

# PARISH FINANCIAL PROCEDURES

## CONTENTS

### MANUAL OF BUSINESS AFFAIRS:

- PAROCHIAL REPORTS
- AUDITS
- FINANCIAL REPORTING
- DISCRETIONARY FUND

### EMPLOYMENT ISSUES:

- PAYROLL
- 1099 VS W-2

### MISCELLANEOUS INFORMATION

- NON-PROFIT STATUS
- CONTRIBUTIONS
- SALES TAX
- CLERGY PENSION CALCULATION

# MANUAL OF BUSINESS AFFAIRS:

## PAROCHIAL REPORTS

- Canons I.6, I.7, I.17 of the Constitution and Canons
- Mailing to Diocese for Diocesan staff to file on-line: Due March 1 after the preceding year ending December 31
- On-line filing: Due May 1 after the preceding year ending December 31
- Provide a report of membership, baptisms, communicants, services and finances
- Format:
  - Page 1: Certification and Identification
  - Page 2: Membership, Attendance and Services Information
  - Page 3: Stewardship and Financial Information
  - Page 4: Vestry Signature Page
- Online Filing available; you must have parish password and UEID number: [www.episcopalchurch.org/gc/](http://www.episcopalchurch.org/gc/)
- Contact at National Church office: Maria Christodoulou  
[mchristodoulou@episcopalchurch.org](mailto:mchristodoulou@episcopalchurch.org)

## MANUAL OF BUSINESS AFFAIRS:

### AUDITS

- Title I, Canon 7
- May be performed by a Certified Public Accountant or by an Audit Committee
- Due by September 1 for the preceding year ending December 31
- All accounts of the parish are to be audited
  - Operating Accounts
  - Restricted, endowment, real property funds
  - Accounts of any organizations in church
  - Discretionary Funds
- Audit Committee
  - Members should be independent of decision making and financial record keeping of the congregation
  - Typically has three members
- Diocesan In-house Audit Committee
  - Will assist parish audit committee with first year in-house audit

# MANUAL OF BUSINESS AFFAIRS:

## FINANCIAL REPORTING

- Accounting year is January 1 – December 31
- Double-entry bookkeeping system
  - Assets
  - Liabilities
  - Net Assets
- Books should be posted and balanced monthly
  - Most computer software products post and balance accounts automatically
  - Monthly statement of cash receipts and disbursements compared to budget should be prepared
- Restricted funds should be segregated in the accounting records
  - Gifts where the donor has imposed constraints or conditions on the use or purpose of the money
  - Recommended that all receipts of restricted funds be deposited into general operating bank account and then transferred to the segregated account
  - Gifts having time or purpose restrictions are considered temporarily restricted net assets
  - Endowment gifts
    - ✓ Donor's conditions allow only the earnings from gift to be expended
    - ✓ If the principal is restricted in perpetuity, gift income recorded as permanently restricted net asset
    - ✓ If the principal is restricted for a specified time, gift income is recorded as temporarily restricted net asset

## FINANCIAL REPORTING

- Donated securities are recorded at fair market value at the date of the receipt
  - A letter or receipt given to the donor showing date received, description of securities, and number of shares
  
- Donated services
  - Would normally be purchased
  - Require specialized skills
  - Are provided by individuals with those skills  
  - Value recorded as receipt in Donated Services account and expense recorded in appropriate expense account
  - Receipt is not to be given to donor because they are not tax deductible to the donor
  
- Checks should be pre-numbered and only signed once they are filled in
  
- Voided checks should be retained with records
  
- All disbursements should be made by check except for small expenditures made from petty cash
  
- If disbursement is for services, get the Federal Employer's ID number or Social Security number prior to writing the check for 1099 purposes
  
- Date paid and check number should be written on the original invoice or attach check stub or copy of check to invoice

## FINANCIAL REPORTING

- Petty cash account should be established for necessary minor expenses
  - Cash and receipts should always equal original balance in petty cash
  - Replenish the fund monthly by a check
  - Checks should not be cashed from fund
  - Never make advances or borrow from petty cash
  
- Savings accounts and certificates of deposit should be reported as separate assets
  
- Financial Statements
  - Statement of Financial Position (Balance Sheet)
  - Statement of Activities Compared to Budget
  - Statement of Cash Flow (usually annually)
  - Should be available for all vestry meetings

## EMPLOYMENT ISSUES:

### PAYROLL

- Who is an employee?
  - IRS List of 20 Criteria
- Exempt/Nonexempt
  - Exempt – Executives, professional employees, administrative positions that routinely exercise discretion or independent judgment
    - ✓ Rector
    - ✓ Business manager or controller
    - ✓ Director of Christian education
    - ✓ Music director
  - Nonexempt – Individuals whose primary duty is not management and not does not exercise discretion or independent judgment in regular course of performing duties
    - ✓ Church secretary
    - ✓ Paid soloist
    - ✓ Paid nursery worker
    - ✓ Clerical workers
  - Nonexempt employees must be paid for all hours they work
  - Comp time is not allowed
    - ✓ Employees can have a flexible work week

## PAYROLL

- Normal employees of a parish
  - Rectors, vicars, assistants
  - Interim clergy
  - Regular employed supply clergy who consistently work at the same congregation
  - Secretaries
  - Directors of Christian education
  - Childcare providers who are not volunteers (including teenagers)
  - Yard maintenance workers (including teenagers)
  - Organist and choir director
  - All others paid a fee for services and are not contractors
  
- Employee Payroll Tax Forms
  - Full-time, part-time, retired part-time clergy, and lay persons
  
  - W-4 – Federal Employee Withholding Allowance
  - NC-4 – North Carolina Employee Withholding Allowance
  - I-9 – Employment Eligibility Verification
  - W-2 – Annual Wage and Tax Statement
  
- Employer Payroll Tax Returns
  - Form 941 – Quarterly Federal Tax Return
  - Form NC-5 – Quarterly NC Tax Return (Quarterly depositors)
  - Form NC-5M – Monthly Tax Depositors
  - Form NC-5P – Withholding Payment Voucher for Semi-weekly depositors
  - Form NC-5Q – Quarterly NC Tax Return (Semi-weekly tax depositors)

## PAYROLL

- Form W-3 – Annual Transmittal of Income and Tax Statement (Federal)
- Form NC-3 – Annual NC Transmittal of Income and Tax Statement
  
- Clergy Wages (Federal and State)
  - Clergy may elect not to have federal and state taxes withheld, BUT wages are still considered taxable
  
  - Salary (does not include housing and utility allowance)
  - Honoraria
  - Bonuses
  - Retirement Gifts
    - ✓ Funds provided by the church
    - ✓ Gift given as a tax-deductible contribution by the donor
  - Love offerings
  - Amounts received for weddings and funerals
  - Amount to cover clergy self-employment taxes paid directly to clergy or reported and paid as income tax withheld
  - Transfers of property by the church to the clergy
    - ✓ Automobiles
    - ✓ Homes
    - ✓ Furniture
  - Travel and expense allowances for a non-accountable plan
  - Nonqualified moving expenses reimbursed to the employee
  - Life insurance premiums for group life insurance benefits exceeding \$50,000

## PAYROLL

- Housing and Utility Allowances
  - Excluded from federal and state taxable wages
  - Included in earnings for self-employment
  - Not reported on the Form 941 or the Form W-2
  - May be shown in the memo box of Form W-2
  
- Lay Employee Wages
  - Wages are taxable for federal, state and social security withholding
  - Withholding is required for federal, state, and social security taxes
  - No wages may be considered housing and utility allowances
  
- 401 (k) Retirement Plan
  - Employees elective withholding is deducted from gross wages before federal and state withholding is calculated
  - The elective withholding amount is not deducted from gross wages for social security withholding
  
- Health Insurance Premiums
  - Deducted from wages as part of an employer-provided cafeteria plan
  - Can be deducted from gross wages before federal, state, and social security taxes are calculated

## PAYROLL

- Federal Withholding Deposits
  - Depends on total tax deposits from July 1-June 30 of prior year (July 1, 2002-June 30, 2003 for the 2004 year)
  - If deposits were less than \$50,000, deposit taxes on a monthly basis
  - If deposits were greater than \$50,000, deposit taxes on a semi-weekly basis
  - Monthly tax depositors – Taxes due by the 15<sup>th</sup> of the following month (January taxes are due by February 15<sup>th</sup> )
  - Semiweekly tax depositors:
    - Payday is Wednesday, Thursday, Friday – deposit taxes by following Wednesday
    - Payday is Saturday, Sunday, Monday, Tuesday – deposit
    - Payday means the date printed on the paychecks, not the period ending date
  
- North Carolina Withholding Deposits
  - Same as federal withholding due dates
  
- Tips for Processing Year-End Reports
  - Make sure 4 quarterly reports reconcile to W-3 totals for federal and state information
  - Make sure all W-2's reconcile to W-3 totals
  - Make sure totals reconcile before you submit your 4<sup>th</sup> quarter Form 941. It is easier to make adjustments to the 4<sup>th</sup> quarter report before it is filed than to amend a quarterly report or a W-2.

## PAYROLL

- Non-employee Income
  - Any individual or unincorporated entity that is paid more than \$600 in a calendar year and is not an employee
  - Form 1099 issued by January 31 of the following year
  - Must obtain the individual's social security number for federal employer identification number
  - Supply priest or visiting minister paid over \$600 from a single congregation

## MISCELLANEOUS INFORMATION:

### NON-PROFIT STATUS

- Six Requirements for automatic exemption from federal income tax
  - Church is a corporation
  - Church is organized exclusively for exempt purposes
  - Church is operated exclusively for exempt purposes
  - Church's net earnings do not inure to the benefit of private individuals
  - Church does not engage in substantial efforts to influence legislation
  - Church does not intervene or participate in political campaigns
  
- Churches are encouraged to get a determination letter from the IRS formally acknowledging tax exempt status
  - Facilitates the deductibility of donors' contributions
  
- Group exemptions status:
  - Group exemption with the National Church being the central organization
  - Diocese, all congregations and all subordinate organizations now part of group exemption of the National Church
  - All subordinate organizations must have own Employer Identification Number

## MISCELLANEOUS INFORMATION:

### SUBSTANTIATING CHARITABLE CONTRIBUTIONS

- Individual cash contributions of less than \$250
  - No receipt is required from the church
  - Recommend contribution statements showing church name, amounts of contributions, dates of contributions
  
- Individual cash contributions of more than \$250
  - Written acknowledgement from church
    - ✓ Donor's name
    - ✓ Date of gift
    - ✓ Amount of gift
    - ✓ Value of goods or services provided by charity
    - ✓ Statement that no goods or services were provided or "intangible religious benefits"
  - Receipt must be received by the donor before the date the donor files tax return or before the tax return is due
  
- Individual "quid pro quo" cash contributions of \$75 or less
  - Contribution statement showing the value of goods or services provided
  
- Individual "quid pro quo" cash contributions of more than \$75
  - Same as contributions of more than \$250
  - Statement informing donor that deductible amount of contribution is amount of cash contributed less value of goods or services provided

## SUBSTANTIATING CHARITABLE CONTRIBUTIONS

- Individual contribution of non-cash property less than \$5000
  - Receipt or contribution statement
    - ✓ Donor's Name
    - ✓ Church's Name
    - ✓ Date
    - ✓ Location of contribution
    - ✓ Description but not value
  
- Individual contribution of non-cash property more than \$5000
  - Same as above
  - Complete and sign Part IV of Section B of donor's Form 8283 appraisal summary
  - Form 8282 Donee Information Return if church sells, exchanges, consumes, or disposes of donated property within two years of the date of contribution
  
- Donated services
  - No receipt to be given to donor; donated service is not tax-deductible by the donor
  
- Designated Contributions
  - To missionaries are deductible by the donor if it can be established that the contribution was for the use of a charitable organization (a church or religious institution have control or supervision over missionary)
  - Designating a specific beneficiary are not deductible by the donor
  - Anonymous recommendations in writing to the church board concerning specific individuals are allowable as long as only undesignated contributions are made to benevolence fund
  - Place an asterisk by nondeductible contributions on contribution statements

## MISCELLANEOUS INFORMATION:

### SALES TAX

- Non-profit entities in the state of North Carolina are allowed a semiannual refund of sales and use taxes paid by it on direct purchases of tangible personal property for use in carrying on the work of the nonprofit entity
- Claims for refund of taxes paid January-June are due to be filed by October 15<sup>th</sup> of that year
- Claims for refund of taxes paid July-December are due to be filed by April 15<sup>th</sup> of the following year
- Refund claims more than 3 years after the due date cannot be accepted
- Nonrefundable Taxes
  - Tax paid on the purchase, lease, or rental of motor vehicles
  - Tax on purchases of electricity, piped natural gas, local intrastate telephone services, and intrastate toll telecommunications services
  - Local occupancy taxes on receipts of hotels, motels, and similar type businesses
  - Local prepared food and beverage taxes
  - Scrap tire disposal tax
  - White goods disposal tax
  - Others states' sales and use tax