



# **Treasurers' Workshop**

**Nu'uano  
Congregational  
Church  
February 22, 2014**

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# **Treasurer Responsibilities may include but are not limited to:**



- Recording financial transactions (bookkeeping)
- Financial Reporting (*Preparing a Balance Sheet and Income Statement*)
- Payroll
- Tax filings (Payroll, Form 1099, General Excise)
- Budget preparation



# **Financial Statements**

# Balance Sheet

- “Snapshot” of the church’s financial condition at a given point in time (*i.e. as of December 31, 2013*).

<b>Assets</b>	<b>(What you own)</b>
<b>- Liabilities</b>	<b>(What you owe)</b>
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<b>= Net Assets</b>	<b>(What you’re worth)</b>

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

$$\text{ASSETS} = \text{LIABILITIES} + \text{NET ASSETS}$$

# Hawaii United Church of Christ

## Balance Sheet

December 31, 2013

### ASSETS

1	Current Assets		
2	Cash		
3	Checking - First Hawaiian Bank	\$	12,287
4	Savings - Bank of Hawaii		1,687
5	Petty Cash		88
6	Total Current Assets		14,062
7			
8	Long-term Assets		
9	Investments		
10	Cornerstone Fund		15,000
11	United Church Foundation		102,240
12	Fixed Assets		
13	Land		75,000
14	Building		325,000
15	Furniture & Fixtures		185,000
16	Vehicle		25,000
17	Other Assets		1,000
18	Total Long-term Assets		728,240
19			
20	<b>TOTAL ASSETS</b>	\$	742,302
21			
22	<b>LIABILITIES AND NET ASSETS</b>		
23			
24	<b>Liabilities</b>		
25	Current Liabilities		
26	Accounts Payable	\$	5,562
27	Salaries & Retirement Payable		6,292
28	Payroll tax withholding		368
29	Total Current Liabilities		12,222
30			
31	Long-term Liabilities		
32	Mortgage		59,285
33	Notes Payable		5,000
34	Total Long-term Liabilities		64,285
35	<b>Total Liabilities</b>		76,507
36			
37	<b>Net Assets</b>		
38	Unrestricted		610,795
39	Restricted		55,000
40	<b>Total Net Assets</b>		665,795
41			
42	<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$	742,302

# Assets

- Assets are generally divided into ***Current*** and ***Long-term*** on the Balance Sheet.
- ***Current Assets*** are those that can be turned into cash or liquidated quickly. Examples are checking and savings accounts, certificates of deposit, etc.
- ***Long-term Assets*** are those that are held for a long time, usually over a year. Although investments can be turned into cash, they should be considered as long-term since quick liquidation can result in large losses. Fixed assets such as land, building, and equipment are also long-term assets.

# Liabilities

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

- The Church Council should receive a Balance Sheet each month to keep an eye on the church's financial health.
- Any large changes in assets and liabilities from one month to another should be explained.
- The Quick Ratio (or "acid test" ratio) is a measure of a church's ability to pay its bills.

$$\text{Quick Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

A Quick Ratio of at least 1 means that bills can be paid with the liquid assets on hand.



# **Statement of Activities**

**(commonly referred to as “Income Statement”)**

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

<b>Income</b>	<b>Money you bring in</b>
<b>- Expenses</b>	<b>Money you spend</b>
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<b>=Net Income</b>	<b>Your “profit” (loss)</b>

Hawaii United Church of Christ				
Statement of Activities				
As of December 31, 2013				
		Actual	Budget	Variance
1	<b>Income</b>			
2	Gifts & Offerings			
3	Pledges	\$ 68,540	\$ 72,000	\$ (3,460)
4	Offering Plate	2,475	3,000	(525)
5	Special Offerings (4)	4,655	3,200	1,455
6	Earned Income			
7	Building Rental	10,700	12,000	(1,300)
8	Program Fees	1,984	2,600	(616)
9	Church Bazaar	987	1,800	(813)
10	Investment Income			
11	Interest	88	100	(12)
12	Endowment	4,549	3,700	849
13	Other Investments	642	600	42
14	Other Income	66	800	(734)
15	<b>Total Income</b>	<b>94,686</b>	<b>99,800</b>	<b>(5,114)</b>
16				
17	<b>Expenses</b>			
18	Personnel			
19	Clergy	33,700	33,700	-
20	Admin Assistant	10,000	10,500	(500)
21	Insurance Benefits	9,283	8,800	483
22	Retirement Benefits	6,118	6,200	(82)
23	Payroll tax expense	3,285	3,400	(115)
24	Programs			
25	Christian Education	1,534	1,900	(366)
26	Children & Youth	1,795	2,000	(205)
27	Mission			
28	OCWM	6,854	7,200	(346)
29	Special Offerings (4)	4,655	3,200	1,455
30	Building & Grounds			
31	Mortgage Interest	3,158	3,400	(242)
32	Utilities	9,685	8,000	1,685
33	Janitorial	4,754	5,200	(446)
34	Repairs	1,555	1,200	355
35	Property Insurance	3,374	3,000	374
36	Administrative Expenses			
37	Materials & Supplies	893	1,200	(307)
38	Phone & Internet	748	900	(152)
39	<b>Total Expenses</b>	<b>101,391</b>	<b>99,800</b>	<b>1,591</b>
40				
41	<b>Net Income (Loss)</b>	<b>\$ (6,705)</b>	<b>\$ -</b>	<b>\$ (6,705)</b>



# Income

- Member gifts and offerings are usually the main component of income for churches
- Special Offerings include:
  - One Great Hour of Sharing
  - Strengthen the Church
  - Neighbors in Need
  - The Christmas Fund
  - Other offerings the church may collect for special projects

# **Income (cont'd.)**

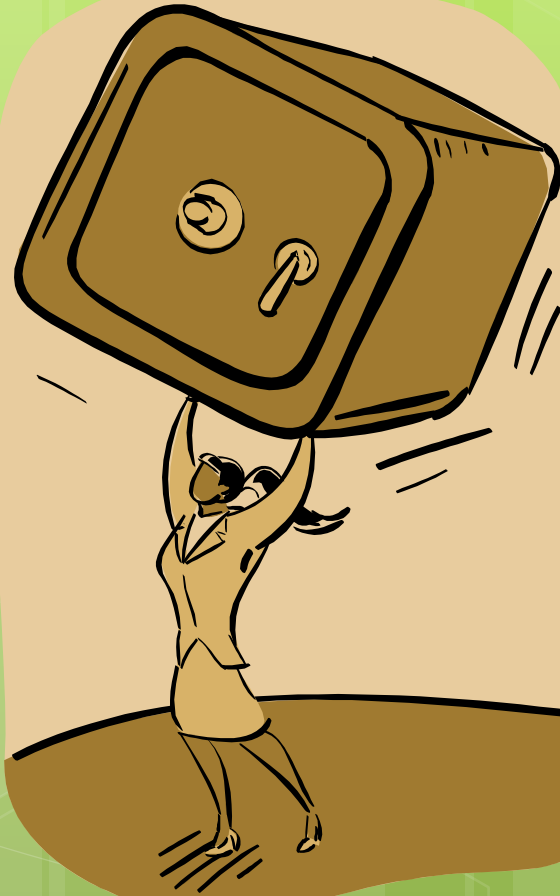
- Earned Income – Examples are income from the rental of church facilities, fundraising events, and sales of assets. Keep in mind that some earned income is taxable.
- Investment Income – Examples are interest on savings accounts/certificates of deposit, and net income from investment accounts (dividends,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

# Expenses

- General categories:
- Personnel – cost of salaries and benefits (i.e. health insurance and pension contributions).
- Program expenses – such as Christian education, children and youth programs.
- Mission – examples are a church's five for five offerings (OCWM) plus the UCC's 4 special offerings.

# **Expenses (cont'd.)**

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



# **Internal Controls**

# Internal Controls

- SIMPLE RULE FOR INTERNAL CONTROL:

*Do not let one person have complete control of the finances.*



# Simple Controls:

- Can help your church avoid a situation of fraud and embezzlement. Your church should have a written policy about the handling of your church's finances.
- **SEPARATE THE DUTIES.** *This is the key to good internal control.* The receipt, deposit, disbursement, and recording of money should be carried out by different people. Require at least two signatures for all financial transactions.
- All financial transactions should be clearly and immediately documented. Keep the records in a safe place. On the computer, accounting data should be password protected.

# Internal Controls - Receipts



- **The easiest way to commit a financial crime against a church is through offerings.** Here are some steps to take to safeguard your church against temptation and theft:
- **2 Counters.** Have one person count the money and record it in a cash receipts journal. A second person should be present at the counting and verify that the amounts are correct by providing a signature on the journal as well. Make sure that these two people are not related to each other.
- **Have a third person review the journal and approve with a signature.** This is the person who should prepare the deposit slip for the bank. Copies of the deposit slips should be kept in a file to reconcile to the bank statement and cash receipts journal on a monthly basis.

# **Internal Controls – Receipts (cont'd.)**

- Counting should occur in a designated area on the church grounds.
- Stamp all checks “For Deposit Only” with the bank name and bank account number. This will make it more difficult for the money to end up anywhere except in the church account.
- Have someone other than the counters and person who deposits the money, reconcile the bank account.

# Internal Controls - Disbursements



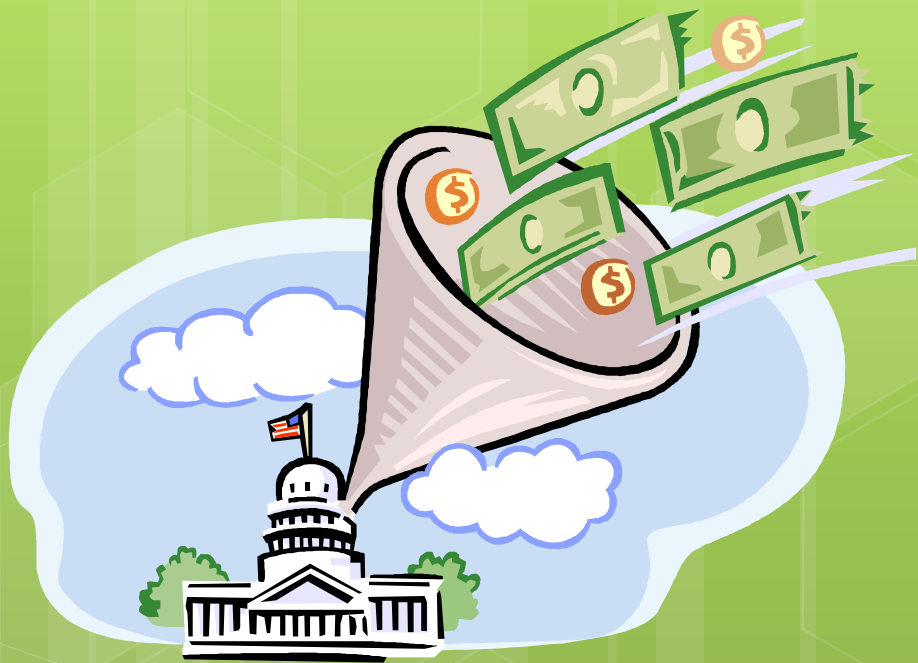
- The other common way a church can find itself a victim of theft is through disbursements.
- Make all disbursements by check.
- Include the original invoice with the check when submitting it for approval. **Require two signatures on all checks.**
- Cash disbursements should only be issued when coming from the petty cash fund and should be approved and well-documented.
- Mark invoices "paid" to prevent someone from resubmitting it. Attach a copy of the check to the documents.

## **Internal Controls – Disbursements (cont'd.)**

- Lock up all blank checks. Keys should be held by the treasurer and one other church official.
- On a regular basis, have someone other than the person preparing disbursements reconcile check registers to the bank statements.
- Having a well-documented policy with details describing different people's roles and a system of checks and balances will go a long way in preventing theft, or even the temptation of theft.

# Loss Prevention Tips

- ◉ [http://www.insuranceboard.org/safety\\_solutions/](http://www.insuranceboard.org/safety_solutions/)  
**(Insurance Board website)**



# **Tax Issues**



# **Federal Government (IRS)**



# **Tax-Exempt Status**

- Churches that meet the requirements of IRC section 501(c)(3) are automatically considered tax exempt and are not required to apply for and obtain recognition of tax-exempt status from the IRS.
- Although this is not required, many churches seek recognition of tax-exempt status from the IRS. This assures church leaders, members, and contributors that the church is recognized as exempt and qualifies for related tax benefits.

# **Tax-Exempt Status (cont'd.)**

IRC Section 501(c)(3) requirements:

- the organization must be organized and operated exclusively for religious, educational, scientific, or other charitable purposes,
- net earnings may not benefit any private individual or shareholder,
- no substantial part of its activity may be attempting to influence legislation,
- the organization may not intervene in political campaigns, and
- the organization's purposes and activities may not be illegal or violate fundamental public policy.

# **Tax-Exempt Status (cont'd.)**

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

# **Page 2 of UCC Yearbook:**

## **FEDERAL INCOME TAX EXEMPTION THE UNITED CHURCH OF CHRIST**

The Internal Revenue Service has issued a ruling, dated June 10, 1964, which as subsequently amended, grants blanket federal income tax exemption to The United Church of Christ and the following:

- \* All member churches
- \* Conferences and Associations
- \* General Synod
- \* Executive Council
- \* Ministries
- \* Commissions and Councils
- \* Institutions related to the Council of Higher Education
- \* Health and Welfare Institutions related to the United Church of Christ

The Internal Revenue Service group exemption number for the United Church of Christ is 1665.

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# **Tax-Exempt Status (cont'd.)**

- Churches, as opposed to “religious organizations”, are exempt from filing the annual Form 990 under Section 6033 of the tax code.

# **Employer Identification Number (EIN)**

- Every tax-exempt organization, including a church, should have an employer identification number (EIN), whether or not the organization has any employees.
- There are many instances in which an EIN is necessary. For example, a church needs an EIN when it opens a bank account, in order to be listed as a subordinate in a group ruling, or if it files returns with the IRS (e.g., Forms W-2, 1099, 990-T).

# Payroll Taxes

- Churches are required to withhold, report, and pay income and FICA (social security and medicare) taxes for their employees, except ministers (see below).
- Required tax and information filings include Form W-2 (wage & tax statement), Form 941 (employer's quarterly federal tax return), Form 1099 (if church pays an unincorporated individual or entity more than \$600).
- For purposes of Social Security and Medicare, ministers are considered self-employed and pay the full self-employment tax (SECA).

# Housing Allowance

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



# **Housing Allowance designation should be:**

- 1) adopted by the church board or congregation
- 2) recorded in written form (minutes)
- 3) designated in advance of the calendar year (always include this in the agenda for the last meeting of the preceding year).

# Housing Allowance (cont'd.)

- Ministers **cannot** exclude a housing allowance when computing their self-employment taxes unless they are **retired**.

# **Federal Unemployment Tax (FUTA)**

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

# **Unrelated Business Income Tax (UBIT)**

- Even though an organization is recognized as tax exempt, it still may be liable for tax on its unrelated business income.
- Unrelated business income is income from a trade or business, regularly carried on, that is not substantially related to the charitable, educational, or other purpose that is the basis of the organization's exemption.

# Unrelated Business Income (cont'd.)

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

# Charitable Contributions

- A donor cannot claim a tax deduction for any contribution of cash, a check or other monetary gift unless the donor maintains a record of the contribution in the form of:
  - a bank record (such as a cancelled check)
  - or a written communication from the charity (such as a receipt or a letter) showing the name of the charity, the date of the contribution, and the amount of the contribution.

# **Charitable Contributions (cont'd.)**

- A donor cannot claim a tax deduction for any single contribution of \$250 or more unless the donor obtains a written acknowledgment of the contribution from the recipient church or religious organization.

# **Charitable Contributions (cont'd.)**

- A church can assist the donor by providing a timely, written statement containing the following information:
  - name of the church or religious organization,
  - date of the contribution,
  - amount of any cash contribution, and
  - description (but not the value) of non-cash contributions.
- statement that no goods or services were provided by the church or religious organization in return for the contribution.



# Form 5578

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

# **IRS Reference for Churches:**

- Tax guide for Churches and Religious Organizations  
<http://www.irs.gov/pub/irs-pdf/p1828.pdf>



# **State Tax Issues**

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# General Excise Tax

- Although an organization is treated as tax-exempt for income tax purposes, it does not mean that they are also exempt from paying the GET.
- Amounts received as dues, donations, or gifts are not included in gross income subject to the GET.
- However, gross receipts derived from any activity of which the primary purpose is to produce income are subject to the GET even though it is used to fund the exempt purposes or activities of the organization.

# **General Excise Tax (cont'd.)**

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

# **General Excise Tax (cont'd.)**

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

# **Act 155**

- Also referred to as the “General Excise Tax Protection Act”
- Former Governor Linda Lingle signed this into law on – effective from July 1, 2010
- Basically two parts to Act 155

# **Act 155 (cont'd.)**

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



# Act 155 (cont'd.)

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

# Act 155 (cont'd.)

- Tax information release no. 2010-05 provides guidance on the state tax department's interpretation of Act 155. Link is below:

- ◉ <http://files.hawaii.gov/tax/legal/tir/tir10-05.pdf>

- ◉ Tax information release no. 2011-04 provides information on General Excise tax reporting for non-profits.

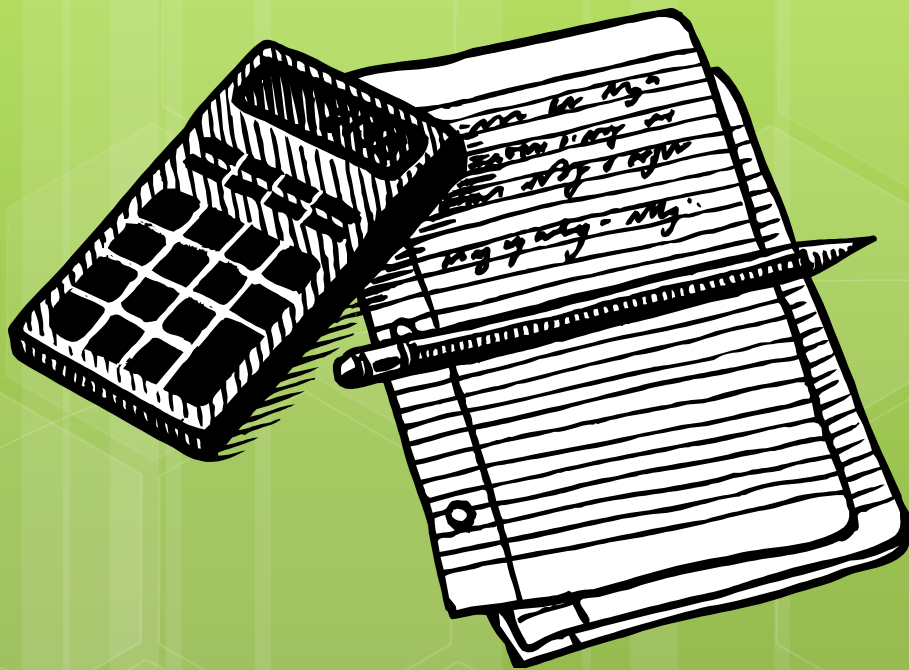
- <http://files.hawaii.gov/tax/legal/tir/tir11-04.pdf>

# **Hawaii Prepaid Health Care Act**

- Employers must provide health care coverage to employees who work at least twenty (20) hours per week and earn 86.67 times the current Hawaii minimum wage a month ( $\$7.25 \times 86.67 = \$628$ ). Coverage commences after four (4) consecutive weeks of employment or the earliest time thereafter at which coverage can be provided by the health care plan contractor, which is usually the first of the month.

# Hawaii Prepaid Health Care Act (cont'd.)

- There are situations where employees can waive the mandated coverage.
- Employees are required to complete "Employee Notification to Employer" (**Form HC-5**) every calendar year to validate the exemption so that employers are relieved of the responsibility for providing the mandated health care coverage.
- Form HC-5 is available at:
- <http://labor.hawaii.gov/dcd/files/2012/11/HC5-2014.pdf>



# Recordkeeping Requirements

# Recordkeeping

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



# Audits

# Audits

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



# **Audits (cont'd.)**

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

# **Audits (cont'd.)**

- The single most important characteristic for an auditor to possess is integrity. For an audit to be useful and effective, the person or persons performing it must do so in an objective and impartial fashion, and with the highest degree of integrity.



# **Compilation, Audit, or Review? (handout)**



# **Thank you for being a good audience!**

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