

UNIVERSITY BIBLE FELLOWSHIP

Financial Guidelines

A guide explaining treasury operations, procedures, and reporting for USA Chapters and N.A. Central H.Q.

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SOURCES – IRS PUBLICATIONS, ZONDERVAN 2014 CHURCH AND NONPROFIT TAX & FINANCIAL GUIDE

I. FINANCIAL ACCOUNTABILITY

“For we are taking pains to do what is right, not only in the eyes of the Lord but also in the eyes of men.”
2Cor 8:21

1. Independent Board

- The University Bible Fellowship Church encourages local chapters to appoint Elders (non-staff leaders) who meet regularly to pray and make decisions regarding ministry programs, oversea mission support, building projects, special offerings, staff appointments/evaluations, and housing allowances. Bi-monthly or at least quarterly, the Treasurer or Finance Director should distribute financial statements and give an oral report to the Board of Elders (leadership committee). Meeting minutes are documented by the Recording Secretary.

2. Financial Data Oversight

- Treasurers are to prepare financial statements monthly to be reviewed and approved by the Chapter Director.

3. Handling Donor-Restricted Gifts

- Special offerings taken for a specific purpose must be restricted for that purpose. Examples include: Uganda Bethesda Clinic, Relief, etc...

4. Evangelical Council for Financial Accountability (ECFA)

- UBF became a member of the ECFA on October 8, 2007. The ECFA provides accreditation to Christian non-profit organizations that faithfully demonstrate compliance with established standards for financial accountability, fund-raising, and board governance. ECFA assists member organizations in making appropriate public disclosure of their financial practices and activities.

II. TAX EXEMPTION

1. IRS Classification of UBF

- University Bible Fellowship is recognized by the IRS as a 501(c)(3) church organization that is exempt from federal income tax with a group exemption. UBF – HQ is a parent organization that can add chapters (subsidiaries) under its group number. U.S. chapters do not need to apply for their own exemption. See Appendix 1 for details regarding obtaining an EIN, opening a bank account, and being added to UBF’s group exemption.

2. Significant Tax Exemption Advantages & Limitations

- Advantages – Donors can benefit from a tax deduction for contributions. Organization will often qualify for exemption of state and local income taxes, property taxes, and certain sales and use taxes.

- Limitations – Organization must be engaged primarily in qualified charitable or religious endeavors. An organization may not engage in unrelated business activities (Appendix 2) or transactions resulting in private benefit or inurement (Appendix 3).

III. FINANCIAL RECORDS AND REPORTING

1. Financial Integrity

It is UBF board policy that all accounting and financial management be done with integrity and transparency, fulfilling the command of Jesus, the Light of the World, when he said “Let your light shine before men, that they may see your good deeds and praise your Father in heaven.” (Matthew 5:16, NIV) Integrity is defined as adherence to moral and ethical principles; soundness of moral character; honesty and avoiding self-serving (private benefit) of Pastors/Leaders/Elders/or any decision makers.

2. Treasurers and Disbursement Policy

- Chapter Treasurers are recommended by Chapter Directors and approved at the annual representative members meeting. Only Treasurers have check signing authority. One (or more – chapter may specify) signature(s) will be required on checks. University Bible Fellowship Church reimburses staff using an accountable reimbursement policy as outlined in IRS guidelines. Please see a sample policy in Appendix 4 and customize it for your chapter needs.

3. Expense Procedures and Approvals

- Expenses that are out of the ordinary (such as computers, audio visual equipment, or furniture) costing up to \$500 or to the amount specified in Appendix 7 (amount can be adjusted by local chapters) must receive documented approvals by the Chapter Director. Expenses over the Chapter Director’s limit must receive approval by the Board of Elders (leadership committee). This approval must occur before the items are ordered in order to assess adequate cash flow, budget, and competitive pricing. A signed voucher (see Appendix 5) must accompany receipts/invoices for payment to be made by the Treasurer. Capital acquisitions that are part of a building project must be pre-approved by the Board of Elders (leadership committee). The Board of Elders (leadership committee) must approve the initial building budget and must approve any changes to the budget. The decision and expense approvals made by the Board of Elders (leadership committee) must be included in the meeting minutes.
- Building purchases will be capitalized. Building improvements over \$10,000 (local chapters may adjust) with 5 years or more life may be capitalized. Equipment purchases will be expensed. Assets are valued at cost. Depreciation is provided on a straight-line basis over estimated useful lives ranging from 5 – 31.5 years.
- The Treasurer is authorized to pay bills of a routine nature (utilities, phone, copier, Bible center supplies, etc...). A filing system must be maintained for supporting documentation.

4. Handling Church Offerings

- Sunday offerings are put in a safe directly after the worship service by designated offering servant/assistant(s)/Treasurer. Offerings must be counted by at least two people. An offering report including the date, donor names, and amounts must be prepared. Donor restricted funds

are properly identified. (See Appendix 8 regarding offerings that may not be tax deductible) Accounting software or Excel worksheets or other means maybe used to keep a receipt record for donors' tax statements. The offering should be deposited as soon as possible.

5. Accounting Records

- Chapters are encouraged to use Intuit Quick Book Premier accounting software to keep accurate financial records. See Appendix 9 for a sample treasury report form and Appendix 10 for detailed expense categories. Contact the Central Treasurer for Quick Book software or an Excel template.
- UBF operates on a calendar year.
- A check register must be maintained.
- Bank reconciliations must be completed monthly for all cash accounts. As much as possible duties should be separated. Ideally, check signing and bank reconciliation duties should be separated.
- Financial Reports – A monthly financial report is prepared monthly within 10 days of the end of the month. The report (detailing income, expenses, and cash reconciliation along with explanations) is submitted to the Chapter Director for approval. Monthly reports will be presented to the Board of Elders (leadership committee) bimonthly and to the Central Treasurer in Chicago quarterly. The statement of activity provides year-to-date totals and a budget comparison.

6. The UBF Annual Finance Report

- U.S. and Canadian chapters submit a summary statement of activity (income statement), cash reconciliation, and budgets to the Central Treasurer by the 20th of January. The chapter reports are consolidated. The annual report also includes the Central (U.S. & Canada), Oversea, Special Offering, and UBF Press statement of financial position (balance sheet) and statement of activity (income statement).

IV. CHARITABLE GIFTS

1. Acknowledging and Reporting Charitable Gifts

- Contributors to University Bible Fellowship seeking a federal income tax charitable contribution deduction must produce, if asked, a written receipt if a single contribution value is \$250 or more. Thus, UBF has the burden to keep track and produce letters for our donors. Information to be included in the letter: donors name, the amount (cash), a description but not the value (property), and a statement explaining whether any goods or services were received in exchange for the contribution, the date of donation, and the date the receipt was issued. If goods or services were provided to the donor, a description and good faith estimation of their value, and a statement that the donor's charitable deduction is limited to the amount of the payment in excess of the value of goods and services provided. In Appendix 6, there is a sample donation letter that could be used by any chapter that is participating in UBF's group exemption. Donation receipt letters for the previous calendar year should be prepared and distributed by the end of January.

Appendix 1: Opening a Church Bank Account

First

Contact the North American coordinator. Let him know that your chapter is taking a weekly offering and needs to setup a church bank account.

He will prepare a letter on UBF letterhead that the bank will want to see as evidence that your chapter has been authorized to conduct “business” on behalf of University Bible Fellowship.

Second

Complete IRS Form SS4: Fields 1, 4, 6, 7a (Chapter Director), 7b (Chapter Director’s SSN), 8a – check no, 9a – check church and Group Exemption Number = 3148, 10 – check Banking purpose for depositing donations.

Third

Call the IRS at 1-800-829-4933 anytime between 7:00 a.m. - 10:00 p.m. to receive your EIN instantly. They will ask for the information from Form SS4. The IRS will send a confirmation of your EIN by mail.

Fourth

Email the Central Treasurer with your chapter name, director’s name, address and EIN. This information is required to update UBF’s group exemption directory with the IRS. Request UBF’s Articles of Incorporation and Federal Exemption Letter.

Fifth

Call the bank to see what documentation is needed to open a not for profit business checking account. At minimum you’ll need the EIN letter from the IRS, Letter from the North American coordinator on UBF letterhead authorizing your chapter, UBF’s Articles of Incorporation, and Federal Exemption Letter. Some banks may want to see your EIN listed in the UBF’s group directory. This can take time, even a couple of months, since the group directory can only be updated by mail. If the bank makes an additional request, contact the Central Treasurer for help.

Appendix 2: Unrelated Business Income (Rental Income, etc...)

Even though an organization is recognized as tax-exempt, it still may be liable for tax on its unrelated business income (UBI). Many of our UBF chapters have buildings and rent out a portion for the sake of promoting common life among students/young adults and stewardship of the building/Bible house. Is this rental income UBI?

UBI is income from a

1. trade or business,
2. regularly carried on,
3. that is not substantially related to its exempt purpose

If the rental of the Bible house space is to church members to promote common life and stewardship, it is related to UBF's charitable and religious exempt purpose and therefore not unrelated business income.

Unrelated Trade or Business does not include activities characterized by the following:

- **Volunteer Labor:** Excluded if substantially all the work is performed for the organization without compensation. Example - volunteer operated bake sales.
- **Convenience of Members:** Parking lots, vending machines, etc...
- **Selling Donated Merchandise:** Selling merchandise which was received as gifts or contributions. Example - thrift shop operations.

Rental Income

Even if the rental is to non-church members (rental activity has nothing to do with UBF's exempt purpose), nonprofits will still not be subject to UBI tax unless the property is financed by debt. If the property is financed by debt, a portion of the income is typically taxed as debt-financed income.

Exceptions to the debt-financed rules:

1. Use substantially all (85% or more) of any property for an organization's exempt purpose
2. Use of property by a related exempt organization to further its exempt purposes
3. Neighborhood land rule, if an organization acquires real property in its "neighborhood" and plans to use it for its exempt purposes within 15 years (churches).

Be aware of the types of activities that may create UBI and maintain careful and separate records in case of an audit.

If there is over \$1,000 of gross UBI in a given (tax) year, file Form 990-T.

Appendix 3: Private Benefit and Inurement

Nonprofit organizations must serve public, not private, interests. The private benefit prohibition applies to anyone outside the intended charitable class.

Excise taxes are imposed on “excess benefit transactions” between “disqualified persons”. An *excess benefit transaction* occurs when an economic benefit is provided by an organization, directly or indirectly, to or for the use of a disqualified person, in which the value provided by the organization exceeds the value received by the organization. A *disqualified person* is any person in a position to exercise substantial influence over the affairs of the organization (often referred to as an “insider”).

Private Inurement is an absolute prohibition that applies to a distinct class of private interests. These “insiders” may be founders, directors, officers, or significant donors. Transactions involving these individuals are not necessarily prohibited, but they are subject to reasonableness, documentation, and applicable reporting to the IRS.

Private inurement is a transfer of resources from a tax-exempt organization to an individual insider that creates a financial benefit for the individual, solely because of that individual’s close relationship with the organization and without regard to accomplishing the organization’s exempt purposes.

The following questions may be helpful in determining if private benefit or inurement has occurred:

- Did the expenditure further an exempt purpose, if so, how?
- Was the payment at fair market value, or represent reasonable compensation?
- Does a low or no-interest loan to an employee or director fall within reasonable compensation package?
- On an oversea trip, was a personal vacation added with expenses charged to the organization?

A two-tiered scheme of penalty taxes is imposed on insiders who improperly benefit from excess benefit transaction and on individual(s) who approve the illegal transactions.

First, a penalty tax of 25% of the total amount of excess benefit followed by a 200% tax if no correction has been made within a certain time period. Additionally, there is a 10% penalty on individual(s) who knowingly approve an excess benefit transaction.

Excess benefit and inurement transactions are grounds for an organization to lose its tax exemption.

Appendix 4: Accountable Reimbursement Policy

A written policy is necessary for chapters that reimburse individuals for ministry expenses.

The following is a sample policy:

ACCOUNTABLE REIMBURSEMENT POLICY

The following resolution is hereby adopted by University Bible Fellowship – Chapter Name. It will be effective for the calendar year 2014 and all future years unless specifically revoked or superseded.

Chapter Directors, UBF staff and individuals acting on behalf of the church will be reimbursed for ordinary and necessary business and ministry expenses incurred in the performance of his or her responsibilities when he/she substantiates the amount, business purpose, date, and place of the expense.

This substantiation must be provided to the Treasurer within sixty (60) days of incurring the expense. The individual must return to the church any amounts received in excess of the substantiated expenses within one hundred twenty (120) days of receipt. The church will not report any properly substantiated reimbursement payments as income on any Form W-2.

Chapter Director

Treasurer

Pastor/Staff Person

**This is only a sample. It can be customized to require pre-approvals by the chapter Director or dollar amount limitations.

Appendix 5: Sample Expense Voucher Form

The following form can be used to request payment or reimbursement for expenses pursuant to an accountable reimbursement plan.

University Bible Fellowship Expense Voucher	
Date: _____	Amount: \$ _____
Pay To: Name _____	
Address _____	
Description of Expense: _____	
Business Purpose of Expense: _____	
Receipt/Bill: <input type="checkbox"/> Attached	<input type="checkbox"/> No
Expense/Budget Category: _____	
Person Requesting Payment: _____	
Approved By: _____	
Special Instructions: _____	

Appendix 6: Sample Charitable Contribution Letter

University Bible Fellowship local chapter name
Local chapter address, phone number
(optional)

Date: _____

EIN: UBF local chapter EIN

This letter certifies that the Treasurer's records show that (name) of _____ (address) _____ offered (amount) _____ to the University Bible

Fellowship Church Local chapter name. No goods or services were given in exchange for this gift.

The University Bible Fellowship local chapter name is not a private foundation and is exempt under the provisions of section 501(c)(3) as described in section 509(a)(1) and 170(b)(1A)(i) of the Internal Revenue Code.

Contributions made to University Bible Fellowship local chapter name are deductible by donors in computing their taxable income in the manner and to the extent provided in section 170 of the Internal Revenue Code.

Sincerely,

University Bible Fellowship local chapter name, Treasurer

Appendix 7: Expense Authorization Limits

General Director: \$2,000.00

Senior Staff Directors: \$1,000.00

Chapter Directors: \$500.00

Appendix 8: Offerings That May Not Qualify as Tax Deductible

Earmarked Gifts

The church may take offerings for specific purposes - relief, building project, etc... Donors are free to make offerings to these funds (designated by the church) and the church has an obligation to restrict offerings for the intended purpose. However, donors cannot receive a charitable deduction receipt for offerings that are "earmarked" for individuals. Usually the donor is well intentioned and sometimes even the end recipient maybe the same. However, the church must be in control of offerings and designate their use according to its exempt (religious and charitable) purposes. In other words, care must be taken that the church is not used for the sake of a tax deduction as a conduit for private gifts. The church may setup benevolent/relief/mission fund(s) and donors may contribute to these funds, but it is the leadership of the church who decides the individuals who will benefit not the donor. The issue is that the church must retain control of an offerings for it to be eligible for a tax deductible receipt.

Strings Attached

An offering must be complete and irrevocable to qualify for a charitable deduction. There is no charitable deduction if the donor leaves "strings attached" that can be pulled later to bring the gift back or remove it from the control of the entity.

Services

No deduction is allowed for the contribution of services.

Use of property

No deduction is allowed for the gift of the right to use property.

Appendix 9: Treasury Report Form

	ACTUAL	BUDGET
INCOME		
World Mission		
Thanksgiving		
Sunday		
Special Designated Offering		
Other Income		
Total Income		
EXPENSES		
World Mission		
Bible America		
Relief		
UBF CHAPTER		
Personnel		
Leadership Training		
Building/Bible House		
Fellowship		
Administrative/Office		
Miscellaneous		
Total Expenses		
Net Income/(Loss)		
Beginning Cash		
Net Income/(Loss)		
Balance Sheet		
Adjustments		
Ending Cash		

Appendix 10: Detailed Expense Categories

WOLRD MISSION

World Mission Offering (Tithe to Central)
Direct Support to the Oversea Chapters
International Guest Hosting
Oversea Conference/Visiting (airfare, travel)

BIBLE AMERICA

Domestic Chapter Support
Domestic Conference/Visiting (airfare, travel)
Domestic Guest Hosting
Memberships
Meeting Meals/Snacks
Outreach Events (campus, neighborhood)

RELIEF

Relief - Outside Organizations
Relief - UBF chapters/people

UBF CHAPTER EXPENSES

PERSONNEL

Wages & Salaries
Pastoral Staff
Support Staff
Interns

Benefits
Retirement
Health Insurance (Medical & Dental)
Payroll Taxes(FICA)

Staff Meetings
Meals & Snacks

LEADERSHIP TRAINING

Education
Conference
Books

BUILDING/BIBLE HOUSE

Mortgage/Facility Rental Expense
Mortgage Interest Payment
Bible House Rental Expenses

Appendix 10: Detailed Expense Categories

Building Maintenance & Supplies

Repairs

Cleaning Supplies

Building Property & Liability Insurance

Landscaping/Snow Plowing

Automobile Expense

Worship Service Environment

Furniture - podium, chairs, and tables

Audio Visual

Decorations

Music Supplies - instruments, piano tuning

Utilities

Natural Gas

Electricity

Water & Sewer

Waste

FELLOWSHIP EXPENSES

Meetings and Celebrations

Coffee and cups

Elders/Fellowships/Leaders Meeting

HBF/MBF/CBF

Sunday Lunch

Special Celebrations

ADMINISTRATION & OFFICE EXPENSES

Contract and Professional Fees

Audit Fees

Legal Fees

Office Supplies

Printer Supplies

Postage

Telephone and Internet/cable

Vehicle Insurance/Maintenance

Dues & Subscription

Computer Equipment

Appendix 11: – Salaries for staff, W2s, and Housing Allowances

The IRS allows special tax provisions for ordained, commissioned, or licensed ministers. The IRS and courts apply certain tests to ministers serving local churches including whether the minister administers the sacraments, conducts worship services (including preaching, leading Bible studies, spiritual counseling, etc.), is considered a spiritual leader by the church, and if the minister performs management services in the “control, conduct, or maintenance of a religious organization.” It may not be necessary for a minister to meet all of these tests to qualify for the special tax treatment.

UBF chapter directors meet the IRS requirements and qualify for the special tax treatment of ministers.

The special tax provisions are:

1. No mandatory income tax withholding.
2. Exclusion for income tax purposes of the housing allowance and the fair rental value of ministry-owned housing provided rent free to clergy.
3. Treatment of clergy as self-employed for social security tax purposes and for income from ministerial services.
4. Potential double deduction of mortgage interest and real estate taxes as itemized deductions and as housing expenses for housing allowance purposes.

In making decisions regarding salaries, it is important to determine if a housing and/or utility allowance will be given.

- Advantage to the Chapter Director – exclusion of housing allowance from income tax
- Disadvantage to the Chapter Director – treated as self-employed for Social Security and Medicare purposes. The church cannot pay FICA.

The housing/utility allowance should be deducted from the total taxable (Box 1 on the W2) wages and entered in Other (Box 14 on the W2) with the words “Housing Allowance”.

For example: Pastor lives in his own home and receives a monthly salary of \$2,000. Of this salary, \$1,100/monthly is considered housing allowance.

For the month, \$900 (\$2,000 - \$1,100) would be federally taxable wages (Box 1 on the W2) and \$1,100 would be entered in Box 14 on the W2 under the caption “Housing Allowance”.

The entire \$2,000 would be subject to Self-Employment tax (Social Security and Medicare). However, this amount can be reduced by unreimbursed ministry expenses.

Additionally, actual housing costs must meet the housing allowance. If they do not, then the remainder should be added to line 7 of Form 1040 with the caption “Excess housing allowance”.

Appendix 11: – Salaries for staff, W2s, and Housing Allowances (continued)

In other words, if actual housing costs do not meet the housing allowance the pastor must pay income tax on the excess allowance.

Please refer to: www.irs.gov Publication 517 Social Security and Other Information for Members of the Clergy and Religious Workers. There is a comprehensive example in the back. It shows the W2, tax return, schedules, and expense deductions.

The same site also provides instructions for Forms W2 and W3. These forms cannot be downloaded. They must be ordered in advance through the IRS web-site. W2 forms must be distributed by January 31st and the W3 (summary of the W2s) must be mailed to the IRS by February 28th.

Appendix 12: Independent Contractors – Form 1099

- If a UBF chapter hires any independent contractor such as a repair man or babysitter for work related to UBF church, and pays \$600 or more during the calendar year, we need to issue them Form 1099-Misc.
- This is a mandatory requirement from the IRS regardless of the type of organization
- Ask the individual to complete Form W9 – request for their social security number
- Order forms and instructions for 1099 and 1096 from the IRS website
- Distribute payee copy of Form1099 to the independent contractor by January 31st and send the IRS copies with the 1096 transmittal summary by February 28th for the preceding calendar year.

Appendix 13: Document Retention

	<u>YEARS</u>
Bank Reconciliation	2
Bank Statements	4
Checks	7
Contracts, mortgages, notes and leases (expired)	7
Contracts, mortgages, notes and leases (still in effect)	PERM
Deeds, mortgages, and bills of sale	PERM
Depreciation schedules	PERM
Duplicate deposit slips	2
Employment applications	3
Financial statements (year-end, other optional)	PERM
General Ledgers	PERM
Insurance policies (expired)	3
Insurance records, current accident reports, claims, policies, etc.	PERM
Invoices (to customers, from vendors)	7
Minutes of board and committee meetings	PERM
Payroll records and summaries	7
Property records, including costs, depreciation reserves, year-end trial balances, depreciation schedules	PERM
Retirement and pension records	PERM
Scrap and salvage records (inventories, sales, etc.)	7

Appendix 12: Document Retention (continued)

Tax return and worksheets, revenue agents reports, and other documents relating to determination of income tax liability	PERM
Terminated Personnel	PERM
Withholding tax statements	7
Offering Report	7