North Georgia Conference Treasurer’s Office
Winter, 2018
Financial Administration Training

Keith Cox-678-533-1393
kcox@ngumc.org

Bruce Cooper-678-533-1394
bcooper@ngumc.org

Karen Fullerton-678-533-1382 (benefits)
kfullerton@ngumc.org
Finance Committee Responsibilities
Suggested Local Church Finance Minimum Standards – the following guidelines should be in place for all local churches as a measure of protection for those with financial responsibilities in the church. These minimum standards should be increased for churches with higher volumes of transactions but should not be compromised for lower volumes of transactions. All local churches are expected to meet these minimum standards.

- Treasurer and Financial Secretary should not be the same person and should not be in the same immediate family residing in the same household.
- Counting team (at least two unrelated persons) should count offerings and document totals – not treasurer and not financial secretary.
- Offering should be deposited the same or next business day.
- Offering count details should be given to financial secretary for recording.
- Offering totals should be given to the treasurer to record deposit.
- The Financial Secretary’s deposit log should be compared to the bank statement to verify deposits (by bank reconciliation reviewer).
- At least two persons should be listed as authorized signatures on all accounts.
- Financial policy and authority guidelines should be written and approved by the Finance Committee.
- Invoices should be required for all payments from all accounts.
- Someone other than the treasurer (with authority by Finance Committee) should approve invoices for payment.
- The Treasurer should make payments only after the invoice is approved.
- All accounts should be reconciled monthly.
- Someone other than treasurer should review bank reconciliation at least bi-annually – including bank statements, invoices, checks written, and financial reports.
- The Treasurer should make detailed report of budget and designated fund activities to the Finance Committee at least quarterly.
- There must be an annual evaluation of financial records – at least in as much detail as the Local Church Audit Guide (completed by May 1 for preceding year) – including ALL accounts of the church (except UMW may be under separate evaluation or audit).
- ALL accounts includes the general fund, building funds, designated accounts, cemetery funds, discretionary funds, etc.
- An full annual audit of ALL accounts should be done at least every three years for churches with annual operating budget more than $500,000 per year (completed by May 1 for preceding year).
- An full annual audit of ALL accounts should be done every year for churches with annual operating budget more than $1,000,000 per year (completed by May 1 for preceding year).
- W-2s must be issued for employees and 1099s issued for nonemployee compensation by January 31 for preceding year (federal law requirement).
- Payroll tax forms and deposits done as required for payroll amount (federal law requirement) – payroll reporting should be completed for the IRS and SSA by appropriate due date for filing method.
- Housing allowance or exclusions approved annually at charge conference and kept on file (federal law requirement).
- Prepare list of all church property for insurance purposes – include item description, serial number and value.
- Prepare list of safety deposit box contents – update authority as needed – access should be allowed by two unrelated people.
- Computer records are backed up and password protected for security.
- Number of persons required for regular financial procedures – four – financial secretary, treasurer, person to review and approve invoices, person to review bank reconciliation.

September 2009
Internal Controls
# Checklist for Protection of Church Finances

The following is Pastor’s checklist to help ensure adequate control over church finances.

<table>
<thead>
<tr>
<th>Control Points</th>
<th>Compliance?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Finance Committee is organized according to the 2012 Book of Discipline, including the designation of a Treasurer and Financial Secretary.</td>
<td></td>
</tr>
<tr>
<td>2. The Finance Committee Chairperson, Treasurer and Financial Secretary are not the same person, nor from the same family or household.</td>
<td></td>
</tr>
<tr>
<td>3. The church has a budget approved by the church Council.</td>
<td></td>
</tr>
<tr>
<td>4. Treasurer’s financial report is submitted at least quarterly. Results are compared to the budget and inquiries made of variances at Finance Committee meetings.</td>
<td></td>
</tr>
<tr>
<td>5. All checking and savings accounts are under control of the Treasurer. Investment accounts are accounted for and activity reported monthly to the Finance Committee.</td>
<td></td>
</tr>
<tr>
<td>6. At least two <em>unrelated</em> people count the weekly church offerings for deposit, and prepare the deposit slip. The deposit slip and deposit are placed in a bank deposit bag and locked. See 2012 Book of Discipline section 258.4(a), pages 198</td>
<td></td>
</tr>
<tr>
<td>7. Deposit slip stamped by the bank is given to the Treasurer for recording and comparison to the bank statement.</td>
<td></td>
</tr>
<tr>
<td>8. Annually the Finance Committee approves the signatories on all church bank accounts. <em>Pastor should NOT be a signatory on any church account.</em></td>
<td></td>
</tr>
<tr>
<td>9. Bank account reconciliations are performed monthly and reviewed by the Finance Committee Chairperson or designee at least quarterly. This review includes examination of copies of cancelled checks to ensure proper church purpose.</td>
<td></td>
</tr>
<tr>
<td>10. Quarterly, the Finance Chair asks the Treasurer at a committee meeting for documentation of timely payment of state and federal payroll taxes.</td>
<td></td>
</tr>
<tr>
<td>11. Annual audit is completed by a qualified person and reported to the Church Conference. <em>(See 2012 Book of Discipline, 258.4 (d), pages 198-199)</em></td>
<td></td>
</tr>
<tr>
<td>12. All financial records are retained in accordance with an appropriate record retention guidelines provided by the Conference Treasurer. <em>(Attached).</em> Records should be securely maintained at the church with duplicates of critical records kept off-site. <em>Pastor should have access to church records.</em></td>
<td></td>
</tr>
</tbody>
</table>

Checked and certified by Pastor: Signed __________________________ Date __________

Checked and certified by Finance Chair: __________________________ Date __________

**Resources:**

- Questions about internal controls over church finances can be directed to Keith Cox, Conference Treasurer, at 678-533-1393 or kcox@ngumc.org.
- The Local Church Audit Guide, developed by the General Council on Finance and Administration, and suggested Record Retention guide can be obtained from the GCFA website, www.gcfa.org
Trend on the rise: Eliminating or reducing the number of corporate credit cards

By Frank Karr, National Managing Partner, Not-for-Profit Industry Practice

Recently, one of our partners met with a client audit committee to discuss various controls and procedures. Part of the audit committee discussion centered on the use of corporate credit cards by employees of the not-for-profit organization.

The audit committee was surprised to hear that approximately 80 employees (one-third of the organization's employees) held corporate credit cards.

The organization's policy required that employees submit receipts with appropriate supporting documentation to the accounting department on a timely basis. However, since the organization directly paid the credit card bills, there was no incentive to submit timely receipts other than the threat to take away someone's credit card -- a threat that was rarely enforced.

This example of a credit card policy is very similar to many other not-for-profit organizations' policies. This type of policy often leads to credit card abuse. The typical problems encountered include employees failing to submit credit card receipts and other supporting documentation to the accounting department in a timely manner; submitting incomplete information or not submitting the required documentation at all.

Despite a strict policy forbidding the charging of personal expenses to these cards, this is an abuse that occurs often. Abusers also occur when employees have the ability to take cash advances on credit cards and use advances for personal use.

The following recommendations should be considered for implementation to enhance corporate credit card controls and procedures:

- Eliminate corporate credit cards and require employees to utilize their own credit cards to charge corporate expenses. Once receipts and other supporting documentation are submitted, employees would be reimbursed for these expenditures. The excuse often given for not implementing an expense reimbursement policy is that employees are forced to advance their own funds to pay corporate expenses. The reality is that, if employees submit their expense documentation in a timely manner, they will be reimbursed before their credit card payments are due.

- If an organization decides to continue its corporate credit card policy, limit credit cards to senior management and ensure card usage is closely controlled.
In addition, the purchasing department could use a corporate credit card to make bulk purchases.

- The corporate expenditures of the chief executive officer should be reviewed and approved on a periodic basis by a board member - typically either the chair of the board or the chair of the finance or audit committee.

- Organizations should have a written policy in place regarding the use of corporate credit cards and stipulate that credit cards cannot be used for personal charges. A minority of not-for-profit organizations permit employees to use credit cards for personal use and then reimburse the organization. This effectively results in an interest free loan to the employee, which is not an appropriate activity in today's environment.

- Organizations should have a written policy requiring that credit card receipts and other documentation be submitted in a timely manner. Multiple violations of this policy should result in termination of corporate credit card privileges.

- Corporate credit cards should not permit employees to take cash advances or have check writing privileges.

By maintaining close oversight of and strict controls over credit card usage, not-for-profit organizations not only mitigate the risk of fraud, but also further demonstrate to stakeholders their commitment to safeguarding funds.

Best regards,

Frank L. Kurre
National Managing Partner
Not-for-Profit: Industry Practice

---

**Next practice:** Enforcing gift policies with vendors

Gift policies stipulate what types of gifts employees can accept from vendors and potential vendors. Very few not-for-profit organizations, however, have placed the compliance burden for these policies on vendors or potential vendors. As a "Next Practice," board and senior management teams will likely focus more on this issue.

Many times these "gifts" are so small in nature for example, employees receiving free meals or invitations to various sporting and other entertainment events. Other times, the gifts are more extensive and may include items such as appliances, televisions or other commodities.

Organizations employ various degrees of gift policies for employees. Some organizations have established a policy which prohibits all gifts of any nature. Other organizations have limited gifts to those below a certain threshold (e.g., $25 per gift).

In the near future, more not-for-profit organizations may limit the ability of employees to receive gifts from vendors and potential vendors.

In addition to ensuring employee gift policy compliance, organizations should consider developing policies requiring certifications from vendors and potential vendors, relating to compliance with gift policies and the avoidance of conflicts of interest.

Board members and management need to be free from conflicts of interest and select vendors based on what is in the best interest of the organization. Gifts may limit the ability of individuals to make fair judgments as to the best vendors to select for the purchase of goods and/or services.

Enforcing gift policies with both employees and vendors ensures that only the quality of goods and services - not gifts - influence which vendors an organization chooses to work with.
Q: Our pastor asked the church board to provide him with a credit card in the church’s name since his credit rating was too poor for him to obtain one on his own. The board agreed to do so. It suggested the pastor would use the card for mostly personal expenses, and that he would reimburse the church for the charges he made. During the previous year he made $6,000 in charges to the card, and has paid back about half of this. What should the church do? Should we cancel the card? Was it an appropriate arrangement? How much of the charges, if any, should the church report as taxable income on the minister’s W-2?

A: There are several points to consider, including the following:

1. Incentives. One of the requirements for expeemsion from federal income tax is that none of a church’s funds or assets be used to benefit an employee. Other than as reasonable compensation for services, incentives may occur in many ways, including excessive compensation, payment of excessive rent, and the payment of personal expenses of an officer that the church didn’t characterize as compensation at the time of payment. It is possible that your pastor’s use of a church credit card for his own personal needs and expenses constitutes incentive, especially if he fails to reimburse the church for all personal charges. This exposes the church to a loss of its tax-exempt status.

2. Excessive benefits. The IRS deems any taxable fringe benefit (such as a credit card) provided to an officer or director of a tax-exempt charity (such as a church), which is not a reasonable cost for the minister, a personal benefit. The IRS determines a reasonable cost of a personal benefit by calculating the fair market value of the benefits, less any of the pastor’s actual expenses for personal use. If the cost of the benefit exceeds the taxable income of the minister, the excess amount is treated as a taxable income to the minister.

As a result, to the extent that a pastor uses a church credit card for some business expenses and fails to comply with the strict requirements for an accountable reimbursement arrangement, those charges constitute nonaccountable reimbursements. If the church fails to report them as taxable income on the pastor’s W-2 form, then this amount may be taxable fringe benefit that was not reported as taxable income, thereby rendering the pastor to intermediate sanctions assuming that he or she is an officer or director of the church. The penalty may be avoided if the pastor reports the benefit as taxable income, but this may happen if the church fails to do so.

3. Nonaccountable reimbursements. As noted above, a nonaccountable expense reimbursement represents taxable income to the employee. A reimbursement (including a charge to an employee’s credit card) is nonaccountable if it fails to meet all of the following requirements for an accountable plan:

   1. Only business expenses are reimbursed.
   2. No reimbursement is allowed without adequate accounting of expenses within a reasonable period of time, in this case, 60 days after an expense is incurred.
   3. Any excess reimbursement or allowance must be returned to the employer within a reasonable period of time (not more than 120 days after the excess reimbursement is paid).
   4. The reimbursement must come out of the employee’s funds and not by reducing the employee’s salary.

   The fact that the pastor fails to return the church all credit card charges (reimbursements) over and above substantiated business expenses within 120 days renders them nonaccountable.

4. Risk management. The best practice would be for a church not to provide a credit card to employees who, for whatever reason, are unable to obtain a card on their own. Such an arrangement may constitute prohibited incentive of church funds to a private individual, even if all charges are properly reported as taxable income since the employee’s effect is converting a church resource into a personal benefit.

In most cases, churches provide credit cards to employees as a convenient way to reimburse them for business expenses that they incur (travel, meals, church equipment, and so on). As long as a card is used primarily for business expenses, and the employee substantiates all charges on a timely basis under an accountable arrangement, reimbursing the church within 120 days is not an inclement personal expense. There are no problems.

To protect against abuses, church leaders should consider the following precautions:

   - Be sure your church has implemented an accountable reimbursement policy that only reimburses credit card charges that are adequately substantiated within 60 days of each expense, and that are required to refund any personal charges within 120 days.
   - Be sure your church reports nonaccountable reimbursements (those not fully complying with the requirements of an accountable plan) as taxable income.
   - Consider inserting “exempt fringe category codes” on church-issued credit cards that prevent the cards from being used at specified locations or with designated vendors or facilities (i.e., ATM machines, salons, drug stores, clothing stores). Most employers, including churches, are not aware of this option.
   - Impose low spending limits on each card.
   - Adopt a written policy for the use of church credit cards that fully explains how they may be used, the limitations and conditions that apply, and potential tax consequences. The lack of such a policy often leads to abuse. Be sure that your policy applies to all employees who use church credit cards, including the pastor.
   - Restrict the use of church credit cards to those employees with a legitimate need to charge purchases. Not all employees need access to a church credit card.
   - Issue separate church credit cards to each approved employee, which makes it easier to account for individual employee’s charges and enforce purchase limits.

To submit a question for consideration in a future Q&A, email CFeditor@ChristianityToday.com.
## Record Retention

<table>
<thead>
<tr>
<th>Document</th>
<th>How Long to Keep (Minimum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Articles of incorporation, amendments, bylaws</td>
<td>permanently</td>
</tr>
<tr>
<td>Certificate of incorporation and corporate records to the state</td>
<td>permanently</td>
</tr>
<tr>
<td>Tax returns</td>
<td>permanently</td>
</tr>
<tr>
<td>Work sheets and related backup documents for tax returns</td>
<td>7 years</td>
</tr>
<tr>
<td>Minutes</td>
<td>permanently</td>
</tr>
<tr>
<td>Annual corporate reports</td>
<td>permanently</td>
</tr>
<tr>
<td>Property records</td>
<td>permanently</td>
</tr>
<tr>
<td>Contracts and leases in effect</td>
<td>permanently</td>
</tr>
<tr>
<td>Insurance policies (including expired policies)</td>
<td>permanently</td>
</tr>
<tr>
<td>Insurance letters/correspondence</td>
<td>permanently</td>
</tr>
<tr>
<td>Audit reports of CPAs and financial statements</td>
<td>permanently</td>
</tr>
<tr>
<td>Employment applications (for current employees)</td>
<td>permanently</td>
</tr>
<tr>
<td>Bank statements and reconciliations</td>
<td>7 years</td>
</tr>
<tr>
<td>Canceled checks for standard transactions</td>
<td>7 years</td>
</tr>
<tr>
<td>Invoices from vendors</td>
<td>7 years</td>
</tr>
<tr>
<td>W-2 or 1099 forms</td>
<td>7 years</td>
</tr>
<tr>
<td>Housing allowance forms</td>
<td>7 years</td>
</tr>
<tr>
<td>Business correspondence</td>
<td>3 years</td>
</tr>
<tr>
<td>Employee personnel records (after termination)</td>
<td>3 years</td>
</tr>
</tbody>
</table>

Some of the suggested retention periods are for legal reasons, while others are based on practical considerations. You may want to keep some records longer than the table suggests.

1. It is an excellent idea for your organization to discuss and adopt a record retention policy. The above table gives you some suggestions on items to be included in the policy and time periods to be used.

2. When developing a record retention policy, it is important to think about where those files will be kept, how secure those files will be, and the conditions under which files will need to be stored (heat and particularly dampness can be very destructive to files).

3. Some of the reasons to keep files and records include legal requirements, potential relevance in future litigation, and the needs of the organization, as well as historic importance. It goes without saying that should there be threatened litigation or an investigation on a certain subject matter, particular care should be given that no file or document relating to that matter be destroyed.

4. Tax returns and governmental reports affecting tax liability should be kept permanently. However, most backup records, such as receipts documenting income deductions need only be kept for seven years. The Internal Revenue Service calls for a six-year statute of limitations. The IRS has three years from the date of when the income tax return is filed to question or audit it. If the IRS can prove an omission of at least 25% of income, the time period doubles to six years. Therefore, the seven-year period gives a one-year cushion beyond that time limit. While most churches are not required to file tax returns, these periods apply to any entity that must file, as well as individual filers.

5. Of particular importance is the retention of insurance policies and related documents. From time to time, lawsuits are brought which reach back many years. Therefore, it is important to determine the policy as of the time that a claim arose. Should those policies be missing, they can often be recreated by contacting your broker or insurance company to establish coverage.
UNITED METHODIST CHURCH
SAMPLE INTERNAL CONTROL POLICY and PROCEDURES

Applicability:

All funds administered by _________ United Methodist Church and church-issued credit cards.

Purpose:

To establish procedures to safeguard Church assets and to insure compliance with applicable regulatory guidelines/statutes.

Procedures:

I. Finance Committee Oversight

1. Finance Committee (FC) or its equivalent oversees work of Lay Treasurer. Lay Treasurer is accountable to the FC.

2. Finance Committee will meet at least on a quarterly basis to review specific financial information.

II. Management of Banking and Investment Accounts

1. Two (2) signatures shall be required on all checks AND authorizations for wire transfers or withdrawals from investment accounts.

2. There should be no more than one operating checking account and one payroll checking account.

3. There may be no more than four (4) authorized check signers

III. Church Credit or Purchasing ("P") Cards

While the issuance of "corporate" credit cards is discouraged, it is acknowledged that certain circumstances might necessitate their issuance.

Approved usages:

1. Airline Reservations
2. Lodging Reservations
3. Rental Car Reservations
4. Office Supplies. (This does NOT include the purchase of electronic devices, such as computers, cell phones, PDA's, or any equipment purchase over $100)

All other expenses should be paid/reimbursed from the Church checking account, pursuant to an Accountable Reimbursement Plan.
IV. Cash Procedures

1. Each church may establish a petty cash account not to exceed $100. The petty cash account shall be replenished as needed. Receipts must accompany the check to reimburse the petty cash fund, and must total the amount of the check. ALL expenses paid out of petty cash MUST be accompanied by a receipt, regardless of amount.

2. Safeguarding Cash – Other than petty cash, no cash should be kept on premises overnight. Miscellaneous cash receipts should be deposited weekly and never mixed with petty cash.

3. Deposits – Checks should be endorsed (stamped) “For Deposit Only” immediately upon receipt.

4. A “Receipts Log” should be used weekly before the deposit ticket is prepared. The receipts log can serve as additional supportive documentation when reviewing the monthly bank statement.

V. Review

The FC will review bank statements/reconciliations and credit card statements at its scheduled meetings.

The FC will review sample expenses reimbursements and other invoices at its scheduled meetings.

VI. Proper/Improper Reimbursement Items
Accountable Reimbursement Plan
Accountable Plans

To be an accountable plan, your employer’s reimbursement or allowance arrangement must include all of the following rules:

1. Your expenses must have a business connection — that is, you must have paid or incurred deductible expenses while performing services as an employee of your employer.

2. You must adequately account to your employer for these expenses within a reasonable period of time.

3. You must return any excess reimbursement or allowance within a reasonable period of time.

"Adequate accounting" and "returning excess reimbursement" are discussed later.

An excess reimbursement or allowance is any amount you are paid that is more than the business-related expenses you adequately accounted for your employer.

The definition of a reasonable period of time depends on the facts and circumstances of your situation. However, regardless of the facts and circumstances of your situation, elections that take place within the time specified in the following list will be treated as taking place within a reasonable period of time:

- You receive an advance within 60 days of the time you have an expense.
- You adequately account for your expenses within 90 days after you paid or incurred your expenses.
- You return any excess reimbursement within 120 days after you paid or incurred your expenses.
- You are given a periodic statement (at least quarterly) that asks you to either return or adequately account for outstanding advances and you comply within 120 days of the statement.

Employees meet accountable plan rules if they meet the three rules for accountable plans, your employer should not include any reimbursements in your income in box 1 of your Form W-2. If your expenses exceed your reimbursement, you do not complete Form 1099. You have no deduction since your expenses and reimbursements are equal.

TIP

If your employer reimburses you in box 1 of your Form W-2 and you meet all the rules for accountable plans, ask your employer for a corrected Form W-2.

Accountable plan rules not met. Even though you are reimbursed under an accountable plan, some of your expenses may not meet all the rules. Those expenses that fail to meet all the rules for accountable plans are treated as having been reimbursed under a nonaccountable plan (discussed later).

Reimbursement of nonaccountable expenses. You may be reimbursed under your employer’s accountable plan for expenses related to your employee’s business, some of which are deductible, and some expenses are not deductible. The reimbursement for the nonaccountable expenses do not meet rules (1) for an accountable plan, and they are treated as paid under a nonaccountable plan.

Example: Your employer’s plan reimburses you for travel expenses while away from home on business and for meals when you work late at the office, even though you are not away from home. The part of the arrangement that reimburses you for the nonaccountable expenses when you work late at the office is treated as paid under a nonaccountable plan.

TIP

The employer makes the decision whether or not to reimburse employees under an accountable plan or a nonaccountable plan. If you are an employee who receives payments under a nonaccountable plan, you cannot count these amounts to payments under an accountable plan by voluntarily accounting for your expenses and voluntarily returning excess reimbursements to your employer.

Adequate Accounting

One of the rules for an accountable plan is that you must adequately account to your employer for your expenses. You adequately account by giving your employer a written statement of expense, either an account book, diary, or similar record in which you itemize each expense and state that you paid or incurred your expenses. You are given a periodic statement (at least quarterly) that asks you to either return or adequately account for outstanding advances and you comply within 120 days of the statement.

Per Diem and Car Allowances

If your employer reimburses you for your expenses using a per diem or a car allowance, you can generally include the allowance as part of the amount of your expenses. A per diem or a car allowance satisfies the adequate accounting requirement for the amount of your expenses only if all of the following conditions apply:

- Your employer reasonably limits payments of your expenses to those that are ordinary and necessary in the conduct of the trade or business.
- This allowance is similar in form to and not more than the federal rate (defined later).
- You prove the time (dates, place, and business purpose) of your expenses to your employer as explained in Table 5-1 and retain a reasonable period of time.
- You are not related to your employer (not defined next). If you are related to your employer, you must be able to prove your expenses to the IRS even if you have already adequately accounted to your employer and returned any excess reimbursement.

If the IRS finds that an employer’s travel allowance procedures are not based on reasonable accounting methods of travel costs (including recognition of cost differences in different facilities per diem amount), you will not be considered to have adequately accounted for your expenses. In this case, you must be able to prove your expenses to the IRS.

Related to employer. You are related to your employer if:

1. Your employer is your brother or sister, half brother or sister, father, mother, son, daughter, or lineal descendant.
2. Your employer is a corporation in which you own, directly or indirectly, more than 10% in value of the outstanding stock, or
3. Certain relationships (such as grantor, beneficiary, or other) exist between you and your employer.

You may be considered to indirectly own stock, for purposes of (2), if you have an interest in a corporation, partnership, estate, or trust that owns the stock or if you are a member of your family or your partner owns the stock.

The Federal Rate. The federal rate can be figured using any one of the following methods:

1. Per diem amount:
   a. The regular federal per diem rate.
   b. The standard mileage rate.
   c. The high-low rate.
2. For car expenses:
   a. The standard mileage rate.
   b. A fixed and variable rate (FAVR).

Per diem and car allowances, use the rate in effect for the area where you stopped for sleep or rest.

Regular federal per diem rate. The regular federal per diem rate is the highest amount that the federal government will pay to its employees for lodging, meals, and incidental expenses (or meals and incidental expenses only) while they are traveling away from home in a particular area. The rates are different for different areas. Your employer should be able to obtain the rates available. (See Publication 15, Chapter 6.)
EXAMPLES OF REIMBURSABLE EXPENSES

Reasonable travel and related expenses for attending meetings (e.g., annual conferences, United Methodist meetings, etc.) Travel Expenses include:

- The cost of getting to and from your business destination (air, rail, bus, car, etc.)
- Telephone charges
- Meals and lodging while away from home
- Taxi fares
- Baggage charges
- Cleaning and laundry expenses

Lunch meetings with members of the District Finance Committee to discuss district office business

Church-related continuing education

Annual credit card fee up to $100 for personal credit cards used solely for business

“Going Away” Gifts to Long-Term or Retiring Employees (Pre-approval required—must not exceed $100)

Christmas meals with department staff.

Meals for nationally recognized events, such as Boss’s Day, Admin Assistant’s Day, etc.

Civic Club Dues

Quarterly staff lunches as part of departmental meetings/staff development meetings.

A computer required for church work, if one is not available at the office

DSL Line or equivalent, when required for remote computer/database/website maintenance

Church-related books and periodicals

Medical expenses related to international mission trips

Spouse’s travel expenses where the spouse accompanies the pastor but only if the spouse was required by the Conference to be present for a business purpose (e.g., the spouse is an elected delegate to the church meeting or group in charge of registration at the meeting and making a speech to the business meeting, etc.),

Business meals which include spouse.

Long distance telephone calls to the district office/conference office when on vacation

Professional Association Dues

12/11/2012
EXAMPLES OF NON-REIMBURSABLE EXPENSES

Professional license fees

Mileage to church from home for daily work (considered personal) -- mileage to home and back to church for lunch breaks -- also referred to as "commuting mileage".

Meals with co-workers only (when not traveling)-see exceptions on "Approved" list.

Spouse's travel under certain circumstances (see example of proper reimbursement in limited circumstances above) (See attached GCFA Memo)

Trips to visit a sick relative

Tickets to attend plays of a religious nature or otherwise

Gifts

Expenditures (e.g. travel, books, phone calls) to research a book.

Payments to an individual

Continuing education primarily for personal improvement (non-church related) unless approved by Supervisor or respective Board.

A computer used at home and equipment related to such computers

Alcohol, even as an item on a receipt for a business meal

Medical expenses (may be part of a cafeteria or flexible spending reimbursement plan)

Life or disability insurance premiums

Casualty losses

Medical insurance premiums (may be part of a cafeteria or flexible spending plan)

Charitable contributions, tickets to non-church related charity functions (United Way, etc.)
Expenditures related to a private business or generating income from a non-church source

Housing related expenses (e.g. utilities, furniture, upkeep (part of housing allowance))

Subscriptions to a national news magazine for the pastor's personal use (these subscriptions may be in the name of the District/Conference and mailed to the district/conference offices and paid by the district/conference)

Political contributions

*These items listed, in most cases, are improper. There may be some circumstances, particularly where the organization has directed the staff person to make the expenditure for organizational mission, when these items may be proper.

Exceptions must be approved by CF&A

Reimbursement for items on this list, or items which are not included on the "reimbursable" list must be included as income on the recipient's W-2 or 1099.
Reimbursement for Cell Phones

IRS NewsWire - Issue Number: IR-2011-83; September 14, 2011

IRS Issues Guidance on Tax Treatment of Cell Phones, Provides Small Business Recordkeeping Relief

WASHINGTON — The Internal Revenue Service today issued guidance designed to clarify the tax treatment of employer-provided cell phones.

The guidance relates to a provision in the Small Business Jobs Act of 2010, enacted last fall, that exempted cell phones from the definition of listed property, a category under tax law that normally requires additional recordkeeping by taxpayers.

The Notice issued today provides guidance on the treatment of employer-provided cell phones as an excludible fringe benefit. The Notice provides that when an employer provides an employee with a cell phone primarily for noncompensatory business reasons, the business and personal use of the cell phone is generally nontaxable to the employee. The IRS will not require recordkeeping of business use in order to receive this tax-free treatment.

Simultaneously with the Notice, the IRS announced a memo to its examiners a similar administrative approach that applies with respect to arrangements common to small businesses that provide cash allowances and reimbursements for cell-related use of personally-owned cell phones. Under this approach, employers that require employees, primarily for noncompensatory business reasons, to use their personal cell phones for business purposes may treat reimbursements of the employees’ expenses for reasonable cell phone coverage as nontaxable. This treatment does not apply to reimbursements of unusual or excessive expenses or to reimbursements made as a substitute for a portion of the employee’s regular wages.

Under the guidance issued today, where employers provide cell phones to their employees or where employers reimburse employees for business use of their personal cell phones, tax-free treatment is available without burdensome recordkeeping requirements. The guidance does not apply to the provision of cell phones or reimbursement for cell-phone use that is not primarily employees related, as such arrangements are generally taxable.

Details are in the memo and in Notice 2011-32, posted today on IRS.gov.

http://www.ngumc.org/pages/detail/1969
NGA
Mileage Report 2017

Your Name

Date:

<table>
<thead>
<tr>
<th>Date</th>
<th>Travel From</th>
<th>Travel To</th>
<th>Odometer Start</th>
<th>Odometer Finish</th>
<th>Mileage</th>
<th>Less Commuting Miles</th>
<th>Net Reimbursable Mileage</th>
<th>Business Purpose</th>
<th>Account Code or description*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total Miles 0.0
Mileage Rate $0.545
Total Reimbursement $ -

* If you are not sure, just describe which Conference program or department this disbursement relates to and the treasurer's office will assign the code.
North Georgia Conference
Check Requisition Form

Vendor
SS #
Address:

Date:

<table>
<thead>
<tr>
<th>Meal/Writing Type</th>
<th>Restaurant</th>
<th>Amount</th>
<th>Names of Attendees</th>
<th>Business Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Account Code or description*</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Other INCL/Mileage</th>
<th>Account Code or description*</th>
<th>Amount</th>
<th>Description</th>
<th>Business Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

$__________________________

Please attach supporting document and receipts AND MILEAGE log

If you have any questions please contact the Treasurer's office. Thank you.

__________________________
Receipient

__________________________
Authorizing Signator

* If you are not sure, just describe what the expenses pertain to and the treasurer's office will assign the code.

Check requisition form 2012
All About Apportionments
Remittance Form 2018
North Georgia Conference
United Methodist Church

Please note address:
North GA Conference Treasurer's Office
P.O. Box 102417
Atlanta, GA 30368-2417

<table>
<thead>
<tr>
<th>Church #</th>
<th>Church Name</th>
<th>District</th>
<th>Date</th>
</tr>
</thead>
</table>

### Apportionment Payments:

#### Annual Conference

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>001</td>
<td>Ministerial Support</td>
</tr>
<tr>
<td>002</td>
<td>Retired Minister Pension and Insurance</td>
</tr>
<tr>
<td>003</td>
<td>Administration</td>
</tr>
<tr>
<td>004</td>
<td>Conference Benevolences</td>
</tr>
<tr>
<td>005</td>
<td>Capital Funding</td>
</tr>
<tr>
<td>006</td>
<td>Higher Education</td>
</tr>
<tr>
<td>012</td>
<td>Church Development</td>
</tr>
</tbody>
</table>

#### General Church

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>007</td>
<td>Black College Fund</td>
</tr>
<tr>
<td>008</td>
<td>Ministerial Education Fund</td>
</tr>
<tr>
<td>009</td>
<td>Interdenominational Cooperation Fund</td>
</tr>
<tr>
<td>010</td>
<td>World Service</td>
</tr>
<tr>
<td>011</td>
<td>Africa University Fund</td>
</tr>
<tr>
<td>014</td>
<td>Episcopal Fund</td>
</tr>
<tr>
<td>015</td>
<td>General Church Administration</td>
</tr>
</tbody>
</table>

#### Southeast Jurisdictional Support

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>016</td>
<td>Jurisdictional Mission and Ministry Fund</td>
</tr>
</tbody>
</table>

### Advances and Special Offerings

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000</td>
<td>Children's Home</td>
</tr>
<tr>
<td>1010</td>
<td>One Great Hour of Sharing</td>
</tr>
<tr>
<td>1015</td>
<td>Global AIDS Awareness Day</td>
</tr>
<tr>
<td>1020</td>
<td>Human Relations Day</td>
</tr>
<tr>
<td>1030</td>
<td>United Methodist Student Day</td>
</tr>
<tr>
<td>1040</td>
<td>Christian Education Sunday</td>
</tr>
<tr>
<td>1147</td>
<td>Bishop's Appeal 2017 - Ministerial Education Fund</td>
</tr>
<tr>
<td>1159</td>
<td>Wesley Woods Mothers Day</td>
</tr>
<tr>
<td>1530</td>
<td>Peace with Justice</td>
</tr>
<tr>
<td>1669</td>
<td>World Communion</td>
</tr>
<tr>
<td>1670</td>
<td>Native American Awareness</td>
</tr>
<tr>
<td>2430</td>
<td>Wesley Woods Direct Mail Appeal</td>
</tr>
<tr>
<td>2760</td>
<td>Aldersgate Homes</td>
</tr>
<tr>
<td>2959</td>
<td>Housing and Homeless Offering</td>
</tr>
<tr>
<td>3140</td>
<td>Murphy Harpst</td>
</tr>
<tr>
<td>3300</td>
<td>Action Ministries</td>
</tr>
</tbody>
</table>

### List other benevolences as needed:

Send District Work Fund directly to district

Grand Total Check

(should agree to amount of check please)

Submitted by:

Treasurer: ____________________________

Phone: ______________________________

E-mail: ______________________________

(Needed in case we have a question about your remittance)
Interpretation of
2018 Conference Apportionment Budget


This budget includes a 1.3% salary increase for the Cabinet and 2.5% salary increase for UM Center staff.

General Church apportionments reflect an increase of 4.0%.

CONFERENCE FUNDS:

AREA I. MINISTERIAL SUPPORT
Episcopal Residence/Office/Discretionary $ 290,000
District Superintendents’ Compensation 1,871,550
District AA Pension/Ins 90,000
Equitable Compensation Fund 310,000
Board of Ordained Ministry 333,000
Total Area I $ 2,894,550

The Episcopal Residence and Office Fund provides the conference share of financial support for the office and residence expense for North Georgia's Resident Bishop. In 2018, the General Church share of residence support is $10,000, while the General Church's share of office support is $84,558. The increase in Area I is primarily due to the reestablishment of the full-time Executive Assistant to the Bishop position (This position was full-time from 1999-2011).

The District Superintendents' Compensation line item represents salaries, health insurance and pension benefits for the twelve (12) district superintendents of our conference.
The Equitable Compensation Fund enables our conference to ensure all appointed clergy will receive Conference minimum compensation.

The Board of Ordained Ministry coordinates, with the Cabinet, deployment and credentialing of clergy. Additionally, it coordinates the provision of support for conference clergy through myriad services, continuing education activities, seminars and counseling support, which is essentially a clergy-specific expanded EAP Program subsidized by the Annual Conference. This ministry enables our conference to meet the high standards and expectations of local church congregations.

**AREA II. RETIRED MINISTERS PENSION/INSURANCE**
- Retired Minister Insurance Premiums $2,125,000
- Benefits Office Staff and Admin Exp. 240,000
- Disability Premiums 210,000
- Retirees' Past Service Pension (Pre-1982) 500,000
- Retiree Medical Supplement Liability 500,000
- Total Area II $3,575,000

Retired Minister Pension/Insurance reflects funding in order to assure continued “full funded” status despite actuarial risk factors. Also included is the OneExchange defined contribution funding for the Heath Reimbursement Account for retired/eligible clergy and Conference staff. The amount is based on claims expenses passed on to the Conference by WesPath (formerly known as the General Board of Pension and Health Benefits). The benefit per claimant is currently capped at $3600/annum. This program allows us to manage and address the retiree medical insurance net unfunded liability, estimated to be $5,300,000 as of 12/31/2016.

**AREA III. ADMINISTRATIVE FUND**
Annual Conference Session/Journal/Handbook $ 190,000
This line item represents total direct Annual Conference session production expenses including documentation.

The following Area III office "sub totals" include director and staff salaries and benefits and office related expenses.
Office of Treasurer/Admin/IT Services  $ 640,000  
This office develops, maintains and administers a comprehensive plan of fiscal and administrative policies, processes and services for the all Conference's administrative ministries. Additionally, the office provides workshops for clergy and laity who serve as church treasurers, financial secretaries, business administrators and finance committee chairpersons. This office also administers all conference databases and computer equipment. The IT Director and assistant also provide support for the district offices.

Office of Ministerial Services and Spiritual Formation  $ 371,450  
This office provides for the many needs of those who have dedicated their lives to God's service through the church, including maintenance of clergy service records/files. This department also provides for credentialing and support of all conference clergy.

BOT/"New" Methodist Center Operating Expenses  $ 110,000  
This represents net operating expenses for the conference offices, including insurance and telephone service for the new leased space.

Council on Finance and Administration  $ 115,000  
This includes conference and district audit fees, legal fees and meeting expenses for CFA.

Cabinet Expenses  $ 75,000  
This represents expenses for Cabinet members related to Cabinet meetings, including Annual Conference session and Pastor's School.

Total Area III  $1,501,450

AREA IV. CONFERENCE BENEVOLENCES

**Connectional Ministries:**
- Administrative Support & Staff  $ 840,495
- Communications  $ 247,000
- Program/Ministry Teams  $ 237,000
- Camp and Retreat Ministries  $ 361,800
- Conference Leadership Development  $ 30,000

Sub Total Connect. Ministries  $1,716,295
The Connectional Ministries functions are responsible for equipping and training local church leaders for effective ministry.

**Action Ministries**  
$575,000  
This ministry continues the transformation of communities by counteracting social issues such as poverty, hunger and homelessness.

**Housing and Homeless Council**  
$10,000  
This line item will partially fund staffing and office expenses.

**Ministry of the Laity**  
$45,000  
The Conference Board of Laity fosters awareness of the role of laity both within the local congregation and through their ministries, develops and promotes stewardship, provides for training of lay members, provides support and direction for ministry of the laity and provides organization, direction and support for the development of local church leaders.

**Total Area IV**  
$2,346,295

**AREA V. CAPITAL FUNDING**

**CAPEX**  
$25,000  
This represents funding for office equipment, computers and replacement for 3 old PowerPoint projectors.

**UM Center Replacement Reserve**  
$250,000  
This is included in order to build a reserve fund to either continue leasing the UM Center after lease expiration, or to have funding to consider building.

**Total Area V**  
$275,000

**AREA VI. HIGHER EDUCATION AND CAMPUS MINISTRY**

**Total Area VI**  
$1,453,000  
This line item represents support to the nine (9) United Methodist Colleges (7 in NGA) and eighteen (18) Wesley Foundations (12 in NGA) on college campuses in Georgia. The balance goes to support office expenses and capital funding.
AREA XII. CONGREGATIONAL DEVELOPMENT

Total Area XII $2,544,800
This budget includes funding for the following activities:

The Office of Congregational Development and Staff - The salaries, benefits and expenses for personnel in the Office of Congregational Development.

New Church Salary and Support - These funds are used to underwrite the compensation packages of our new church pastors and also to provide some start-up funding.

Market Research - These funds are used to maintain a contract with a demographic consultant and to provide partnership opportunities with districts to develop district strategies.

New Pastor Coaching - These funds are used to conduct the NExT Clergy Leadership Development Program.

CONTINGENCY RESERVE $250,000

SUB TOTAL 2018 CONFERENCE BUDGET $14,840,095

GENERAL CHURCH FUNDS:

AREA VII. BLACK COLLEGE FUND
Total Area VII $493,788
This line item represents our denomination's support, via supplements, of the operations and capital funding of historically black colleges and medical schools related to the United Methodist Church, including Clark Atlanta University and Paine College.

AREA VIII. MINISTERIAL EDUCATION FUND
Total Area VIII $1,237,903
This ministry provides our churches financial support for the recruitment and education of our future pastors and bishops. Please note that our conference retains 25% of the fund balance for use in our conference. The retained fund
balance as of 12/31/2016 is $270,354. Scholarship grants can total $1,000 per semester for undergraduate studies (certified candidates only) and $3,000 per semester for seminary students with a lifetime maximum per student of $26,000.

AREA IX. INTERDENOMINATIONAL COOPERATION FUND

Total Area IX $ 96,813

This fund enables United Methodists to have a presence in the activities of ecumenical organizations, and provides our United Methodist share of the basic budgets of those organizations which relate to the ecumenical responsibilities of the Council of Bishops and the General Commission on Christian Unity and Inter-religious Concerns. Included in this fund in 2018 is support for:

National Council of Churches $29,300
World Council of Churches $25,680
World Methodist Council $22,700
Pan-Methodist Commission $ 1,170
Ecumenical Office and Travel $12,605
Interreligious Relations $ 1,760
Other $ 3,598

AREA X. WORLD SERVICE FUND

Total Area X $ 3,665,107

The World Service Fund enables our denomination to strengthen its evangelism efforts, stimulate church growth, expand Bible studies and enrich spiritual commitment. This fund allows us to share in a worldwide ministry, including support for missionaries.

AREA XI. AFRICA UNIVERSITY

Total Area XI $ 110,508

This fund supports the development of the first private university for young men and women from all over Africa. Courses of study include agriculture, theology, medicine and dentistry, education, technology and management.

AREA XIV. EPISCOPAL FUND

Total Area XIV $ 1,085,388

This fund pays the annual salaries (approximately $155,000) and benefits of active bishops worldwide and some support for the retired bishops worldwide, funds the majority of the expenses related to episcopal offices and a portion of
episcopal residence expenses. It also funds episcopal travel and moving expenses. 51 Jurisdictional and 18 Central Conference bishops receive support from this fund. The salary for active U.S. Bishops in 2018 will be $159,162.

**AREA XV. GENERAL ADMINISTRATION FUND**

| Total Area XV  | $435,202 |

This area funds those General Church activities that are specifically administrative in nature, such as the General Council on Finance and Administration, General Conference session, Archives and History and Judicial Council.

**SUBTOTAL 2018 GEN CHURCH BUDGET**

$7,124,709

For more information on the General Church Budget go to:

**AREA XVI. JURISDICTIONAL MISSION & MINISTRY FUND**

| Total Area XVI  | $56,000 |

This area supports the administrative functions of the Southeastern Jurisdiction.

**GRAND TOTAL 2018 BUDGET**

$22,020,804

**How Are Apportionments Computed?**

**Step 1:** Conference determines annual budget, consisting of several ministries and programs, including retired ministerial support, regional ministries, new church development, General Church and Jurisdictional apportionments to the North Georgia Conference.

**Step 2:** At calendar year-end, the local church completes the Local Church Report to the Annual Conference. (For the 2018 recommended budget, the latest available reports are the 2016 year-end reports.)

**Step 3:** The Treasurer's Office accumulates all local church reports and determines each local church's **operating expenses**. **Operating expenses** consist of salaries, pension benefits, clergy housing-related expenses, expense
reimbursements, current program expenses, expenses related to commercial insurance and other current operating expenses. Operating expenses (also referred to as "decimal" expenses) do NOT include: Elder HealthFlex insurance expenses (Table 2, Line 47 of the Year-End Report), payments on indebtedness, or capital-related expenditures. Also, expenses related to "self-sustaining" activities and local benevolences are NOT considered operating expenses.

**Step 4:** The Treasurer's Office totals the local church operating expenses for ALL 850+ North Georgia United Methodist churches. For year end 12/31/2016, this total was $193,585,604 (an increase of 0.907% over 2015).

**Step 5:** We determine "the decimal." This is the conference budget divided by total church operating expenses (from step four). The decimal for 2018 is .114, or 11.4%. This is a reduction of 0.2 percentage points from the 2017 budget. This means that the Conference budget, expressed as a percentage of local church expenditures, in aggregate, is down 1.7% versus the 2017 budget (0.2/11.6).

**Step 6:** We multiply an individual church's operating expenses by the decimal, arriving at the total gross apportionment. We then prorate the gross apportionment to fifteen individual apportionment line items.

**Step 7:** Churches above 1000 members will have a "reasonableness test" applied to their apportionments (see formula below), and the Cabinet might adjust the computed apportionments for certain churches within that size range. This methodology was approved at AC 2006.

**Step 8:** We sum the apportionment for each individual district and send this information to the district offices. District Superintendents review the apportionments as calculated, and may make adjustments to the calculated amounts. Such adjustments should be made only after discussion with the church's senior pastor. Note that the District’s aggregate apportionments cannot be changed.

**Step 9:** District superintendents notify local churches of their apportionment amounts. This information is provided to the pastors via "Local Church Apportionment Reports" at the summer/fall district set-up meetings.
Please note that churches that are considered "newly constituted" have 5 years to transition into their full computed apportionment. In effect, the difference between their computed apportionment and what they are actually apportioned is subsidized by the other churches in the Conference for a five year period. (This is accomplished generally by apportioning in increments of 20% of computed apportionments per year for 5 years-20% in year 1, 40% in year 2, etc.)

**Detailed Explanation of Step 7 as originally approved at 2006 Annual Conference Session (and re-ratified each year since):**

In order to assure that our apportionment computation and allocation system is as equitable as possible, we recommend that a "reasonableness test" be implemented, which will work as follows-

a. Existing apportionment formula and rules for year-end report completion remain unchanged.

b. After the apportionments have been computed for all churches, three (3) comparative groups will be established-churches with membership from 1000-1999; 2000-2999; 3000+

c. The aggregate apportionments for each group will be divided by the aggregate membership of each group in order to calculate an average apportionment/member for each group.

d. Any church whose apportionment/member falls below the average for its group will be referred to the Cabinet for discussion about possibly being moved up to the group average over a three (3) year period. Group average calculations will occur each year based on the latest reported membership statistics.

e. The Cabinet will review the apportionments for the churches in all 3 groups and will, as a body, discuss and might make adjustments to each church whose apportionment is below the average for its size range.

f. Apportionments added to the affected churches will not be offset by reductions in other churches, and will be applied to Conference-specific apportionment line items ONLY and will NOT be added to General or Jurisdictional line items.

**Information Only**
Note: Information reported by our churches on the year end “Table III” report, which is a report of revenues, indicates the following:

- Aggregate amount received through pledges $129,492,538
- Aggregate amount received through non-pledging, identified givers $126,262,201
- Aggregate amount received from Unidentified givers $5,966,226

Total “normal” giving $261,720,965

The 2018 budget, expressed as a percentage of aggregate “normal” revenues, is 8.4%.
Through You and Your Giving: a video overview on apportioned giving

"What are apportionments and what do they do?" Perhaps you are a clergy or lay person who has either been asked that question ... or you have found yourself asking it! This video will help you understand the United Methodist apportioned giving system. It also is a spring-board that introduces a few of the North Georgia Conference ministries that apportioned giving supports. Because of your giving, we are better able to make disciples of Jesus Christ for the transformation of the world.

Apportionments and Church Giving (/giving)

Apportioned Giving Distribution Tool (http://www.ngumc.info/calculator/)

Churches that paid 100% in 2014 (/churchesatthepaid100_2014)

Churches that paid 100% in 2015 (/churchesthatpaid100)

Interpretation of 2016 Conference Apportionment Budget (/budgetinterpretation)
Through You and Your Giving: a video overview on apportioned giving (/throughyou)

Contact Us
© 2013 North Georgia Conference
United Methodist Church web(at)ngumc.org
678-533-1399
New Address:
1700 Century Circle NE
Atlanta, GA 30345

Sign up for our newsletters
Get all the latest information

Subscribe now ➔ (http://northga-email.brtapp.com/subscribe)

Connect with us

(https://twitter.com/connectngumc)  (https://www.facebook.com/NGaUMC)
(https://instagram.com/ngumc/)  (https://www.youtube.com/channel/UCHvkBOgTcYDb6-UyBGM35Wg)
(http://www.pinterest.com/ngumc)

Open hearts. Open minds. Open doors.
NORTH GEORGIA CONFERENCE
COUNCIL ON FINANCE AND ADMINISTRATION
HOW THE 2018 CONFERENCE APPORTIONMENT BUDGET WAS DEVELOPED

Local Church → North Georgia Conference Budget

North Georgia Conference Budget →

UMC General Agencies and SEJ

Higher Ed and Action Ministries

Connectional Programs and Ministries
NORTH GEORGIA CONFERENCE

COUNCIL ON FINANCE AND ADMINISTRATION

HOW THE 2018 CONFERENCE APPORTIONMENT BUDGET WAS DEVELOPED

1. The "General Church" sets priorities and develops programs at the General Conference Session for a four (4) year period (the quadrennium). The new quadrennium began in 2017 and runs through 2020

   The financial support for those worldwide ministries is apportioned to the Annual Conferences, which, in turn, apportions those amounts to the local churches. The 2018 General Church Apportionments are $7,124,709 or 32.4% of the 2018 total recommended Conference Budget. This is based on the budget approved by General Conference for the new quadrennium ($604M).

   The United Methodist Church is a worldwide, connectional denomination and every United Methodist church has the opportunity to support, via apportioned giving, our conference, regional and worldwide ministries.

2. Conference-based and Conference-subsidized programs and ministries requested funding based on their plans and priorities for the upcoming year. These plans are developed by program "conferencing" via staff as well as those serving on boards and committees, such as the Board of Church Development, the Board of Laity, the Board of Pensions and Health Benefits, the Board of Ministry, Action Ministries, et.al.
Representatives from several programs/ministries and their board chairpersons, if applicable, presented their requests to CFA via email and/or in person. CFA reviewed these requests on February 13, 2017.

Those requests were then put in the draft budget.

3. On March 10, 2017 CF&A met to review the draft budget. During this meeting, CF&A made very minor adjustments to the draft budget based on several factors, including: budget changes compared to change in local church expenditures; departmental fund balances; apportionment collection rates from prior years; feedback from the local churches, the Cabinet and other members of the Annual Conference; CF&A made a decision to slightly reduce the Conference portion of the budget. However the percentage allocable to mission and ministry initiatives continues to increase. The total approved budget for 2018 is $22,020,804, a decrease of $113,292 (-0.5%) from the approved 2017 budget.

**Note that our General Church apportionments increased by 4.0%.**

4. Through a series of District "pre-Conference briefings", District Superintendents, utilizing instructional videos prepared by Conference staff, briefed delegates (members) to annual conference on highlights of the budget.

5. During Annual Conference Session, the budget was presented to members of annual conference, who represent all local churches.

After the recommended budget was approved, Conference staff calculated the local church apportionments, which represent each church's "share" of the Conference and world-wide ministry and mission, using the apportionment calculation methodology described the "Budget Interpretation."

*The apportionments will be provided to each District Superintendent, who may alter individual apportionments within his/her district, but not the total amount for the district. It is expected that the DS will have conversations with the affected churches about any changes in the calculated apportionments.*

Final apportionments are distributed, by church, by the DS at his/her appointed District setup meeting in late summer/early fall.

*The Conference Treasurer's Office will NOT communicate apportionments to any church until after the 2017 District set up meetings have concluded!*
Once the set up meetings have concluded, 2018 apportionments will be posted on the Conference website
Year End Statistical Reporting
End of Year Reports: Reference Materials

Reports are to be submitted online through Data Services (https://data.ngumc.org) annually in January.

The deadline for 2017 reports is January 31, 2018.

The reports for the new quadrennium (2017-2020) have new line numbers.
There are also a few changes to the questions.

Generate a report showing the 2016 amounts on the new 2017 lines.

Materials for the new quadrennium.


Table 1 - English (2017-2020) (/files/fileslibrary/endofyearreports/table 1 - english.pdf)

Table 1 - Korean (2017-2020) (/files/fileslibrary/endofyearreports/table 1 - korean.pdf)
Health Insurance
### 2018 Employee Cost by Med Plan

<table>
<thead>
<tr>
<th>Plan</th>
<th>Monthly Costs</th>
<th>DC Above DC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family</td>
<td>$112.00</td>
<td>$6.32</td>
</tr>
<tr>
<td>2-Party</td>
<td>$9.00</td>
<td>$5.00</td>
</tr>
<tr>
<td>Single</td>
<td>$4.00</td>
<td>$2.50</td>
</tr>
</tbody>
</table>

### Optional Dental & Vision Plans - Monthly Rates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Family</td>
<td>$69.00</td>
<td>$68.00</td>
<td>$66.75</td>
<td>$66.25</td>
<td>$65.00</td>
<td>$65.50</td>
</tr>
<tr>
<td>2-Party</td>
<td>$4.00</td>
<td>$4.00</td>
<td>$3.75</td>
<td>$3.72</td>
<td>$3.50</td>
<td>$3.50</td>
</tr>
<tr>
<td>Single</td>
<td>$2.00</td>
<td>$2.00</td>
<td>$1.75</td>
<td>$1.72</td>
<td>$1.50</td>
<td>$1.50</td>
</tr>
</tbody>
</table>

### Contractor (Clergy/Lay) Responsible

<table>
<thead>
<tr>
<th>Church or Employee Responsible</th>
<th>CRSP DB</th>
<th>DB CRSP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Time</td>
<td>DB</td>
<td>CRSP</td>
</tr>
</tbody>
</table>

### North Georgia Conference

Participating health plans are covered by pre-tax payroll deduction. Participants are responsible for premium costs (excluding employee healthflex defined contribution). Benefits are provided by the employer and may vary among the plans. Participants will have a choice of.

### Clergy/Lay 2018 HF Defined Contribution (DC) Paid by Employer/NGC

- **500 Above Limits**: $1,375 (10%)
- **201-499 Limits**: $1,250 (Base)
- **101-200 Limits**: $1,125 (10%)
- **1-100 Members**: $1,095 (13%)

### These Rates

- **Newly Appointed**
- **Continued**
- **Governing Body**

2018 North Georgia Conference UMC
W-2 Information
<table>
<thead>
<tr>
<th>a Employee's social security number</th>
<th>OMB No. 1545-0008</th>
</tr>
</thead>
<tbody>
<tr>
<td>b Employer identification number (EIN)</td>
<td>1 Wages, tips, other compensation 2 Federal income tax withheld</td>
</tr>
<tr>
<td>c Employer's name, address, and ZIP code</td>
<td>3 Social security wages 4 Social security tax withheld</td>
</tr>
<tr>
<td></td>
<td>5 Medicare wages and tips 6 Medicare tax withheld</td>
</tr>
<tr>
<td></td>
<td>7 Social security tips 8 Allocated tips</td>
</tr>
<tr>
<td>d Control number</td>
<td>9 Verification code 10 Dependent care benefits</td>
</tr>
<tr>
<td>e Employee's first name and initial</td>
<td>Last name Suff.</td>
</tr>
<tr>
<td>f Employee's address and ZIP code</td>
<td>11 Nonqualified plans 12a</td>
</tr>
<tr>
<td></td>
<td>13 Statutory employee Retirement plan Third-party 12b</td>
</tr>
<tr>
<td></td>
<td>14 Other 12c</td>
</tr>
<tr>
<td></td>
<td>15 State Employer's state ID number 15a</td>
</tr>
<tr>
<td></td>
<td>16 State wages, tips, etc. 17 State income tax 18 Local wages, tips, etc. 19 Local income tax 20 Locality name</td>
</tr>
</tbody>
</table>

**W-2 Wage and Tax Statement**

Copy 2—To Be Filed With Employee's State, City, or Local Income Tax Return

Department of the Treasury—Internal Revenue Service

2017
Instructions for Employee (continued from back of Copy C)

F—Elective deferrals under a section 408(k)(6) salary reduction SEP

G—Elective deferrals and employer contributions (including nonelective deferrals) to a section 457(b) deferred compensation plan

H—Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan. See "Adjusted Gross Income" in the Form 1040 instructions for how to deduct.

J—Nontaxable sick pay (information only, not included in boxes 1, 3, or 5)

K—20% excise tax on excess golden parachute payments. See "Other Taxes" in the Form 1040 instructions.

L—Substantiated employee business expense reimbursements (nontaxable)

M—Uncollected social security or RRTA tax on taxable cost of group-term life insurance over $50,000 (former employees only). See "Other Taxes" in the Form 1040 instructions.

N—Uncollected Medicare tax on taxable cost of group-term life insurance over $50,000 (former employees only). See "Other Taxes" in the Form 1040 instructions.

P—Excludable moving expense reimbursements paid directly to employee (not included in boxes 1, 3, or 5)

Q—Nontaxable combat pay. See the instructions for Form 1040 or Form 1040A for details on reporting this amount.

R—Employer contributions to your Archer MSA, Report on Form 8853, Archer MSAs and Long-Term Care Insurance Contracts.

S—Employee salary reduction contributions under a section 408(p) SIMPLE plan (not included in box 1)

T—Adoption benefits (not included in box 1). Complete Form 8839, Qualified Adoption Expenses, to compute any taxable and nontaxable amounts.

V—Income from exercise of nonstatutory stock option(s) (included in boxes 1, 3 (up to social security wage base), and 5). See Pub. 525, Taxable and Nontaxable Income, for reporting requirements.

W—Employer contributions (including amounts the employee elected to contribute using a section 125 (cafeteria plan) to your health savings account. Report on Form 8889, Health Savings Accounts (HSAs),

Y—Deferrals under a section 409A nonqualified deferred compensation plan

Z—Income under a nonqualified deferred compensation plan that fails to satisfy section 409A. This amount is also included in box 1. It is subject to an additional 20% tax plus interest. See "Other Taxes" in the Form 1040 instructions.

AA—Designated Roth contributions under a section 401(k) plan

BB—Designated Roth contributions under a section 403(b) plan

DD—Cost of employer-sponsored health coverage. The amount reported with Code DD is not taxable.

EE—Designated Roth contributions under a governmental section 457(b) plan. This amount does not apply to contributions under a tax-exempt organization section 457(b) plan.

FF—Permitted benefits under a qualified small employer health reimbursement arrangement

Box 13. If the "Retirement plan" box is checked, special limits may apply to the amount of traditional IRA contributions you may deduct. See Pub. 590-A, Contributions to Individual Retirement Arrangements (IRAs).

Box 14. Employers may use this box to report information such as state disability insurance taxes withheld, union dues, uniform payments, health insurance premiums deducted, nontaxable income, educational assistance payments, or a member of the clergy’s parsonage allowance and utilities. Railroad employers use this box to report railroad retirement (RRTA) compensation, Tier 1 tax, Tier 2 tax, Medicare tax and Additional Medicare Tax. Include tips reported by the employee to the employer in railroad retirement (RRTA) compensation.

Note: Keep Copy C of Form W-2 for at least 3 years after the due date for filing your income tax return. However, to help protect your social security benefits, keep Copy C until you begin receiving social security benefits, just in case there is a question about your work record and/or earnings in a particular year.
Attention:

You may file Forms W-2 and W-3 electronically on the SSA’s Employer W-2 Filing Instructions and Information web page, which is also accessible at www.socialsecurity.gov/employer. You can create fill-in versions of Forms W-2 and W-3 for filing with SSA. You may also print out copies for filing with state or local governments, distribution to your employees, and for your records.

Note: Copy A of this form is provided for informational purposes only. Copy A appears in red, similar to the official IRS form. The official printed version of this IRS form is scannable, but the online version of it, printed from this website, is not. Do not print and file Copy A downloaded from this website with the SSA; a penalty may be imposed for filing forms that can’t be scanned. See the penalties section in the current General Instructions for Forms W-2 and W-3, available at www.irs.gov/w2, for more information.

Please note that Copy B and other copies of this form, which appear in black, may be downloaded, filled in, and printed and used to satisfy the requirement to provide the information to the recipient.

To order official IRS information returns such as Forms W-2 and W-3, which include a scannable Copy A for filing, go to IRS’ Online Ordering for Information Returns and Employer Returns page, or visit www.irs.gov/orderforms and click on Employer and Information returns. We’ll mail you the scannable forms and any other products you order.

See IRS Publications 1141, 1167, and 1179 for more information about printing these tax forms.
Earnings Calculator*

Fill in requested information, and then click CALCULATE to see amounts.

**Area I of the Clergy Financial Support Worksheet**
Base Compensation $0.00

FSA – Flexible Spending Account (Medical), and Health Insurance $0.00

UMPIP - UM Personal Investment Program - Clergy person’s voluntary contribution to the pension plan $0.00

**Area II of the Clergy Financial Support Worksheet**
Utilities and Other Parsonage-Related Allowances Paid To Or For The Pastor $0.00

**Area III of the Clergy Financial Support Worksheet**
Housing Allowance (excludable income - utilities and parsonage-related allowances are excludable) (minimum housing for full time clergy is $17,600 for 2015 and 17,600 for 2016) $0.00

**Total for Area 1 + Area 2 + Area 3** $0.00

**W-2 Statement Calculations:**

Box (1) is the total of Area 1 - (FSA, Health Insurance, and UMPIP) $0.00

Box (12) is UMPIP $0.00

Box (14) is the total of Area 2 + Area 3 $0.00

* Additional entries may be required (i.e. excess life insurance) to have an accurate W-2. Please contact the Treasurer's Office if you have any questions, and for assistance in completing your W-2 completed properly.

** Please note that these numbers assume one FULL YEAR’S compensation.

(Printed: 1/27/2017 8:22:33 AM ) Revised 1/20/2017
Miscellaneous Tax Info
Welcome To GCFA Group Ruling Website

We are excited to offer this service to our local churches, annual conferences, and other ministries within the United Methodist connection. We hope you will find this online application to be a straightforward and convenient process for obtaining a group ruling certification letter for your organization. To begin the application, please click the 'Begin Application' button below.

If you have any questions or difficulties with the application, please use the links available throughout the application to contact GCFA's Legal Services Department.

Thank you for this opportunity to serve you and your ministry.

A. Moses Rathn Kumar
General Secretary and Treasurer

Contact the GCFA Legal Services Department at legal@gcfa.org.
For technical support please contact the Web Site Administrator at support@gcfa.org.
560-12-2.22 Churches, Religious, Charitable, Civic and Other Non-Profit Organizations.

No exemption is granted to churches, religious, charitable, civic and other non-profit organizations. They are required to pay the tax on all purchases of tangible personal property. Further, when such organizations engage in selling tangible personal property at retail, they are required to comply with provisions of the Act relating to collection and remittance of the tax.

IT ALL STARTED WITH MACARONI:
A TRIP THROUGH THE SHADOWY WORLD OF UBIT

By Mark B. Edwards

TABLE OF CONTENTS

I. It All Started With Macaroni ................................................................. 2
II. Thus Says The Code .............................................................................. 3
III. What Constitutes a "Trade or Business?" .............................................. 4
IV. When is a Trade or Business "Regularly Carried On?" ............................. 5
V. When is a Business "Not Substantially Related" to the Exempt Purpose .... 6
VI. Exceptions Provided by the Code For Certain Business Activities ....... 7
VII. Exclusion of Certain Income Provided by the Code ............................... 8
VIII. Debt Financed Income and Deductions ............................................. 10
IX. The Keys - Answers to Discussion Problems ....................................... 12

This outline was prepared for the 2005 Legal Forum by Mark B. Edwards (former Chancellor, Western North Carolina Annual Conference)

© September 2005 Mark B. Edwards
IT ALL STARTED WITH MACARONI:

A TRIP THROUGH THE SHADOWY WORLD OF UBIT

By

Mark B. Edwards

I. It All Started With Macaroni

A. In 1946, Henry Mueller, majority stockholder of the C. F. Mueller Co., died. H. T. Sorg, a business broker, conceived the idea of using the company as a vehicle to help the Law School of New York University. He put together a plan under which the University bought the company with 100% financing and operated the company thereafter. Profits from the sale of macaroni and other products went to the Law School.

B. The Internal Revenue Service sought to collect income tax on the earnings of the macaroni company, stating that it was unrelated to the University's educational purposes. The United States Tax Court agreed. C. F. Mueller Co. v. Comm'r, 14 T.C. 922 (1950).

C. On appeal, the Third Circuit Court of Appeals reversed the Tax Court, pointing out that the governing law looked only to the destination of the funds (i.e., the tax exempt university) and not to the source of the dollars. C. F. Mueller Co. v. Comm'r, 190 F.2d 120 (3rd Cir. 1951).

D. In making its decision, the Court of Appeals had the luxury of knowing that, in the previous year, Congress had changed the statute, effective for tax years beginning after December 31, 1950.

E. These new statutes, embodied in sections 421 to 424 of the Internal Revenue Code of 1939, extended the concept of "unrelated business income" to the charitable world.

F. The purpose of the tax on unrelated business income is stated to be as follows:

1. The problem at which the tax on unrelated business income is directed is primarily that of unfair competition. The tax-free status of §501 organizations enables them to use their profits tax free to expand operations, while their competitors can expand only with the profits remaining after taxes. . . . In neither the House Bill nor your committee's bill does this provision deny the exemption where the organizations are carrying on unrelated active business enterprises. Both provisions merely impose the same tax on income derived from an unrelated trade or business as is borne by their competitors. S. Rep. No. 2375, 81st Cong. 2d Sess. 27 (1950), 1950-2 C.B. 483, 504.
2. Thus there entered into the vocabulary of churches the acronyms UBIT (unrelated business income tax) and UBTI (unrelated business taxable income).

G. It was not until the Tax Reform Act of 1969, however, that the concept of "unrelated business income" was applied to churches for years beginning after December 31, 1969. See Regs. §1.511-2(a)(3)(iii).

II. Thus Says The Code

A. The provisions relating to the tax on unrelated business income (hereafter "UBIT") are now set forth in sections 511 to 514 of the Internal Revenue Code of 1986 (hereinafter the "Code").

B. Charitable organizations described in §501(c)(3) are subject to the UBIT. §§511(a)(2)(A), (b)(2); Regs. §1.511-2(a)(1)(i), (b)(1).

1. This includes churches and conventions or associations of churches. Regs. §1.511-2(a)(3)(iii).

2. And churches cannot avoid these provisions by using subsidiaries because:
   a. §502 provides that an organization operated for the primary purpose of carrying on a trade or business for profit is not eligible for exemption from taxation because all of its profits are payable to an exempt organization.
   b. A subsidiary of an exempt organization is a nonexempt feeder organization if the subsidiary is operated for the primary purpose of carrying on a trade or business that would be an unrelated trade or business if regularly conducted by the exempt parent organization. Reg. §1.502-1(b).
   c. A feeder organization is not subject to the UBIT because it is not an exempt organization, but it is subject to the regular income tax provisions.

C. The statutory process for determining the income subject to the UBIT (this income figure being called the Unrelated Business Taxable Income or UBTI) is set forth as follows:

1. §511 imposes a tax on the UBIT of an exempt organization.

2. §512 requires the organization to include in UBTI the gross income derived from any unrelated trade or business it carries on, reduced by allowable deductions applicable to the activity, subject to certain modifications and exclusions.

3. §513 defines what an unrelated trade or business is.
4. §514 adds to UBTI a special kind of income, income derived from debt-financed property.

D. These rules are incredibly complicated and, being inherently factual, have generated extensive and ongoing litigation. We cannot hope to cover them in any great detail due to limitations in space and time. However, a general statement of the rules can be made. From the statutory provisions and the regulations issued by the Internal Revenue Service to explain them, a three-part test has been developed for determining UBTI. See Reg. §1.513-1(b). As articulated by the United States Supreme Court in U.S. v. American Bar Endowment, 477 U.S. 105, 109-110 (1986), gross income from an activity carried on by an exempt organization is subject to UBIT if the following three criteria are present:

1. The activity constitutes a “trade or business;”

2. The activity is “regularly carried on” by the organization; and

3. The conduct of the activity is “not substantially related” to the performance of the organization’s exempt purpose.

E. Our next step is to examine each of these three tests to see how it is applied.

III. What Constitutes a “Trade or Business?”

A. The term “trade or business” includes any activity that is carried on for the production of income from the sale of goods or the performance of services. §513(a).

1. Under §162, a trade or business is generally an activity engaged in for the primary purpose of generating income or profit.

2. This profit motive test is often used by the courts and the Service to determine if an activity of an exempt organization is a trade or business.

3. Other factors to be considered in making this determination include the degree of involvement by the organization, the making of a substantial profit over a period of time, and whether the activity is similar to activities engaged in by commercial enterprises.

4. The Regulations offer this statement of the rationale of the statute:

   a. The primary objective of adoption of the unrelated business income tax was to eliminate a source of unfair competition by placing the unrelated business activities of certain exempt organizations upon the same tax basis as the nonexempt activities business endeavors with which they compete. Regs. §1.513-1(b).
b. Thus passive investment activities of the exempt organization are not considered to be a trade or business. See *Hill Family Foundation v. U.S.*, 347 F. Supp. 1225 (D. Minn 1972).

c. Moreover, as we will see later, dividends, interest, royalties and other income from investment activity are expressly excluded from the UBIT under §512(b).

B. Here are some factual examples for discussion:

1. A church maintains a shop within its facilities. The shop sells bibles, religious books, and souvenirs of the town in which it is located. Is there any application of the UBIT? [See Key IX.A.]

2. A church has a wilderness area near to the town in which it is located. It conducts regular retreats for its members and permits others to use the facilities at other times for a small charge. UBIT? [See Key IX.B.]

IV. When is a Trade or Business “Regularly Carried On?”

A. In determining if a business is “regularly carried on,” the most important considerations are the frequency and continuity with which the activities are conducted, and the manner in which they are pursued. Regs. §1.513-1(c)(1).

1. One test is to compare the time span over which the activity is operated with the normal time span of comparable commercial activities of taxable enterprises. Regs. §1.513-1(c)(2)(i).

2. If the activity is an intermittent one, that is, one that is carried on discontinuously or periodically, it is generally not considered to be regularly carried on if it is conducted without the competitive and promotional efforts typical of commercial activities. Regs. §1.513-1(c)(2)(ii).

3. And if the activity is both intermittent and infrequent, neither the recurrence nor the manner of conduct will cause them to be treated as “regularly carried on.” Regs. §1.513-1(c)(2)(iii).

B. Here are some factual examples for discussion:

1. A church has an extensive facility in a downtown location. Its parking lot is used for its members, staff and students through the week and on Sundays. On Saturday, however, the parking lot is available to members of the public for a fee comparable to nearby private lots. Is there a question of taxation? [See Key IX.C.]

2. A church located near the state capital operates a sandwich stand for two weeks each year at the state fair. Its prices are comparable to private operations at the fair. Query! [See Key IX.D.]
3. A church sells Christmas cards to its members. The sale starts in September with the delivery of the cards to the members asking for a "contribution". There are follow-up mailings to the congregation over an eight-week period. Are the card sales regularly carried out? [See Key IX.E.]

V. When is a Business "Not Substantially Related" to the Exempt Purpose

A. To be liable for the UBIT, the exempt organization must carry on a business "the conduct of which is not substantially related...to the exercise or performance by such organization of its...function constituting the basis for its exemption under section 501,... §513(a); Regs. §1.513-1(a).

B. A trade or business is a related business if the conduct of it has a causal relationship to the achievement of an organization's exempt purpose, and for the business to be "substantially related," the causal relationship must be a substantial one. Regs. §1.513-1(d)(2). Put another way, the conduct of the business activity must contribute importantly to the accomplishment of the organization's exempt purpose. Regs. §1.513-1(d)(2).

C. This determination is essentially a factual one, to be decided by the court or IRS after an examination of all the facts and circumstances.

1. One factor considered is the size and extent of the business activity in relation to the nature and extent of the exempt function that the activity purports to serve. Regs. §1.513-1(d)(3).

2. Another factor is the nature of the benefit derived by the exempt organization. If the activity benefits individual members in proportion to the payments they make, the activity is likely to be deemed unrelated.

D. NOTE: the fact that the organization uses the profits from the activity for one or more exempt purposes does not in itself make the underlying business activity a related one. §513(a).

E. Here are some factual examples for discussion.

1. A church operates a parish nurse program. Frequently the nurse given shots to members of the congregation, things like flu shots, tetanus shots, insulin shots, etc. A fee is charged over and above the cost of the medicine being administered. Query. [See Key IX.F.]

2. A church has recently erected a new family life building offering to the congregation a full range of exercise and athletic options. Members of the general public are permitted to use the exercise facilities upon payment of a fee. Is there exposure to the UBIT rules? [See Key IX.G.]
3. A church organizes travel tours for its members to sites of religious meaning. An outside tour company handles the arrangements and remits a portion of each traveler’s fee to the church. The church handles all promotions, and the senior pastor goes on the journey to answer questions and to lead worship services. There is entertainment nightly and optional side trips are offered. Related or not? [See Key IX.H for more discussion and factual variations.]

VI. Exceptions Provided by the Code For Certain Business Activities

A. Even if a trade or business would otherwise be deemed unrelated within the meaning of the statute, Congress has provided some exceptions to remove some of them from the reach of the UBIT.

B. There are a ten (10) exceptions from the definition of “unrelated trade or business” currently provided in the Code. However, not all of them are relevant to normal church affairs. Those that are relevant are as follows:

1. Section 513(a)(1) provides that a trade or business in not deemed “unrelated” if substantially all the work done in the business is done for the organization without compensation. This is commonly referred to as the "volunteer exception."

   a. The volunteer exception is not restricted to a particular kind of business so long as the performance of services (done by the volunteers) is a material income-producing factor. Rev. Rul. 78-144, 1978-1 C. B. 168.

   b. There are three questions commonly encountered in this exception:

      (1) What constitutes the “work” related to the activity?

      (2) What constitutes “substantially all” of the work?

      (3) Do non-monetary or insubstantial benefits constitute “compensation” to the workers?

   c. Factual example: The UMW of a church operates a retail store that sells merchandise to the general public. No important exempt function of the church is served by the activity, and all profits are used in the work of the UMW. All work in operating the store is done by the ladies who receive no compensation. Is this exempt from UBIT? [See Key 9.]

2. Section 513(a)(3) provides that there is no unrelated trade or business where the exempt entity sells merchandise, substantially all of which has been received as donations. This is called the "thrift shop" exception because...

   a. This was enacted specifically to exempt from the UBIT the proceeds of thrift store sales. Regs. §1.513-1(e).
b. While there are no specific guidelines as to what constitutes “substantially all,” most commentators believe that the exception is available if at least 85% of the merchandise is donated. See Regs. §1.5149B0-1(b)(1)(ii).

c. Factual example: Same facts as in paragraph 1.c above except that all items sold by the store are donated by local merchants upon the request of members of the UMW. While many of the clerks are volunteers, the daily manager and the bookkeeper are salaried and full time employees. UBIT? [See Key IX.J.]

3. Section 513(f)(1) exempts the income from certain bingo games from the scope of UBIT. Section 513(f)(2) sets out three requirements to be met for this exception to apply:

a. The game is conducted where the wagers are made, winners are determined and the prizes are paid in the presence of all persons participating in the game.

b. The game is not an activity ordinarily carried out on a commercial basis.

c. The conduct of the game does not violate any state or local law.

VII. Exclusion of Certain Income Provided by the Code

A. Even if the business is regularly carried on and not related to the exempt purposes and not covered within one of the exceptions mentioned above, there are some types of income (as distinguished from businesses) that is not subject to the UBIT.

B. Again, not all of these exclusions are relevant to activities carried on by churches, but the following ones are.

1. Section 512(b)(1) removes passive income and related deductions from the scope of the UBIT. Included are the following items:

   a. Dividends;
   
   b. Interest;
   
   c. Annuities; and
   
   d. Royalties.

2. Of these, only royalties have generated much controversy. In general, a royalty is a payment for the use of a right, regardless of whether the property represented by the right is used. See Com'x v. Wadehouse, 337 U.S. 369 (1949).
a. Royalties are normally received from books, stories, plays, copyrights, trademarks, trade names, formulas and patents. They are also received from utilization of natural resources such as coal, oil, minerals or timber. See Regs. §1.61-8(a).

b. Royalties do not include sums received for services rendered. Rev. Rul. 81-178, 1981-1 C.B. 135. Thus an exempt organization can lose royalty status if it is actively involved in the development and/or management of the underlying asset.

c. Factual example: The senior minister of a UM church writes a book and transfers ownership of the copyright to the church. Situation 1 – The church arranges for the printing, publicity and retail sale of the book, including advertising. Situation 2 – The church licenses the publication rights to a commercial publisher in return for stated royalties. In which case, if either, does UBIT apply? [See Key 11.]

3. Certain rents are also exempt from UBIT under §513(b)(3).

a. Rents are exempt if they are from real property and if they are from personal property leased with the real property, provided that the rents from personal property must be incidental to the real property rental. §513(b)(3)(A) and (C); Regs. §1.512(b)-1(c)(2)(i).

b. Rents are not exempt under three circumstances:

(1) The exclusion does not apply if more than 50% of the total rent is attributable to personal property. §513(b)(3)(B)(i).

(2) The exclusion does not apply if the rents are determined in whole or in part by the income or profits of the rented assets. §513(b)(3)(B)(ii).

(3) The exclusion does not apply to payments for the occupancy of rooms where services are also rendered to the tenant. Regs. §1.512(b)-1(c)(5).

c. Factual example: A church is asked by a local cellular company to lease space within its steeple for placement of a telephone antenna. Will UBIT apply here? [See Key 12.]

4. Finally, the Code excludes from UBIT all gains or losses from the sale or exchange of property other than inventory-type assets or property for sale to customers in the ordinary course of business. §512(b)(3).

5. Factual example: A UMC conference center sells lots to people who wish to live there and take advantage of its program of learning. The center also provides municipal services (water, trash collection, road maintenance, etc.) to
individuals living there. It also provides amenities such as tennis courts, golf
course and swimming pool, which can be used by residents for a small fee.
Which income, if any, is subject to UBIT? [See Key 13.]

VIII. Debt Financed Income and Deductions

A. Under §514, certain income and deductions that otherwise would be outside the
scope of UBIT are included because they are received because of debt financed
property.

B. The term “debt-financed property” is defined in §514(b)(1) as property (real or
personal) having the following two characteristics:

1. The property is held to produce income; and

2. There is acquisition indebtedness with respect to the property at any time
during the tax year.

C. The income required under characteristic one can be any kind of income –
dividends, interest, royalties, rents, even capital gain upon sale. Regs.§1.514(b)-(1)(a).

D. The second characteristic – that there be an acquisition indebtedness – means a
debt incurred in connection with the acquisition or improvement of the property,
whether the debt is incurred before, after or at the time of the acquisition or
improvement. §514(c)(1).

E. As always under the Internal Revenue Code, there are exceptions to the general
rules. Those which would be relevant for church activities are as follows:

1. The concept of debt-finance property does not include property whose use is
substantially related to the conduct of the exempt functions of the
organization. §514(b)(1)(A).

   a. Property is considered “substantially related” of 85% or more of its use is
devoted to the exempt function. §514(b)(1)(A)(i).

   b. If less than 85% is so used, the portion used for exempt purposes can still
be exempt while the balance is taxable. §514(b)(1)(A)(ii).

2. The term does not include property to the extent income from it is already
subject to the UBIT. §514(b)(1)(B).

3. Property used in a trade or business that is excepted from UBIT under the
volunteer exception or the donations exception is not subject to the debt-
financed property rules. §514(b)(1)(D).
4. Perhaps most importantly for churches, the debt-financed rules do not apply to land acquired for a prospective exempt use within 15 years of the date of its acquisition. §514(b)(3).

a. Generally the land must meet the following requirements under §514(b)(3)(A) for this exception to apply:

(1) The property is real property to be used within 10 years for a substantially related purpose;

(2) The property is in the neighborhood of other land owned by the organization and used in a substantially related function; and

(3) The organization does not abandon its intent to use the property for exempt purposes within 10 years.

(4) To expand upon the “neighborhood” requirement, Regs. §1.514(b)-1(d)(1) provides these requirements:

(a) The acquired property is contiguous with the previously owned property;

(b) The acquired property would be contiguous but for a road, street, railroad, stream, etc., or

(c) It is located within one mile of such property and it is not reasonable to purchase closer property.

b. For churches, these rules are modified to exclude the neighborhood requirement and to extend the time period to 15 years. §514(b)(3)(E).

c. Thus if a church acquires property for use in an exempt function commencing within 15 years of the acquisition, the property is not debt-financed property so long as the church does not abandon its plan.

d. However, after the first 5 years of the period, the church must obtain a ruling that the exempt use is likely to commence within the 15-year period. Regs. §1.514(b)-1(c)(2).

F. Here are some factual examples to discuss.

1. A church no longer needs its educational building so it sells it for $3,000,000. It receives $1,000,000 down and a mortgage for $2,000,000. It then builds a new educational building for $4,000,000, paying $1,000,000 and borrowing $2,500,000 from a bank. It retains the mortgage received in the sale as an investment. If there any debt-financed property here? [See Key 14.]
2. A church is building a new sanctuary. During the process, a cellular telephone company indicates a desire to lease space in the steeple for an antenna. In order to accommodate the antenna, the height and dimensions of the steeple are changed and an extra $250,000 is borrowed to pay for the changes. [See Key IX.O.]

IX. The Keys—Answers to Discussion Problems

A. Rev. Rul. 73-195, 1973-1 C.B. 264. The sales of souvenirs were held to constitute income subject to UBIT

B. Rev. Rul. 78-98, 1978-1 C.B. 167. Use by the public was held to be taxable. Query, could a church find comfort in its exempt purpose of evangelism and outreach?

C. Regs. §1.513-1(c)(2)(i). The parking lot was held to be regularly carried on.

D. Regs. §1.513-1(c)(2)(i). Held not to be regularly carried on.

E. Veterans of Foreign Wars v. Commanders, 89 T.C. 7 (1987). Held the sales were regularly carried on.

F. Rev. Rul. 68-374, 1968-2 C.B. 242 (Situation 1). Held not related to purposes of the hospital where sales were to the public. If sales limited to the congregation, perhaps result would be different.


H. Regs. §1.513-7(a) provides that the determination of whether travel is "related" to the exempt function is a factual determination to be made on a tour-by-tour basis. In Regs. §1.513-7(b), seven examples are set forth, of which Examples 1 and 7 are most closely on point. In both cases, the tours were deemed to be unrelated to the exempt purposes.

I. Regs. §1.513-1(c). Held to be within the volunteer exception.

J. Regs. §1.513-1(c). Held to be within the thrift shop exception.

K. See Rev. Rul. 69-430, 1969-2 C.B. 129. In situation 1, UBIT applies, but in Situation 2, it does not because of the royalty exception. But note that the ruling said "the book does not contribute importantly to the exempt purpose." Query, what if the book were a book of devotions or theology?

L. Probably exempt.
M. TAM 200047049. Sales of lots is UBTI; municipal services are exempt; and user fees from persons not registrants in its programs are also UBTI.

N. Regs. §1.513-1(c)-1(a)(2), Example 2(a). The retention of the mortgage makes it debt-financed property.

O. Very close case; too close to call.