FINANCIAL MANAGEMENT MANUAL

For Grace Communion International congregations in the United States

January 2016

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INTRODUCTION

Purposes of this manual

This *GCI-USA Financial Management Manual* presents policies and procedures related to the standard financial system used by chartered congregations of Grace Communion International in the United States. It is a companion to the *GCI-USA Online System Manual* and the *GCI-USA Quicken Accounting Manual.* The latest versions of all of these manuals are posted at http://www.gci.org/go/manuals.

The financial management system presented in this manual is consistent with the biblical teaching that we are called to worship God by offering him all that we are and possess (Romans 12:1). In making such offerings we are called to be faithful stewards of the gifts God gives us (1Corinthians 4:2; 1Peter 4:10). A primary stewardship responsibility involves sound financial management in our congregations, which provides a sound basis for the church to actively participate in the disciple-making ministry of Jesus (Matthew 28:18-20).

Exceptions to standard systems

All chartered GCI-USA congregations (chartered churches and chartered fellowship groups) are to comply fully with the standard financial management systems described in this manual with only the following limited exceptions:

1. Congregations granted by the denomination an exception based on extraordinary circumstances. Such exceptions are granted on a case-by-case basis and often only for a limited duration. In all such circumstances, the congregation is to keep local financial records in full compliance with IRS and other pertinent governing agency requirements.

2. Non-chartered fellowship groups that have arranged for all tax-exempt donations from members and other donors to be sent directly to the GCI home office, with none of that income returned to the congregation. When this option is selected, the congregation is exempted from standard income recording and receipting processes and standard income and banking reporting requirements. If the congregations so-exempted maintain a local checkbook in which non-receipted (and thus non-tax exempt) monies are deposited and expended, they are to limit the amount in that account to $500.00 and keep an accurate, up-to-date check register recording all deposits and expenditures. This register must be made available to the denomination for audit at any time.

Manual updates

Modifications to this manual are made from time to time. The current version is posted at http://www.gci.org/go/manuals. Each congregation's primary pastoral leader (lead pastor or equivalent) and treasurer will be notified by email when revised versions of the manual are posted. It is the responsibility of these individuals and all members of the congregation's finance committee to be familiar with the current version of the manual and to take appropriate steps to ensure compliance.

Questions

Questions concerning the matters covered in this manual may be directed as follows:

- general financial management questions including financial reports and policies: your regional pastor
- financial software questions including online and locally based software systems: Steven.Morrison@gci.org or IT help desk: (800) 350-4466
- human resource (employment) including employee benefits questions: Maureen.Warkentin@gci.org.
- electronic funds transfer and central processing questions: Steven.Morrison@gci.org
- accounting questions: Robert.Meade@gci.org
- legal questions: legal.office@gci.org

FINANCIAL MANAGEMENT CHECKLIST

The following checklist summarizes key tasks to be performed in the on-going management of the standard financial system. Details of these and other tasks are presented in the rest of this Financial Management Manual and the companion GCI Online and Quicken Accounting manuals.

Start-up tasks for new congregations

- ❑ **Lead pastor:** Appoint and train the **finance committee** (lead counter, treasurer and at least one general member).
- ❑ **Treasurer**: Appoint and train a **counting team.** Acquire personalized offering envelopes and other offering supplies.
- ❑ **Treasurer**: Appoint and train an **account reconciler** and (if appropriate) a **financial secretary.**
- ❑ **Treasurer**: Open a checking account at a local bank (which may necessitate applying for a federal identification number).
- ❑ **Treasurer**: Become acquainted with the standard accounting system using standard software (refer to the companion GCI Online and Quicken Accounting manuals for details).
- ❑ **Treasurer**: Become acquainted with the electronic transfer of funds system to and from the denomination.
- ❑ **Treasurer**: Assist pastor in preparing initial operating budget by projecting income and expenses such as pastor's salary (if applicable), pastor's monthly expenses, hall rent, apportionments, etc.
- ❑ **Treasurer**: Make copies of financial system forms posted at http://gci.org/go/finforms
- ❑ **Treasurer**: Become familiar with formats for weekly, monthly, quarterly and year end financial reports

On-going Tasks

- ❑ **Lead pastor and finance committee:** Stay familiar with the policies and procedures of this Financial Management Manual (the treasurer and/or the financial secretary also need to stay familiar with the GCI Online and Quicken Accounting manuals).
- ❑ **Lead pastor and treasurer:** Notify the CAD office if the designated treasurer changes or if the treasurer's email address changes.
- ❑ **Lead pastor and treasurer:** have all signatories to all church accounts sign the at-will appointment or removal of signatory form (available from the GCI treasurer's office). These forms should be kept current with copies forwarded to the GCI Treasurer's office (treasurer@gci.org).
- ❑ **Lead pastor:** Set up a program and oversight committee to provide for emergency financial assistance to comply with IRS requirements (see Appendix C).

Weekly Tasks

- ❑ **Counting team:** Receive and count the offering, prepare the weekly donation report, submit it to the treasurer and give a copy to the lead pastor.
- ❑ **Counting team**: Prepare the donation log and submit it to the treasurer.
- ❑ **Counting team**: Prepare the bank deposit slip and deposit the offering at the bank.
- ❑ **Treasurer**: Transfer offering information to donor records using the on-line system. Transfer the total amount of such offerings to the locally based accounting system.
- ❑ **Treasurer**: Write checks as necessary and record such transactions in the locally based accounting system.

Monthly Tasks

- ❑ **Treasurer**: Record in the locally based accounting system all electronic fund transfers from the congregation to the denomination including payment of payroll and apportionments. Be sure there are sufficient funds in the local account for these transfers.
- ❑ **Treasurer:** Record in the locally based accounting system all electronic transfers from the denomination to the congregation's local account (such funds include donations received at the home office and all credit card donations).
- ❑ **Treasurer:** Prepare the monthly reports (8.2).

- ❑ **Account reconciler:** Receive bank statement(s), reconciliation and check register reports with other materials from the treasurer. Confirm that these materials agree and return them to the treasurer for filing. Report any disagreements in these documents to the pastor.

Quarterly Tasks

- ❑ **Treasurer**: Prepare the quarterly reports (8.2).
- ❑ **Treasurer**: Confirm that donors have an adequate supply of offering envelopes. Reorder if needed.

Annual Tasks

In January

- ❑ **Treasurer:** Arrange for annual account review and then prepare and submit the financial reports that are due at the end of each year (8.2).
- ❑ **Treasurer:** Complete year-end donation processing (refer to the GCI Online System Manual, section 4.0). Donations received the last week of December may be recorded in early January of the following year. When this is done, use the date that the donation was received in the previous year as the date of posting so that these donations will be receipted in the actual year they were given. Donations given in the current year must not be credited to the prior year. Actual physical receipt by the church or a legal postmark is the only acceptable proof of the date of donation. The date on the check is not acceptable proof.
- ❑ **Treasurer:** Print and distribute the annual receipts for all donors following notification to do so from the GCI Treasurer. These receipts must be printed and postmarked by January 31.
- ❑ **Treasurer:** Send 1099 (and other) forms to independent contractors, halls and others by January 31 (see section 9.1).
- ❑ **Treasurer:** Put your year-end records, reports, and financial documents in good order in a safe place. Create a permanent backup copy of your Quicken or other bookkeeping software files.
- ❑ **Treasurer:** Review prior year reports. Evaluate how your congregation performed financially in the previous year. Consider how you can clearly report to the pastor and/or the finance committee comparative changes from the previous year(s).

In February

- ❑ **Treasurer:** If you find you have donation entry errors, contact the GCI IT department and they will assist you in adjusting those entries and reissuing corrected annual receipts, if necessary.
- ❑ **Treasurer:** File required 1099 information with the IRS by February 28 if you file by paper, or March 31 if you file electronically.

In September-October

- ❑ **Finance Committee**: Begin work on next year's budget (see chapter 2).

In November

- ❑ **Treasurer:** Review vendor payment accounts to see if any are beyond or near the $600/ vendor threshold for the year. Refer to section 9.1 concerning IRS reporting requirements.

In December

- ❑ **Treasurer:** Prepare new files for next year's bills and receipts, donation records, and bank records.
- ❑ **Treasurer:** Reimburse petty cash to its full amount (see section 5.6).
- ❑ **Treasurer:** Take an inventory of non-cash assets (see section 7.3).
- ❑ **Treasurer:** Check with the Treasurer's office for IRS maximum and denominationally recommended mileage reimbursement rates for next year.
- ❑ **Lead pastor:** Present annual financial report to the congregation.

CHAPTER 1
GETTING STARTED

This chapter discusses the first steps to be taken by a congregation in implementing the financial management system presented in this manual.

1.1 SET UP THE FINANCIAL MANAGEMENT TEAM

In order to implement the financial management system described in this manual, the first step is to build the team that will administer the system. That team includes several individuals who work together in accordance with the responsibilities and accountabilities noted as follows (refer also to the *GCI-USA Church Administration Manual* concerning these responsibilities).

1.1.1 Lead pastor

The lead pastor (or equivalent person in congregations without lead pastors) has primary leadership responsibility and authority for the oversight of financial operations within the congregation. That oversight (as a minimum) is to include the following:

- Oversee compliance with requirements of this manual. Receive advance approval for any exceptions with the regional pastor.
- Preach and teach the biblical mission for the church including the importance of whole-life (including financial) stewardship.
- Model faithful stewardship (including being a generous donor appropriate to income).
- Lead the congregation in formulating a strategy for pursuing the congregation's mission. This strategy will include a yearly budget.
- Help recruit and train people for finance committee membership.

1.1.2 Advisory council

The advisory council provides advice and counsel to the lead pastor (and other pastors/elders serving the congregation) concerning the spiritual oversight matters outlined in the *GCI-USA Church Administration Manual.*

The scope of the advisory council's involvement in financial management is as defined in the *GCI-USA Church Administration Manual*. As noted there, the advisory council, as a minimum, is to be consulted concerning the yearly budget, investment income strategies, appointments to and removals from the finance committee, expenditures that are not in accordance with the approved annual budget, and any modifications to that budget.

1.1.3 Finance committee

The finance committee has primary responsibility for the day-to-day administration of the financial system of the congregation including planning and budgeting, receiving, recording, banking, investing, disbursing and monitoring. In these responsibilities, the finance committee is supervised by and directly accountable to the lead pastor. If there are unresolved disagreements between the lead pastor and the finance committee, either party may contact the regional pastor for mediation in accordance with the grievance procedures set forth in Chapter 5 of the *GCI-USA Church Administration Manual.*

The finance committee automatically includes the **treasurer** and the **lead counter.** In addition, the committee is to include at least one additional member who may be a **general member** (a person with no other administrative responsibility in managing the financial system, but one with financial administration expertise), or who may be the **financial secretary** (if there is one), or another one of the financial personnel listed in 1.1.4. The goal is that the finance committee represents the primary (and counter-balancing) aspects of financial system administration.

Note that members of the finance committee may also serve as members of the advisory council (though this is not mandatory). It should be understood, however, that the finance committee and the advisory council perform separate functions and both report directly to the lead pastor.

In small congregations, the lead pastor or their spouse may need to serve as the treasurer or the financial secretary but must NEVER serve as the lead counter or a member of the counting team. Moreover, a lead pastor or their spouse must NEVER be a signatory on the congregation's bank account(s) which means that they may NOT sign checks or otherwise make withdrawals from the congregation's bank account(s).

The lead pastor appoints finance committee members and sets the limits of their term of service. For the sake of continuity, it is recommended that the treasurer and the lead counter have terms lasting at least a couple of years. The finance committee, with the lead pastor's advance approval, appoints its own chairperson. The treasurer is a logical choice.

The lead pastor may remove a finance committee member from office before their term is completed. Such removals would be rare and must be reviewed in advance with the advisory council and the regional pastor.

1.1.3.1 Treasurer. The treasurer has the following general responsibilities:

- To <u>monitor</u> the finances of the congregation's ministries and programs.
- To <u>maintain</u> the congregation's accounting records.
- To <u>prepare</u> checks and financial reports.
- To <u>issue</u> receipts to donors.
- To otherwise <u>manage</u> the financial administration of the congregation beyond the responsibilities of the lead counter and lead pastor.

The treasurer must be an individual who works well with others, has some experience in accounting (a bookkeeper is ideal) and is well organized. In a congregation that does not have a member able to handle all the duties of the treasurer, there are five options:

1) Have a member in the congregation assist the treasurer by serving as the **financial secretary.**

2) Have the lead pastor or his/her spouse serve as treasurer or as financial secretary (though the lead pastor or his/ spouse must never sign the congregation's checks).

3) Retain a bookkeeper to handle the duties of treasurer or financial secretary. An outside bookkeeper would ideally be an accountant with experience in not-for-profit organizations. The cost for retaining such an individual is borne by the congregation.

4) Use the denomination's additional accounting service paid for through an increase in the standard apportionment (see 3.7). With this service, a congregation will still need a treasurer and a lead counter, but the work of the treasurer is reduced and a counting team is not needed.

5) For congregations in a circuit, there is the possibility that a larger congregation in the circuit could help a smaller one with some financial duties. Such cooperative arrangements would be worked out by the two congregations under the direction of the lead pastor with the approval of the regional pastor.

1.1.3.2 Lead counter. The lead counter (sometimes referred to as the head usher) leads the **offering counting team** (see 1.1.4.2) which is responsible for receiving, counting and depositing all offerings given in worship services or received by the congregation through the mail. The lead counter must be an individual who works well with others, is good with numbers, well organized and prompt and consistent in attendance.

1.1.4 Other financial personnel

While the finance committee carries out most of the financial management duties of the congregation, there is also the need for the following additional personnel:

1.1.4.1 Financial secretary. Treasurers may, at their option and with the approval of the lead pastor, recruit and appoint a financial secretary to share the treasurer's work load. The division of labor between the two is determined by the individuals involved in consultation with the lead pastor. It would be typical for the financial secretary to enter donations and upload financial reports into the online system.

1.1.4.2 Offering counting team. The members of this team are responsible for processing the weekly offering under the direction of the treasurer or lead counter. It is wise to have several members on the counting team so that there is a rotation from week to week. Team members should be prescreened to avoid using spur-of-the-moment volunteers. To ensure separation of duties, no counting team member may also serve as treasurer, financial secretary or lead pastor (or be the lead pastor's spouse).

1.1.4.3 Account reconciler who reconciles the accounts monthly (see 7.1).

1.1.4.4 External account reviewer who reviews the accounts every third year (see 7.2).

1.1.4.5 Internal account reviewer who reviews the accounts annually (see 7.2).

1.1.5 Equipping financial personnel

All finance committee members and others sharing in the administration of the financial system must understand the basic principles and procedures set forth in this manual and discharge their duties accordingly. It is the responsibility of the congregation's pastor to see that such personnel are appropriately equipped.

1.2 SET UP INTERNAL CONTROLS

Following the procedures and policies set forth in this manual helps ensure the presence of adequate internal controls (checks and balances) to safeguard congregational assets and ensure the reliability and accuracy of financial records. These measures are vital for the long-term success of a congregation and are to be rigorously implemented and maintained.

1.2.1 Reasons for internal controls

Internal controls are designed to strengthen and protect a congregation in the following ways:

- Help ensure that records and reports are accurate, facilitating good financial decisions.
- Limit the temptation to misappropriate funds and the embarrassment of having to confront members who have misused funds.
- Limit suspicions and false accusations regarding the use of funds.
- Help avoid the expense of reconstructing destroyed or altered financial records.
- Increase the probability that errors (intentional or unintentional) will be discovered before they cause big problems.
- Reduce the potential for needing to tell members that some of their donations have been lost.
- Reduce the risk that the congregation will face negative media coverage.
- Help build and maintain the trust of those who support the congregation financially.

1.2.2 Specific internal controls

Various internal controls are set forth throughout this manual and are summarized in this section.

1.2.2.1 Separation of duties. Implementing the procedures in this manual helps ensure that key financial functions are separated between different individuals so that one person is not involved in more than one basic financial activity and the work of one is checked by another.

1.2.2.2 Clear organizational structure. Use of the financial management system established in this manual helps ensure that the congregation has a clear organizational structure with clearly defined job responsibilities. This clarity avoids confusion and overstepping of delegated authority—a need especially great where there is heavy reliance on volunteers.

1.2.2.3 Proper accounting procedures. Implementing and maintaining the accounting procedures set forth in this manual protects the congregation by accomplishing the following:

- Adherence with legal and ethical standards.
- Guiding members of the finance committee in accounting and reporting processes.
- Clarifying responsibilities.
- Ensuring continuity of procedures and records from year to year (even as personnel change).

1.2.2.4 Use of qualified personnel. Another important internal control is the use of qualified individuals to administer the financial system. For most congregations this will mean finding members with basic skills and then helping them acquire additional skills through training. Potential appointees to the finance committee and to other volunteer financial management positions (financial secretary, counting team member, account reviewer, account reconciler, etc.) are to be pre-screened using the **volunteer application form** posted online at http://gci.org/go/finforms.

This prescreening process is intended to help determine if the applicant is appropriately qualified for the position for which they are volunteering. Questions about the suitability of candidates should be reviewed with existing committee members and with the advisory council.

1.2.2.5 Monitoring records. Another area of internal control set up in this manual involves monitoring of financial records through a system of internal and external reviews. This procedure helps avoid potential problems including misappropriation of funds and false accusations.

The issue of monitoring is delicate because it involves checking up on fellow Christians. It is helpful to note, however, that the reason for monitoring is not distrust but to provide an objective evaluation of the congregation's financial procedures. More information concerning monitoring of records is found in Chapter 7**.**

As part of internal control procedures, all congregational accounts are subject to review at any time by the denomination.

1.2.2.6 Safeguarding records. Another area of internal control provided for in this manual involves the safeguarding of accounting records (whether on paper or on computer) so as to ensure that they are not destroyed, altered or viewed by unauthorized people.

Since the church's financial records are often kept in private residences, it is particularly important to keep them under lock and key to be sure that they are not available for unauthorized people to view or alter. Furthermore, steps should be taken to minimize the moving of such records from location to location. Such movement only increases the risk of loss, damage or theft.
If records are kept on computer, password protection should be in use at all times to limit access to authorized personnel only. Such passwords should be part of the permanent financial records. Computer records should be backed up frequently to protect data from loss. A backup procedure is provided in the Quicken Accounting Manual.

All financial records (whether on paper or electronic media) are the property of the congregation and the denomination—not the person who does the record keeping. If a person should resign or be removed from office, all financial records in their possession, including passwords to electronic files, are to immediately be turned over to the lead pastor or the regional pastor. An exception is that if an outside entity is used to generate financial statements, the papers and electronic files used to generate these statements remain the property of the outside entity.

1.3 SET UP BANK ACCOUNTS

Each congregation needs a local bank account for the deposit and disbursement of revenue generated within the congregation. The following instructions provide consistent standards for opening and closing such accounts. Standards for ongoing account management are covered elsewhere.

1.3.1 Establishing an account

Each congregation needs a checking account at a secure financial institution insured by the FDIC or FSLIC. An interest-bearing checking account may be used (see 3.1.4 for further information on investment income). The account must comply with the following policies.

It is generally recommended that a congregation have only one account. If multiple accounts are needed, each account must meet these policies.

1.3.2 Existing accounts

Any existing accounts must be brought into compliance with these guidelines. Such compliance can be achieved by simply renaming the account—normally the existing Federal Tax I.D. Number (T.I.N.—also called the E.I.N.) may be retained. See 9.1 for further details on tax exemption.

1.3.3 New accounts
If a new account is opened, the bank will require that Federal Form W-9 be filled out. This form requests the congregation's Federal Tax I.D. number (T.I.N.) which is used by the bank to report to the IRS any earned interest income. Most congregations already have a T.I.N. for an existing account. This one number may be used for all accounts in the same congregation. If a congregation does not have a T.I.N. one may be obtained by filing Federal Form SS-4 with the IRS.

> Due to the potential for adverse tax consequences to the individual, a congregation's bank account must NEVER be operated using the lead pastor's or any other member's social security number for the account's T.I.N.

1.3.4 Name on the account
The name on any accounts should include the name of the congregation. That name may be the regular GCI designation (such as Grace Communion International, Dallas North), or it may be a unique local name (such as New Beginnings Church). Note that any changes to the name of the congregation must be communicated to the denomination by contacting the Church Administration Department.

If a congregation is locally incorporated, the full legal name of the congregation which appears in the articles of incorporation must be used in any legal documents (including those filed with a bank).

Whenever a bank account is opened or an existing account is modified (such as for a change of account name or a change of the account's T.I.N.) it is required that the account information for the congregation be updated using the online records system (refer to the GCI Online System Manual for instructions concerning updating such records).

1.3.5 Closing an account upon close of a congregation
If a congregation disbands, any property (including contents of bank accounts or other financial instruments) owned by the congregation and/or the denomination are to be transferred immediately to the denomination as instructed by the CAD office. Due to tax exemption rules, such funds may not be returned to individual donors.

The denomination shall choose one or more of its other chartered congregations to receive this property. All financial records (including computer files) are to be transmitted immediately to the denomination's Treasurer's Office where they will be kept in the denominational archives according to record retention policies.

1.3.6 Account signatories
Each bank, brokerage, or other account operated by the congregation will need account signatories. This section sets forth requirements related to these signatories. Section 1.3.6.1 applies to signatories on accounts held by non-incorporated congregations (the case for most GCI congregations). Section 1.3.6.2 applies only to signatories on accounts held by incorporated congregations.

1.3.6.1 Signatories on accounts in non-incorporated congregations
No less than three signatories are to be appointed for each of the congregation's bank accounts or other financial accounts (money market accounts, treasury direct accounts, etc.). The treasurer will typically be the primary account signatory (with certain exceptions noted in this manual—for instance a pastor or a pastor's spouse may not be an account signatory). <u>Checks should always be set up to require two signatures</u>, even if the local bank does not support this method.

The "contact person" of the congregation (typically a lead pastor, but sometimes the coordinator of a pastoral team) is given authority by the denomination to appoint and remove account signatories. Such appointments and removals are normally reviewed by the finance committee; however, formal committee approval is not required.

The authority of the contact person to make signatory appointment and removals is confirmed by the denomination via a document that is issued to each contact person by the Secretary of the Board of Directors of the Denomination. That document is called "Secretary's Certification Confirming a

Policy of the Grace Communion International Denomination" (called "Secretary's Certification" hereafter).

This document certifies that the contact person has denominational authority to act on behalf of the congregation in appointing and removing account signatories. This certification may be needed to obtain the approval of banks and other financial institutions to add or remove account signatories. The congregation need not supply the document to the bank unless such certification is requested. If the bank requests it, the original document may be shown to them, but only a copy should be given for the bank to keep. The original should be stored in a safe place where it cannot be used by an unauthorized party.

Actual appointment or removal of an account signatory is accomplished using the "At Will Appointment or Removal of Signatories" form (called "Appointment Form" hereafter). A separate Appointment Form is to be used for each account signatory. Each form is signed by the signatory "appointer" (the congregation's contact person) and by the "appointee" (the signatory).

The Appointment Form gives the name of the account signatory being appointed and provides a means for that appointee to acknowledge with their signature that they understand a signatory's duties and accept the terms of the appointment, including the stipulation that they may be removed as a signatory at any time by the congregation's contact person or by action of the denomination if necessary.

All of the original, signed Appointment forms (one for each signatory) are to be kept by the congregation's treasurer with the financial records. A copy of each form is to be sent to:

Grace Communion International
Treasurer's office
PO Box 5005
Glendora, California, 91740

When a copy of the form is received in Glendora, the names of the approved signatories will be entered and will become visible on the congregational treasurer's login screen.

It is the responsibility of the congregation's treasurer to keep all signatory information up to date. When a signatory is removed or added, it is important to promptly forward the appropriate forms to the GCI treasurer's office. Forms can be requested by email treasurer@gci.org.

1.3.6.2 Signatories on accounts in incorporated congregations

Incorporated congregations are to follow the same procedures related to appointing, registering and removing signatories in non-incorporated congregations (see 1.3.6.1) EXCEPT that signatories are appointed and removed by the board of the local incorporated congregation rather than by the contact person in non-incorporated congregations. Such appointments (and subsequent removals) are to be made using resolution of the congregation's board – a sample is included in the packet of information the Legal Department forwards to each newly incorporated congregation.

1.4 SET UP RECORD KEEPING SYSTEMS

To help ensure that bank accounts are managed according to sound business and accounting practices, all deposits and disbursements are to be recorded and otherwise managed using the systems described in this manual. Chapter 6 presents principles concerning record keeping and the Quicken Accounting and GCI Online System Manuals present details for using standard computer software for record keeping, computer backups and financial report preparation.

CHAPTER 2
PLANNING AND BUDGETING

This chapter discusses procedures for financial planning within a congregation. Particular attention is given to budgeting of both income and expenditures. To assist in budgeting, various standard forms are provided in the online forms posted at http://gci.org/go/finforms.

2.1 WHY PREPARE A BUDGET?

A budget is important for managing finances. It helps establish income goals and helps ensure that income is spent with integrity and wisdom. The budgeting process yields the following specific benefits:

- Helps a congregation be responsible and responsive in funding ministries.
- Helps in defining priorities.
- Promotes a congregation's confidence in its leaders.
- Provides a vehicle for stewardship education (helping members see that the ministries of the congregation are worthy of their financial and other support).
- Provides ministry teams a way to evaluate current work and envision future needs.
- Helps members know how their gifts are being used to accomplish the mission of the congregation.
- Provides a basis for keeping the congregation's financial affairs on track.
- Assists in communication and coordination between ministries.
- Helps maintain financial discipline when income and expenses do not balance.

2.2 PLAN FIRST

A good budget results from good strategic planning. Fundamental to such planning is the work a congregation does to define its core values (***why*** we do what we do), its mission (***what*** we do) and its ministry strategy (***how*** we do it).

The foundation of a Christian's core values is love for God and for people (the great commandment). The fundamental mission of the church is to make disciples who make disciples (the great commission). And the basic strategy for making disciples (as modeled by Jesus and his apostles) is to seek the lost, nurture believers, equip workers and multiply leaders, ministries and churches. Out of this disciplemaking strategy comes a variety of mission-driven ministries, programs and activities that can be budgeted for in both short and long term durations. If a congregation does not have a well-defined strategic plan, it is encouraged to contact their regional pastor for assistance.

2.3 WHO PREPARES AND APPROVES THE BUDGET?

With a strategic plan in hand, an annual budget can be prepared to anticipate and allocate funding for implementation of the plan in the year ahead. A budget should be prepared for each major congregational ministry leading to a summary budget for the entire congregation. Though much of the budget preparation work is done by the finance committee (the treasurer in particular), the process is led by the lead pastor who consults with the advisory council. Final approval of the budget rests with the lead pastor. In the budget preparation process, it is appropriate and wise to involve the congregation's ministry leaders and members. People are most likely to support what they have helped to plan.

2.4 MODIFIED ZERO BASED BUDGETING

This manual recommends use of a modified version of the Zero-Based Budget (ZBB) form of annual budgeting. With a ZBB, each budget category begins the annual budgeting process with zero funding and is funded for the year ahead only in accordance with that category's importance in the strategic plan. In this way, annual budget allocations are not assumed; they are justified as part of the annual planning process.

GCI advocates a *modified ZBB* approach in that certain annual congregational expenditures (such as the pastor's salary or hall rent) are fixed and thus do not have to be re-justified annually. Moreover, some ministries will need to acquire funds over several years and thus will justifiably carry banked funds over from one year to the next. Also, any designated offerings continue to be designated from one budget year to another until they are spent.

However, all ministries should be evaluated each year in light of the congregation's strategic plan. All ministry expenditures, as reflected in the annual budget, should then conform to that plan. In short, expenditures should not merely be assumed—they must carefully be planned in accordance with the vision for disciplemaking ministry in and through the congregation.

The standard budget year for congregations is January 1 through December 31.

2.5 BUDGET REPORTING

To be of use, budgets must be effectively communicated in writing. There are two general formats for such reporting. The first is called a **line-item budget**, displaying budget categories one line at a time. While this format is brief and efficient it may be too non-descriptive for good communication to the general congregation. For that reason, it is recommended that a budget presented in narrative form be prepared as a supplement to the standard line-item report.

A narrative budget presents in descriptive words a recap of the congregation's activity in the past year and plans for the year ahead. The focus of a narrative budget is the disciplemaking ministry being conducted in and through the congregation.

Examples of line item and narrative budgets and budget worksheets are posted at http://gci.org/go/finforms.

2.6 PROVIDING A RESERVE FUND

To help balance income with expenses through the course of the year, and to prepare for future non-regular expense needs (see list below), it is vital that each congregation have a reserve fund. It is recommended that about 10% of donation income be set aside each month until a minimum of three months of average expenditures are deposited in a reserve fund. This fund may be kept within the main local account (where it is accounted for as a separate budget category) or the congregation may wish to deposit such funds in a safe interest bearing bank account or other investment instrument.

Possible (though often unanticipated) uses for the reserve fund include the following:

1. Costs for relocating to another meeting hall.
2. Costs for bringing to the congregation a new employed pastor. Such costs include travel for a candidate's visit, moving costs, and additional salary during the training/transition period (see Appendix B).
3. Equipment replacement (audio/video, HVAC, etc.)
4. Economic downturn or sudden loss of major donor(s).

2.7 MONITORING AND ADJUSTING THE BUDGET

It is important that the finance committee monitor actual expenses and income in comparison to the budget on a monthly basis. If changes in income or expenses are significant, the budget may need to be altered mid-year. It should be noted, in that regard, that a budget is not an inflexible straightjacket but a management tool that may be adjusted more than once a year. The important thing is that expenditures and income are carefully monitored. Any changes to the annual budget are to be reviewed by the advisory council.

CHAPTER 3
HANDLING INCOME

This chapter discusses receiving, collecting, counting, depositing and managing congregational income.

3.1 SOURCES OF INCOME

Congregations receive income from various sources including those discussed in this section.

3.1.1 Donation income

Donation income is defined as the *non-earned* income that is received by the congregation (including the congregation's individual ministries) from any source, including members, affiliates, non-members and organizations (such as corporations). All donation income received by the congregation becomes part of the congregation's *general* income except when the donation is given for a *designated* (restricted) purpose (see 3.1.3).

All donation income (with the rare exceptions noted in this section) received by the congregation is deposited into the congregation's account and is credited to the individual donor's record using the GCI Online system. If the identity of the donor is not known, the donation is credited in GCI Online to the *anonymous donor* category. Unless the donor specifically requests otherwise, all identifiable donors are receipted for their donations using the receipt function in GCI Online.

Donation income is apportioned as noted in 5.7.

Following are various categories of donation income

3.1.1.1 General offerings received in the worship service. Congregations receive a general offering during each worship service. Such offerings are the primary source of donation income for most congregations. Usually such offerings are given with no restrictions (though see 3.1.3 concerning restricted donations). All offerings given in a meeting of the congregation become the income of that congregation whether the donor is a member of that congregation or not.

3.1.1.2 General offerings received by mail. Congregations receive general offerings by mail in one of two ways. First, offerings are mailed by a donor directly to the congregation. It is best that such donations be made using a check made payable to the name of the congregation and then mailed to a designated address (a post office box in the name of the congregation is best. Any offerings mailed to the congregation are then given to the lead counter and then are processed as part of the offering in worship services that week.

The second method for receiving offerings by mail is when the donor sends the offering to the denomination. If the donor is listed as an attendee (of any category) of a congregation, and unless the donor specifically directs otherwise, that offering will be transferred by the denomination to the congregation's account by electronic fund transfer (EFT). The denomination then logs that donation in the member's GCI Online record, notifies the congregation and receipts the donor. Such offerings are thus not included in the congregation's weekly donation log and are not receipted by the congregation.

3.1.1.3 General offerings received by a credit card transaction. Donors may make an offering to a congregation using a credit card. The denomination facilitates this method of making offerings by providing a centralized credit card offering processing service.

With this service, the denomination makes all credit card transactions and then deposits the full amount of such donations by EFT into the bank account of the appropriate congregation (see below). The denomination also logs credit card donations in GCI Online donor records and notifies the appropriate congregation of the EFT.

Credit card offerings may be made in a number of ways. They may be given in a worship service when a donor fills out and signs the credit card section on the offering envelope tab. These tabs are separated by the counting team from the rest of the offering and mailed to the denomination for processing. The local account of the receiving congregation is then credited.

Credit card offerings may also be made by mail sent to the congregation or to the denomination. When received by the congregation, they are sent to the denomination for processing where they are then credited to the receiving congregation. When received by the denomination, they are processed by the denomination and credited to the home congregation of the donor (unless the donor specifies otherwise).

Credit card offerings may also be made automatically each month. With this system, a donor requests that their credit card be debited each month for a regular pre-determined amount. This procedure is initiated when a donor notifies the denomination of their desire to participate in this automatic giving system. The denomination processes these credit card transactions as noted above and deposits the donation amount with the donor's home congregation (unless the donor directs otherwise).

3.1.1.4 Special offerings. From time to time congregations receive non-earned (donation) income through special offerings that are in addition to and apart from the general offerings received in the ways noted above. These special offerings are usually for designated purposes and are thus classified as restricted (see 3.1.3).

Examples of special offerings include an offering to support a particular ministry of the congregation (such as member assistance or children's ministry) or to support an external parachurch ministry (such as an evangelistic association or relief agency) or to support another GCI congregation (domestic or international). All special offerings (with the rare exceptions of pass-through offerings noted in 3.1.1.5 and special offerings given toward a short-term capital campaign to raise money to build or purchase a church building—see 5.7.2 and 9.2) are processed in the same way as general offerings: They are received by the congregation, are deposited in the congregation's bank account, are credited to the donor's GCI Online record, are receipted to the donor, and are (with only limited exceptions—see 5.7.2) apportioned (see section 3.1.3 concerning apportionment of restricted offerings).

The income derived from any special offerings is accounted for using the local records system and expended in accordance with the particular designation for that offering.

3.1.1.5 Pass-through offerings. In rare (most usually in disaster) circumstances, a congregation may receive what is referred to as a pass-through offering. This limited category of special offering is usually received in a worship service separate from, and thus over-and-above, the regular weekly offering.

Pass-through offerings are not credited by the congregation to the donors using the GCI Online records system, are thus not receipted to the donors by the congregation, and are thus not apportioned by the denomination. In this way, a pass-through offering is 'passed through' in its entirety to an outside non-profit agency or ministry (which may include a denominational ministry or another congregation of GCI) where the offering is expended for the designated purpose and where the receiving agency or ministry is responsible for receipting the donors when the individual donors are identified. See section 4.1.8 with regard to making contributions to outside ministries.

Examples of pass-through offerings are as follows:

1. An outside, parachurch ministry makes a presentation to, or performs for, a congregation during its worship service and there is a special offering received in support of that ministry. In such circumstances, the special offering is received directly by that organization (or individual) and is therefore not banked or otherwise processed by the congregation. An example of this type of pass through offering would be a 'love offering' to a visiting music group that had otherwise donated their services to the congregation.

2. In response to a significant disaster (such as a hurricane) a congregation receives a pass through offering within a worship service or other assembly. Such an offering may be received and disbursed in a couple of ways. First, individual checks may be written out to the receiving ministry or individual and then (along with any loose cash and coin) passed along from the congregation to the recipient. The recipient, if they wish to, then receipts the identified donors directly.

3.1.2 Fundraiser income

Unlike donation income that is *unearned*, fundraiser income is *earned* income derived from programs that involve the sale of goods and/or services or the paying of volunteers by an outside organization for labor given. Examples of fundraisers include fruit sales, candy sales, yard sales, car washes, department store inventories, phone book distribution and the like.

Fundraiser income is not to be confused with the income derived from special offerings. Money received through fundraisers is deposited in the congregation's account out of which the costs of the fundraiser are paid. The 'profit' from the fundraiser then becomes part of the congregation's *general* income except when the fundraiser is advertised to raise money for a *designated* purpose (see 3.1.3).

Occasionally a person decides to simply give money to the fundraiser rather than participate in the fundraiser (in the case of a fundraiser which provides services such as an inventory event) or rather than buy the item that is the subject of the fundraiser (such as purchasing candy). Normally, this money is simply added to fundraiser income, no receipt is given and the money is not apportioned. However, if the party wants a receipt, then the income is really "donation" income and the money must be entered into the GCI Online system and is apportioned. Receipting such "donations" creates somewhat of a bookkeeping burden and so some congregations may wish to avoid offering receipts in such cases.

3.1.3 Designated (restricted donations) income

Income is said to be "designated" when the donor specifies that it is being given for a specific, limited (and thus "restricted") purpose. All such restricted donations are credited to the individual donor in the GCI Online system (or to the 'anonymous donor' account if given anonymously) where the donation is apportioned.

Note that apportionment of restricted offerings is not a contravention of the donation's designation since apportionment constitutes the administrative cost associated with administering all donations (restricted donations included). Most charitable organizations apportion restricted funds in order to pay for the natural administrative cost involved in ministry. The net amount of a designated donation (net after apportionment) must be accounted for in the congregation's local records in an appropriately designated account category and then used only for the designated purpose(s).

Due to these additional requirements it is thus generally best that fundraisers and requests for special offerings be for general (rather than designated) purposes to simplify accounting and to maximize flexibility in spending such funds. If money is raised for a designated purpose, that purpose should be stated to potential donors or fundraising participants, but in the broadest way possible to maintain flexibility. For example, rather than saying that funds are solicited for a specific age group to attend a specific church camp, it might be better to say that the funds are being raised for children and teen ministry in general.

At times, a member may seek to supersede the congregation's spending plans by restricting their donation to a specific purpose which the congregation's leadership may not wish to support at that time. In such cases, the treasurer or lead pastor might speak with that donor and tactfully explain why a designated donation may not be in the congregation's best interest and encourage the donor to give a general offering in support of another specific area as appropriate.

Note: The IRS does not consider donations designated to assist specific people as tax deductible for the donor. Donations to assist people should be given to a general member assistance (benevolence) fund, not restricted to a specific individual.

Avoiding designated donations as a general rule is important for all donations, not just cash donations. A member might, for example, donate a parcel of land to the congregation (see 3.1.5). If the donation came with a stipulation that the congregation must build a church building on that property, the congregation may be unable to sell the property to raise money to build at a more appropriate location.

3.1.4 Investment income

Where income exceeds that necessary to meet short-term needs, excess funds may be invested. There are a number of vehicles available for safely investing congregational funds, including interest bearing checking accounts, money market accounts, certificates of deposit (CD's), bond funds and mutual stock funds.

The lead pastor and finance committee should develop a basic investment strategy that would be reviewed with the advisory council. That strategy should be summarized in a written policy statement for all members to read. In formulating the strategy, the leadership should give top priority to preservation of capital (safety) and liquidity of funds (availability).

> If large amounts of money are to be invested, the lead pastor or treasurer should first consult with the denomination's legal department.

3.1.5 Non-cash charitable gift income

Another type of congregational income involves contributions of non-cash items including land, stocks, sound systems, chairs, building materials, etc. Although such items are not liquid (spendable like cash), they can be of significant financial value to a congregation. When a congregation is contacted by a donor concerning a substantial non-cash gift, the congregation should contact the denomination's accounting department for assistance in receiving and receipting the gift and (if appropriate as in the case of a contribution of stock) in liquidating the gift.

The Internal Revenue Service places certain reporting and receipting restrictions on non-cash charitable gifts. For such gifts valued at less than $250, the gift must be substantiated with a receipt that lists the donor's name, the congregation's name, date and location of the contribution, and a description (but no assigned value). Such receipts should be issued at the time the donation is given (see the online sample donation receipt form).

Other requirements are in place for non-cash donations valued at greater amounts—refer to IRS publications for actual requirements and consult with the denomination's accounting department concerning all proposed donations of real estate and stocks.

3.1.6 Bequest income

Members (or affiliate members) often wish to donate from their estate at death to Grace Communion International as a denomination and/or to their local (chartered) Grace Communion International congregation (local church). Such donations are usually made through a will, or sometimes through a trust or other testamentary instrument. In order to fulfill the members' intent in such bequests, while also avoiding legal problems, the denomination has the following policies and services that apply in the case of all bequests.

3.1.6.1 Role of pastors and other congregational leaders in assisting with bequests

Under NO circumstance is a pastor to help a member write their will, nor should the pastor ever be a witness to or executor of a will if it names the congregation or the denomination as a beneficiary. Members are to be referred to the denomination's legal department for assistance in ALL cases concerning consultation related to writing or administering wills.

Pastors and other congregational leaders are to carefully avoid discussing such matters with members, even if approached by a member asking them to do so. Note that referral to the legal department means asking the member themselves to contact the legal department, rather than making contact on their behalf.

The reason for this policy is to help congregational leaders and members avoid legal problems, including the charge that local church leaders exercised "undue influence" over a member in deciding to whom a gift should be left, and how much the gift should be. The unhappy result of a challenge to the will which succeeds in demonstrating such problems is to invalidate the gift to the church in whole or part.

In order to ensure that wills are properly probated and trusts properly administered (and thus bequests to the church properly distributed), pastors are to contact the legal department themselves concerning wills and trusts in the following circumstances:

1. They learn that a member or affiliate member has named the denomination and/or a congregation in their will or trust.

2. They are notified by an executor of a will (or trustee of a trust) that the congregation and/or the denomination is to be the recipient of a bequest.

3.1.6.2 Distribution of bequests to the church

Bequests made to the church (the denomination and/or a congregation) will be distributed to the entity (entities) named in the will or trust in accordance with the plain language of will or trust that identifies the beneficiary. For example, if the will says a gift is left to "my local congregation of Grace Communion International" or specifically names the local congregation using the name on its Charter, or uses the city or address of the local congregation to identify the beneficiary, the entire gift will go to the local congregation. If the will or trust leaves the gift to "Grace Communion International whose address is Glendora, California," or uses similar wording, the entire gift will be deemed to be given to the denomination.

Note the following concerning such distributions:

1. If the will or trust says that a bequest is to go to a GCI 'congregation' (local church) but a specific congregation is not named, the bequest will be given to the GCI chartered congregation where the person was listed in the official (online) member records as either a member or an affiliate member at the time of death. If the person is not listed as a member or affiliate member in a congregation at the time of death, or is listed as a former member or former affiliate, the congregation's portion goes to the denomination.

2. All bequests given to a GCI congregation are to be posted to the member record of the deceased person. The donation should be recorded to the fund called "Estate Donation," where it will be apportioned by the denomination at the standard rate for donation income.

3.1.6.3 Bequest services provided by the legal department

When contacted by a member, pastor, executor or trustee concerning a will or trust, the legal department will offer advice in ways that exercise appropriate legal safeguards for the member, the leaders of the member's congregation, and the denomination. Advice and assistance offered include the following:

1. Providing members with information about how to make a will in general.

2. Explaining to members the options they have for naming their congregation and/or denomination in their will. Such explanations will include offering the correct language that should be used in their will to clearly specify the amounts or percentages they wish to bequeath to their congregation and/or denomination.

3. Coordinating the processing of bequests from members to the church (congregation and/or denomination) following the member's death. The legal department will work to ensure that the bequest is received and then distributed as specified in the will. This work will involve steps taken on behalf of the congregation and/or instructing the pastor on how to take certain steps themselves.

3.1.7 Special event income

Occasionally, congregations host special events that generate income from registration and/or user fees. It is generally best that this income and its related expenses be accounted for separate from other income types (see 4.1.6).

A separate checking account may be used to segregate special event income and expenses from other funds, but generally it is best to bank and track event income and expenses using the congregation's regular systems. A particular concern in managing special event finances relates to shortages or overages of event funds. To provide for such eventualities, those paying for the event must be informed as to how any shortages will be made up and how any overages will be disbursed.

Shortages are normally made up by drawing from other congregational funds—usually the general fund. Overages are normally disbursed by reimbursing the participants (if the overage is significant) or (if insignificant) by transferring the overage to another congregational fund—usually the general fund.

3.1.8 Unrelated business income

Congregations are generally not subject to the filing of income tax returns or the payment of income tax on its income from sources such as donations, interest/dividend income and wills. This freedom from income tax is not absolute. Churches are subject to the filing of tax forms and the paying of tax on what is known as "unrelated business income" (UBI). The tax is known as "unrelated business income tax" (UBIT).

The general rule is that a non-profit organization otherwise exempt from income tax must report and pay taxes on net income from a "trade or business" which is "regularly carried on" and is not "substantially related to the performance of the exempt organization." Numerous pitfalls await congregations not aware of the UBI rules. These rules are complicated, counterintuitive, and seemingly not always consistent. This makes it possible for a congregation to unwittingly generate UBI when it does not intend to do so.

For example, renting a local church-owned hall to a third party might not generate UBI if it is rented without personal property or without personal services, but may generate UBI if the hall is rented with personal property or with some support staff. Another example would be that renting just the hall to someone might not generate UBI if the hall is fully owned without a mortgage, but renting the same hall to the same party might well generate UBI if the hall has a mortgage on it. A third example might be the case where selling something as a fundraiser might not generate UBI if carried on only for a week or two by volunteers, but might generate UBI if carried on year round with some personnel being paid. A fourth example might be where the production of a newsletter could generate UBI if it contains paid advertising, but would not generate UBI if it does not.

Contact the legal department for assistance in determining if an activity will generate UBI and thus UBIT liability.

Here are three reasons to avoid activities that generate UBI:

- Activities that generate UBI often divert the church from its primary mission.
- By avoiding activities that generate UBI you will avoid the need to file with the government income tax forms related to UBI. This helps preserve the confidentiality of church finances that are generally a private matter between the church and its members.
- The filing of such tax forms creates the technical possibility of an IRS audit that can be time consuming and expensive. Dealing with a governmental agency is never pleasant, even if it finds the church in perfect compliance.

Because of these issues, financial and legal advisors often encourage churches to not engage in activities that give rise to UBI. Although the denomination does not forbid its congregations from engaging in such activities, it does recommend against the practice.

If a congregation intends to generate UBI, the denomination <u>advises</u> it to keep the required accounting records, file all necessary forms with the IRS as the circumstances may require, and otherwise be prepared to ensure compliance with applicable laws. Furthermore, the denomination <u>requires</u> congregations that incur UBIT and are required to file a tax return, to send a copy of that return to the GCI Treasurer's office.

Unrelated business income (UBI) is a form of special event income (see 3.1.7) and is thus not subject to apportionment. In fact, it is imperative that UBI not be apportioned so that the denomination never receives apportionment income from the UBI of its congregations. The reason is to protect the denomination from exposure to UBIT incurred by local churches. In order to insure this protection, congregations are required to deposit any

UBI in a bank account that is separate from the one(s) where apportionable income is deposited.

3.2 DONATION PLEDGES

To supplement year-round, on-going efforts to encourage good stewardship among members, congregations may wish to use an annual donation pledge system (often referred to as a "faith promise" system). Such a system may help encourage consistent and generous donations and provide a useful way to project congregational income. When a pledge system is used, it is the policy of the denomination that pledges be considered *non-binding.*

3.3 OFFERING ENVELOPE SYSTEM

To effectively and accurately process donations, the use of offering envelopes should be facilitated and promoted. Such envelopes are purchased by the congregation and supplied to regular donors. Recommendations for printers who supply offering envelopes can be obtained by emailing treasurer@gci.org. Envelopes can also be obtained from most Bible book stores and from various online supply companies. The denomination provides offering envelopes to congregations that use centralized processing.

3.4 RECEIVING THE OFFERING

Giving an offering is an act of worship and thus offerings should be received in church services in ways that are worshipful and that involve all present including children. Once the offering is received, the offering baskets (or plates) should be given to a member of the counting team, who should put them in a safe place until counting occurs. That place might be a table in front of the speaker where everyone can view the offering throughout the service or it might be a locked room nearby. If the offering is put in a room where it is not visible to the congregation, two people should do this together to avoid the opportunity and the impression that any one person could take cash from the offering basket.

3.5 COUNTING AND DEPOSITING THE OFFERING

Each offering is counted and deposited by the counting team, which is supervised by and accountable to the lead counter. The offering is normally counted shortly following the worship service and is to be counted by at least two counting team members (one may be the lead counter).

Counting should be done in a private and reasonably secure location where adequate counting and banking supplies are available.

Such supplies include a bank bag for transporting and depositing the offering, deposit slips, adding machine, rubber bands, paper clips and forms for tabulating the offering. See forms posted at http:/gci.org/go/finforms**.** A copy machine or scanner is helpful, though carbon paper is still a simple way to make required copies of forms.

Following are the basic steps for counting and depositing the offering. These instructions involve two counters and assume use of standard GCI offering envelopes with information tabs. If more than two counters are used, or other envelope systems are used, these procedures will need to be modified accordingly.

1. The counters divide the offering gathered in the worship service into three groups: offerings in envelopes, loose cash and coin, and loose checks. These groups are kept separate from any offerings received by mail. Offerings received by mail are processed with the regular offering as noted below, but the amounts are kept separate for reporting purposes.
2. Counter A counts the loose cash and coin and enters the total of that count in the "anonymous donor" category on the donation log.
3. Counter B re-counts the loose cash and coin and verifies that the total entered on the donation log is correct.
4. The counters fill in an offering envelope tab for each loose check (blank tabs are taken from unused envelopes). Information used to fill in the tabs is taken from the donor's check. The filled in tab and the check are then placed

inside an offering envelope and added to the pile with the other offering envelopes.

5. The counters open all offering envelopes, note the name on the tab and stack the envelopes in alphabetical order.
6. Counter A processes each envelope, one at a time, using the following steps:

- Remove the contents of the envelope including its tab.
- Verify that the total written on the tab agrees with the total found in the envelope (including checks, cash and/or coin).
- Initial the tab to confirm this verification. If there is a discrepancy, change the amounts noted on the tab, initialing any such changes.
- If the offering contains cash and/or coin, write the total amount of cash/coin on the tab; circle that amount and label it with the word "cash."
- Stamp any checks with the restrictive ("for deposit only") endorsement stamp.
- If the information on the tab is incomplete or illegible, complete that information from information shown on the check.
- Write the total amount of the offering in each envelope on the **donation log** (posted at http://gci.org/go/finforms) next to the donor's name (exclude any offerings given by credit card as noted below). If the donor's name is not already listed on the log, transfer the name from the tab to the log.
- For any offerings given by credit card, separate such envelopes (with their tab) from the other envelopes and stack them separately. Credit card offerings are NOT posted on the donation log; however, they are to be included on the weekly donation report. After the counting operation is complete, offering envelopes (with tabs inside) that were used to make credit card donations are to be given to the lead counter who will mail them to the home office for further processing. All such mailings are to be made in the green envelopes provided by the home office and sent to:

  Grace Communion International
  P.O. Box 5005
  Glendora, CA 91740-0730

  Additional green envelopes may be obtained by emailing member.services@gci,org. Be sure to include your mailing address with the request.
- If the tab in an offering envelope is blank and there is no check to identify the donor, credit the donation to "anonymous donor" on the log.
- Return the contents of each offering to its respective envelope and give the stack to Counter B.

7. Counter B verifies the work of counter A by removing the contents of each envelope, verifying that the amounts of check, cash and coin in each envelope match what is written on each tab. This verification is then confirmed by initialing the tab.
8. Following this verification, the contents of the envelopes are separated into stacks of tabs (placed in alphabetical order for ease of future reference), checks, coins and cash.
9. As the offerings are being processed, the counters check to determine if any donation is designated for a specific (restricted) purpose. If so, such restricted amounts are noted under "fund type" on the donation log and on the weekly donation report. If the congregation does not have a specific fund for the designated purpose, the check with its envelope tab should be given to the treasurer for clarification and/or possible return to the donor for redirection.
10. As the offering is being processed, the counters check to see if any checks have a wrong payee, wrong amount, are post-dated, etc. If the donor can be contacted at that time to correct or rewrite the check, it can be deposited immediately. If the counting team cannot contact the donor immediately, the check will need to be given to the treasurer who will contact the donor and ask that the check be reissued for deposit with a future offering.
11. The counters fill out a **bank deposit slip** noting the total amount of all checks (from both offerings received in the worship service and in the mail) and of all cash/coin. One counter checks the math of the other. Note**:** at the discretion of the lead counter, a member of the counting team may write a personal check, made payable to 'cash,' to cover the loose coin and cash in the offering, depositing that check instead of the cash and coin. This pro-

cedure may be used so long as the amount of the check is verified by a second counter.

12. The counters fill out the **weekly donation report** (posted at http://gci.org/go/finforms) noting totals of all checks received in the offering; cash/coin removed from offering envelopes; loose cash/ coin, credit card offerings, and the grand total of the offering.
13. The counters check the math on the donation log, the weekly donation report, and the bank deposit slip, verifying that all three agree.
14. The counters give a copy of the weekly donation report to the lead pastor and give the envelope tabs, donation log and weekly donation report to the treasurer (or financial secretary) who then logs the donation amounts into the online records and files these forms for safekeeping. Empty envelopes are discarded.
15. The counters place all checks, cash/coin and bank deposit slip in a bank bag that is sealed and safeguarded until deposited at the bank. If this deposit does not occur immediately, the bank bag must be locked in a safe or otherwise protected until taken to the bank.
16. A member of the counting team or another member of the financial team may take the sealed bank bag to the bank for deposit. This deposit should be done as soon as possible after the service and all the contents of the bag must be deposited—loose cash or coins in the bag must not be used to pay for expenses. Checks must be stamped for deposit only. Never cash a donation check to obtain cash or have a "less cash" deposit of any sort. Any deposit receipts received should be given to the treasurer.

3.6 RECEIPTING DONATIONS

The treasurer (or financial secretary) issues donation receipts to each donor using the standard GCI Online system (refer to the GCI Online System Manual posted online). The IRS requires that such receipts be issued at least annually, but the recommendation of this manual is that receipts be issued at least quarterly (some may wish to do so monthly).

Receipting is not only important for donor's records; it helps encourage regular and generous giving. This is particularly true of new donors who are developing new giving habits. Donors tend to give more when they see that their donations are appreciated and used for meaningful purposes. For that reason it is helpful to include on or with the donation receipt a brief note of thanks and explanation of how the donations are being used to advance the congregation's disciplemaking mission. Such explanatory receipts also serve as a reminder that it may be time to make another donation.

3.7 ALTERNATIVE CENTRALIZED DONATION PROCESSING SERVICE

As an alternative to local counting, depositing, recording and receipting of donations, the denomination provides a *central donations processing service*. Congregations pay a processing fee to the denomination for this service, over and above the standard apportionment (see 4.2.2.1).

If a congregation uses this service, the congregation receives offerings locally in the regular manner and then packages and sends them to the home office where denominational staff open and count the offerings, post donation amounts to the online records, deposit offerings in the congregation's local bank account (by electronic funds transfer) and receipt donors monthly and annually.

Following are questions and answers related to this central processing service.

Q: When should we send the offerings to the home office?

A: They should be sent in within a few days after they are received by the congregation. *Do NOT* hold them to batch offerings into one mailing.

Q: How should we prepare an offering before sending it to the home office?

A: The lead counter (or whoever is assigned to prepare the offering) should gather any loose change and cash in the offering basket/plate and then remove any coin from individual offering envelopes (*do NOT,* however, remove cash from offering envelopes). A check for the total amount of this coin and cash should be made out to "Grace Communion International" and sent with the offering envelopes to the home office. This check should be written on the congregation's local account into which the loose coin and cash is then deposited. The home office will then deposit that amount of money into the congregation's account in the next electronic funds transfer.

Both the check and the reimbursement deposit should be recorded in the local accounting records. If the treasurer does not want this transaction included in the standard financial reports (since the transaction 'zeros' out), give these transactions a special class or income category that would then be excluded from such reports.

Q: How should offerings received locally be sent to the home office for central processing?
A: The congregation uses one of the following two methods. If the congregation wishes, it can submit its postage costs to Church Administration and Development for reimbursement.

Method 1 (mail individual offering envelopes)
Use this method to send in less than 10 offering envelopes. Use the pre-addressed labels provided to the congregation by the home office to cover the scripture on the front of each standard offering envelope. These labels are printed with GCI's direct mailing address:

Grace Communion International
PO Box 5005
Glendora, CA 91740-0730

- If you need more labels, contact member.services@gci.org, or print them yourself.
- Place the appropriate postage stamp on each envelope.
- Please do not pre-open any member donation envelopes for any reason or combine several offerings in one envelope.
- Put a return address on each envelope with your church number and the mailing address for your church (usually a PO Box). If your church does not have a mailing address, please use the treasurer's address.
- Mail your offerings at a Post Office. Do not drop them off at a mailbox.

Method 2 (batch individual offering envelopes and mail them together)
Use this method to send in 10 or more offering envelopes.

- Bundle the individual offering envelopes together and send them to the home office via the US Postal System (USPS) using the Priority Mail Forever Prepaid Envelope provided by the home office.
- To obtain a supply of these prepaid envelopes, contact member.services@gci.org or call (800) 924-4644 and request that Priority Mail Forever Prepaid Envelopes be sent to you at the address you provide.
- These prepaid envelopes are ready for mailing—prepaid and preaddressed. This means you do not need to fill out any paperwork in order to make the mailing to the home office.
- Here are three ways to submit the prepaid envelope to the U.S. Postal Service for mailing:
  - Preferred method: Take the envelope to any US Postal Office and have it scanned. You will receive a receipt with the tracking number on it.
  - Write down the tracking number or take a picture of it. Take the envelope to any US Postal Office and place the envelope in a mail slot inside the building. You will not get a receipt, so save the tracking number.
  - Contact the USPS and they will come to your location and pick up the envelope. To arrange this pickup, go to: https://tools.usps.com/go/ScheduleAPickupAction!input.action and fill in the appropriate fields. You will receive a receipt with a tracking number (please choose the free option, the home office is unable to reimburse for specific time pickups).

Q: How long is it between when a bundled offering is received at the home office and when the amount of that offering is deposited in the congregation's local account?
A: Offerings received by the denomination for processing are deposited into a congregation's bank account by electronic funds transfer on or

about the fourth working day of the following month.

Q: Must all the donation checks in the local offering be made out to Grace Communion International?

A: No. The home office is able to deposit such checks when they are made out to the name of the congregation or to GCI. It is helpful, however, if the name 'GCI' appears on the payee line.

Q: What happens to designated (restricted) offerings that are processed centrally?

A: All offerings received by the home office are processed by the home office—designated offerings included. But still the designation must be respected, so the home office notifies the treasurer of the donor's congregation of the designation (restriction). The treasurer must then keep records of this designation and see that the funds are expended accordingly (or have the donor agree to remove the designation/restriction).

CHAPTER 4
HANDLING EXPENSES

This chapter examines the two categories of expenses generally incurred by GCI-USA congregations:

1) **Congregational expenses.** This expense category involves such general costs as hall rent, payroll (salary and benefits for paid pastors) and ministerial expenses including mileage reimbursement.

2) **Apportionment.** This expense category involves payment from the congregation to the denomination for certain congregational and denomination costs.

4.1 CONGREGATIONAL EXPENSES

Certain general expenses are incurred by and paid for by the congregation from its deposited funds. Following is a discussion of some of the primary congregational expenses.

4.1.1 Payment of wages and fringe benefits for independent contractors and employees

Though most individuals who serve within a congregation do so as volunteers, some are paid for those services. Payment arrangements vary depending on whether the individual serves the congregation as an independent contractor or as an employee.

Independent contractors may sometimes be individuals, but are usually companies. Either way they usually perform some service for the congregation while also providing similar services for numerous other clients. Independent contractors contract directly with the congregation and are paid directly by the congregation out of its local account. Before making any payments to an independent contractor, have them fill out IRS form W-9. Keep this form on file with other vendor records. This form will help you determine at year end if a 1099 is needed and where it should be sent. Forms can be found at http://www.irs.gov/uac/Form-1099-MISC,-Miscellaneous-Income-

Employees are individuals who usually provide their services to a particular congregation (or church circuit) exclusively. Employees are hired through the denomination's human resources department and are thus employees of the denomination. They are then assigned to serve within a specific congregation or church circuit.

Deciding whether to hire someone as an independent contractor or as an employee involves many complicated factors including those set by Federal and/or State law. Usually the decision is dictated by law and is thus not a matter of choice.

Hiring someone as an independent contractor when they are really an employee under the law can be a costly legal and financial mistake for the congregation. Hiring someone as an employee but ignoring the numerous employment laws can likewise be costly. Employment laws include requirements concerning minimum wage, overtime, and so called "exempt" employees. Note that churches are NOT exempt from most of these laws; to the contrary, they are sometimes subject to extra requirements that apply only to churches.

If a congregation wishes to hire a company (say for janitorial services) as an independent contractor, they may do so with no review by the denomination so long as that company is a bona fide business, has several other clients, and the contract for services does not otherwise require review by the legal department (see 9.3.2). However, when the congregation wishes to hire an individual or a company with few or no other similar clients, they are to contact the legal department for consultation before proceeding.

If the decision then made as a result of the consultation is to hire the individual or company as an independent contractor, the congregation will contract directly with that individual or company. Payments under such contracts are made directly by the congregation out of its local account.

Note that in many circumstances, such payments must be reported by the congregation to the IRS using Form 1099 (see 9.1.1).

If a congregation wishes for a person to be employed to serve the congregation, the lead pastor should first contact the regional pastor for consultation. If proceeding is warranted, the pastor will be referred to the human resources department for further instructions related to employment (hiring procedures, salaried vs. hourly employee stipulations [such as time cards for hourly employees], employee benefits, etc.).

All employees (whether hourly or salaried), are paid using the denomination's accounting (payroll) service that, on a set day each month, transfers funds electronically from the employee's congregation to the denomination (see 5.8) to pay that employee's wage or salary and any fringe benefits. The denomination then handles all payroll processing including filing of tax forms, withholding for taxes, sending of payroll checks (or making a direct deposit to the employee's bank account), etc.

Note that electronic funds transfers for payroll cover the costs for the *previous month*. Since employees are paid in arrears, a congregation may need to pay for payroll after the date on which employment ends.

Questions about hiring independent contractors should be directed to the legal department. Questions about payroll for employees should be directed to the denomination's accounting office. Questions about hiring and pay/benefit levels for employees should be directed to the CAD office.

4.1.1.1 Payments to employed lead pastors.

In some congregations the lead pastor is employed by the denomination full or part-time and is referred to as an "employed pastor." In other congregations, the lead pastor is not employed by the denomination and is referred to as a "bivocational pastor."

Salary and fringe benefit levels for employed pastors are set by the denomination based on tenure, level of responsibility, experience and education, cost of living in the area of assignment, and various legal considerations. Employment policies are set forth in the *Employed Pastors Manual*.

If a congregation's leadership team wishes for their employed pastor to receive a salary increase or a bonus, they should discuss the matter, considering the congregation's finances and the pastor's performance and financial need. The congregation's treasurer would typically lead this discussion.

If the team's decision is to proceed, the treasurer submits to the denomination a **Salary/Bonus/ Honorarium Request** (using the standard form posted at http://gci.org/go/finforms).

If the request is approved by the denomination, the regular pay amount to the pastor will be increased accordingly, or if a bonus has been approved a check will be issued by the denomination's accounting office and sent to the pastor. To cover the amount of the pay increase or bonus check, the denomination will withdraw funds from the congregation's bank account using electronic funds transfer.

Note that final decisions regarding pay levels for lead pastors rest with the denomination. In making such decisions it considers various factors and policies including the congregation's budget (ability to pay), the lead pastor's job performance, established salary/benefit standards for lead pastors, cost of living considerations, impact on the congregation of the cost of the pastor's pension, etc. A detailed listing of ministerial salary criteria may be requested from the CAD office.

4.1.1.2 Honoraria for bivocational pastors.

Because bi-vocational pastors are not employed by the denomination for their service to the church, it is appropriate that a congregation give its bivocational pastor an occasional and modest financial gift (referred to as an honorarium). The amount of such honoraria average about $1,000, with a maximum of $2,500, and are given only once per year. If a congregation's leadership team wishes to give an honorarium to their bivocational pastor, they should discuss the matter, considering the congregation's finances and the pastor's performance and financial need. The congregation's treasurer would typically lead this discussion. If the team's decision is to proceed, the treasurer submits to the denomination a **Salary/Bonus/ Honorarium Request** (using the standard form posted at http:/gci.org/go/finforms).

If the request is approved by the denomination, a check will be issued by the denomination's accounting office and sent to the bivocational pastor. To cover the amount of the check, the denomination will withdraw funds from the congregation's bank account using electronic funds transfer.

At the end of the year, the denomination files form 1099 with the IRS to report the honoraria (copies of any such 1099's are sent to the appropriate pastor). Note that, despite reference in this section to these tokens of appreciation as "gifts" or "honoraria," they will be looked upon by the IRS as taxable income.

4.1.1.3 Payments to other staff.

Pay rates for employed congregational staff that are not lead pastors are determined by the denomination in accordance with Federal and State law and with input from the lead pastor to determine local needs and wage standards. The HR office can help the pastor in evaluating local standards. Employed staff may work full or part time. Salary and benefit levels (if benefits are offered) will be determined by the denomination in accordance with legal requirements and in consultation with the lead pastor.

4.1.1.4 Benefits. Fringe benefits (such as health insurance, life insurance and worker's compensation insurance) for employed staff, when provided, are paid for by the congregation using the denomination's payroll service. See the Employed Pastor's Manual for the benefits typically extended to lead pastors and paid for by the pastors' congregation.

4.1.2 Ministerial expenses

Each congregation *should* reimburse their lead pastor (or equivalent primary pastoral leader) for legitimate and reasonable ministerial ("business") expenses as set forth in this section.

Congregations *may* (as determined locally by the finance committee), reimburse other congregational staff members (co-pastors associate pastors, assistant pastors, pastoral team members, ministry leaders and other volunteers). Such reimbursements are to be made only as noted in the sections that follow.

4.1.2.1 Overall guidelines for reimbursing ministerial expenses.

In reimbursing the ministerial expenses of pastors and other ministers, the following overall guidelines apply. Complying with these guidelines will help to insure compliance with relevant IRS rules and regulations. The lead pastor (or equivalent) in the congregation has primary responsibility for understanding and then maintaining compliance with these guidelines.

Overall guidelines

1. A minister need not report on his or her tax return those expenses that are reimbursed by the church solely for the benefit of the church and for which the minister is required to and does account for to the church and which are charged to the church.
2. Accordingly, all property, goods and services purchased by the minister that are then reimbursed by the church, belong to the church and not to the minister.
3. Requests for reimbursement will be honored when they are submitted to the church treasurer using the standard expense report form(s), are filled out legibly and signed by the payee. The payee's treasurer will review and sign off on the request before it is paid.
4. Submit all such reimbursement requests within 30 days of the expense. Those submitted after 60 days will not be reimbursed as per IRS guidelines.
5. Only those expenses that fall within the approved annual budget limits will be reimbursed unless approved by the finance committee prior to the expense being incurred.

Receipts and documentation

1. Original receipts and documentation are required for all expenses over $25. When available, submit original receipts under $25. The church will review and store these according

to the records retention and destruction policy to substantiate the expense.

2. Always include on each reimbursement request a clear business purpose as to why each expense was incurred on behalf of the church.
    a. Good Example: “5/10-12 Regional Conference”
    b. Good Example: “Meeting w/ Mr. Smythe to discuss church plans”
    c. Bad Example: “July Expenses”
    d. Bad Example: “8/16 Breakfast”
3. When known, indicate the particular budget category associated with each expense item.

Typical reimbursement issues

1. Requests to be reimbursed for travel related business expenses require a date, location, and clear business purpose for each request. All travel expenses must be reasonable for that area. Excessive expenses might only be partially reimbursed.
2. When using a personal car for a business related trip, mileage is reimbursable in accordance with section 4.1.2.2.
3. When renting a car for a business trip, purchase damage waiver and liability insurance coverage to minimize liability risk to the church. Fuel purchased for the rental car is reimbursable, as are toll and parking fees.
4. The cost of meals while on a business trip outside your home are reimbursable in accordance with section 4.1.2.3.
5. The cost of tips in a restaurant or hotel are reimbursable if the amount is written on the bottom of the food or lodging bill.
6. When travelling, if you stay with someone in lieu of a hotel, you can present your host with a gift or meal valued at $75 or less, regardless of how long you stay. Please note the host, dates and location on your reimbursement request.
7. Goods or services purchased for church business purposes that are subsequently refunded by the vendor or funds advanced for a business purpose that are not used for that purpose must be returned to the church within 60 days.

Expenses that are not reimbursable

1. IRS regulations prohibit non-taxable reimbursement of expenses incurred by a spouse or other family member unless that person has a legitimate, distinct and properly documented business purpose for incurring said business expenses.
2. By GCI policy, the following purchases by a minister are NOT reimbursable: alcoholic beverages, repairs to or maintenance of a personal automobile, purchases of furniture for a home office, upkeep of personal clothing (such as dry cleaning), babysitting, and purchases of food when the pastor and his family are invited to a meal in a member's home or for contributions to potlucks/church socials.

4.1.2.2 Reimbursing automobile mileage

a) Reimbursing lead pastors

Lead pastors (employed or bivocational) *should* be reimbursed for mileage incurred for the following purposes (refer questions to CAD):

- Visiting members, affiliates and others associated with the congregation. This includes visits in homes, hospitals or other locations within the congregation’s area.
- Traveling from their homes to church services, Bible studies and other similar church gatherings.
- Traveling to non-church service activities (picnics, fundraisers, outreach projects, etc.) that are held within the congregation’s area.
- Traveling to teen and children's activities or educational conferences in the congregation’s area and elsewhere (trips outside the area should be pre-approved).
- Traveling to area/regional events and conferences for pastor training (such events are called by the regional pastor or by other denominational leaders).

From time to time, a pastoral leader may be asked to visit another congregation to preach, to participate in a church reunion/anniversary service, to conduct a funeral or wedding, or to visit to investigate a potential relocation. All such travel is to be reimbursed by the receiving congregation.

Reimbursement to the aforementioned pastoral leaders for the aforementioned types of business mileage may be made using either of two methods:

- **Reimbursing actual costs.**

Using this method, reimbursement is made for the actual costs incurred in making the business trip. Such reimbursement is to be limited to the cost of gasoline, oil, tolls and parking. If the congregation wishes to reimburse for costs in addition to these (such as for insurance, maintenance, depreciation, etc.) they should reimburse using the fixed rate per mile method below. To obtain reimbursement using this method, the requester submits to the treasurer a mileage log plus an itemization of costs with receipts. The requester should retain copies for their own records.

- **Reimbursing at a fixed rate per mile**.

Using this method, reimbursement is made for each mile traveled at the business rate specified from time to time (typically annually) by the denomination in conformance with the IRS ruling (this rate may be obtained by contacting the GCI Treasurer's office). This rate of reimbursement compensates for gasoline, oil, maintenance, depreciation, insurance, and related costs for operating an automobile. Tolls and parking fees may be reimbursed in addition to this at direct cost.

Note that under IRS rules, if a pastoral leader is reimbursed for business mileage using the fixed rate per mile method in the first year they put a car into service for the business of the church, they may then in subsequent years use either the fixed rate per mile method or the actual costs method. However, if they use the actual costs method in that first year, they may then be restricted from using the fixed rate per mile method in the years following. The full explanation of this rule is beyond the detail of this manual. See IRS publications for more information.

Note: in some congregations it may be necessary due to financial limitations to reimburse for mileage at a rate that is lower than the approved business rate. This is permissible, and the one reimbursed may be able to claim the difference as a tax deduction. Refer to IRS regulations.

To obtain reimbursement using the fixed rate per mile method, the requester submits to the treasurer a mileage log (see sample log forms at http://gci.org/go/finforms) along with other monthly expense reimbursement forms. The requester should retain copies for their own records. Following this procedure, including the standard mileage log posted, will keep the requester in compliance with the IRS's "accountable system" regulations, which require that the log specify the date, origin, destination, total mileage driven for each trip and the purpose of the trip. To help keep records straight, lead pastors of multi-congregation circuits should typically keep separate logs for each congregation served.

Note that there are certain income tax implications regarding mileage reimbursement and the location of a pastor's office(s). One set of stipulations applies if the office is in the pastor's home (and the approaches outlined in this section conform to this arrangement). But there is another approach if the pastor's office is in a church building (or other location away from the home) or if the pastor has operational offices in both the home and in a church building. Refer to IRS regulations.

b) Reimbursing other pastors and non-pastor volunteers.

Pastors other than lead pastors and non-pastor leaders (such as assistant pastors and ministry leaders) who are volunteers (i.e. NOT employed by the church), *may* be reimbursed by their congregation for mileage incurred in directly serving the church (as approved by policy set by the finance committee). Such reimbursements may utilize either reimbursement method noted in the section above, EXCEPT that when the fixed rate per mile method is used, the reimbursement rate is to be the charitable rate (which does not provide for depreciation) set by the denomination. When the actual costs method is used it may not include reimbursement for depreciation. Because depreciation is not included in either reimbursement method, it is permissible to switch methods from year to year. Note also that if in reimbursing for actual costs, the congregation wishes to reimburse for anything other than gasoline, oil, tolls and parking (such as insurance), the treasurer should contact the legal department for advice concerning applicable IRS restrictions.

4.1.2.3 General business expenses.

Lead pastors are to be reimbursed monthly by their congregation(s) for direct expenses incurred in conducting business related directly to their work of pastoring. Other staff, as determined by the finance committee, may be reimbursed for business expenses using similar procedures. Reimbursement for expenses as provided for here uses what the IRS refers to as an "accountable system." Using the expense worksheet and voucher provided to pastors by the denomination ensures compliance with IRS requirements. Completed documents are submitted to the treasurer each month along with appropriate expense receipts.

The monthly expense allocation (budget) is generally set by dividing the annual expense budget by twelve. This amount may be exceeded in a given month, but the annual limit must not be exceeded without revising the annual budget.

In accordance with zero based budgeting practices, unused expense allocations are not to be carried over from one year into another but may be carried over from one month to another within a given year. Monthly expense items that are reimbursable in accordance with current IRS guidelines and GCI policies are as follows:

1) Long distance telephone and internet access service. The IRS requirements related to reimbursement of long distance telephone (including cell phone usage) and internet access are complex and cumbersome. For that reason, it is the general policy of GCI to provide employed pastors with adequate income by which these pastors pay for these expenses themselves. Those lead pastors not employed by the church may be reimbursed for these expenses, but it should be noted that they must keep records that meet IRS reporting requirements including substantiation of the reimbursement with the full telephone and internet access bills and usage logs wherein private versus ministerial usage is differentiated.

2) Lodging and meals. Meals during same-day trips are not normally reimbursable expenses. Pastors do not generally need to make trips involving overnight stays, and thus lodging and overnight meal expenses are not normally reimbursed. If, however, there is a need for an overnight trip, lodging and business meals on that trip may be reimbursed if that type of expenditure is anticipated in the annual budget and can be accommodated in the pastor's expense allocation. This requirement helps provide a high level of accountability to donors and clear congruence with the congregation's mission.

Lodging on the road during travel to and from a regional conference (when such travel necessitates traveling more than 500 miles each way) is a reimbursable expense. Meals during this travel are also reimbursable.

Claims for such reimbursements must meet the specific rules of IRS Publication 463 (Travel, Entertainment and Gift Expenses), thus maintaining legal standards and a high standard of accountability. These guidelines require a record of the date, amount, location and business purpose for the expense. Also required are the names and business relationship of individuals present at a business meal.

3) Postage. The cost of postage for business mailing is reimbursable. The date, purpose of the postage expense and amount of each expense is needed to substantiate the expense. Rent for post office boxes should be paid directly by the congregation and not handled as an expense.

4) Office supplies and equipment. The cost of business supplies such as paper, staples, manila folders, ink cartridges, etc. is reimbursable. Purchases of capital assets such as filing cabinets, desks, etc. are generally not reimbursable. Repairs to office equipment, including computers, copy machines, etc. are reimbursable within the approved monthly budget

5) Books and Periodicals. The pastor may be reimbursed for the costs of purchasing books and professional periodicals that pertain directly to pastoring and as long as the expense fits within the approved expense budget. Date, purpose, amount of each expense and a list of the items purchased is needed to substantiate the expense.

6) Computer Software and Equipment. The denomination's Information Technology (IT) Department is able to advise and provide opportunities for purchases at a discount. There are significant advantages to purchasing hardware and software that integrates with the denomination's standards. Contact support@gci.org for pricing on software and hardware discounts.

Any property, including computer hardware or software, purchased with congregational funds is the property of the congregation. If primarily the pastor used a PC, it may stay with the congregation or be sold at fair market value to the pastor if a pastor resigns, is terminated or transferred.

4.1.2.4 Moving expenses. There are occasional circumstances that necessitate moving a lead pastor and his family. When such moves occur, moving expenses are to be reimbursed by the receiving congregation in accordance with the guidelines set forth in Appendix B.

4.1.2.5 Fellowship and worship events and children and teen camp expenses. From time to time, a pastor may be asked to serve in a specific assignment at a denominational fellowship or worship event or a children's or teen camp.

When this occurs, any expense incurred by the pastor is to be reimbursed from the budget for that event, not by the pastor's congregation (unless approved in advance by the finance committee).

Requests for such reimbursements should be made directly to the event coordinator or as otherwise designated by the coordinator using forms provided by the denomination.

4.1.3 Church hall costs

Another general congregational expense involves paying for facilities for the congregation to meet for worship and other congregational activities (Bible Studies, socials, etc). Whether renting or purchasing, all such facility costs (including utilities and certain types of insurance coverage) are paid directly by the congregation. The finance committee together with the advisory council and pastor should give careful consideration as to the type and costs of facilities needed.

Payments for facility costs are normally made monthly (other arrangements may be made) and should be made using the **Disbursement Request Form** posted at http://gci.org/go/finforms.

See 9.1.1 concerning requirements for reporting to the IRS payments to certain non-incorporated vendors (including for hall rent). Note that giving a landlord a regular "donation" in lieu of rent is generally considered by the IRS to be rental income that must be reported if that landlord is an individual or a non-incorporated organization.

Never make a hall rental check payable to the lead pastor or to another member of the congregation unless they are the building owner or rental agent.

4.1.3.1 Hall related insurance. Liability insurance is currently being provided by the denomination to cover all halls that are rented or leased by a member congregation. This coverage extends to damages caused during congregational use of the facility including physical damages and accidents involving a member or visitor (when such accidents are caused by negligence). Insurance on the contents of a building owned, rented or leased by a congregation is not provided by the denomination and must be acquired and paid for by the congregation (note that congregations may contact the denomination about purchasing such insurance through the denomination).

Contact the treasurer's office with any questions related to liability and property insurance coverage on buildings owned by congregations.

Most facility owners require proof of insurance coverage. The denomination provides a certificate of insurance through its insurance broker. The requesting congregation should use the form provided by the denomination. Specific questions about coverage or certificates should be directed to the denomination's insurance department.

4.1.3.2 Hall leases

4.1.3.2 Hall leases. Halls may either be rented on a month-to-month basis or be leased for longer durations. A lease may be best for controlling costs and ensuring availability, though leases vary in their provisions concerning cost increases.

> See 9.3.2 regarding signing contracts (including lease agreements) and legal department review of certain of those contracts.

4.1.3.3 Other hall costs. The congregation will also pay for various other facility-related costs including extra janitorial fees, fees for piano rental, chair rental, hall decorations, toilet paper, soap, etc. Such expenses need to be provided for in the annual budget.

4.1.4 Member assistance costs

Another type of general congregational expense involves financial assistance for needy members. Such assistance should be given only with appropriate forethought in accordance with standards and procedures worked out in advance by the congregation in accord with IRS requirements set forth in Appendix C.

4.1.5 Congregational ministries costs

A primary need for funding in a congregation relates to congregational ministries and related programs. Such ministries should be established in harmony with the congregation's values, mission and ministry strategy.

The types of ministries that congregations will need to fund are diverse and include discipleship classes and seminars, children and teen ministries, women's ministries, evangelism programs and support for missions that reach beyond the congregation itself. In budgeting for such ministries, don't forget incidental costs such as copying, purchase and repair of equipment, etc.

4.1.6 Special event costs

As noted in 3.1.7, congregations occasionally host special events that generate income and expenses. As with income, the costs for these events must be accounted for separately from other categories.

4.1.7 Sharing the lead pastor's payroll and ministerial expense costs in a circuit

Many congregations are led by lead pastors serving more than one congregation in a circuit. In such instances, congregations in the circuit share the cost of payroll (salary plus benefits) and the cost of the ministerial expenses of the one pastor.

Payroll costs for the pastor are divided between the congregations involved based on donation income levels. For example, if congregation A has an annual income of $40,000 and congregation B (in the same circuit) has an income of $50,000, then congregation A would pay 44% of the payroll costs and congregation B would pay 56%.

The denomination's accounting service uses this proportionate method to divide payroll costs unless instructed by the pastor of the churches in the circuit to divide the costs in some other way. The method for dividing the pastor's ministerial expenses should be determined by the pastor in consultation with the finance committees in each congregation in the circuit. The expenses may be divided on a proportionate basis (as with payroll costs) or may be allocated based on actual costs incurred for each congregation.

4.1.8 Contributions to outside ministries

When a congregation makes a cash donation to a ministry (individual or organization) outside of GCI, the recipient and the donation must conform to the following criteria:

- If the donation draws from the congregation's account, the amount must fit within the congregation's budget for such donations.
- If the donation is giving funds that were collected through a special offering or through a fundraiser, the purpose for that offering or fundraiser must be communicated to the congregation in advance. Since such donations are then designated for the particular use stated, they must be expended for that use only (see 3.1.3 concerning designated income).
- The beliefs and mission of the recipient ministry must be in harmony with GCI's beliefs and mission. This is because all donations received by the local church must be expended in accordance with the church's religious

purposes however broadly but legitimately defined.

- If the recipient is an organization located within the United States, it should be either a church or have a 501(c)(3) determination letter from the IRS.
- If the recipient is an organization outside the United States run by a U.S. based parent organization, the parent should have a 501(c)(3) determination letter from the IRS.
- If the recipient is an organization located wholly outside the United States, it should be a legitimate church or charity.
- If the recipient is a charitable program or organization run by a member of the congregation, note that all of the criteria in this section still apply.
- Donations must not lead to private inurement or private benefit (see 9.3.4 for more detail).
- Special care should be taken to confirm that the recipient organization is, indeed, not-for-profit and otherwise legitimate. Note that the name of an organization may be misleading (i.e. it could sound like a 501(c)(3) organization but actually be a for-profit entity).

4.1.9 Gifts/scholarships given to students for their education

From time to time a congregation may wish to give money (usually in the form of a scholarship) to help pay the cost of an adult or youth member's education. The congregation may wish to give such a gift to one student, or to a group of students. Although such gifts may be appropriate in some cases, it is important to note that the giving must meet certain legal criteria and, conversely, avoid certain legal pitfalls. Therefore, if a congregation is considering giving such a gift, they are urged to first contact the legal department for guidance.

4.2 APPORTIONMENT

A second category of expense incurred by congregations is the apportionment which is paid by each congregation to the denomination.

4.2.1 Use of apportionment income

The money raised through the apportionment system is expended by the denomination in two general ways:

1. For central denominational ministries and programs that provide the following for the denomination and its congregations:

- Unity and accountability in doctrine and practice.
- Ability to pool resources to pursue a shared disciplemaking mission.
- Participation in a world-encompassing fellowship with a shared history, culture and network of relationships.

2. For goods and services that are directly used by congregations. By pooling their resources in this way, congregations obtain through the denomination certain goods and services that typically would cost more or would not be available to individual congregations.

The following services and programs are purchased (in whole or in part) through the apportionment system (note: this list is not exhaustive):

- Financial and accounting services including financial guidance for congregations, receiving and processing of congregational contributions sent directly to the denomination via mail, credit cards or stocks, and annual external audit of corporate finances.
- Legal services including legal advice and litigation expertise. This service is available to all chartered congregations.
- Human resource and payroll services related to the various tax, benefit and other needs for paid congregational and denominational staff.
- Computer support to assist congregations and denominational staff with computer needs and problems.
- Corporate records and archives management.
- Risk management insurance to protect congregations and the denomination with regard to liability issues.
- In-service education for lead pastors including national and regional conferences.
- Church Administration and Development (CAD) staff led by the superintendent of U.S. ministers. This staff supervises and trains lead

pastors, initiates and coordinates programs for use in all congregations, oversees leadership training, Generations Ministries, Church Multiplication Ministries, the GCI Intern Program, Ministry Coaching, etc.
- Regional pastors who serve as the local extension of CAD in supervising lead pastors.
- GCI's president who serves as the denomination's spiritual leader and administrative overseer.
- A media staff that produces videos and newsletters and manages the denominations various websites.
- The upkeep and administration of a home offices facility that houses centralized denominational operations.
- The funding of several "mission developers" who plant GCI congregations and train GCI pastors outside the U.S.

4.2.2 Cost of the apportionment

Congregations pay the apportionment monthly by electronic funds transfer to the denominational office. The amount transferred is a fixed percentage of the apportionable income received by the congregation during the previous month (refer to 5.7 regarding what income is subject to apportionment). **The standard apportionment is 15% of apportionable income.**

At least quarterly, congregations should publish a brief statement in their bulletin or newsletter to inform donors that all donations (including designated [restricted] donations and special offerings) given to the congregation are subject to apportionment. This statement can then refer people to the pastor or the treasurer for more detailed information including a copy of the denomination's annual audit report that shows how apportionment income is expended.

4.2.2.1 Increased apportionment for alternative centralized donations processing service.

As noted in 3.7, the denomination offers an alternative centralized donations processing service. The cost for this service is added to the standard apportionment. The additional cost is 5% of the congregation's apportionable income, bringing the total apportionment to 20%.

CHAPTER 5
PAYING THE BILLS

This chapter discusses standards and procedures related to disbursement of funds in payment of a congregation's financial obligations.

5.1 GENERAL GUIDELINES

Disbursements of church funds should be made in accordance with the following general guidelines:

- Except for minor disbursements from the petty cash fund and electronic funds transfers of payroll and apportionments, all disbursements should be made by check drawn on the congregation's bank account(s).
- Whenever possible, make checks payable to the vendor supplying the goods or services rather than to a member as reimbursement for a purchase they made 'out of pocket.'
- Always use pre-numbered checks (electronically produced checks are a permissible alternative) and record how each check is used even if it is voided.
- Be sure there is written documentation to support every check. Forms for this use are posted online at http://gci.org/go/finforms.
- Mark paid invoices as "paid" noting the payment date, check number and the account number(s) to which payment is charged.
- Record the purpose of the check and the account number(s) to which the expense is charged in the check register.
- Lead pastors and their wives may NOT be bank account signatories and thus they may not sign checks on those accounts.
- Never pre-sign checks.
- Never make a check out to "cash." It is permissible, however, to write a check to "petty cash fund" in order to replenish that specific fund.
- Checks should be written only when adequate funds are available to cover them.
- Never pre-date or post-date a check.
- Unused checks should be kept in a secure place to prevent theft, damage or misuse.

5.2 DISBURSEMENT AUTHORIZATION

All disbursements of congregational funds must be properly authorized. Such authorization is granted in a number of ways, depending on the type of disbursement (regular or non-regular) and the level of authorization required (by the treasurer alone or by the treasurer plus others):

5.2.1 Authorization of regular disbursements

Disbursements are considered to be ***regular disbursements*** when all of the following are true:
1) They occur regularly (monthly or quarterly).
2) They are for a generally consistent amount.
3) They fit within the approved annual budget for the department (ministry) making the purchase.

Regular disbursements include such things as regular hall rent, utility bills, pastor's payroll, pastor's ministerial expenses, monthly apportionment payments, annual payment for a yellow pages listing, etc.

The treasurer is automatically granted permission and authority to authorize such regular disbursements. No additional authorization is needed unless payment is being made to the treasurer or to a company in which the treasurer is involved (in which case the lead pastor must give authorization and the signatory on the check must not be the treasurer).

5.2.2 Authorization of non-regular disbursements

Disbursements are considered to be ***non-regular disbursements*** when they do not occur regularly and are for a fairly consistent amount. Non-regular disbursements include such things as the purchase of a computer, or a payment to a contractor to repair the roof of the church building.

The treasurer is automatically granted permission and authority to authorize non-regular disbursements when both of the following are true:

• The amount is less than $500.
• The amount fits within the approved annual budget for the department (ministry) making the purchase.

If one or more of these conditions is not met, authorization must come from both the treasurer and the lead pastor. Additionally, if the amount of the disbursement does not fit within the approved annual budget for the department making the purchase, the finance committee and the advisory council must review the disbursement prior to authorization being granted by the treasurer and the lead pastor.

5.3 PURCHASE AND DISBURSEMENT PROCESS

The entire purchase and disbursement process is to be carefully conducted and documented as follows. Note that different purchase circumstances call for different procedures that are to be fully documented. The standard **disbursement request form** may be used for this purpose (it is posted at http://gci.org/go/finforms). Other similar forms may be used by congregations at their discretion.

5.3.1 Authorization before the purchase

Advance authorization to make a purchase is preferable for most disbursements but is required when the disbursement is non-regular (i.e. when the purchase exceeds $250 and/or it does not fit within the annual budget for the department making the purchase). A requester seeks advance authorization to make a purchase by submitting to the treasurer a **request for purchase authorization** using the disbursement request form.

5.3.2 Payment for the purchase

Whenever possible, payment for a purchase should be made directly to the vendor. Such payments are initiated by submitting to the treasurer a **request for payment** using the disbursement request form. Purchase documentation provided by the vendor may be attached to provide additional backup.

Approval of a request for payment will automatically initiate the cutting of a check payable to the named vendor in the amount of the request. If the items must be paid for in advance of shipment or taking possession, the check can be mailed or hand-carried to the vendor in order to receive the goods or services.

However, if possible, the church requester / purchaser should set up a "billing account" with the vendor. With this arrangement, the vendor will give the purchaser possession of the goods or services and then later send an invoice or "bill" to the congregation for payment. Especially if a requester plans to use the vendor repeatedly, a billing account minimizes the number of checks cut, gives better control over the payment process and may qualify the congregation for discounts based on combined quantity purchases. Note: if applicable, always provide a vendor with tax-exempt information/ forms to avoid paying sales tax.

Following completion of the purchase, the requester must provide the treasurer with written proof that purchase and delivery have been completed. The signature of the requester on a sales receipt, an invoice marked "paid," and/or a delivery ticket is sufficient. The treasurer must retain all request forms, invoices and receipts so that there is a clear record of the entire approval, purchase and delivery process.

5.3.3 Reimbursement for purchases

In limited cases an authorized member may be reimbursed for 'out of pocket' purchases made on behalf of the congregation. As part of the annual budgeting process, the finance committee should determine who has advance authorization for such reimbursement. Authorization is usually limited to pastors, ministry leaders and finance committee members.

To be reimbursed for a purchase that involves a non-regular disbursement, the requester must have obtained advance purchase authorization using the disbursement request form on which the requester marks both **request for purchase authorization** and **request for reimbursement**.

Upon receiving from the requester proof of the completion of the purchase and delivery of the product or service (acceptable proof is a sales receipt, paid invoice, or delivery ticket, signed and dated by the requester), the treasurer will confirm that the purchase conforms to the authorization granted and will cut a check to reimburse the requester.

To be reimbursed for a purchase that does not require pre-approval because it involves a regular disbursement, the requester should submit to the treasurer a request for reimbursement (using the disbursement request form) along with signed and dated proof of purchase and delivery.

Pastors may request reimbursement for their approved ministerial expenses by using either the ministerial expense form with mileage log or the disbursement request form (posted online at http://gci.org/go/finforms). The mileage log is used to back up requests for mileage expense reimbursements.

Authorized individuals may be reimbursed for small regular purchases directly out of the **petty cash fund** (see 5.6) in exchange for proof or purchase and delivery of a product or service.

Note that in all of these requests for reimbursement, the requester must provide proof of the purchase and receipt of the items claimed for reimbursement. Acceptable proof includes a sales receipt, or an invoice marked "paid", or (if applicable) a delivery ticket. In cases these documents are to be signed and dated by the requester. All such documents are to be filed by the treasurer along with the appropriate disbursement request form. Note also that all requests for reimbursement should be submitted to the treasurer no later than 60 days following the date of the purchase.

5.4 CHECK PREPARATION

When the required authorization is in place, the treasurer will cut a check for payment. The treasurer may sign such checks except when:

- The treasurer is also the lead pastor or the lead pastor's spouse.
- The check is made out to the treasurer, the treasurer's immediate family member(s), or to a company in which the treasurer has an interest (as an employee, owner, board member, etc.).

If the treasurer is not permitted to sign the check, another member of the finance committee other than the lead counter should sign (be sure that this person is included on the account signature card on file with the bank).

5.5 ACCOUNT TRANFERS

It is best to minimize the number of bank accounts to simplify management. Some congregations, however, will have more than one account. Transfers of funds between accounts should be made only with the treasurer's knowledge so that she/he may document such transfers in the appropriate financial records.

5.6 PETTY CASH FUND

A small amount of cash may be kept on hand to reimburse authorized members for small, emergency purchases. The finance committee should decide the amount to be kept in this fund and the maximum amount for any single reimbursement ($25 is the suggested maximum).

The petty cash fund should be managed as follows:

- Keep cash in a safe place accessible by only one or two people who manage the fund.
- The total of cash and receipts in the fund should always equal the original amount placed in the fund.
- Those responsible for petty cash should keep a record of disbursements (see the Petty Cash Voucher form posted online at http://gci.org/go/finforms). When the actual cash falls below a predetermined amount (i.e. $20) those responsible for the cash should total the disbursements and submit them, along with receipts, to the treasurer who will then cut a check made out to "Petty Cash" for that total to replenish the fund. The petty cash account manager then cashes the check and replenishes the fund.
- Petty cash should always be reimbursed to its full amount at the end of the calendar year.
- Record all petty cash expenses in the books.

5.7 FULFILLMENT OF THE APPORTIONMENT

The apportionment (see Chapter 4) is paid on a set day each month by electronic funds transfer from the congregation's bank account to the denomination's bank account. It is important that the treasurer monitor the account so that there are sufficient funds on the day of transfer.

5.7.1 The congregation's income that IS apportioned is as follows:

- Donation income received in **regular offerings** in worship services or other church assemblies from any donor for any reason (general or designated offerings).
- Donations received in **special offerings** in worship services or other church assemblies or other means from any donor for any reason (with certain rare and limited exceptions for pass-through offerings as noted below).
- Donations (general or designated) received by **credit card** donation or by **mail** sent to the congregation from any donor or sent to the denomination for the benefit of the congregation by a donor listed on the congregation's member records.

5.7.2 The congregation's income that IS NOT apportioned is as follows:

- Pass-through offerings (a rare and specifically limited form of special offering—see 3.1.1.5).
- Income acquired through fundraisers (see 3.1.2). Note that income received through 'fundraisers' in the form of cash given by members and affiliates is considered to be donation income (not fundraiser income) and is thus to be recorded in GCI Online and apportioned. Note also that it is standard practice that 10% of fundraiser income be sent to the denomination as a donation to support central ministries.
- Special event income (see 3.1.7).
- Income acquired through a capital fundraising campaign that is a time-limited, intensive fundraiser with the express purpose of raising funds to purchase land for a church building or to purchase or construct a church building. Such income is NOT apportioned when the capital fundraising campaign has been pre-approved by the denomination and is being conducted in compliance with a plan approved in advance by the denomination (the denomination will assist the congregation in preparing and implementing this plan). Contact the CAD office for further details concerning the waiver of apportionment~~s~~ on donations made to pre-approved capital fundraising campaigns.
- GCI Intern Program funds raised by or for an intern accepted into the program through the sponsoring congregation and approved by the CAD office.
- Non-cash donations (as when products are donated).
- Interest and capital gains from investments.
- Donations received from another GCI congregation. Such donations come directly from the congregation (not from individual donors) and therefore have already been apportioned. Such donations are not posted using the online system and thus are not apportioned.

5.8 PAYMENT OF PAYROLL

As noted in 4.1.1, congregational staff members employed by the church (such as the lead pastor), are paid using the central payroll service provided by the denomination. Each congregation participating in this system will be set up for electronic funds transfer from the congregation's bank account to the denomination's bank account on a set day each month.

It is important that the treasurer monitor the account so there are sufficient funds on the day of transfer. If there is a problem with insufficient funds, the treasurer should contact Church Administration and Development at least three days prior to the scheduled transfer to arrange alternative payment and avoid bank fees caused by insufficient funds. If the draw to your bank account bounces you will need to send a check immediately, made payable to GCI for the draw amount plus the fees associated with the bounce, and sent to:

Grace Communion International
P.O. Box 5005
Glendora, CA 91740
Attention Accounts Receivable

CHAPTER 6
KEEPING THE RECORDS

This chapter sets forth policies regarding keeping the records ("books") of all financial transactions. Refer to the GCI Online and Quicken Accounting manuals for use of computer software.

6.1 RECORD KEEPING SYSTEMS

Records pertaining to income and disbursements are kept using two accounting systems that are integrated as noted in this section. Details concerning the software that supports these systems are provided in the GCI Online and Quicken Accounting manuals posted online.

The first system is a central records system referred to as 'GCI Online' which is accessed via the Internet at www.gci.org/online. This mandatory online system, which is password protected, is used by all congregations to keep member records (addresses, phone numbers, etc.), for recording all offering income and for producing donation receipts and for uploading Quarterly and Annual Financial Reports.

Note that congregations that opt for the central processing service have denominational staff handle the posting of donation income to GCI Online and the producing and sending of donation receipts from GCI Online.

Note that when donation income of any kind is received by the congregation (including donations received for an external ministry or outreach cause), it is to be recorded in GCI Online where it is to be credited to the individual donor's account (if the donor is an identifiable individual) or to the 'anonymous donor' category if the donor is not identifiable. If the donor is a company a business/company record should be created and the donation entered to that record.

Refer to section 3.1 concerning what constitutes donation income as distinct from fundraiser income. All donation income (including that derived from special offerings) is to be recorded in GCI Online, while fundraiser income is not.

The second system is a local records system in which each congregation records the offering income logged into GCI Online, records any fundraiser income and records all disbursements (bill-paying) from the local account. This information from these local records is then used to prepare the required financial reports.

These local records, at the option of the congregation, may be kept in a number of different ways. The denomination provides assistance to support the use of Quicken software for this purpose, but other software may be used, and some congregations prefer to keep them manually.

6.2 RECORD FILING AND RETENTION

Following are requirements for the filing and retention of various financial records.

- **Donation records** (envelope tabs, donation logs, deposit slips and donation reports) are to be bundled by month and kept for a minimum of seven years.
- **Disbursement records** (purchase orders, receipts, etc) are to be kept for a minimum of seven years.
- **Bank records** (cancelled checks, bank statements and reconciliation reports) are to be kept for a minimum of seven years.
- **Monthly and quarterly reports** are to be kept for a minimum of seven years.
- **Records relating to the acquisition and disposition of property** (real and personal, including investments) are to be kept for a minimum of seven years.
- The following are to be kept **permanently**: annual statement of financial position, articles of incorporation, legal documents relating to land and buildings (deeds, closing documents and abstracts), tax bills and other tax-related documents and insurance policies.

6.3 LOCATION OF RECORD STORAGE

Financial records should be stored in a secure (locked) and fireproof/flood proof location. Options include a commercial storage locker, or safe or file cabinet in the home of one of the members of the finance committee. In all cases, the treasurer should always have the combination or key to gain access. This storage should not be in the same location in which the congregation's computer files are kept to ensure that these records are kept separate.

6.4 BACKING UP COMPUTER FILES

Since most financial records are kept on computer, it is vital that those data files be backed up frequently. A suggested backup system is included in the *Quicken Accounting Manual.*

CHAPTER 7
RECONCILING AND REVIEWING ACCOUNTS

This chapter sets forth guidelines and requirements for the reconciliation and monitoring of financial accounts. These procedures are a vital part of the internal control measures set up in this manual.

7.1 RECONCILING BANK ACCOUNTS

The principal procedure for reconciling financial accounts in a congregation involves reconciliation of the monthly bank statement with the congregation's accounting records. This is to be done monthly using the following steps:

1) Have the monthly bank statement(s) with cancelled checks (if available) sent to the treasurer (or whoever keeps the Quicken disbursement records). The treasurer will review the bank statement and cancelled checks, looking for any discrepancies with the Quicken accounting records. If any are found, adjustments are made as set forth in the Quicken Accounting Manual posted online.

2) The treasurer then prints a **reconciliation report** using the Quicken software (see Chapter 8 and the Quicken Accounting Manual for directions). The treasurer then gives this report, along with the bank statement, to the account reconciler who must NOT be the same person who writes checks on the account (such as the treasurer) or who deposits money in the account (such as the lead counter or other member of the counting team). The account reconciler may be the lead pastor, the internal reviewer or other appropriately qualified member.

3) The account reconciler reviews the bundled documents to confirm they are in agreement and signs the documents indicating that they have been reviewed.

4) When the reconciler is satisfied that the records agree, the materials are returned to the treasurer for filing.

5) If the reconciler finds discrepancies in the records, the treasurer is contacted to reconcile discrepancies to the reconciler's satisfaction.

7.2 REVIEW OF ACCOUNTS

In addition to the monthly account reconciliation, the finance committee needs to arrange for the periodic review of the congregation's financial accounts. Such reviews should carefully examine procedures and controls in the system as well as the accuracy of all accounting information (see Appendix A for a detailed Review of Accounts Checklist).

Copies of all such reviews are to be submitted as noted in section 8.2.

Reviews of accounts are important for the following reasons:

- They help identify deficiencies in the financial system so they can be corrected before becoming bad habits.
- They help find new ways of protecting congregational assets.
- They help assure that financial records are kept accurate.
- They help protect financial assets from misappropriation.
- They help build trust in the financial management of the congregation.

Periodic account reviews are of three types: external, internal and surprise account reviews.

7.2.1 External account reviews

Each congregation should arrange for an external review of accounts once every three years using an **external account reviewer**. Normally a bookkeeper (an accountant is preferred) is hired from outside the congregation to conduct this review. As an alternative, neighboring congregations could trade with one another to provide external reviews using qualified members from another congregation. It is important that the person conducting the external review be familiar with the policies and procedures contained in this manual.

Note: an external review is to be conducted in the final year of the tenure of the lead pastor in order that all accounts are brought up to date and are confirmed by an external source.

7.2.2 Internal account reviews

Each congregation should arrange for an internal review of accounts each year. The finance committee, with the lead pastor's approval, appoints an **internal account reviewer** who should be a respected and trusted member who is an accountant or experienced businessperson familiar with account review processes. If enough such individuals are available in the congregation, the finance committee may wish to appoint an account review committee rather than one individual. In either case, the job of the internal account reviewer is as follows:

- Check to see that all monies received are handled according to the internal controls established by the congregation.
- Check to see that proper procedures are followed for the disbursement of funds.
- Check to see that all financial records are properly maintained.
- Check the treasurer's reports for accuracy.
- Submit a report to the lead pastor and finance committee outlining findings and listing any recommendations for change.

7.2.3 Surprise account reviews

In addition to regularly scheduled internal and external account reviews, it is advisable that financial records be examined from time to time on a non-scheduled "surprise" basis. Such reviews may be conducted by and at the discretion of the lead pastor, the treasurer, the regional pastor or other denominational staff. As a minimum, the finance committee should arrange for a periodic surprise (unannounced) review of the petty cash account. This procedure is important because cash is a constant source of temptation for theft and poor handling.

7.3 INVENTORY OF NON-CASH ASSETS

The annual review process should include an inventory of non-cash assets with <u>a value of $300 or greater per item</u>. Such items include sound equipment, furniture, books, sporting equipment, buildings, automobiles and other tangible assets owned by the congregation. For an example of using computer software in recording the inventory see the Quicken Accounting Manual.

Inventorying non-cash assets is important for understanding the complete financial situation in the congregation and helps in determining if any such assets are missing. Such an inventory is also valuable when there is need for an insurance claim as in the case of fire or theft.

The inventory should list each item and note its date of acquisition, cost of acquisition (estimated for donated items at fair market value), location and description. Note whenever items have been retired from service, traded in or sold. Any item greater in value than $1500 (and including all computer hardware of any value) should be marked with a tag that provides an inventory number and the name of the congregation.

CHAPTER 8
PREPARING FINANCIAL REPORTS

This chapter presents standards and procedures for the reports that are an integral part of the financial management system.

8.1 REPORTING PRINCIPLES

An essential aspect of the financial system for congregations is to report the financial status of the congregation to key individuals and groups in a timely and accurate way. Properly prepared financial reports yield the following benefits:

- They provide information that leaders need in order to make important decisions.
- They build confidence. Members are more willing to support their congregation's programs and ministries when they understand the financial status of the congregation.
- They give creditors information about the financial health of the congregation.
- They provide records of the development of the congregation, reflecting its ability to accomplish its goals.

Properly prepared financial reports are:

- **Accurate.** Accurate reports lend credibility to the information conveyed, to those who prepare them, to the accounting systems and to the congregation's leadership.
- **Clear.** Arrange information so that essential facts are easily understood. Tailor the format to the audience.
- **Understandable**. Present data in a context by making comparisons with previous years or comparing expenditures to the budget. Such comparisons help the reader understand the information.
- **Timely**. Process transactions on time to provide up-to-date information. Have reports ready for planning meetings so time is not wasted and decisions are not based on outdated information.

8.2 REQUIRED FINANCIAL REPORTS

The financial reports required as part of the management of the standard financial system for GCI congregations are described in this section noting content, frequency of preparation and designated recipients. See the chart at the end of this section for a summary list and note the following:

- Reports to be received by the **congregation** are to be posted on a bulletin board or in a bulletin or newsletter available to all members.
- Reports to be received by the **denominational office** are to be uploaded into the online system where they will be reviewed by various denominational reviewers.
- If a congregation is unable to file these reports using the online system (which is preferred) email them to treasurer@gci.org or send them by surface mail to:

  Grace Communion International
  PO Box 5005
  Glendora, CA 91740-5005
  Attention: Treasurer
- If required financial reports become overdue (see deadlines below) the denomination may audit the congregation's records or take other appropriate action, charging the congregation for associated costs.

Deadlines for submitting financial reports:

- **Weekly reports**: due by Tuesday of the week following
- **Monthly reports**: due by the 10th of the month following
- **Quarterly reports**: due by the 30th of the month following
- **Year-end report**: due by March 1 of the year following

- Many of the required financial reports may be generated using the standard Quicken software (see the *Quicken Accounting Manual* for further details and sample reports). If this software is not used by the congregation, the reports should contain the same basic content and be laid out in a similar format.

8.2.1 Weekly donation log, bank deposit slip and donation report

These documents are prepared weekly by the counting team. Details about preparation and submission are covered in section 3.5 utilizing forms posted at http://gci.org/go/finforms. Note that these documents are not required of congregations that subscribe to the denomination's alternative donation processing service.

8.2.2 Banking summary report

This report is prepared by the treasurer monthly and quarterly to summarize income deposits and expense disbursements during the reporting period. See section 14.3 of the *Quicken Accounting Manual* for a sample. All banking summary reports are submitted to the lead pastor and finance committee. The quarterly banking summary reports are also submitted to the advisory council, the congregation, and the denominational office.

8.2.3 Account balances report

This report is prepared by the treasurer monthly and quarterly to provide a summary of the funds in all of the congregation's bank accounts at the opening and the close of the reporting period. See section 14.2 of the *Quicken Accounting Manual* for a sample. All account balances reports are submitted to the lead pastor and finance committee. The quarterly account balances reports are also submitted to the advisory council and the denominational office.

8.2.4 Reconciliation report

This report is prepared by the treasurer monthly to demonstrate agreement of the opening and closing balances noted on the monthly bank statement with the account activity shown in the accounting records for the same month. See section 13.2 of the *Quicken Accounting Manual* for a sample. All reconciliation reports are to be submitted to the account reconciler, lead pastor and finance committee.

8.2.5 Check register report

This report is prepared by the treasurer monthly listing deposits and disbursements (checks) in the account that month. See section 13.3 of the *Quicken Accounting Manual* for a sample. This report is submitted to the account reconciler.

8.2.6 Year-end report

This report is prepared by the treasurer with input from the lead pastor and annual account reconciler following the close of each calendar year. It is submitted to the lead pastor, finance committee, advisory council, ministry leaders, congregation and denominational office. This report provides a detailed overview of the financial activity within the congregation for the year just concluded and includes the following four sections:

8.2.6.1 Account review summary of findings. This is prepared by the account reviewer (either internal or external, as applicable) and gives a summary of their assessment of the congregation's financial records and systems.

8.2.6.2 Statement of Financial Position. This is filled out online (a worksheet is available at http://gci.org/go/finforms).

8.2.6.3 Financial narrative. This is prepared by the lead pastor and/or treasurer. It describes in narrative form the financial activity in the congregation during the past year. It will typically compare the financial activity during that year with the budget and describe the congregation's ministry activities for the year. It should also provide the lead pastor's and/or treasurer's response to the account reviewer's recommendations/findings.

8.2.6.4 Next year's budget. This is the approved budget for the coming year.

8.2.7 Summary of required financial reports

Note: refer to section 8.2 for report distribution requirements and filing deadlines.

Report name	Frequency	Prepared by	Submitted to	Manual section references
Donation log	Weekly	lead counter	treasurer	3.5, 8.2.1
Bank deposit slip	Weekly	lead counter	treasurer	3.5
Donation report	Weekly	lead counter	treasurer lead pastor	3.5
Monthly banking summary report	Monthly	treasurer	lead pastor finance committee	8.2.2 Quicken manual 14.2
Monthly account balances report	Monthly	treasurer	lead pastor finance committee account reconciler ministry leaders	8.2.3 Quicken manual 14.2
Reconciliation report	Monthly	treasurer	account reconciler lead pastor finance committee	8.2.4, 7.1 Quicken manual 13.2
Quarterly banking summary report	Quarterly	treasurer	lead pastor finance committee advisory council congregation denominational office	8.2.2 Quicken manual 14.3
Quarterly account balances report	Quarterly	treasurer	lead pastor finance committee advisory council denominational office	8.2.3 Quicken manual 14.3
Year-end report including: Statement of Financial Position, Financial Narrative, next year's budget, and a summary of the internal or external reviewer's comments	Annually	treasurer, with input from lead pastor and account reconcilers and reviewers	lead pastor finance committee advisory council ministry leaders congregation denominational office	8.2.6, 7.2

8.3 REPORTING FINANCIAL IMPROPRIETIES

The internal controls, including the reporting requirements set forth in this chapter and elsewhere, are designed to assist congregations in avoiding financial improprieties altogether. However, despite these safeguards, it is sadly true that both inadvertent and intentional improprieties do occur (though, hopefully, only on rare occasions). GCI understands that the victims of financial impropriety include both those who donated money and the church which is entrusted with safeguarding those funds and using them in its mission. The financial system provided in this manual is set up to help discover improprieties early on so that they can be dealt with as quickly and painlessly as possible.

When a financial impropriety is discovered by anyone, the matter must be reported to the lead pastor (unless the lead pastor is the alleged perpetrator, in which case the regional pastor is to be contacted). The lead pastor must then contact the regional pastor who will in turn contact the treasurer's office to discuss appropriate remedial action, including involving other authorities if warranted.

In designing a course of remedial action it may be necessary to notify the congregation of both the impropriety and of the course for remedial action. Absolute confidentiality is not possible and may not even be desirable, depending upon the circumstances, although church authorities will seek to proceed as sensitively as circumstances allow.

CHAPTER 9
SPECIAL CONSIDERATIONS

This chapter discusses a variety of special considerations not covered in depth elsewhere.

9.1 TAXES

Grace Communion International is incorporated as a religious non-profit corporation and has certain tax exemptions and benefits including tax-exempt status under IRS tax code 501(c)(3), section 170. These exemptions and benefits generally extend to chartered GCI-USA congregations as follows (refer questions concerning tax exemption to the denomination's legal department).

9.1.1 Federal and state income tax

Donations and earned income of the congregation are generally exempt from federal and state income taxes. To maintain this exemption, the following practices should be followed:

- Avoid raising money designated for a specific, named individual(s).
- Be careful that individuals do not receive a private inurement or private benefit from any expenditures (see 9.3.4).
- Use the congregation's federal tax ID number on all bank accounts, CDs and investments so income tax will not be due nor withheld.
- All payments (if totaling more than $600 in one year) to an independent contractor or vendor (hall rental payee, individual such as a hired pianist, speaker, etc.) that is not a corporation (non-incorporated entities include limited-liability partnerships and limited-liability corporations), or otherwise exempt from reporting, must be reported to the IRS using **form 1099**. The information needed to complete the form is obtained from the contractor by having them fill out **form W-9** (Request for Taxpayer Identification Number and Certification). Form W-9 should be obtained before any payments are made. Questions concerning these requirements may be referred to the denomination's accounting department. Note that IRS publication 2184 lists all IRS forms and how to obtain them. To order IRS forms with filing instructions, call 1-800-829-3676 or go to www.irs.gov.
- Note that regular "donations" made to a landlord (that is not a corporation) as "thanks" for the regular use of a facility are generally considered by the IRS to be rental income and must be reported by the user to the IRS by filing form 1099.

9.1.2 Sales tax

Most states exempt churches from sales taxes on purchases of items for exclusive church use. The finance committee should check with the appropriate tax authority to determine which items are exempt and which are not, since this will vary from state to state. The denomination has received tax-exempt status in most states. The tax exemption number (if there is one) may be obtained from the denomination's legal department.

9.1.3 Property tax

Congregations are also generally exempt from state and local property taxes on property used for church purposes. A congregation cannot generally expect tax-exempt status for land or other real estate held for investment purposes. In some cases, congregations may have to pay property taxes on land until they have built and occupied a church building.

9.2 CHURCH BUILDINGS

The decision to purchase or build a church building should be made jointly between the congregation (involving the lead pastor, finance committee, advisory council, and ultimately all members), the regional pastor, the CAD office and the denomination's legal department. Specific guidelines pertaining to church buildings are available in the *Church Building Manual* (posted online at www.gci.org/go/manuals). Also see sections 3.1.1.4 and 5.7.2 for stipulations concerning waiving of the apportionment on donations to pre-approved capital fundraising campaigns to raise money for constructing or purchasing a church building.

9.3 LEGAL ISSUES

9.3.1 Titling property

Whenever a congregation wishes to initiate the purchase of real property (such as land or a church building) or a motor vehicle, the congregation should contact the legal department to review denominational policies and procedures related both to evaluating the proposed purchase and then titling the property if it is to be purchased.

Regarding titling, two questions must be addressed: in whose name will the title be held, and how? Standard policies and procedures related to these questions are noted in the following sections.

Note that this section pertains to procedures for owning titled property. Congregations that purchase non-titled property (such as video projectors, sound equipment, furniture, and the like) automatically maintain ownership of that property as an "unincorporated association." No special arrangements are needed in such cases, other than, perhaps to arrange for insurance coverage for such property (the denomination's general liability insurance which covers congregations does not protect from loss or damage to locally owned titled or non-titled property).

9.3.1.1 Titling land and buildings. In the case of the purchase of land or a church building, the congregation making the purchase will hold the title. For this to occur, the congregation will be assisted by the denomination in incorporating as a congregation within the state in which the property is located. Note that local incorporation is reserved for this limited purpose only, GCI-USA congregations do not incorporate locally otherwise.

When a congregation wishes to purchase land or a building, that congregation contacts the regional pastor for assistance in making a preliminary evaluation (see 9.2). If a mutual decision is made to proceed further, the denomination's legal department will be brought in to assist the congregation in incorporating. This assistance will include providing denominationally approved sample articles of incorporation, filling out and filing of appropriate forms, informing the denomination's insurer of necessary details and the like.

Regarding incorporating a congregation locally, a few cautions are in order. A corporation is like a marriage – easy to get into but demanding of continuous hard work if it is to succeed. Setting up the corporation, while simple, is only the beginning. Running the corporation in a legally appropriate manner takes ongoing work and commitment and the consequences of inattention are significant: Failure to operate the corporation properly will result in the loss of certain protections normally afforded to corporations (and the members who are the corporation's directors) and worse, could result in increased liability over that which might occur if there were no corporation in the first place.

Policy and practical guidelines for the appropriate use and operation of a locally incorporated entity are outlined in the *GCI-USA Church Administration Manual.* Every incorporated local congregation is required to fully acquaint themselves with this information and abide by both church policies and applicable laws.

9.3.1.2 Titling motor vehicles. In the case of the purchase of a motor vehicle, the congregation making the purchase will hold title. For this to occur, the congregation making the purchase has two options:

(1) If a congregation is already incorporated (for the purpose of holding title to land and/or a building), it makes sense for that congregation to hold title to the motor vehicle in the name of the existing local corporation.

(2) If a congregation is not already incorporated, it is easier and thus more appropriate to form a trusteeship, which can hold title to the vehicle. With a trusteeship, a few members serve as the trustees and the more cumbersome demands of local incorporation are avoided. Forms and other information regarding setting up trusteeships to hold title to motor vehicles may be obtained from the denomination's legal department.

If a congregation purchases a motor vehicle, they should contact the denomination's legal office for a set of guidelines concerning operation of that vehicle. It is the responsibility of the local congregation to obtain liability and any other insurance on the vehicle. GCI is to be named as a beneficiary on such insurance policies.

9.3.2 Contracts

GCI-USA (the 'Parent Church') delegates to each local congregation the authority to commit that congregation's financial resources by the signing of contracts made in the congregation's name. Examples of such contracts include the lease of a meeting hall, the retention of contracted services, or the purchase of personal property. Note that the signing of contracts locally does not obligate the Parent Church on the contract unless the Parent Church agrees to this obligation in a letter from the Parent Church's board of directors, signed by the board's secretary.

The authority to sign such contracts on behalf of the congregation is held by only the designated lead pastor and treasurer who sign contracts in accordance with the following examples:

> New Life Fellowship
> By: John Doe
> As: Lead pastor and Attorney-in-Fact

> New Life Fellowship
> By: Jane Smith
> As: Treasurer and Attorney-in-Fact

Such duly authorized signatures bind the congregation to perform according to the terms of the contract. When there is no lead pastor, one of the co-pastors or the coordinator of a pastoral team may sign. Should the congregation be asked for proof of authority to sign a contract, the pastor or treasurer may contact the denomination's legal department for assistance.

Members of the congregation should be notified of the policy that only the lead pastor and treasurer are to sign contracts on behalf of the congregation. This notification is best made in writing through the church bulletin, newsletter, or posted on the bulletin board. Such notification helps prevent well meaning, but unauthorized church members from signing contracts and thus incurring liabilities to themselves or others, which they in fact do not intend nor wish to shoulder.

Authorization to sign contracts locally is given only when the following conditions are met in advance of signing:

1. The amount of any expenditure from the congregation's funds established in the contract is within that congregation's annual budget that has been approved in accordance with proper procedure (see Chapter 2).
2. If the contract is for a lease that exceeds one year or for a purchase of goods or services for an amount exceeding $5,000.00, the contract must be reviewed prior to signing by the denomination's legal department.
3. If the contract involves the purchase of real property (such as a building or land), the congregation must incorporate locally to hold title before any documents of any kind related to that purchase are signed (refer to 9.3.1.1).
4. If the contract involves the purchase of a vehicle, the congregation must establish a local trusteeship to hold title before any documents of any kind related to that purchase are signed (refer to 9.3.1.2).
5. If a contract with a contractor involves an amount in excess of $500, it must be confirmed that the contractor is adequately licensed, insured, etc. The contractor can usually provide proof in the form of certificates or other licenses or documents. If there are questions about the contractor's general reputation, a check with the local *Better Business Bureau* may be helpful.

9.3.3 Confidentiality of records

It is imperative that donor records be kept confidential. Some information, like addresses and phone numbers, may be published if members give permission, but member donation records, credit card numbers, donation pledges, etc. are to be kept private and made available only to those with a need to know.

In most congregations this policy limits access to individual member donation records to only the treasurer and the lead pastor.

9.3.4 Avoiding private inurement and benefit

Congregations are exempt from paying income tax and have other tax benefits only so long as they strictly comply with the tax laws including those pertaining to laws forbidding private inurement and private benefit. IRS regulations state that, “A section 501(c)(3) organization must not be organized or operated for the benefit of private interests, such as the creator or the creator's family, shareholders of the organization, other designated individuals, or persons controlled directly or indirectly by such private interests. No part of the net earnings of a section 501(c)(3) organization may inure to the benefit of any private shareholder or individual. A private shareholder or individual is a person having a personal and private interest in the activities of the organization.”

1) <u>Private inurement</u> occurs when a congregation’s monies directly, or even indirectly, flow to a member, especially one in a leadership position, when those monies are given for purposes other than paying the reasonable value of services rendered or for reimbursement of legitimate business expenses. An example of private inurement would be the congregation paying for a trip for the treasurer when the trip had no legitimate business purpose.

2) <u>Private benefit</u> is similar to private inurement, except it can involve congregational monies flowing directly or indirectly to the benefit of a private party or entity not affiliated with the congregation. An example of private benefit would be the congregation making a donation to a school with which the congregation identifies philosophically, but which is in fact owned and operated as a for-profit entity for the owners as some sort of business, not as a non-profit entity.

The penalties for breaking the private inurement and benefit rules can be severe, up to and including the loss of tax-exempt status, so it is vital that they are not contravened. Furthermore, the rules are complicated, technical, and not always obvious or intuitive. Contact the legal department with any questions concerning whether the use of congregational funds might constitute private inurement or private benefit.

9.3.5 Gifts to leaders

Given the concerns about the related issues of undue influence, private inurement and private benefit, great care needs to be taken with regard to gifts given by the congregation or by members of the congregation to church leaders including the lead pastor, other elders and any denominational leaders.

It is certainly appropriate that a small gift be given from time to time to leaders as an expression of thanks. But such gifts are not be accepted by leaders unless they conform to the following guidelines:

1. A gift should not be accepted if it would affect a leader’s judgment or would hurt the congregation or an individual. Leaders must be careful that all their dealings with congregants are in the best interest of the congregation and of the individual.
2. Any one gift should be small and relatively inexpensive. A maximum value of $200 on any one occasion is suggested. An exception to this limit would be a gift given upon the retirement or moving away of the leader where a maximum value of $500 is suggested (when more than $200 is expended, the proposed expenditure should be reviewed in advance by the advisory council).
3. When appropriate, a gift of cash may be given in lieu of another type of gift, but the same monetary limits apply. Note, however, that a leader should NOT accept a gift of cash directly from an individual member, all cash gifts should come through the congregation.
4. A leader may be reimbursed for travel and other expenses related to church business. Such reimbursements are to be made in accordance with the stipulations set forth in this manual.
5. An elder may occasionally receive an honorarium in the form of cash for performing a wedding or funeral. Such honoraria may be accepted and retained by the elder for his personal use and must be declared on his income tax forms for that year.
6. An employed or bivocational (volunteer) pastor may occasionally be given an honorarium by the congregation as a gift to say ‘thank you’ for serving the congregation. See 4.1.1.2 regarding such honoraria.

7. On a rare occasion, a pastor may have some financial hardship that the congregation wants to help with by giving a cash gift larger than the stipulated maximums. The regional pastor should review any plans for such assistance before the gift is given.

Accepting a cash gift of greater than $500 without prior approval of the regional pastor is considered a breach of ethics and may affect the individual's status as an elder in Grace Communion International, and therefore, may affect the employment or retirement status of an employed pastor.

Note that an elder must be especially careful at all times not to encourage gifts to themselves. Even an innocent remark about some temporary financial crunch or concerning something he enjoys, could be construed as a subtle hint that a member or group of members should extend help. Establishing a clear track record of not accepting inappropriate gifts will reduce the likelihood of such conclusions on the part of members.

9.3.6 Loans to members and ministers

To avoid administrative difficulties, the denomination *strongly* discourages congregations from loaning money to members for any reason and *prohibits* the loaning of money to a pastor and/or his/her spouse.

9.3.7 Operating day care centers

In some rare instances, a congregation may wish to operate a day care or childcare facility. Great caution and special procedures are required in such ventures and congregations contemplating doing so are required to consult with the legal department before proceeding.

APPENDIX A
REVIEW OF ACCOUNTS CHECKLIST

Following is a checklist of tasks typically included in a review of accounts.
This review should be conducted by an internal accounts reviewer
each year, and an external accounts reviewer once every three years.

- Select several monthly bank statements, including the final statement for the fiscal year and:
    - Ensure that reconciliations have been carefully completed.
    - Trace selected items from the reconciliation to the bank statement and the accounting records.
    - See that all voided checks are accounted for.
    - Check to see if outstanding checks clear the bank or are otherwise disposed of on a timely basis.
    - Investigate the nature of "miscellaneous" or unusual reconciling items.
- Count the petty cash. The total of all cash and receipts should equal the "impress" amount. If not, investigate.
- Select sample receipts and disbursements to trace from the original document through the accounting records, and summary totals to the various financial reports.
- Review accounting records for unusual items. Investigate if necessary.
- Check to see that there is proper authorization and documentation for a sampling of cash disbursements (such as an invoice or receipt, within approved budget lines) for large or unbudgeted items.
- On a test basis, review other documents and records to see that they are being used in accordance with established policies and procedures.
- Test all financial reports for accuracy by tracing totals back to the accounting records.
- Check to see that all monies designated for special funds are being sent on a timely basis for their intended receivers.
- Check to see that the apportionment amount is accurate and fulfilled in a timely manner.
- Review records of auxiliary organizations (such as women's or teen ministries) that maintain their own financial records using steps similar to those outlined above.
- Prepare report of findings that includes recommendations for improving financial policies and procedures. Present this report to the lead pastor who will share it with the finance committee, advisory council and denominational office. The pastor will summarize the report in his year-end report to the congregation.
- Find out who is on the congregation's advisory council and finance committee. Confirm they meet regularly, that membership is not identical, and that there are no conflicts of interest. Ask the pastor and treasurer if they have any financial concerns with anyone involved with the money, and if they are aware of any fraud or misuse of funds. Investigate if necessary.
- It is good practice for the Treasurer to respond in writing to the Pastor stating what changes or compensating adjustments have been made as a result of recommendations made by the account reviewer. The response should be kept in the file with a copy of the review.

APPENDIX B
PASTOR RELOCATION

This appendix reviews procedures and policies related to relocating a pastor.

The process for selecting a new pastor for a congregation is as set forth in the Church Administration Manual. Costs related to the interview and relocation process are to be reimbursed by the receiving congregation(s) in accordance with the guidelines in this appendix.

B.1 PRE-MOVE VISIT

The congregation is expected to pay for the new pastor to have one visit to the area to interview with the congregation, to find a home and to otherwise become acquainted with the area before moving in. In some cases, two short trips may be better than one long trip—the actual arrangements may be negotiated between the pastor and the congregation with assistance from the regional pastor.

The new pastor should be reimbursed by the congregation for his actual pre-move visit expenses and those of his/her spouse (but not children) including automobile mileage (or air-fare if flying is less expensive), food and lodging for a trip not to exceed ten days in duration (not including travel time). It is customary for the congregation to give the pastor a travel advance to cover transportation costs up-front.

Reimbursements should be made for reasonable food and lodging expenses as long as actual receipts are submitted. Receipts must be submitted for all lodging expenses and all single meal expenses over $25 (meal receipts under $25 should be included if available, but are not required). A record of all trip expenses is submitted by the pastor to the congregation for reimbursement following the visit.

B.2 MOVING EXPENSES

Congregations are expected to pay the reasonable costs associated with moving the new pastor into the area. Such costs would include the following:

- Truck and/or trailer rental (pastors are expected to move themselves, not use a moving company unless the cost would be less)
- Rental of car hauling trailer or dolly if there is no one to drive the pastor's cars to the new location (the pastor will probably drive the moving truck himself).
- Packing by a professional packer of fragile items such as dishes, mirrors and other items that may easily break
- Loading and unloading the truck (the pastor should not be expected to do this himself).
- Expenses incurred for buying boxes and packing materials.
- Unloading of heavy household goods from the rented truck at the new location.
- The cost of gasoline for the rental truck and for any automobiles that are moved.
- The cost of lodging and meals during the move. It is expected that the pastor would drive no more than 500 miles in one day during the move.
- The cost of lodging and meals for one night and two days upon arrival at the new location.

The congregation is NOT expected to pay for the following services:

- Packing and unpacking labor other than loading and unloading the truck and packing of fragile items as noted above.
- Permanent storage of household goods.
- Moving boats, any type of trailer, motorcycles, snowmobiles, aircraft, etc.
- Dismantling or moving bulky yard or play equipment. (The minister to make them "movable" may dismantle some of these.)
- Removal or installation fees for appliances (this is covered by the relocation allotment).
- Services such as babysitting, cleaning, or yard work.
- Moving pets, plants, livestock or frozen or perishable food.

- Moving building or fencing materials, firewood, pet or play houses more than three by four feet, storage sheds, or greenhouses.
- Removal or installation of window coverings, carpets, or other permanently or semi-permanently attached fixtures.
- Shipping of specialized items.

Moving expenses should be submitted by the pastor to the treasurer using the Moving Expense Worksheet and Summary forms available from the denomination. It is customary for the relocating pastor to send the receiving congregation an estimate of moving costs and receive the congregation's approval before incurring such costs.

The pastor must send copies of the Moving Expense Worksheet and Summary forms to CAD so that moving expense reimbursements can be properly recorded for tax purposes.

B.3 RELOCATION ALLOTMENT

Congregations are expected to give the new pastor an up-front cash payment equivalent to 10% of the annual salary, less the amount of withholding for income tax (this payment and all payroll arrangements will be made through the denomination's payroll service using cash provided by the congregation). This payment should be made to the relocating pastor within one month of his move-in date. This relocation allotment is given to cover the numerous miscellaneous expenses encountered in relocation for which specific reimbursement is not given, including:

- Removing, cleaning, cutting and re-laying of carpets and rugs.
- Moving related insurance coverage.
- Cleaning, installing and altering drapes, curtains, blinds, screens, etc.
- Removing and reinstalling appliances, (such as special electrical wiring or gas hook-ups).
- Telephone installation.
- Auto registration and driver's license fees required because of the relocating to a new state.
- Loss on children's playground equipment, garden supplies, firewood, food, etc.

APPENDIX C
EMERGENCY FINANCIAL ASSISTANCE

This appendix addresses policies related to congregations giving financial assistance to needy members and non-members in emergency situations.

Congregations may wish to give occasional, short-term financial assistance to members and non-members in need due to emergency situations. Such assistance generally should *not* include continuing, long-term financial assistance and/or loans. If a person is in need of either, the congregation can help them locate such assistance through the social services available at the community, county, state and/or federal level.

Typical circumstances that might qualify people for short-term emergency financial assistance include loss resulting from a disaster or calamity such as a fire or storm; loss due to an uninsured auto wreck; the loss of a job; or loss resulting from other emergency situations. Emergency financial assistance helps cover these losses while "priming the pump" as longer-term assistance is found elsewhere.

C.1 TWO METHODS FOR GIVING EMERGENGY ASSISTANCE

In general, there are two methods for giving emergency financial assistance:

C.1.1 Pass-through assistance

With this first method, the congregation "passes the hat" among members to obtain donations that then are passed directly to the needy person without being receipted to the donors. With this approach, no money is deposited in the congregation's account. If donors wish to write checks, those checks are made out to the needy person, not to the congregation. If any donors wish to be receipted in such situations, the receipt should clearly indicate that the donation given is *not* tax deductible.

C.1.2 Assistance using tax-deductible donations

With this second method, the congregation gives financial assistance to a needy person using funds that have been received from donors and receipted by the congregation as tax-deductible donations. When using this method, it is vital to follow the procedures set forth in the rest of this appendix in order to meet IRS requirements.

Assisting in the event of a large-scale disaster is best given by congregations and individuals through GCI's Disaster Relief Fund or through similar funds (such as those set up by United Way, The Salvation Army, etc.), which are set up to handle such needs. Note that it is permissible for congregations to donate to these funds when the money being given includes donations that previously were received and receipted by the congregation as tax-deductible.

C.2 STEP ONE: SET UP A "PROGRAM"

IRS rules dictate that a congregation must follow certain rules for giving financial assistance to people in need when that money has been received and receipted by the congregation as tax deductible. Those rules (set forth in IRS publication 3833) require that *before* such assistance is given, the congregation must first have in place, through a signed resolution, a written policy or program, which sets forth the existence of such a program, defines the "charitable class" (group), which may receive such assistance and lists the criteria that those being given emergency financial assistance must meet.

Note: Emergency financial assistance may be given by the congregation *only* to people who fit within the predetermined charitable class.

Given these IRS requirements, the congregation (typically through its pastor or treasurer) needs to define, in writing, an emergency financial assistance policy and draft a program summary that sets forth the policy and shows that it has been officially adopted by the congregation on a particular date (to assist in writing this policy/resolution, a sample one is provided at the end of this appendix).

Once the policy/resolution is adopted by the Financial Assistance Committee (see C.3, below) and signed by the lead pastor, be sure to inform the congregation, letting them know of the existence of the policy and of the Committee. This advertising will help head off future problems by putting people on notice that there are specific, predetermined criteria that must be met in order to qualify for receiving such financial assistance.

C.3 STEP TWO: SET UP THE FINANCIAL ASSISTANCE COMMITTEE

In order to comply with IRS requirements and otherwise properly administer emergency financial assistance, the congregation needs to have in place a Financial Assistance Committee (or a committee bearing another, similar name), hereinafter referred to as "the Committee." Note that the Committee may be the same as the congregation's Finance Committee.

The purpose of the Committee is to meet to decide, on the congregation's behalf, if a needy person seeking the congregation's financial assistance meets the criteria that qualifies them to receive emergency financial assistance from the congregation (see C.2, above).

Written records of Committee decisions are to be kept in the congregation's financial files (the standard Emergency Financial Assistance Form, included at the end of this appendix, is designed to facilitate this record keeping).

As called for on that Assistance Form, the Committee will obtain the lead pastor's approval for all assistance before it is given. Moreover, the Committee will make periodic reports to the congregation's Finance Committee concerning assistance activity. Finally, the Committee will monitor the congregation's emergency assistance budget and then (with the lead pastor's approval), seek special contributions from members if the emergency financial assistance needs exceed the congregation's budget allocation.

Note: IRS rules forbid the Committee, in giving emergency financial assistance, to favor any person or persons who are in management control of the congregation (such as the lead pastor, other elders/pastors, ministry leaders, etc.). It may be okay to help these people, but *only* if they otherwise meet the criteria written down in the congregation's charitable group resolution, and if it is disclosed that the recipient of the assistance is a church leader.

C.4 RECEIPTING DONATIONS

Note that donors to the emergency financial assistance fund may be given tax-deductible receipts, but *only* if they are told that they may *not* earmark those donations for a particular person. Therefore, it is wise to note in soliciting and receipting such funds that any preferences for the use of the funds stated by the donor will be considered but the final decision is that of the Committee and that the donation is not revocable, even if the donor's stated choice is not honored. Then tell people that they can donate to the church toward helping people in an emergency situation, but that the church cannot be bound to their choice of who should or should not receive said assistance money. All such decisions are made by the Committee with the approval of the lead pastor.

C.5 ADDITIONAL CONSIDERATIONS

Before someone is given emergency financial assistance, that person should typically first have exhausted other avenues of support. One-time assistance can be given to a person who is in the process of seeking other sources of income.

The three most common sources of support apart from the congregation are employment, relatives and government aid programs. Employment should typically be required of all who are able to work. Only those whose incomes are not sufficient to meet their basic needs should be assisted. Those without specific skills should seek available job training. Most of these programs are publicly funded and there is little, if any, cost involved. If these are not available, some type of work should still be sought.

Relatives, particularly adult children, should be sought for help as implied in 1 Timothy 5:16. Not only should financial aid be sought from relatives, but also they might be asked to provide services such as transportation or housing.

Government aid programs such as welfare, food stamps, Social Security, Supplemental Security Income (SSI) and Medicare should be sought out before seeking assistance from the congregation. Some people may seek emergency assistance rather than public assistance because the congregation is more pleasant to deal with and they may feel a certain stigma in receiving welfare. However, since members are already paying for welfare through taxes, welfare should be sought before assistance from the congregation is rendered. To do otherwise would be to waste the monies that would be available to help other needy people who might not be eligible for government aid.

When a person is receiving government aid and yet needs additional financial assistance from the congregation, that assistance is often best given indirectly. Indirect assistance can be given, for example, by paying a utility or rent bill on behalf of the needy person. This indirect approach is useful because *some* assistance agencies allow an aid recipient to receive “in kind” assistance and yet not have such assistance counted as income (which would reduce their benefits). Individual agencies must be consulted concerning such in-kind assistance policies.

Note: Persons receiving financial assistance should *never* be told that they do not have to report receipt of the assistance money to a public agency. Not doing so may constitute fraud.

By following the emergency financial assistance policies outlined in this appendix, your congregation will be able to give financial assistance to needy people, while complying with IRS rules. Questions about these policies may be directed to the office of the GCI treasurer.

C.6 STANDARD EMERGENCY FINANCIAL ASSISTANCE FORMS

On the pages that follow are two standard forms that will assist congregations in complying with the emergency financial assistance policies outlined in this appendix. Note that some information in these forms will need to be modified to fit specific situations in specific congregations. However, complying closely with what is shown, is of utmost importance with respect to adhering to relevant IRS policies.

SAMPLE CHARITABLE CLASS RESOLUTION

As noted in the policies outlined above, it is vital that the congregation define their emergency financial assistance program by defining the "charitable class" they intend to assist through the program. This form is used to define that "class" (group) and to execute a resolution whereby the congregation adopts this definition as their own.

Resolution of the [name of the congregation]

Establishing a Program to Help Certain Persons in Need of Emergency Financial Assistance

In accordance with the spiritual, tax exempt mission of the [name of congregation] (the "Church") to, among other things, serve and support the needy in our society in a fair and balanced way, said Church hereby establishes this Emergency Financial Assistance Policy which sets forth criteria and procedures that will be adhered to when the Church gives financial assistance in emergency situations.

Purpose of Policy. It is a fact, and has been noticed, that certain people within the church and in the community need short-term financial assistance in emergency situations that include loss due to a disaster or calamity such as a fire or storm; loss due to an uninsured auto wreck; loss of a job; and losses due to other emergency situations. This need may exist even though the person receives some government assistance, since government assistance is limited mostly to simple survival. It is the purpose of this policy to facilitate providing for such persons' need so that they may be restored, in the short term, to a lifestyle of dignity and peace.

Charitable Class. In order to comply with IRS rules and procedures, the Church hereby establishes a Charitable Class (the "Group") of persons suffering from loss in emergency situations that put them in need of short-term financial assistance. The Group may or may not receive public or government assistance, but, in spite of said other assistance in the opinion of the Financial Assistance Committee (the "Committee," defined below) has practical financial needs, which are not being met thereby.

Criteria. The criteria by which a determination is made to give or to not give emergency financial assistance may vary according to circumstances and may be changed, providing said criteria are documented and applied fairly. The criteria is as follows:

- The Church must make a determination that it can afford to give said emergency assistance.
- The types of losses that qualify for assistance include those related to a disaster or calamity such as a fire or storm; loss due to an uninsured auto wreck; loss of employment; and loss due to other emergency situations. Note, however, that these funds will not be used to provide financial assistance to whole communities that are suffering loss—assistance in such situations is provided by the congregation in other ways, not covered by this resolution.
- The proposed recipient may be a member of the congregation or not, and may be male or female and of any age.
- The proposed recipient may be receiving financial assistance from other sources, but it is deemed that these other sources are insufficient in the immediate, short-term period.
- No financial assistance may be made to leaders within the congregation or to their relatives unless the proposed recipient meets the required criteria independent of being a leader or a leader's relative, and the conflict of interest is disclosed to the Committee.
- No financial assistance is guaranteed to any prospective recipient regardless if they meet the criteria. No lower or upper time-limit is guaranteed. Every three months [or define another duration], a determination will be made that the person still meets the criteria, thus assuring responsible use of the monies donated to the congregation for such assistance.
- The decision to give or not give assistance is in part an ecclesiastical decision/determination as those words are defined in Church law.
- No promise may be made by the Committee to earmark any donation for any specific individual. The decision as to who received assistance is solely that of the Committee.

Financial Assistance Committee (the "Committee"). The decision to accept or not accept someone to receive emergency financial assistance shall be made by the Committee in accordance with the aforementioned criteria. The Committee consists [here define the composition of the committee, which might be the same as the congregation's Finance Committee, and should include no less than three people]. The Committee will vote on whether to give financial assistance or not. A majority vote controls. The office of Committee member is at the will of the lead pastor and may be removed at any time for any reason without cause or prior notice.

The Committee, with the approval of the lead pastor, shall be empowered to modify the criteria and other stipulations noted above in order that it may function in a more effective manner or comply more completely with existing or new IRS rules and codes. Any modifications shall be written down as a new version of this resolution and thereafter the new resolution shall take the place of the old, and shall control when the new and old contradict.

THIS RESOLUTION IS HEREBY ADOPTED BY THE LEAD PASTOR AFTER DISCUSSION WITH MEMBERS OF THE CONGREGATION

____________________________________ _______________

Signature of Lead pastor Date

EMERGENCY FINANCIAL ASSISTANCE RECORD FORM

This form is to be used by the Financial Assistance Committee (the "Committee") in evaluating and processing requests from individuals or small groups (such as families) when financial help is requested in emergency situations such as loss due to a disaster or calamity such as a fire or storm; loss due to an uninsured auto wreck; loss of employment; and losses due to other emergency situations. Financial assistance is being given only to the individual (or small group) and is not to an entire community (such community-wide giving is to be conducted through GCI's Disaster Relief Fund or a similar fund (such as those set up by The United Way) set up for such purposes).

In giving such emergency financial assistance, note the following warnings:

1. The person given assistance must meet the criteria set forth in the congregation's "Charitable Group Resolution." Generally, all criteria should be met, however, there is some subjectivity in applying the criteria calling for the Committee's informed discretion.
2. If the person(s) receiving the assistance is currently receiving public assistance, it may be illegal to give them a cash benefit unless they report it to the public agency.
3. If the money that is used in giving the assistance is collected from donors with the promise that it will be used to assist a particular named person(s), that donation MAY NOT BE RECEIPTED AS TAX DEDUCTIBLE. It is best that all emergency assistance donations be earmarked to the congregation's emergency assistance fund, with disbursements from that fund administered by the Committee, utilizing this form. By doing so, they will operate within IRS requirements concerning such donations and the giving of emergency assistance.

Name of Person Submitting This Record:	Date Assistance Given:
Name(s) of Person(s) Receiving Assistance:	Name of Party to Whom Check is Made Payable:
Purpose for the Assistance:	Office in the Church of the Person(s) Receiving the Assistance (if applicable)
	Amount of Assistance Check: Check Number:
Signature of Person(s) Receiving the Assistance:	

Committee review. The committee, having met to review this request, has determined by majority vote that it meets all applicable criteria. None of these funds are from donations earmarked for a specific individual. Based on this review, the Committee offers the following advice to the congregation's lead pastor and treasurer:

☐ Approve the request for assistance

☐ Deny the request for assistance

Signatures of all Committee members:

Date:

Lead pastor's signature (confirming the Committee's advice):

Date:

APPENDIX D
DISCLAIMER

Grace Communion International is a hierarchically governed organization, which means, among other things, that certain functions and operations of the church as a denomination are delegated by the board or church executives to its local congregations and ministers or other officials. The denomination has prepared policies and procedures to direct the local congregations in fulfilling these decentralized or delegated functions and operations, including, without limitation, those found in this manual.

It is the intent of Grace Communion International that the policies and procedures set forth in this manual are consistent with the denomination's underlying governing and related policy and procedural documents. However the denomination reserves to itself the sole right to correct, interpret and/or decide the meaning or effect of any statement contained herein.

Various decisions or determinations discussed in this manual and elsewhere are ecclesiastical determinations/decisions. An ecclesiastical decision/determination is one that has spiritual elements or includes spiritual considerations or requires spiritual discernment or judgment. The denominational governance has final authority to determine which decisions or determinations are ecclesiastical decisions/determinations, whether or not they are expressly labeled such in this or any other church statement, but they include, without limitation: the decision to charter a congregation, to remove a congregation's charter, to split or combine congregations, to ordain elders, to change or remove eldership or elder's credentials, and to determine the church membership status of any person. The denominational governance has final authority, in its sole and absolute discretion, to adjudicate any ecclesiastical decision/determination, notwithstanding the fact that some such decisions are provisionally delegated, in this manual or otherwise, to the denomination's elders, congregations, or members in the various roles they do or may possess.

In addition, notwithstanding anything to the contrary, in this document or elsewhere, all employees of Grace Communion International, and associated entities, whether they be lay employees or minister employees, are "at will" and may be terminated with or without cause or notice. Procedures set forth in this and other related manuals regarding grievance, discipline, and appeal processes for members, affiliates and elders pertain to, and only to, an employee's member or ministerial status, and such procedures are not required for any employment action, including, but not limited to, promotion, demotion, transfer, or termination of employment. Any exceptions to this "at will" status must be made in writing by the board of the entity for which such employee works, specifically naming the employee to be affected, and signed both by a party specifically authorized by that board and by the employee.

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