by the Insurance Board does not constitute legal advice; please seek the advice of an attorney if you wish to obtain legal advice.

## **Appendix I**

### **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 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 J**

### **Sample Bylaw 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 bylaw 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 bylaws of that church. It is difficult to recommend an indemnification provision for use by all churches without reviewing the existing bylaws 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 bylaws."

## **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 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 the 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 the 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 directly or indirectly to such person 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 the 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 the status as such, whether or not the Church would have the power to indemnify such person against such liability.

## **Appendix K**

### **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 a 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, state forms, 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.

## Appendix L

### Massachusetts Conference Church Contribution

Form for those opting in to United Church Mission:

**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 follows:

UNITED CHURCH MISSION ..... \$ \_\_\_\_\_

Directed Support (1) One Great Hour of Sharing ..... \$ \_\_\_\_\_  
(2) Neighbors in Need ..... \$ \_\_\_\_\_  
(3) Strengthen the Church ..... \$ \_\_\_\_\_  
(4) Christmas Fund (Veterans of the Cross) ..... \$ \_\_\_\_\_  
(5) Disaster Relief (Specify) ..... \$ \_\_\_\_\_  
..... \$ \_\_\_\_\_  
..... \$ \_\_\_\_\_  
..... \$ \_\_\_\_\_  
..... \$ \_\_\_\_\_  
(6) Other Directed Gifts (Itemize) ..... \$ \_\_\_\_\_  
..... \$ \_\_\_\_\_  
..... \$ \_\_\_\_\_  
..... \$ \_\_\_\_\_

Treasurer

Please forward a copy  
to Conference.  
Keep one copy for your file.

Form for those not opting in to United Church Mission:

**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 follows:

OCWM Basic Support ..... \$ \_\_\_\_\_

Directed Support (1) One Great Hour of Sharing ..... \$ \_\_\_\_\_  
(2) Neighbors in Need ..... \$ \_\_\_\_\_  
(3) Strengthen the Church ..... \$ \_\_\_\_\_  
(4) Christmas Fund (Veterans of the Cross) ..... \$ \_\_\_\_\_  
(5) Disaster Relief (Specify) ..... \$ \_\_\_\_\_  
..... \$ \_\_\_\_\_  
..... \$ \_\_\_\_\_  
..... \$ \_\_\_\_\_  
..... \$ \_\_\_\_\_  
(6) Other Directed Gifts (Itemize) ..... \$ \_\_\_\_\_  
..... \$ \_\_\_\_\_  
..... \$ \_\_\_\_\_  
..... \$ \_\_\_\_\_

Treasurer

Please forward a copy  
to Conference.  
Keep one copy for your file.

## Appendix M

## Useful Addresses and Contact Information

## **I. Massachusetts Conference of the United Church of Christ**

Staff at Framingham includes:

Dawn Hammond, Associate Conference Minister  
for Policy & Finance

Jonathan New, Associate Conference Minister  
for Stewardship & Financial Development

## Central Association Regions:

6 Institute Road, Box #5  
Worcester, MA 01609  
Phone: 508-963-8106

holmesd@macucc.org

## Metro Boston & Northeast Regions:

21 Church Street  
Winchester, MA 01890  
Phone: 781-369-1396      [MBA-NE@macucc.org](mailto:MBA-NE@macucc.org)

## Southeast and Western Regions:

Mail and faxes should be sent to the main Conference office in Framingham.

### Phone & E-mail:

Southeast: 508-875-5233      goodmann@macucc.org  
Western: 413-589-7034      holmesd@macucc.org

The Western region maintains an office at First Congregational Church in Amherst, but does not receive mail there.

## **II. The United Church of Christ**

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

[www.ucc.org](http://www.ucc.org)

## **III. The Pension Boards - United Church of Christ**

475 Riverside Drive, Room 1020 [info@pbucc.org](mailto:info@pbucc.org)  
New York, NY 10115 [www.pbucc.org](http://www.pbucc.org)  
Phone: 800-642-6543 Fax: 212-729-2701

## **IV. Agents for the Insurance Board**

Jim Stewart  
Chase, Clarke, Stewart & Fontana Insurance  
101 State Street, 8<sup>th</sup> floor  
Springfield, MA 01102  
Phone: 413-788-4531 or 800-501-2780  
e-mail: [jhs@chaseins.com](mailto:jhs@chaseins.com)

George Hulme, CPCU CIC  
Darlene Torre, M.Div., D.Min.  
Fitts Insurance Agency, Inc.  
2 Willow Street, Suite 102  
Southborough, MA 01745-1020  
Phone: 508-620-6200 or 888-697-6542  
e-mail: [dtorre@fittsinsurance.com](mailto:dtorre@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.