Sometime ago, a pastor was approached by a “stewardship specialist” who told the pastor about successes he had had with other pastors in his conference in establishing a stewardship and fundraising program for their churches. He told the pastor he could present a sermon on stewardship principles in the morning and do a stewardship seminar in the afternoon. Success, he told the pastor, could be measured by the number of his parishioners who participated in his proposed fundraising program. Having a three-church district, the pastor was more than happy to have such a noteworthy individual present a sermon and seminar in his church. And, since his church was starting to gear up for a capital campaign, fundraising and faithful stewardship were going to play an important part.

The sermon that morning was a wonderful discourse on stewardship principles that any pastor would have been proud to present. During the afternoon seminar, the speaker went on to describe his recently discovered investment program which would help the parishioners with investing their funds and with the tremendous returns on their investments to benefit themselves, but that they could also use to help finance the fundraising requirements for their congregational project. Many enthusiastically signed up for the program and invested their savings not only to help themselves to better returns than were being provided by the bank, but also to give the excess income to the church. The pastor had succeeded in involving his members in fundraising for the capital project without them having to dig too far into their pockets to help.

It was only after the second or third interest payment was missed that questions started to be raised by the congregants who had invested funds into this project. As people started to question, it was soon discovered that their funds had been invested in speculative investments which promised high rates of returns and all their funds had been lost. The “stewardship specialist” was nowhere to be found. In the process of doing more checking, they also discovered that the pastor was promised and had received a higher rate of return on his investment and also a bonus based on their investment. The church members, being justifiably upset, are now looking to the pastor and the conference for some recovery of their lost savings.

This scenario may sound like fiction, but it is not. This has been repeated in numerous congregations in different parts of the world, resulting in the loss of millions of dollars. Christians tend to be trustworthy individuals and with the endorsement of key leaders become very vulnerable to fraudulent investment schemes. Losses such as this could have been avoided.
had simple steps been taken and church policies been followed. So what lessons could be learned from this unfortunate event?

Guidance has been provided to churches and ministers in policies voted by the World Church in Session. *The Seventh-day Adventist Church Manual* states the following:

*General Financial Counsel*

*Regulation of Soliciting Funds*—The following are regulations for soliciting funds:

1. No conference, church, or institution, without special counsel and arrangement, shall plan work requiring solicitation of funds from outside its territory. Any solicitation within its territory shall be in harmony with local, union, division, and General Conference policies. No authority is granted to denominational employees representing special interests in one part of the field to solicit help in any other part of the field or in any other conference without arrangement with and written authorization from conference officers where the fundraising would take place.

2. The following principles protect churches from unauthorized, fraudulent, and undenominational solicitation:

   a. Pastors and officers shall not grant the privilege of the pulpit to persons for fundraising who have not been recognized or recommended by the conference. (See pp. 116, 117.) No permission shall be granted to solicit funds either publicly or privately without such recognition.

   b. All funds contributed for any cause in response to appeals shall be passed through regular church channels.

   c. Conference and church officers shall take such steps as may be necessary to prevent unauthorized or illegal public solicitation ...

3. Interdivision employees visiting their home churches or otherwise communicating with their home bases are asked to solicit funds only for enterprises included in the budget of appropriations, working in cooperation with churches and conferences to raise the funds required to meet the appropriations on which our world mission work depends. All such funds shall be passed through regular channels.

*Questionable Methods for Raising Funds*—The local church should take a strong stand against questionable methods for raising money. “When money is raised for religious purposes, to what means do many churches resort? To bazaars, suppers, fancy fairs, even to lotteries and like devices. Often the place set apart for God’s worship is desecrated by feasting and drinking, buying, selling, and merrymaking. Respect for the house of God and reverence for His worship are lessened in the minds of the youth. The barriers of self-restraint are weakened. Selfishness, appetite, the love of display, are appealed to, and they strengthen as they are indulged.”—9T 91.¹
The *Seventh-day Adventist Minister's Handbook* also states that "Pastors should be seen as models of careful and faithful stewardship who promote sound financial management in the church while clearly recognizing that funds given as an act of worship to God should be managed in a way He would approve."²

In addition to the counsel contained in the *Church Manual and the Minister's Handbook*, the following items need to be considered.

**Fundraising for specific projects**

Many times individuals approach local church leaders or pastors for permission to present to the local congregation specific projects for which they are raising funds. These projects which may well be legitimate and worthwhile of support need to be carefully vetted, evaluated, and approved by the church board before presentation to the membership. Care should be taken to ensure legitimacy of the organization and a track record in carrying out their mission or stated goals. In addition, any funds solicited should either flow to the specific ministry, if they have their own not-for-profit organization, or through the church. Funds should never be collected or given directly to individuals in their personally capacity.

**Tax issues**

The law as it relates to not-for-profit organizations is very similar in the three countries which comprise the North American Division, having developed out of the British Common Law legal system. As such, the legal, tax, and accounting principles are generally similar in each country, with the exception of country-specific references such as the 501(c)(3) tax-exempt status discussed below and found only in the United States.

Pastors and church leaders should be careful never to give any kind of tax-related advice correlating the donation being made to the tax deductibility. Donors, especially of large gifts, should be encouraged to seek the advice of their tax counselor, attorney, or professional accountants as to the tax implications for them in making such a gift and the most advantageous way to make this donation based on their particular circumstances. Care should also be exercised in ensuring that any donation is properly receipted and that the funds are directed or used for the purpose for which they were donated. If the church is merely acting as a conduit or if the funds are not to be used or the expenditure controlled by the church, a charitable donation receipt should not be issued.

In the United States, for example, the courts and the Internal Revenue Service have also stated that the test for determining whether a transfer of an asset (cash or goods) was a gift or not is whether it was made out of "detached and disinterested generosity" that is if the gift was made without any expectation of a return benefit to the donor. As such, gifts that have strings attached may be disallowed as charitable donations. In other words, a charitable contribution is a donation or gift to a qualified organization voluntarily made without getting or expecting to get anything in return. Letters of appreciation and acknowledgments are not only appropriate but such acts should be planned for. Special rules also apply to donations of property, stocks, and tangible personal property (goods, cars, furniture, and the like) for valuation (appraisal) and transfer, making the need for specialized counsel in such instances not only beneficial but necessary. A useful resource is the IRS Publication 1771 entitled Charitable Contributions-Substantiation and Disclosure Requirements.³
Churches outside the United States also need to be aware of the specific rules enacted by their respective taxing authorities.4

The ability to issue charitable donation receipts comes from recognition by the IRS, or in Canada, the Canada Revenue Authority (CRA), of an organization as a tax-exempt organization, meaning that it is exempt from income tax liability and allowance to receive tax-deductible charitable donations. Organizations apply for and receive what the IRS calls Tax-Exempt Status or 501(c)(3) status after having gone through a rigorous application and review process, which can take upwards of one year to accomplish. Donors are more likely to financially support such organizations because their donations can be tax deductible. Tax-exempt organizations must conduct activities that promote certain recognized functions that fall into five broad categories: religious, charitable, educational, scientific, or literary pursuits. Unless a church is planning to change its activities to other than religious, it is best to stay with the group status. Even if a church is planning to provide charitable activities such as relief to the poor, it can still do so under its religious status. Stringent rules apply as to how a charity is to spend or disburse the funds it receives and also provide an accounting of such.

Within the Seventh-day Adventist Church in the United States, the IRS has issued to the General Conference what is referred to as a “group letter ruling,” allowing all recognized churches and organizations in the United States under the umbrella of the General Conference to use the same single registration, thus negating any need for each organization, local congregation, or newly established congregation to apply for their own status recognition. This recognition allows immediate recognition by the IRS without going through the application process and also eliminates the annual reporting requirements (filing of Form 990), provided that the church is following the procedures established by the conference for keeping books and records detailing financial activities. To protect the church’s group recognition from the IRS, the North American Division Working Policy in section C 47 30 Tax Exemption Status states that any organizations that operate under the 501(c)(3) group exemption held and administered by the General Conference (this includes all churches, schools, conferences, institutions, and organizations in the United States (emphasis added), shall obtain the approval of the North American Division before applying for their own 501(c)(3) tax exemption.

Receipting of donations

The fact that your church or organization is able to receive charitable contributions under the group exemption, or in Canada under the recognition by the CRA, as a tax-exempt organization does not negate the requirement to maintain accurate books of accounting and other records necessary to justify a claim for exemption in the event of an audit. The key piece in the record keeping is the appropriate receipting of donations and the issuance of a charitable donation receipt. Very specific requirements have been adopted by the IRS and CRA to substantiate claims for tax deductions and disclosure rules where donations are made partly for a direct donation and part for goods or services received.5
Corporate structure

One of the most common questions asked by local churches is whether they need their own legal identity (corporation or established unincorporated association) in order to do fundraising or the solicitation of grants. Sometimes the argument used is that grants can only be obtained by organizations that have their own Federal Tax ID number or an IRS Affirmation or Determination Letter issued to the organization before grants will be considered. This request for confirmation of status before grants are authorized has led some churches or schools to secure their own not-for-profit corporation and registration as a tax-exempt organization. There are many legal, accounting, and insurance issues, which need to be taken into consideration before a move to “autonomous” status is made by a local congregation or school. Consultation with the Conference and experts in finance and law need to be undertaken so that a local church does not endanger its status or find itself without protections found in the group. Permissions must be obtained from the conference, union, and North American Division before separate corporate status is obtained.

It may be that all grant issuing organizations are looking for is proof of the tax-exempt status of the organization requesting the grant. Since recognized churches and schools are officially part of a conference, they are covered by the IRS Group 501(c)(3) Ruling issued to the General Conference or by the Conference recognition by CRA in Canada. If your church or school is requested to provide proof of the IRS Group Ruling status, a letter can be obtained from the General Conference confirming that the church or school is included in the group ruling. This letter can be obtained by writing the General Conference Office of General Counsel at 12501 Old Columbia Pike, Silver Spring, MD 20904, or contacting the office at 301-680-6326.

North American Division Working Policy outlines the rationale behind corporate organization within this division. This applies to organizations and local churches within the North American Division territory. In part, the Working Policy states as follows:

BA 25 05 Incorporating Organizations—It is the general plan not to incorporate or register regular denominational organizations except those involved in the holding of real estate, or for activities that merit such organizational structure, or where required by law. While the local church operates under the legal structure of the local conference, there may be exceptions for certain types of activities at the local church level outside of the regular ecclesiastical needs of conducting the religious activities of the local church that merit the use of a separate legal entity. When such a legal entity is deemed advisable, it shall be formed in conjunction with and by approval of the local conference executive committee, subject to the additional approval called for in BA 25 10.

BA 25 10 Authorization—All organizations planning to form legal corporations, limited liability companies, or similar legal entities registered with the government, shall first secure approval from their union executive committee, if applicable, and the North American Division Committee (NADCOM), which shall also determine if the new entity qualifies for denominational status under NAD Working Policy C 47.
Checks and balances have been put in place in the policies of the denomination for organizations, churches, and schools to provide guidance and procedures to be followed by those wishing to establish their own legal organizations. In addition, counsel from a legal, tax, and accounting perspective is available to those wishing to avail themselves of it so that initial mistakes do not cause future problems for individuals or organizations that have embarked down this road.

As leaders of congregations, it is imperative on those entrusted to those roles to be models in honesty, integrity, and ethical behavior. It is the responsibility of leaders to manage the financial affairs of their local congregation and of their personal financial affairs in such a way as to demonstrate to all a sense of integrity which is clear and sincere. Confidence and credibility are two important values that leaders possess and cultivate for building trust in the overall organization of the church. As such, tremendous care needs to be taken to protect personal and organizational reputations from harm. Leaders must always be mindful that the end does not always justify the means. Charities, especially religious organizations, are expected to take the high road and be above reproach, not only for the sake of our members but for those who are observing every action we take to see if our words match our actions.

**Conclusion**

We have addressed some key issues, but there are other significant matters that you will be facing. For example, acquaint yourself and follow denominational policies concerning property title, mortgages, contracts, loans, or signing of documents, etc. Legal documents or contracts, for example, should always be signed by an authorized conference officer who has authority to bind the organization. In our denomination, local conferences are the legal bodies and thus the local church and church school need to work with the conference administration on these issues before any binding financial or contractual commitments are entered into. Many of these documents will require input and advice from an attorney, churches and church schools should consult with the conference administration before engaging in any legal services by themselves. Often the conference has an attorney with whom they have dealt with and who is familiar with applicable laws and denominational requirements. It is best to use such an attorney to provide counsel and to process the needed documents.

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1 *Seventh-day Adventist Church Manual* (Silver Spring: General Conference of Seventh-day Adventists, 2010), 133, 134. Emphasis supplied.
2 *Seventh-day Adventist Minister’s Handbook* (Silver Spring: Ministerial Association, 2009), 146.
4 See also publications issued by Canada Revenue Agency, Registering a Charity for Income Tax Purposes CRA Publication T4063E Rev. 08 http://www.cra-arc.gc.ca/E/pub/tg/t4063/t4063-08e.pdf. Bermudian law is similar to U.S. and Canadian law and governed by *The Bermuda Charities Act 1978*. The Seventh-day Adventist Church in Bermuda is registered as a Charity #110 in Bermuda under Bermudian legislation.