

OMS Holiness Church of North America
Financial Record Keeping Guidelines for Local
Church 1998
Updated February 14, 2005

A. Establishing the Funds

1. According to the By-laws of the conference (Article XII), the fiscal year for the church begins June 1 and ends May 31.
2. For accounting purposes, normally the “cash basis” is used, which is simply keeping track of cash coming in (cash inflow) and cash going out (cash outflow) as it occurs.
3. Different “funds” are set up, in which the cash inflow of each fund is recorded. A fund is one which has a given purpose. Usually, the following funds are established:

General Fund – cash received/disbursed for general, administrative purposes; cash received that is not restricted for a given. The salary expenses for the pastor is part of the general fund.

Mission Fund – cash received designated for missions; cash disbursed for missionaries (foreign and domestic).

Building Fund – cash received designated for the building, including parsonage. This fund is for future construction or purchase of property, remodeling of the church property, and for major maintenance/repairs of church property. The term “church property” includes the parsonage.

Auto Fund – for the purchase of an auto for the church (pastor). Includes repairs and insurance for existing automobiles.

Other funds may be established.

4. For each funds, the following designations are often used:
Cash inflow – Revenues, Income, or Cash Receipts
Cash outflow – Expenses or Cash Disbursements
5. Monthly financial should be given to the board of deacons/trustees. There are two statements:
 - a. Cash receipts and disbursements (some may call it the Income Statement). In this statement, each fund is presented showing the beginning balance, the cash inflow and cash outflow, and the end balance. Details of the cash inflow/outflow is at the discretion of each church.

Also reported should be the total inflow and outflow of all the funds.

- b. The balance sheet. This is optional, but should be done at least once a year. On this statement, a partial “accrual” basis would be used.

As of the last day of the period (month or quarter of the year), the balance sheet should show all the assets and liabilities. The difference between Assets and Liabilities is the Fund Balance.

For all churches, the most meaningful assets are the liquid assets. A listing should be made of the dollar amount in each account (for example, Wells Fargo Checking Account \$23,000, Franklin Money Market Fund \$27,000, etc.) The dollar amount of property, Plant and Equipment need not be given, because the original cost is not meaningful. Simply list the assets without specifying an amount.

Liabilities would be Mortgage Payable or Insurance Payable, etc.

B. Assessment by Conference (based on Constitution and propositions passed at General Conference).

- 1. The conference assesses each local church 13.5% of all cash received except cash received and designated for the following:

Building Fund

Auto Fund

Missions Fund

Crisis Fund – helping people having financial difficulties

Love offerings for specific individuals, including the pastor for a special need.

Conference offerings, the total of which should go directly to the Conference and not kept by the local church, such as birthday offerings, offerings for General Conference, Founder’s Day, Conference Extensions Sunday, Church Planting and Expansion, and any other designated for the Conference.

Fellowship Group offerings (such as Women’s Group, Men’s Group)

Interest and dividends received from savings and investments

Money collected for other – the church acting as a collecting agent for someone else (example: the church may collect money for a JEMS luncheon).

All other offerings not designated by the contributor for the above purposes are assessable by the Conference.

2. The assessed amount should be sent to the Conference Treasurer. This should be monthly. The following is stated in the conference Financial Guidelines:

Each church is to make a monthly report along with the payment of assessments to the Conference Treasurer by the 20th of each month. The form is available from the Conference Treasurer.

C. The pastor's account.

For each pastor, the local church is responsible for the following payments.

1. **Straight** Salary. The minimum amount is specified by the Conference Financial Guidelines, **Appendix A**. Each year because of cost-of-living adjustments, the new **straight** salary schedule is sent to the local church. Ordinarily, the local church should receive this **by the end of February and the salary schedule is retroactive back to January 1.**
2. **Housing allowance: Housing is specified in the Conference Financial Guidelines. Included in the straight salary paid to the pastor is an amount for the cost of housing.**
3. Medical premiums. The Conference provides medical insurance for the pastors (**Kaiser for California and Hawaii and CIGNA for Arizona**). Of the cost of the premiums, the pastor pays **20%**, the local church pays **40%**, and the Conference pays **40%**. Each year the amount of the premiums changes and the new schedule is sent to the pastor and local church. The church should receive the new premium schedule in **January for California Kaiser, March for Arizona CIGNA, and April for Hawaii Kaiser. The new premium schedule is shown in Appendix C in the Conference Financial Guidelines.** The amount to be paid by the pastor and church should be sent to the Conference Treasurer **with the monthly assessment.**
4. **Child Supplement. Deleted. No longer applicable with straight salary schedule.**
5. Pension Fund. The local church pays a monthly amount to the pension fund for each pastor. The monthly amount is 10% x basic salary. (up to \$1,000 a month of basic salary) or \$100 maximum. This should be sent to the Conference Treasurer and should be designated for pension Fund.
6. **Self-Employment (SE)/Society Security Salary supplement. Society Security supplement was deleted. It is no longer applicable with straight salary schedule. The pastor is responsible to pay his own self employment (SE) tax. SE taxes should be paid by the pastor on a quarterly basis on Form 1040-ES.**
7. **Housing benefit for retiring pastors (RHB). When an ordained minister retires, he receives a housing benefit. After one year of**

service, an ordained minister is eligible to participate. Effective September 2000, pastors had the option to opt out of the conference RHB plan and put their funds in an individual 403B type plan. The new retirement plan is specified in the Financial Guidelines.

8. Other allowances. Book allowances are normally included in the pastor's straight salary. However, local churches can provide book allowance on a reimbursement basis. Churches are encouraged to give vacation and Christmas bonuses in addition to straight salary.
9. **Auto Expenses. Auto expenses are specified in the Conference Financial Guidelines. Basically, the church is responsible to provide an auto and all church business expenses for the pastor. If the auto is pastor owned, he is reimbursed church business expenses at the current IRS mileage rate.**

D. Pastor's Contract with Church

1. For tax purposes, the board of deacons/trustees should have a signed contract between the pastor and the church. This should be done by December for the next calendar year. This is important especially with respect to the housing allowance and reimbursable expense. Approval of the contract must be specified in the minutes of either the board of deacons or trustees.
2. A copy of the contract may be obtained from the chairperson of the Conference Finance Committee.

E. Budget for Church

1. The responsibility for preparing the church budget is that of the board of deacons/trustees. The proposed budget is part of the "Outlines and policies" presented to the congregation at the annual business meeting (By-laws, Article V.)
2. According to the Conference By-laws (Article V), the purpose of the budget is not only for planning purposes but also to give authority to certain people/groups within the church to disburse funds that have been appropriated, without having to seek approval from the board of trustees. When approved at the annual business meeting, the proposed budget becomes the official budget of the church, showing the appropriations for disbursements that are authorized by the board of trustees and the congregation. Any money disbursed that is not in the budget must receive approval of the board of trustees.

F. Internal Control

Contributors to the church expect that the church will establish normal internal control procedures. This is not a matter of "not trusting" anyone, but of being good stewards.

1. Confidentiality. Those who receive the contributions must understand that information about amounts given by individuals is not to be divulged to others.
2. Separation of duties
 Counting of money. At least 2 people should count the money.
 Deposit in bank. The person who deposits the money in the bank should not be one of the counters.
 Disbursement. It is recommended that all checks should be co-signed by two people. Those who disburse the funds should not be the same person who count the money.
3. All contributions must be accounted for. Deposits in the bank should be immediate.
4. Bank reconciliation. Every month when the bank statement is received, the treasurer should reconcile the bank statement. The “corrected balance” approach is simple. An example is as follows (with assumed amounts):

Balance per bank statement	\$45,900	Balance per books	\$48,300
Add: Deposits in transient	5,100	Add: Interest earned	
		From bank	84
	51,100		48,384
Deduct: Outstanding checks		Deduct	
#57	2,000	Bank service chg	104
#64	720		
Corrected Balance	\$48,280		\$48,280

5. It may not be feasible for a church to hire a CPA to audit the books. However, it can at least have two people in the church once a year confirm the cash balance, including money market funds and similar investments. The confirmation should include bank reconciliation and a review of the internal control procedures.
6. Receipts to contributors should be given at least once a year.

G. Tax Purposes

1. With respect to pastors:
 For income tax purposes, a pastor is considered an employee of the church and is given Form W-2, which must include all taxable compensation given by the church to the pastor. Housing allowance and related benefits are excluded. **Premiums for additional Life insurance benefits provide by the Conference is taxable and should be added in W-2, Blk 12. The Conference Treasurer will inform each church the amount of that is to be added to the W-2.**
 For Social Security purposes, a pastor is considered self-employed and must file Schedule SE (1040), which must include all taxable compensation. Housing allowance and related benefits are included.

2. Federal tax forms a church may need:
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| W-2 Wage and Tax Statement | To report annual income and withheld to employees. |
| W-3 Transmittal of income and Tax Statements | To transmit employee W-2 forms to Social Security Administration. |
| 941 Employer's Quarterly Federal Tax Returns | To report federal income withheld from employees wages. Due Quarterly. |
| 1096 Annual Summary and Transmittal of US Information Returns | To summarize for the IRS all Forms 1099 issued by an organization paying compensation to non-employees. |
| 1099-INT – Statement for Recipients of Interest Income | To report payment of interest in excess of \$10 to recipients. |
| 1099-MISC - Miscellaneous Income | To submit to individuals for sums of money that was paid to them during the year. Copy A to IRS, and Copy B to individual. |

(Anyone not an employee providing services to the church and paid more than \$600 during the year by the church must be given Form **1099-MISC**.)

3. Unrelated business income tax (UBIT) – Form 990-T
 This is very complicated issue. Certain profit-making activities conducted by the church is taxable. However, even if an activity falls under this category, there is a \$1,000 gross profit exemption. As an example, say you are selling a product for \$10 each. It cost you \$4 to buy it from a supplier for resale. Your gross profit is \$6 per unit. If the total units sold in the taxable year has a gross profit of \$1,000 or less, you DO NOT NEED to file 990T. If over \$1,000 gross profit, then you may need to file Form 990-T. If the church is running a nursery school, the probability is that the school qualifies as UBIT. If you have any questions, ask the conference treasurer.