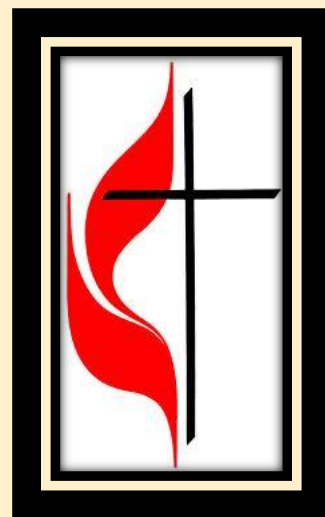


# Accounting Policy Guide

## **Rio Texas Conference of The United Methodist Church**



**Financial Integrity Project**  
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## 1.0 Summary

When money is tight, it becomes particularly important, donors want to know that their money is being used in the way it is intended. The current economic conditions have made it even more essential for the maintenance of trust that all financial officers of the United Methodist Church be visibly accountable for their stewardship of church funds and practice the highest standards of conduct when handling church funds. The information in this section describes the standards by which all financial officers of the United Methodist Church are held and the practices insure that the church's financial affairs are used sound principles and "best practices".

## 2.0 Financial Officers

**2.1 Treasurer:** has unique responsibilities of carrying out most of the financial decisions made by the Finance Committee. The responsibilities as follows:

- Keep accurate and detailed records. Columns and items in the records should correspond to those listed in the budget as adopted by the Administrative Council/Board.
- Disburse funds to the causes for which they have been contributed. This is a simple matter of keeping trust with the contributors. If funds are given for benevolent causes they shall not be used to pay current expenses or other items in the budget. Funds received for non-budgeted purposes shall be expended only for the causes for which they were given.
- Make monthly remittances to the Conference Treasurer.
- Reserve funds are not to be used for current expenses.

A treasurer will be working with many individuals within and outside the church. A treasurer will:

- Work with a financial secretary. A treasurer will receive from a financial secretary a voucher indicating the deposit amount, along with the statement recording the sources of all funds received and the purposes for which they were given.
- Work with the chairperson of the Finance Committee. Any questions about policies or procedures in handling funds should be cleared by the Finance Committee chairperson. A treasurer will provide a regular report to the chairperson. Such reports then become the basis upon which the regular report of the Finance Committee can be made to the Administrative Council/Board.
- Correspond with a treasurer of the Annual Conference to clarify the responsibility in transmitting funds to the Annual Conference once being elected as a treasurer.
- Work with pastor, as he/she is responsible for all phases of the work of the local church.
- Be a member of the Charge Conference, the Administrative Council/Board, and the Finance Committee.

### 2.2 Finance Committee Chair

A treasurer's primary responsibility is to carry out the policies of the church as determined by the Finance Committee, the Administrative Board, and the Charge Conference. The Finance Committee chairperson's primary responsibility is to review that policies are adequate to execute the ministry of the church as determined by the Council of Ministries, the Administrative Board, and the Charge Conference.

To facilitate effective ministry, there must be virtually continuous feedback between a treasurer and Finance Committee chairpersons. When this happens, the church can be assured that its financial affairs are an orderly and appropriate expression of its ministry. When it does not happen, the church can very quickly get into a situation where the finances become a barrier to the ministry. The Finance Committee chair particularly needs to know as early as possible when there is a situation developing that is not planned. Such a situation would exist when expected expenses in a particular area are greater than expected or when income is higher or lower than expected.

**2.3 Financial Secretary:** is responsible for receiving and recording income. In addition, a financial secretary provides a treasurer a weekly report on a standardized form that shows income to the church. The report should be accompanied by the deposit slips recording the deposit of that income into the account of the church.

### **3.0 Financial Reports**

One of the most important functions of the treasurer is to provide timely, accurate, and useful financial reports. It is recommended that these be provided at least quarterly and in most situations, monthly. The financial reports should include the responds of the following questions:

- How operations have impacted cash? Is there enough cash available to pay ongoing expenses?
- How receipts compare to budgeted receipts? If they are significantly different than expected, then the Finance Committee and the Board will need to take timely action to either change the pattern on future expenditures (budget) or change the pattern if receipts. It is helpful here to use some tool that reflects the seasonal pattern of giving that is active in one's individual church.
- How operations relate to the budget? The budget is the primary tool that the church uses to be sure that its use of assets reflects its setting of priorities. Significant deviations should be noted and explored for a number of reason, not least significant of which is that the church's actual ministry may not be reflecting the ministry goals of the congregation.

It is often not helpful to use the same report in all circumstances. In general, the report should provide less detail as the target audience of the report becomes larger. The purpose of this is not the hide information, but to provide the information that is needed in a form that the target audience can understand in the time that they can be expected to spend looking at the report.

Using this principle, the Finance Committee and the pastor would receive a detailed report, perhaps even a list of checks and deposits; the administrative board would receive a more summarized report, and the congregation would receive a report reduced to only three or four lines.

### **4.0 Implementation of Financial Controls**

Financial controls are the means by which an organization's resources are directed, monitored, and measured. Financial controls play an important role in ensuring the accuracy of reporting, eliminating fraud and protecting the organization's resources, both physical and intangible. These internal control procedures reduce process variation, leading to more predictable outcomes.

Topics to consider include, but are not limited to: segregation of duties like accounts receivable and accounts payable, check writing, access to accounting software systems, access to credit cards and ATM cards, and inventory management. These guidelines can be utilized for developing detailed instructions to those persons assigned the responsibility of collecting, counting, and depositing the local church offering and for disbursing local church funds.

#### **4.1 Handling the Offerings**

Proper handling of funds donated to local churches is a critical responsibility, since these funds are vulnerable to the risks of theft or misappropriation. Collection of most church funds via the Sunday offering presents unique problems for ensuring their proper and secure handling. These funds, frequently dealt with by volunteers, contain currency and loose coins. They are collected outside of bank hours and generally are counted and secured during or following a Sunday morning or holiday service. The existence of large amounts of cash may tempt persons facing financial difficulties to “borrow” this money. Embezzlement or theft of local church funds can create a crisis of confidence in the ability of the local church to ensure that local funds donated to and through it are used for the purposes intended. In some cases, arson, theft, or damage of church property intended to provide cover for embezzlement of church funds has complicated circumstances. For safeguarding church funds, the following rules are recommended:

- Two unrelated people should always be present to handle the collected offerings. Their relationship should be devoid of any potential conflict of interest or incentives for collusion (as could exist with husband-wife, employer-employee, business partner, members of the same family, etc.).
- Staff and volunteers who handle church funds should be bonded. Such a bond is regular part of the Conference insurance plan in which every church in the Southwest Texas Conference participates.
- Receipt and disbursement functions should be handled separately and assigned to different individuals.
- Church funds should not be taken to anyone’s private home. Checks should be stamped “For Deposit Only” before they leave the church. Funds should be counted, verified and placed in the church safe for deposit as soon as possible. An alternative to counting offerings immediately following a service may be considered. Arrange for a bank to hold the funds via its night depository. Counting can then occur on Monday morning at the church, or, in some circumstances, at the bank.

#### **4.2 Sunday Collection Procedures**

- Immediately after the collection has been completed, two unrelated persons should take the offering to the church office. There, the unopened offering envelopes and different moneys should be placed in a money bag by the financial secretary and treasurer and carried by them to be locked in the church safe. Churches without a substantial safe could place the money-bag inside the pulpit or lectern stand rather than in the office, where it is open to theft during the worship service.
- Counting should take place in the church office, never at home. The procedures as follows:
  - i. Two unrelated persons should always be present.
  - ii. Remove any notes or letters intended for the pastor.
  - iii. One person counts while the other observes, and then the observer recounts while the original counter observes.
  - iv. The offering totals should be recorded in ink on a cashbook sheet to be initialed and dated by both counter.
  - v. Sort the envelopes numerically and break by hundreds (or fifties in smaller churches). Each envelope should be opened separately, the amount counted and written on it. Loose checks should be put in an envelope, which indicates the contributor’s name and

amount given. Each group of envelopes should be proved by the double-count method and by footing in the cashbook.

- vi. Deposit slips should be made out in duplicate following the bank's instructions. Both individuals should make the deposit. Both should reconcile the cash and checks to the deposit slip and initial the copy of the deposit slip.
- The Monday following the church services, the financial secretary should complete the records of contributions and reconcile them against the entries in the cashbook.
  - Mail containing cash or checks, should be counted by the financial secretary and an assistant. The totals should be entered in ink in the cashbook, checked and initialed by both parties.
  - A pre-numbered duplicate receipt book should be kept in the church office to be used for monies turned in or delivered there by individuals. A receipt should be completed for each transaction and the original given to the person delivering the money. The duplicate should remain in the receipt book and be available for audit.
- ❖ Those persons involved in the local church collection and accounting process must be instructed on the importance of keeping any financial information confidential. The counting committee should be made aware of their sensitive role in maintaining confidentiality with regard to the giving levels of various members.

#### **4.3 Handling Church Funds**

It is important that the church uses the budget effectively. The Finance Committee and the Administrative Council/Board should regularly examine the actual expenditures in relation to the budget and understand any significant deviations. Frequent and constant probing often uncovers potentially serious problems. This means Financial Statements must be produced regularly. Monthly is best, and quarterly is an absolute must.

Competent and careful handling of church funds is critical in establishing confidence among church members that their donations will be used as intended for the ministries of their organizations. The establishment of appropriate safeguards and procedures for handling church funds will assist persons responsible for those funds and also protect the work of the local church in general.

#### **4.4 Cash Security**

- Check Signing Policy: consider of establishing a disbursement threshold in which all disbursements over a specific amount would require two signers. This would allow additional oversight over significant disbursements.
  - i. Small churches: the Treasurer is generally responsible for preparing and signing checks. In these cases, the monthly financial report should include each check, its amount, and to whom and for what purpose it was written.
  - ii. Larger churches: A financial secretary will prepare the checks and a treasurer will sign them, or both will be required to sign checks prior to issuance.
- Blank Checks:

- i. Must be kept in a locked box or cabinet accessible only to those with proper authorization and that the checks periodically be accounted for.
  - ii. Signing blank checks should be prohibited.
- Voided Checks: must be kept and filed in numerical sequence with the other checks returned by the bank.
  - Petty Cash: prohibit writing checks to cash. Checks written to reimburse the petty cash account be made payable to the person authorized to cash such checks.
  - Paying Bills:
    - i. Cancel invoices by indicating the date paid, check number, etc. on the invoice. A rubber Paid stamp is recommended to be used to all invoices as they are processed to preclude the possibility of them being paid a second time.
    - ii. Have the person signing the check initial the invoice to indicate review of the invoice.
    - iii. File paid invoices in a manner that makes them easily accessible.

## 5.0 Outstanding Checks

**5.1 Checks and other nucleated reconciling items:** that are over one year old be investigated and removed from the bank reconciliation and that the original transaction be reversed. Research should be done periodically to eliminate large numbers of old items being carried from month to month.

**5.2 TAC §25.90 Escheat Account:** A holder holding outstanding checks over three years for vendor or one year old for employees as of June 30<sup>th</sup> of each year are transferred to the State of Texas Comptrollers' Office by November 1<sup>st</sup> of each year. Failure to turn the checks over to the state can incur a penalty equal to five percent of the value of the checks. If a holder fails to pay or deliver checks before the 31<sup>st</sup> day after the date the check is due, an additional penalty equal to five percent of the value of the check due shall be imposed. The record must be kept for 10 years from the date on which the property is reportable.

### 5.3 Delivery of Report and Payment:

- Delivery of Report: Reports with 10 or more records should be reported electronically. Texas uses the reporting format developed by the National Association of Unclaimed Property Administrators (NAUPA). Your files may also be submitted using any of the methods listed below:
  - Internet
  - Diskette
  - CD Rom
  - Magnetic Tape Reel and Cartridge (3480 or 3490)
  - Paper report form 53 – 105
- Payment: All checks should be made payable to the Texas Comptroller of Public Accounts-Unclaimed Property. Securities should be registered to the Comptroller of Public Accounts, Federal Identification Number 74-600089.

## 6.0 Reconciliations of Cash Accounts



**Reconcile Accounts to Supporting Documents:** In order to make the financial reports generated by the accounting system as meaningful as possible, the Church should reconcile the general ledger accounts for cash, accounts receivable, and accounts payable to supporting documents on a monthly basis. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

**6.1 Cash reconciliation:** reconciles from the bank balance to the general ledger balance should be prepared to determine that all cash transactions have been recorded properly and to discover bank errors.

**6.2 Account Receivable:** A reconciliation of account receivable from the general ledger to the accounts receivable detail ledger should be prepared to check that the recording of transactions is accurate and proper and that any adjustments to or write-offs of accounts receivable have been approved.

**6.3 Account Payable:** A reconciliation of accounts payable from the general ledger to the outstanding accounts payable register should be prepared to determine that all additions to and payments of accounts payable are correctly recorded and to determine whether there are any disputed items.

**6.4 List of Outstanding Checks:** A complete list of outstanding checks be prepared each month, and that the list be attached and made a part of the reconciliation.

**Reconcile Bank Accounts on a Timely Basis:** All bank accounts be reconciled each month prior to preparation of the monthly financial statements.

**Review of Bank Reconciliations:** The Church's bookkeeper regularly reconciles bank statements, which the treasurer/finance chair (who has no other cash receipts or disbursements duties) reviews. To be most effective as control procedure, all bank accounts be reconciled as of the same date, if possible. This can identify irregularities concealed by shifting items among different bank accounts. When reviewing reconciliations, the reviewer should look for the following matters:

**6.5 Transfers:** The reviewer should make sure that all matching interbank transfers have the same date. This procedure could detect thefts concealed as interbank transfers. For example, a deposit in transit from one account to another may be repeatedly listed as a reconciling item but never actually deposited.

**6.6 Reconciling Items:** The reviewer should trace all reconciling items to supporting documents. He or she should pay special attention to old reconciling items. He or she should also consider the possibility that other reconciling items, individually immaterial, may result from a significant amount "sliced up" for concealment.

**6.7 Paid Items:** The reviewer should examine all check fronts and backs, if possible. He or she should look for payee names that are similar to but not the same as typical vendors, discrepancies between the payees on the check register and the check, erasures or white outs of payees or amounts, endorsements by employees when the payee is not the employee.

**Approve Bank Reconciliations:** The reconciliations be signed and dated by individuals preparing and approving them. As a prompt to the preparer and reviewer/approver to sign the reconciliation,

preprinted reconciliation forms could include a signature block with space for the signatures, or a stamp with a signature block could be applied to the reconciliations.

## 7.0 Segregation of Duties

### 7.1 Three Persons Office

Bookkeeper	Treasurer	Finance Chair
<ul style="list-style-type: none"> <li>Record accounts receivable entries</li> <li>Reconcile petty cash</li> <li>Write checks</li> <li>Record general ledger entries</li> <li>Reconcile bank statements</li> <li>Record credits/debit in accounting records</li> </ul>	<ul style="list-style-type: none"> <li>Process vendor invoices</li> <li>Review cash</li> <li>Mail check</li> <li>Approve invoices payment</li> <li>Authorize purchase order</li> <li>Disburse petty cash</li> </ul>	<ul style="list-style-type: none"> <li>Sign checks</li> <li>Complete deposit slips</li> <li>Perform interbank transfers</li> <li>Review bank reconciliations</li> </ul>

### 7.2 Two Persons Office

Bookkeeper	Finance Chair
<ul style="list-style-type: none"> <li>Record accounts receivable entries</li> <li>Mail checks</li> <li>Write checks</li> <li>Record general ledger entries</li> <li>Reconcile bank statements</li> <li>Record credits/ debits in accounting records</li> <li>Receive cash</li> <li>Disburse petty cash</li> <li>Authorize purchase orders</li> <li>Authorize check requests</li> <li>Authorize invoices for payment</li> </ul>	<ul style="list-style-type: none"> <li>Sign checks</li> <li>Complete deposit slips</li> <li>Perform interbank transfers</li> <li>Reconcile petty cash</li> <li>Process vendor invoices</li> <li>Review bank reconciliations</li> </ul>

## 8.0 Retention of Records

<b>Permanent</b>	Audit report by CPAs
	End of year financial statements
	Board of Trustee' minutes schedules
	Cancelled checks for important payments
	General Ledgers and trial balances
	Deed, mortgages, contracts and leases
	Chart of Accounts, Journals
	Correspondence (legal and important matters)
	Tax returns
	Charge conference and membership records
	Accounts payable
	Bank Statements
	Personnel records after termination

6 – 7 years	Contracts and leases (expired)
	Inventory records
	Expense analysis and distribution
	Travel expense reports and supporting schedules documentation
	Vouchers for payments to vendors
	Payroll records and summaries (W-2, 1099s, 941s, reimbursement for travel and entertainment expenses)
	Vendor invoices
	Giving/ donor records
2 – 3 years	Employment applications
	Insurance policies (expired)
	General correspondence
	Miscellaneous internal reports
	Petty cash vouchers
1 year or less	Bank reconciliations
	Duplicate deposit slips
	Correspondence with customers
	Purchase orders from vendors

## 9.0 Payroll

### 9.1 Payroll Management

- Using a separate bank account for payroll: The Church should establish an imprest “zero balance” payroll cash account, whereby the account is kept at a zero balance and transfers are made from the operating account as needed to cover the amount of the payroll and payroll taxes.
- Bookkeeper: To increase the likelihood of hiring a qualified bookkeeper, the Church consider giving applicants a brief bookkeeping test before making a hiring decision. The American Institute of Professional Bookkeepers (AIPB) offers a free “Bookkeeper’s Hiring Test” that can be given to applicants. Information about the test and sample questions are available at [www.aipb.org](http://www.aipb.org).

**9.2 File and Pay Payroll Taxes Electronically:** The Church should consider filling and paying its payrolls taxes online using the Internet. The Church will find electronic filling to be faster, more accurate, and more convenient.

A potentially helpful resource for many of our church treasurers who have few employees is offered by the Social Security Administration Social Security offers “Business Services Online” ([www.ssa.gov/bsowelcome.htm](http://www.ssa.gov/bsowelcome.htm)) where Form W-2’s can be filed online.

### 9.3 Review

- Payroll: The reviewer scans the payroll each day period before approving its distribution. However, at least periodically a more detailed review should be performed that includes the following procedures:
  - Trace employee names to employment authorization forms.
  - Trace pay rates to authorization forms.
  - Trace hours worked to time records.

- Check the clerical accuracy of the payroll.
- Trace the total payroll amount to the amount transferred to the imprest payroll account.
- Payroll Records for Unusual Matters: Performing a careful review of the payroll register (that is, the schedule showing the calculation of gross pay, deductions, and net pay) and payroll check register can highlight several types of payroll fraud. The reviewer should be alert for unusual matters that might suggest fraud, such as the following:
  - Duplicate names or addresses.
  - Names of former employees.
  - Math errors (which may indicate payroll taxes).
  - Unusual pay rates or numbers of hours worked.
  - Factors that may indicate ghost employees.
  - Check the clerical accuracy of the payroll.
  - Trace the total payroll amount to the amount transferred to the imprest payroll account.
- Unclaimed Payroll Checks: The reviewer should inspect unclaimed payroll checks to determine why the checks were not claimed. He or she should also examine canceled payroll checks for unusual endorsements.

#### 9.4 Social Security Tax

- Lay employees: churches must pay social security tax on lay employees.
- Clergy employees: Federal law also defines clergy or “ministers of the gospel” as self-employed for purposes of social security tax. This means that the local church will not deduct social security from clergy’s salary, or pay the corresponding amount. Each clergy is responsible for paying not only the individual portion of social security, but also the employer’s portion as well through a “self-employment tax”. Some churches desire to equalize clergy salaries with lay salaries by paying the pastor’s portion of social security. When this is done, the payment is taxable salary to the pastor and is reported the same as any other salary.

#### 9.5 Federal Tax Identification Number

Each local church is required to have a separate Federal Tax Identification Number. Using the wrong number creates problem that may take years to resolve. The local church must not in any circumstances use the Tax Identification number of the Southwest Texas Conference of the United Methodist Church or General Council on Finance and Administration of the United Methodist Church.

This number is the number used with banks to identify the account holder. It is used on reports to the IRS with Social Security and withholding tax payments. If a local church does not have a Federal Tax Identification number, it can secure one by making a simple application to the Internal Revenue Service.

### 10.0 Pastor Compensation Report on the Form W-2

All money that is paid to the Pastor or on behalf of the pastor is taxable unless law exempts it. The following payments are exempted:

**10.1 Housing or Utilities Allowances:** The amount can be reported in box 14 on a form W-2, but it is not required that they be reported there. If reported, after the amount type “Housing Allowance”.

**10.2 Health Benefit Premiums:** paid by the church on behalf of the pastor to the Group Plan may or may not be taxable. They are definitely exempt if paid as a salary reduction under the Conference Flexible Benefit Plan (Section 125 Plan).

**10.3 Salary Reductions for Pension Purposes:** made under a qualified plan. This includes the payments to the General Board of Pensions’ Personal Investment Plan if paid as a tax deferred payment by the church and the proper forms have been filled out prior to payment by the pastor. Such deferred compensation should be reported on the W-2 in box 12 with an “E” preceding the amount withheld.

**10.4 Payments made under a Qualified Flexible Benefit Plan (offered by the Conference):** This Plan is also sometimes called a Cafeteria Plan or Section 125 Plan.

❖ If the pastor wants to deduct his/her church tithe, that should be included on the W-2 form as wages, but the pastor should be given a statement of the amount of the gift in the same way as any other donor.

❖ If the pastor wants to reduce his/her salary in lieu of making a tithe, then that would not be reported as income. However, the compensation forms filed with the District and the Conference must also show the reduced salary. The following chart is a summary of the information listed above:

Salary: Less: Contribution to a 403 pension plan Less: Contributions to the Flexible Benefit Plan equals Taxable Income	W-2
Utilities/Parsonage	Not Reported
Total Compensation - this is subtotal line, and is not used on W-2	Not Reported
Housing allowance given instead of providing parsonage	Not Reported
Expense under the Accountable Reimbursement Plan (ARP)	Not Reported
Medical benefit costs paid by the church	Not Reported
PIP (403b) withholding sent to General Board of Pensions - or any other non-UMC pension plan contributions	W-2 line 12E

❖ The Pastor Compensation Report Form can be found at <http://riotexas.org/forms-and-reports/>.

## **11.0 Accountable Reimbursement Plan**

The Accountable Reimbursement Plan is the preferred method by which the expenses which the United Methodist Pastor incurs in providing ministerial services are reimbursed. Every United Methodist Church in the Southwest Texas Conference is urged to include an amount in its annual budget of at least 13% of compensation (line three on the current compensation form), as a budget item for these expenses. The actual amount adopted should be recommended to the charge conference by the pastor parish relations committee or staff parish relations committee after review of the need. The amount may be higher than 13% of compensation. When this compensation form is adopted at charge conference, the policies relating to the Accountable Reimbursement Plan (ARP) in this report are being adopted for the pastor.

The church pastor whose compensation and expenses are adopted on the Southwest Texas Conference Compensation Form by the charge or church conference, will be reimbursed for ordinary and necessary business expenses incurred in the performance of his or her responsibilities when he/she substantiates the amount, business purpose, date and place of the expense. This substantiation must be provided to the chair of the pastor parish relations committee (or church treasurer) within 60 days of incurring the expense. The individual must return to the church any amounts received in excess of the substantial expenses within 120 days of receipt. The scope of the ministerial duties included in this policy involve all the duties described in the current Book of Discipline and the policies of the Annual Conference, including participation in the Connectional Ministries of the United Methodist Church.

### **11.1 Pastor's Expenses**

- Travel expenses reimbursed at the standard federal mileage rate, parking, and tolls.
- Office supplies and postage.
- Office equipment, computer, and software.
- Books, subscriptions, and periodicals such as journals.
- Professional dues, religious materials, vestments, and business gifts.
- Continuing education and seminars.
- Entertainment required for church business.
- Travel fares, lodging, and meals while on business for the church (including annual conference and other connectional meetings).
- Mobile telephone to the extent that it is used for business purposes.
- Other reasonable and customary business expenses, as approved by the committee on staff parish relations and/or committee on finance.

### **11.2 Property purchased under the Accountable Reimbursement Plan**

Property purchased under the Accountable Reimbursement Plan is the property of the church that provided the reimbursement. This is not an issue for most items because they are either of negligible value after utilization, or of such a personal nature such as robes that the item is not appropriate to be left at the church when the pastor moves. The one item which becomes an issue is a computer being purchased under the Accountable Reimbursement Plan for the business usage of the pastor. When the pastor moves from one appointment to another, the church will give the pastor the option of purchasing the computer at its current fair market value. The current fair market value can be determined using tax preparation software that is easily available in the marketplace. If the church gives the computer to the pastor, then the gift is a taxable event and the fair market value should be reported by the pastor as taxable income.

### 11.3 Reimbursement Rules

- No pastor should be reimbursed more than 5/12ths of the total amount budgeted prior to annual conference each year.
- Any reimbursement of expenses from other sources should be reported by the pastor and reduce the amount of the expense subject reimbursement. In no case should the pastor receive total reimbursement for all sources that exceeds the actual costs and/or the IRS approved rate for reimbursement of mileage.
- The expenses of attendance at annual conference for a pastor who is moving should be reimbursed from the Accountable Reimbursement Plan of the charge to which the pastor is appointed prior to the annual conference session.
- The church will not report any properly substantiated reimbursement payments as income on any Form W-2.
- The policy is applicable to clergy members of the annual conference. Churches with lay employees should consider adopting a policy that is applicable to lay staff.

### 12.0 Form 941

The employer uses the Form 941 to inform the IRS how much money has been withheld from employees' taxes for income tax and social security purposes. Churches are specifically excluded from the necessity to make mandatory withholding for ministers. However, such withholding can be made on a voluntary basis if both the church and minister agree to do so.

It is in the position of the Internal Revenue Service that a church that has only a minister (and no other staff) need not file a Form 941. If the minister and the church agree that a voluntary withholding is to be made, the minister should file a W-4 form. This makes it necessary for the church to file Form 941's. Any amounts withheld are reported as income tax.

If the church files a Form 941, then it is necessary to include the pastor's salary on line 2. Do not include salary reduction pension contributions, any housing or utility allowance, or amounts paid under an accountable reimbursement plan. Health Benefit premiums that are paid by the church to the group plan are also excluded. Travel which is paid by an allowance, or any other allowances are includible as income.

For lines 6 and 7 there is no information reported for clergy. The church may not make Social Security or Medicare withholding on behalf of ministerial employees. Because of specific Code provisions, clergy are always considered self-employed for social security taxes. If there is no withholding for other employees, these boxes should be left blank.

The box in line 8 should not be checked (Unless you have filed IRS Form 4029 to exempt all employees from Social Security and thus has opted out of paying Social Security).

### 13.0 Form 1099 – MISC

All non-employees who perform services for the Church are issued 1099 – Misc if they are compensated more than \$600 (the amount may be altered in the future by the IRS) in services, including parts and materials during the year.

- ❖ **Tips and Warnings:** Do not send a 1099-MISC to someone when a personal payment was made to him or her. An independent contractor to whom the Church has made a personal payment unrelated to the Church trade or business does not receive a 1099 – Misc.

## **14.0 Annual Audit and Other Areas**

### **14.1 Annual Audit**

Each local United Methodist Church is required by the Discipline to have an annual audit of the financial records. This is the responsibility of the Finance Committee. It is the basic safeguard that the member's financial contributions are being used in the way that they were intended. It also avoids any hint of impropriety and protects all the persons involved in the financial affairs of the church.

### **14.2 Financial Integrity Project**

The project is sponsored by the Southwest Texas Conference. The audit procedures are considered to be a form of internal audit. And the internal audit staffs are students in the senior year of undergraduate or graduate program. In essence, the Finance Committee engages the Financial Integrity staffs to conduct the audit rather than a committee of the church. The information about this project can be found at <http://riotexas.org/financial-integrity-project-at-rio-texas/>.