Handbook For
The Presbyterian Church in Canada
Congregational Treasurers

DRAFT

Revised 2011
The Presbyterian Church in Canada
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NOTE OF THANKS

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Stephen Roche

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INTRODUCTION

Thank you for agreeing to take on the role of a treasurer for your congregation. We hope this handbook will help you. Treasurers come from many walks of life and with different skills and experience. Some Treasurers are trained accountants, some aren't. No matter this handbook and your own willingness to do the job will help you carry out your duties. The handbook will change over time to reflect feedback from you and your fellow Treasurers. Also it will change as rules and regulations coming from government and other regulatory bodies change. We will maintain a master copy of this handbook on our website which you can download in a PDF format.

The handbook will give you links to other resources on the internet or mention other resources that will allow you to drill deeper into a topic. Remember- you are not alone! You can contact the staff at 50 Wynford Drive, your Presbytery Treasurer and Treasurers from other congregations within your Presbytery.

Presbyterian congregations are not all the same. While we share a common bond each congregation is part of a unique community—some rural or urban, some big or small, some have members who are very young, some have members who are older. Accounting systems, as you will read later, have the flexibility to deal with these differences. The common goal each Treasurer strives for is to be a faithful steward and honour the trust that the congregation has placed in you. A Treasurer takes on a stewardship or fiduciary role and this means, under the law, you have responsibilities to the other members of your congregation, and as such you should be aware of what that responsibility means.

So what does the Bible say about stewardship?

STEWARDSHIP

In the parables of Jesus, the steward was not simply a servant or slave who would carefully follow directions, but was expected to exercise intelligence and initiative to carry out the master's intentions and purposes. A faithful steward is one who knows and does the will of the master until the master returns. Such a steward will be rewarded with greater responsibilities, Jesus promises, while the unfaithful and negligent steward will be punished.

The parables make clear that faithful stewards are to be <u>sensibly prudent</u> in their actions. Prudence is a serious requirement. In English common law, an administrator or trustee is actually held accountable to function as a "prudent" person. In the parables of Jesus, stewards are held accountable for the use they make of the resources entrusted to their care. Jesus was clearly looking for stewards who would be faithful and prudent in household management and the management of all resources.

In these parables, Jesus' condemnation was not based on the wickedness of the people but rather on negligence or imprudence in their management. The good steward is one who practices sensible and skillful management in all affairs.

Christian stewardship always originates in a response of faith to the grace of God, demonstrated in creation, love and redemption through Jesus Christ our Lord. Only a person who believes that the earth is the Lord's is able to experience the joyful gratitude and generosity of Christian stewardship. We can be faithful managers of our affairs because God is a faithful manager of creation.

"We love, because he first loved us."

From "Christians Doing Financial Planning" published by the Commission on Stewardship, National Council

WHAT DO I DO FIRST?

Congratulations! You are the new Treasurer and you are probably asking yourself, "What should I do first?" Maybe the past Treasurer has given you a great orientation to the job and has shown you where everything is and how to do it. If this is the case, then relax, this handbook will be there for you to refer to. If on the other hand you didn't have someone to take you through the job in detail, then this handbook hopefully will be of great assistance to you.

SECTION 1.0 ROLE OF THE TREASURER

1.1 THE *BOOK OF FORMS*

The Treasurer has a significant impact on the financial character of a congregation. Quite often, the Treasurer is the person in the congregation who has the most financial expertise, and is expected to give leadership in all financial matters (and quite a few non-financial ones as well!).

The Treasurer should not hesitate to seek help in situations where he or she is not sure of the best course of action. Many people, both within and outside the Church, are qualified to give advice. Most people are willing to assist whenever they are asked.

The basic duties of the Treasurer are set out in the *Book of Forms*. Along with these, several other duties have come to be assigned to the Treasurer, and these will be listed here and talked about in later sections.

Section 170 of the *Book of Forms* states:

> "It is the duty of the Treasurer to keep the accounts of the congregation, together with all vouchers; to receive and disburse all moneys subject to the direction and control of the Board (of Managers); and to produce his/her accounts, properly audited, to the annual meeting of the congregation. Where there is a chartered bank convenient to the congregation, it is the duty of the Treasurer to deposit therein, without delay, all money received by him/her, and in a separate account identifying it as belonging to the congregation."

We will talk about the term "...properly audited..." later in Section 13.

1.2 RESPONSIBILITIES

Let's look a little closer at the duties of the Treasurer. Receipt and disbursement of funds is the essence of the job. Congregations collect money each week and the money is paid out to carry out our mission. Chapters 7 and 8 cover these areas in detail.

Along with the income tax deduction on the Minister's stipend cheque (or other church staff), the Treasurer must deduct amounts for the Canadian Pension Plan and the Employment Insurance. These are all quite similar, and they will all be dealt with in Section 3. As well as the Canada Pension Plan, monthly deductions and remittances must be made for the Ministers' and Church Staff's Pension Fund and Group Insurance plan, covered in Section 3. Since all ministers are required to be members of the Pension Fund, all Treasurers should make sure they are knowledgeable about Section 3.9.

Another important matter is Insurance. While it is not the responsibility of the Treasurer to decide how much insurance is appropriate, or which quotation to choose (that is the job of the Board of Managers or Trustees), the Treasurer should be responsible for maintaining adequate records, and bringing the matter before the Board of Managers in a timely manner to ensure that coverage does not lapse.

Another responsibility of the Treasurer is preparing the congregational budget. Again, this is really the responsibility of both the Session and the Board of Managers, but the Treasurer in most cases is the appropriate person to prepare the first draft of the budget. The Treasurer will track all changes to the draft budget, to the final draft, that goes to the congregational meeting where it is presented for approval. More comments will be made in Section 2 about budgets.

1.3 DUTIES CHECKLIST

Here is a suggested checklist of the Treasurer' duties – set out by week, month, quarter and at the end of the year –

Accounting Duties Checklist

Weekly Duties

1. Enter the weekly contributions and other cash receipts into your accounting system.
2. Pay all accounts and invoices that are due.

Monthly Duties

1. Pay stipends and salaries making all necessary deductions.
2. Remit to the Receiver General of Canada in accordance with the Canada Revenue Agency (CRA) remittance schedule both employees' deductions and employer's share of:
    - Income tax
    - Employment Insurance (E.I)
    - Canada/Quebec Pension Plan (CPP/QPP)
    - Employers Health Tax (varies by province)
3. Remit employee's portion of pension deductions to Pension Office and the congregation's pension assessment.
4. Pay premiums, if applicable, for:
    - government health plans/taxes
    - other employee benefits
5. Pay all accounts and invoices that are due.
6. Balance all accounts and reconcile general accounts to sub-ledgers.
7. Post ledgers where applicable.
8. Prepare financial reports for files and/or meetings.
9. Reconcile all bank accounts. (very important)
10. It is recommended that another competent person review the bank reconciliation and initial it.
11. Remit *Presbyterians Sharing…* amounts, PWS&D, AMS or other amounts to the National Office.

Semi-Annual Duties

1. You may apply for a Goods and Services Tax (GST—harmonized in some provinces, HST) rebate twice per fiscal year, at most. (You have four years from the end of the claim period to file your rebate application.)

Annual Duties

1. Prepare annual financial statements.
2. Assist in the preparation of the budget for the ensuing year.
3. Complete and distribute T4 and T4A Supplementaries to employees and T4 Summary to CRA on or before February 28 of the following year.

4. Complete and forward to the Charities Division, CRA, Form T-3010B Registered Charity Information Return. This return must be filed no later than six months after the end of the fiscal year of the charge. Failure to file a T-3010B can result in loss of charitable status!
5. Arrange for the envelope secretary to issue official tax receipts to contributors for income tax purposes. In Quebec, receipts must be issued to contributors in duplicate.
6. Arrange for the envelope secretary to issue weekly offering envelopes to contributing members. For new members joining during the year, envelopes are supplied at the time of reception.
7. Prepare schedules and organize financial information for the annual audit.
8. File annual returns and remit GST and HST installment (applies to most churches that are registered).
9. Complete the financial portion of the Congregational Statistics Reports and submit to Clerk of Presbytery

SECTION 2.0 BUDGET

It is a good idea as a new Treasurer to get your hands on a copy of the budget and make sure you are familiar with it. If possible chat to one or more of the individuals who had a hand in preparing it—this will enable you to understand the numbers and the story behind the numbers. Next, you will want to compare the actual results against the budget to see where the congregation stands. Hopefully there is no immediate financial crisis or major cash flow problems that jump out at you when you compare the actual results against budget.

A congregation's budget is a reflection of the plans and ministries of the local church. By assigning dollars to the ministry areas, a congregational budget serves as a means to help it achieve its goals.

A good congregational budget does the following:
- Helps build a vision for the year ahead
- helps the congregation to implement and prioritize current programs or ministries
- provides a way for the church members to work together
- gives direction for using available funds
- encourages accountability and transparency
- challenges members to provide funds to ensure that the work of the congregation can be carried out
- authorizes congregational leaders to act within guidelines

A budget will show what you value. It defines the programs you are committed to providing. It also needs to reflect the giving potential of the members, the previous year's financial information, and the needs defined for your congregation and community. It should include a challenge for growth in giving. If stewardship education is practiced and if the budget expresses the mission of the church in an exciting and understandable way, members will rise to the challenge of providing the funds needed.

The Treasurer generally assists with budget preparation during the last quarter of the year. The budget will be presented to the Board of Managers/Session and then to the congregation for final approval at the annual meeting

2.1 PREPARING A CONGREGATION'S BUDGET

For most congregations, the most reliable guide to the costs of the future is the costs of the present, and the immediate past. For example, the cost of heating the manse next year will probably be close to the cost for this year, after an adjustment has been made for a cost of living price increase.

For each category of expenditure, the Treasurer should make an estimate of next year's expenditures. This should be done early in the fourth quarter, perhaps October. For expenditures that remain relatively fixed (utilities, taxes, etc.) this estimate may be the one that appears in the final budget. Stipends and salaries will be decided by the congregation on recommendations from the personnel committee or perhaps some other duly appointed committee. This recommendation should appear in the budget brought before the congregation.

Some categories of expenditure are more variable – for example, new copies of the *Book of Praise* may need to be purchased, and budgeted for. Similarly, the purchase of Sunday school materials may vary from year to year. For these types of expenditures, the appropriate committee within the congregation should be contacted for their plans for the upcoming year. Other items must be planned by the Board of Managers (for example, major maintenance expenditures).

The discussion thus far has centered on expenditures, and the final budget must include figures for each category, and a budgeted total expenditure. The other side of the budget, of course, is revenue. In the various categories of revenue, some of the smaller amounts are easiest to estimate, for example, loose offering is usually estimated based on the current year's total, plus a small percentage increase.

When all other categories of revenue have been estimated, offerings from envelopes will be left. This can be looked at in two ways. First, it can be calculated as the figure that will balance total revenue with total expenditure; that is, it is the amount that must be raised to meet the projected expenses of the congregation (this can be a dangerous method, it borders on wishful thinking). Alternatively, it can be estimated as the amount most likely to be raised from the congregation (better method). This amount should be in excess of the current year's budget to cover inflation and to provide an incentive in fund raising to the congregation. In this situation, a budgeted surplus or deficit will be arrived at. If there is a deficit then further analysis should be carried out. How large is the deficit? Can it be covered with existing surpluses? Is the deficit a "one off" event or will it be repeated in future years? If the answers flowing from the analysis are the deficit is unacceptable or far too large, then some expenditures must be cut back.

The actual method in striking the budget will likely be some combination of the two suggested above. Perhaps, it would be useful to estimate offerings from envelopes by both methods, and then to try and resolve the differences. In any case, striking the budget (and this includes the discussion and amendments at the congregational meeting) is one time when we must remember that, despite differences of opinions, we are all Christ's disciples, working toward carrying out our mission.

2.2 AUTHORIZING THE BUDGET

The normal process used by congregations is that the Board of Managers prepares and endorses the budget and then it is reviewed and approved by the Session. Finally, the congregation receives, discusses and approves the budget at the annual congregational meeting.

2.3 ADMINISTERING THE BUDGET

One of the Treasurer's duties is to ensure that payments are only made when authorized. One method of authorization is the congregational budget. Such items as stipends are paid automatically, once the amount has been set and included in the budget at the annual meeting.

Other items may require more judgment. For example, some of the price increases in fuel oil in recent years could not have been predicted a year in advance. But a Treasurer could not refuse to pay a fuel bill, because the amount exceeded the budget.

2.4 ANALYSIS OF DIFFERENCES (VARIANCES):

In a similar vein, when expenditures vary from budget, the Treasurer can look upon this as an opportunity to figure out how the variance occurred. Is this something out of our control (fuel oil prices) or can the Board of Managers take action to bring the expense area in question back in line with the budget. Often the analysis of variances will show one area is over budget, while another area is behind budget. When you add the pluses and minuses you may find you are close to your original budget. If after looking at the budget and year to date results you feel that revenues are going to fall short or an extraordinary unbudgeted expense occurs (new furnace) you may have cash flow concerns. This simply means that if things keep going the way they are now, then you will run out of money. It is important at this point to let the Board of Managers and the congregations know about the cash flow concerns so that steps can be taken to fix the cash flow problem.

SECTION 3.0 PAYING THE MINISTER & OTHER STAFF

As treasurer, it makes good sense to sort out quickly who you have to pay and how much they should get.

In this section we cover the main areas of paying staff, such as the tasks required when paying employees, the mandatory payroll deductions, the clergy residence deduction, and minister allowances.

When paying employees, you must take into account the type of employment and the required payroll deductions. There are two kinds of church employees: minister and non-minister. Each of these categories may include employees who are employed on a full-time, part-time, casual, or contract basis.

Minister employees include ordained ministers, diaconal ministers and ministers-in-training. Non-ministerial employees include caretakers, secretarial/administrative staff, bookkeepers, musicians, and others in positions that do not fall into the minister category.

Employer

The congregation is considered an employer and as such must withhold and remit tax and other premiums on some reasonable basis. It must also keep records and file tax forms demonstrating that it has been done so, including producing a T4 for each employee annually, a summary of T4s issued, and an annual charitable filing. Remitting less tax than is reasonable could result in officers of the congregation being liable for the minister's taxes, and for fines or penalties.

3.1 TD-1

All persons receiving a stipend/salary from the congregation should complete both federal and provincial TD-1 forms. The TD-1 forms are Personal Tax Credit Returns for federal and provincial income tax. From these forms, the claim for exemptions for federal and provincial income tax purposes is determined. The TD-1 forms should be completed on an annual basis and kept safely filed in each person's payroll file. These files can be downloaded from the CRA website.

3.2 PAYROLL CALCULATOR

If you have access to a computer then you will want to use the on line payroll calculator provided by the CRA at http://www.cra-arc.gc.ca/esrvc-srvce/tx/bsnss/pdoc-eng.html. This on line calculator will tell you what the correct deductions are for CPP, EI and income tax. This will enable you to not only prepare the cheque to the minister or staff person for their net wages but will also give you information on the deductions you will need to send to CRA. Finally it will give you information for what you have to record in your general ledger. Another resource we have provided is a spreadsheet that will allow you to track the payments through the year and make it easier to complete the T4 & T4A at year end.

The total amount of tax (both federal and provincial portions) deducted for the month is usually remitted monthly to CRA by the scheduled due date, together with the EI/CPP/QPP premiums and contributions, using the CRA remittance form. Some congregations due to their lower deduction amount may be permitted by CRA to remit on a quarterly, rather than monthly basis. Remittances are due on the 15th day after month end.

3.3 PAYROLL RESOURCES

The CRA produces Payroll Deduction Booklets, which you may need in determining payroll for your employees, especially if you don't want to use the on line payroll calculator.

Employers' Guide—Payroll Deductions: Basic Information Rev. 06 (T4001)
Employers' Guide—Taxable Benefits Rev. 07 (T4130)
Payroll Deductions Tables (T4032—for provinces and territories)
Employed or Self-Employed? RC4110 (Rev. 06/12)

Up-to-date information on payroll deductions can be accessed on CRA's payroll page (www.cra-arc.gc.ca/tax/business/topics/payroll/menu-e.html).

2011 Deductions Annual Information Sheet

Employment Insurance 2011	
Maximum annual insurable earnings	$44,200
Employee premium rate	1.78%
Employer premium rate(1.4%x employee)	2.49%
Maximum annual employee premium	$786.76
Maximum annual employer premium	$1101.46
Canada Pension Plan 2011	
Year's maximum pensionable earnings	$48,300
Year's basic exemption	$3,500
Maximum contributory earnings	$48,800
Contribution rate	4.95%
Maximum employee/employer contribution	$2,217.60
Quebec Parental Insurance Plan	
Maximum insurable earnings	$64,000
Employee rate	.537%
Employer rate	.752%
Maximum employee premium	$343.68
Maximum employer premium	$481.28

3.4 CLERGY HOUSING DEDUCTION

Under the provisions of the *Income Tax Act*, a person who is employed, or has an office, as a member of the clergy or a religious order or as a regular minister of a religious denomination may be entitled to claim a clergy residence deduction for his or her residence when calculating the income from that employment or office. Form T1223E: Clergy Residence Deduction is the form required to claim the clergy residence deduction. Form T1223E has to be completed by both the individual claiming the deduction and the <u>employer representative</u> (congregational Treasurer) to certify that <u>*the status*</u> and <u>*function tests*</u> are met for a particular year.

Housing Allowance & Clergy Deduction

Congregations as per the *Book of Forms* (appendix A-32) are required to provide their minister with a manse or an equivalent cash housing allowance. The value of the manse or the cash housing allowance is part of the compensation paid to the minister. Ministers may claim a clergy residence deduction on their annual income tax return. The clergy residence deduction is a measure where the federal government, with and on behalf of provinces, offers tax relief to the minister and indirectly provides a break to congregations through this measure. Ministers are asked to provide two kinds of proof: proof that they are <u>*eligible*</u> for the deduction and proof of the <u>*value*</u> of their accommodation

The Impact of the Clergy Residence Deduction on Salary Packages

Overall, the clergy residence deduction improves the minister's take-home pay and assists congregations in being able to employ a minister. Where there exists a household with two ministers eligible to receive the clergy deduction, the household is only allowed the equivalent of one deduction claim. When both ministers calculate what they would be able to put onto line 231 of their tax return, the household claim can be no greater than the minister with the highest deduction. (i.e. Minister A calculates he could receive $15,500, Minister B calculates she could be eligible for $17,000; therefore the claim for both when added together cannot be greater than the $17,000).

Free Accommodation Provided – The Manse

- When calculating the "fair rental value" of a manse (free accommodation), the value of utilities (all or part) is to be included only when the congregation pays for all or part of the utilities for the manse. (Utilities are defined by CRA as: hydro, heating, water and sewer.) This value is to be included in Box 14 and Code 30 on the T4 slip.

- The amount representing the "fair rental value plus utilities" is used in the calculation of the EI deduction, <u>**but is NOT**</u> included for CPP or Income Tax deductions.

- If the Congregation does not pay for any of the above listed utilities, the fair rental value of the manse excluding utilities is used and reported in Box 14, Box 24 and Code 30.

- If the telephone in the manse/residence is paid by the congregation, you may need to prorate the telephone charges to calculate the taxable benefit. For example, if the telephone is used 75% for congregation work and 25% for personal use, only 25% of the telephone charges *paid by the congregation* should be treated as a taxable benefit to the minister.

If the minister informs the Treasurer in writing that he/she will claim a deduction from income for housing, the minister must first complete and submit a T1213 (Request to Reduce Deductions at Source) form to the CRA. The completed T1213 form must be accompanied by a letter of employment and a completed Clergy Residence Deduction form (T1223).

These items should be sent to CRA no later than September each year. The clergy member will then be notified if they have been approved to reduce their taxes at source by CRA. Once the clergy member receives approval, they must give a copy of the letter to their employer. This process must be completed on <u>an annual basis</u> to continually receive approval to reduce taxes at source.

The following paragraphs outline payroll and T4 procedures for manses and cash housing allowances.

Cash Housing Allowance

- Cash housing allowances are to be paid in equal installments over the year and included in each pay cheque.
- Do not deduct income tax or CPP from the eligible portion of the cash housing allowance.
- Note: Any portion of the cash housing allowance in excess of the eligible clergy residence deduction calculated for the previous year (or estimated for the current year) on the new "Clergy Residence Deduction" Form T1223E is to be considered taxable income and included in Income Tax, CPP and EI deduction calculations for payroll.
- Include cash housing allowance in insurable earnings and deduct EI.
- Include the housing allowance in boxes 14 and 24 of the T4. Any part of the housing allowance paid that is not eligible for exemption from Income Tax and CPP, must also be reported in Box 26 – CPP.

Key Definitions for Clergy Deduction

<u>the status</u>

For the Presbyterian Church in Canada we use the terms "a minister of word and sacrament" or a "diaconal minister".

<u>function tests</u>

This refers to a minister or diaconal minister who is in charge of, or ministering to, a congregation; or engaged exclusively in full-time administrative service by appointment by the Presbytery, Synod, National Office or General Assembly.

<u>Eligible</u>

Eligibility is determined by the employer signing the T1223 E form under section B – Conditions of Qualifying Employment.

<u>Value</u>

This is part C of the form (T1223 E).

Housing Provided by Employer

If the answer is yes, then Box 30 on the T4 will show this value as a taxable benefit (in most cases this will include utilities paid in whole or part by the congregation). This is the amount that will be claimed on Part C, sub-part A and put on line 231 of the tax return.

Housing *Not* Provided by Employer

First of all box 30 should be left blank on the T4 as no taxable benefit has been provided. Next complete the 11 steps of computations in Part C, sub-part B of the T1223.

CALCULATION OF CLERGY RESIDENCE DEDUCTION				
GROSS REMUNERATION		**Under 30K Cash in Lieu of Manse**	**Over 30K Cash in Lieu of Manse**	**In Manse**
Total Eligible Earnings		**$30,000**	**$48,000**	**$50,000**
(T4 slip-box 14 includes all taxable allowances)				
Fair Rental Value of housing or rent paid		**$15,000**	**$18,000**	**$20,000**
Utilities (amounts expended for electricity and heating)		**$2,500**	**$3,500**	**$2,800**
Sub total:	A	$17,500	$21,500	$22,800 **A**
Calculations				
$1,000 x 10	**B**	$10,000		**B**
($1,000 per month to maximum of 10 months)				
1/3 of remuneration (T4 slip-box 14)	**C**		$16,000	**C**
Fair Rental Value + Utilities paid by Congregation	**D**	$17,500	$21,500	22,800
Lesser of:				
		B & D	**C & D**	**D**
Amount of Clergy Residence Deduction (complete form T1223)	**E**	$10,000	$16,000	22,800
Taxable Amount **A less E**		**$7,500**	**$5,500**	**0**

Box 26 on the T4 (CPP/QPP pensionable earnings)

What does YMPE mean? It means year's maximum pensionable earnings. Each year CRA calculates what this amount will be (2011 – $48,300). A minister's gross earnings are in box 14. When the clergy residence deduction has been calculated using the T1223 E you must put into box 26 what the CPP earnings are. Some examples:

	Minister A	Minister B	Minister C
Gross Earnings Box 14	$33,000	$50,000	**$69,000**
Clergy deduction	$10,000	$15,000	$15,000
CPP Pensionable earnings Box 26	$23,000	$35,000	$47,000* ($54,000 taxable portion)
YMPE using 2011 values			$48,300

*This value can't be greater than the YMPE.

It is important to complete Box 26 correctly, or else CRA will issue a PIER (pensionable insurable earnings review) and demand payment of the CPP shortfall. By doing this correctly you will avoid having to respond to CRA's PIER letter.

3.5 EMPLOYMENT INSURANCE ("EI")

If you do not have the CRA Employment Insurance booklet, obtain a copy from your District Taxation Office. The booklet provides detailed information on the Employment Insurance system.

Coverage

EI is based on total insurable earnings and total insurable hours, starting from the first dollar and hour of work.

Earnings to be Included in Insurable Earnings

Insurable Earnings include the following to the annual maximum amount:

- the normal gross salary paid to an employee (regardless of the employee's age);
- cash housing allowances and fair rental value of manses (Note: the value of a manse provided to minister is included, effective January 1, 1997);
- taxable benefits provided in cash form (non-cash taxable benefits are not included).

Determining the Amount to be Deducted

The amount to be deducted depends on the amount of insurable earnings. After gross salary is determined, the amount to be deducted in respect of employment insurance is determined from the booklet, (*Province*) *Payroll Deductions—Tables*. Note the annual maximum deduction (see table on page 7).

Employer's Premium

The amount paid by the employer is equivalent to 1.4 times the amount of premium paid by the employee.

Remittances to CRA

The total amount to be remitted is the total EI amount deducted during a month, plus 1.4 times that total figure for the employer portion.

Remittances are made on the scheduled due date using the appropriate form. Only use Forms **PD7A**, **PD7A(TM)**, and **PD7A-RB** for current remittances of CPP, EI, and income tax

Interruption of Earnings

Within five days of an employee leaving a position with an employer, it is the responsibility of the employer to issue a Record of Employment. This applies to all staff, including minister, even when moving directly from one congregation to another. Obtain the Record of Employment guide and forms from your local Service Canada office, or go to http://www.servicecanada.gc.ca/eng/ei/employers/roe_guide.shtml.

3.6 CANADA PENSION PLAN – CPP

CPP contributions are similar to EI premiums in that they are deducted from remuneration paid to an employee. The amount to be deducted is determined from the *T4001 – Employers' Guide – Payroll Deductions and T4032 Payroll Deductions Tables*.

Coverage

You must deduct the required CPP contributions from the remuneration of every employee **who meets all three** of the following criteria:

- the employee is 18 years of age or more and has not reached 70 years of age;
- the employee is employed in pensionable employment during the year; and
- the employee is not receiving a Canada or a Quebec Pension Plan retirement or disability pension.

Earnings to be Included in CPP Pensionable Earnings

CPP Pensionable Earnings (to the annual maximum earnings) include the gross salary, together with taxable benefits, and cash housing allowances or the value of a manse, **less** eligible clergy residence amount. See formT1223E

Determining the Amount to be Deducted

After gross salary is determined, the employee's CPP contribution is calculated by referring to the booklet, *T4032 Payroll Deductions Tables*. Note the annual maximum deduction (see table on page 7).

Employer's Premium

The amount paid by an employer is equal to the employees' contributions.

Remittances to CRA

To determine the total amount to be remitted, total the amounts that have been deducted during a month (employee portion) and add an equivalent amount (employer portion).

Remittances are made on the scheduled due date using the appropriate CRA form. These forms are also used to remit income tax deductions and EI premiums.

3.7 INCOME TAX

To calculate taxable income:

- Subtract the employee contribution to the pension plan from the basic salary.
- Then add applicable allowances and benefits to the basic salary to determine the taxable amount.

  Note that the Eligible Clergy Residence amount (See form T1223E) is not included for income tax calculation. *See T4130 – Employer's Guide-Taxable Benefits p.17.*

  Check with your Presbytery Ministry Committee for information on allowances that may be applicable.
- Having calculated the taxable income, the amount of federal and provincial income tax to be deducted is obtained from *T4032 Payroll Deductions Tables* for your province or you can use the payroll calculator—see section 3.2 for web reference.

The total amount of tax (both federal and provincial portions) deducted for the month is usually remitted monthly to CRA by the scheduled due date, together with the EI premiums and CPP contributions using the CRA remittance form.

For information on completing the T4 and T4A, see section 4.

3.8 HONORARIUMS

Honorariums are paid for a variety of reasons, such as for services including:

- acting as facilitator at a workshop
- providing music for an event
- editing, translating, freelancing
- providing services at weddings, funerals, etc.

CRA *suggests* that all fees for weddings be paid directly to the church. The church then pays the organist, singer, or janitor as deemed appropriate for their services. Reimbursements for such services should be added to the T4 at year-end and become part of taxable income.

CRA states that the payer of the honorarium has the following responsibilities:

- Obtain the name, address, and social insurance number of the recipient.
- Issue a T4A supplementary at year-end for all aggregate amounts <u>**over $500**</u> to any individual, or issue a T4 for payments of any amount <u>**where taxes**</u> were withheld and remitted.

It is the responsibility of the recipient to report all honorariums as income at year-end.

3.9 PENSION & BENEFITS PLAN

The Pension Plan is a defined benefit final average type of plan. It provides retirement income based on pensionable earnings and length of service. It requires that plan members and employers make contributions. (The registration number is 0368902 for CRA and Ontario Registration.)

It is compulsory for all ordained and diaconal PCC ministers and employees of the national office to be enrolled in The Presbyterian Church in Canada Pension Plan. Other Church workers or congregational employees may also join, provided their employers agree to participate in the plan.

The Group Benefits Plan

The Group Benefits Plan insures plan members against the financial cost of illness, disability, and death, and provides significant reimbursement of health and dental expenses.

It is compulsory for all ordained and diaconal PCC ministers and employees of the national office to be enrolled in the Group Benefits Plan.

Employers fund the **Health and Dental plan** for members and their families, while members pay the **Group Life Insurance plan** which includes basic life, dependent life, accidental death and dismemberment insurance and long term disability insurance. Members may also opt to purchase addition life insurance called optional life insurance.

The Sick Leave Policy for Professional Church Workers

During the first three months of illness or disability, the congregation is responsible for continuing all regular payments to their professional church worker as well as paying for pulpit supply.

Starting with the fourth month to the end of the seventh month of illness or disability, the congregation is responsible for payment of utilities and housing allowance or manse accommodation and the professional church worker will apply to receive federal EI sick leave benefits.

If it seems that the professional church worker will not be able to return to their duties by the end of the seventh month, he/she should contact the Pension and Benefits office to discuss a claim for long term disability benefits.

The Employee Assistance Program (EAP)

The Employee Assistance Program is for all active members of the Health and Dental plan to provide them with short-term, solution-focused confidential counseling and referral service. Currently this program is being run as a two year pilot project funded by the Life and Mission Agency. Contact Susan Shaffer at Ministry & Church Vocation to learn more.

Pulpit Supply Insurance

Pulpit Supply Insurance is available to congregations where a full-time professional church worker position has been established by its Presbytery. The congregation may claim up to $150 plus travel ($25.00 maximum) per Sunday for a maximum of 17 weeks. The benefit will be paid for the first Sunday if the cause of the minister not being able to perform his/her duties is accidental. Application forms are found on the Pension and Benefits webpage.

Contributions and Premiums

Qualifying Income

The qualifying income (QI) is the base on which pension and group life insurance contributions are calculated. Generally, they are:

- For clergy, ordained and diaconal ministers, the qualifying income is the actual stipend plus 60%. The 60% for housing is applicable regardless of the actual housing allowance paid or the actual fair rental value of the manse.
- For non-clergy the qualifying income is salary plus health and dental premium (if applicable). Non-clergy employees do not have a housing component.
- The maximum qualifying income (MQI) is set each year by the General Assembly as described by the Minimum Stipend Schedule in the *Acts & Proceedings*. You may also refer to the annual Treasurer memo regarding the Maximum Qualifying Income and Health and Dental Premiums found on the Pension and Benefits webpage.

Part-time Work

For part-time employment, the qualifying income is determined by the actual percentage of employment and is not related to percentage of dollars paid to full time employment.

Pension Contributions

Employer Contributions

Congregations, where a PCC ordained or diaconal minister has been inducted by a Presbytery, contribute 3% of their congregational $base to the pension fund each year (dollar base is calculated on the annual statistical return each congregation completes and returns to the National Office. It is based on the revenues raised by the congregation less any contributions toward mission outreach and the repayment of debt, including interest). This is called the Congregational Assessment. A congregation may apply to the Presbytery for payment exemption if they are vacant (without a PCC ordained or diaconal minister) for 48 months, beginning after the sixth month of vacancy and with the approval of the congregation's Presbytery.

All other employers contribute 7% of the member's qualifying income.

Employee Contributions

All employees contribute 6% of their qualifying income up to the maximum qualifying income in that year. Employee contributions are tax deductible and recorded on box 20 of the T4.

Group Insurance Premiums

Plan members pay the group life insurance premiums at a rate of 1.35% of their qualifying income. Ontario tax of (8%) is applied and QST (9%) is applied for Quebec. When a plan member pays the group life insurance premium, including long term disability premiums, the benefit is tax-exempt if they should ever have a need to claim long term disability insurance.

Employee Assistance Program (EAP) Premium

During the pilot program 2010-2011, the cost is paid by the Sustaining Pastoral Excellence Fund, established by the Life and Mission Agency.

Sales Tax

There is an Ontario 8% HST on all group life insurance and health and dental premiums. In Quebec there is 9% sales tax on all group life insurance and health and dental premiums. There is no tax on pension contributions.

Collection of Contributions and Premiums

Health and Dental Quarterly Invoice

Health and dental invoices are mailed to employers quarterly by the Presbyterian Church Finance Department for all members enrolled in the health and dental plan and payable upon receipt. Please return a copy of the invoice with the payment to avoid delays in processing. Make cheques payable to The Presbyterian Church in Canada and ensure cheques are dated and signed by the signing officers.

Vacancy – For pension and benefit purposes, a vacancy begins when the employer is no longer paying stipend for their clergy or salary for their employee.

All employers are required to continue premium payments for a 6 month **vacancy period**. A congregation may then apply to the Presbytery to cease billing. If the position was held by a non-clergy member, the Clerk of Session shall provide a letter in writing to cancel the billing.

Pension and Group Life Insurance Remittance

Pension legislation requires pension contributions for both members and employers to be remitted within 30 days of the due date. Employee and employer contributions, as well as group insurance deductions <u>must</u> be remitted to the Pension and Benefits office monthly.

Arrears

Money deducted from a plan member's pay for pension and group insurance contributions **is being held in trust** and legislation requires it be remitted to the Plan Administrator, The Presbyterian Church in Canada Pension and Benefits Office, in a timely manner.

Where it arises, arrears over 6 months will be referred to the Presbytery.

Maternity, Parental, and Adoption Leaves

Health and dental benefits continue for maternity, parental, and adoption leaves for *up to* one year. Pension and group life insurance benefits may continue if the member agrees in writing to pay the employee costs. The employer must continue to pay the employer's share of pension and group life insurance unless the member elects in writing not to continue benefits during this period.

Election to continue group life benefits coverage must be made by the member before the start of the leave. During a maternity or adoption/parental leave, however, the plan member has more flexibility about starting and stopping coverage.

Election to continue pension contribution coverage must be made by the member before the start of the leave. During a maternity or adoption/parental leave, however, the plan member has more flexibility about starting and stopping coverage.

Forms for making the above elections may be obtained upon request from the Pension and Benefits Office. **The Maternity & Parental Leave Policy of The Presbyterian Church in Canada** may be found on the Pension and Benefits webpage.

Pension Adjustment

The Pension Adjustment (PA) is an amount determined by the CRA formula for pension plan contributors and is used to offset the 18% earned income maximum for tax-sheltering retirement savings.

Members who joined the plan **after** January 1, 1990 the PA formula:

= 9 times (qualifying income times .015) minus $600.

Members who joined the plan **before** January 1, 1990 the PA formula:

=9 times (qualifying income times .02) minus $600

The PA is used by the CRA to calculate the member's RRSP contribution limits for the current year. The PA is recorded on box 52 of the T4.

For a plan member who served in more than one congregation in a year, the formula is modified so that each congregation reports only the portion of the PA applicable to the period in which it was the employer.

Please refer to the **Annual Pension Adjustment Memo** found on the Pension and Benefits webpage.

SECTION 4.0 T4 AND T4A SUPPLEMENTARIES AND SUMMARIES

The Treasurer is responsible for the preparation and distribution of the following forms:

- T4: Statement of Remuneration Paid
- T4: Summary of Remuneration Paid
- T4A: Statement of Pension, Retirement, Annuity, and Other Income
- T4A: Summary of Remuneration Paid

T4s and T4As are to be distributed on or before February 28 of the following year. These forms are usually provided automatically each year by CRA; otherwise they may be obtained from your District Taxation Office, or on-line through the CRA web site.

CRA's T4001 - Employers' Guide - Payroll Deductions (Basic Information) and *T4130 - Employers' Guide - Taxable Benefits 2001-2002* will assist you in completing the forms.

T4 Format

Note that there are unnumbered boxes in the lower part of the form (for Other Information). You need to enter code 30 (Housing, Board, and Lodging) if the minister has housing provided. If the minister receives a cash housing allowance <u>do not enter</u> in code 30 but include as gross earnings in box 14. Enter in code 40 Other Taxable Allowances and Benefits. See *CRA's - Employers' Guide - for other codes you may require (RC 4120 (e))*.

The pages on the T4 which follow will assist you in completing the forms for minister employees.

T4: Statement of Remuneration Paid (New format 1998)

Box (10) – Province of Employment
Choose an abbreviation from the list provided in the Guide.

Box (14) – Employment Income
To include the minister's salary, housing, and taxable benefits.

Termination allowance (or wages in lieu of notice) does not fall under the definition of retiring allowance. Retiring allowance is not insurable earnings. Termination (wages in lieu of notice) are insurable earnings and are subject to CPP, EI and Income Taxes but not included in the calculation of insurable hours. They would be included on the T4. Employee's benefits must be maintained during the notice period.

Box (16) – Canada Pension Contributions (CPP)
or
Box (17) – Quebec Pension Contributions (QPP)

The actual amount that the **employee** contributed to either the QPP or CPP Plan regardless of whether or not the maximum for the year was exceeded.

Box (18) – Employee's EI Premiums
The actual amount that the **employee** contributed to EI regardless of whether or not the maximum for the year was exceeded.

Box (20) – Registered Pension Plan Contributions
Total amount of **employee's** contribution to The Pension Plan of the Presbyterian Church. **(Do not include any group insurance premium paid by the employee or employer, or the employer's contribution to the Pension Plan**.)

Box (22) – Income Tax Deducted
Amount of income tax deducted from the employee during the year.

Box (24) – EI Insurable Earnings
Amount of employee's insurable earnings on which EI premiums were calculated. Fill in if different from Box (14) but not more than the maximum stated for the year.

Box (26) – CPP/QPP Pensionable Earnings
Total amount of box (14) less the amount of clergy residence deduction, if applicable. Fill in if different from Box (14) but not more than maximum stated for the year.

Box (29) – Employment Code
Leave this box blank.

Code (30) – Housing, Board, and Lodging
Enter code 30 (Housing, Board, and Lodging) in a box at the bottom of the form (Other Information).

Code (40) – Other Taxable Allowances and Benefits
Enter code 40 in a box at the bottom of the form.
Enter the total of all taxable allowances paid to an employee during the year including the following:

- Book allowance/reimbursement for books purchased
- Any special payments by a congregation made on behalf of the employee
- Refer to the section on reimbursement of travel expenses. If applicable, include any "excess" payment which was not a reimbursement for distance driven on church business.
- Refer to section on continuing education. If applicable, include lump sum payments.

Report **only the total** of taxable allowances and benefits in code (40) box. A detailed listing is not necessary.

Box (50) – Pension Plan or DPSP Registration Number
Pension Plan Registration Number is 0368902.

Box (52) – Pension Adjustment
Deductions to calculate the pension adjustment is provided in November to Treasurers by the Pension and Benefits Board.

Box (54) – Business Number
Enter your Revenue Canada business number.

T4A: Statement of Pension, Retirement, and Other Income

A T4A Supplementary is completed for all individuals who received remuneration as described in the examples below **if**:

- the amount is more than $500.00; or
- tax was deducted.

Examples

Box (26) – Retiring Allowances (eligible portion to transfer to RRSP)
Box (27) – Retiring Allowances (ineligible portion)
A retiring allowance (sometimes referred to as severance pay) is an amount (other than a superannuation or pension benefit) paid to an officer or employee on or after retirement from an office or employment in recognition of long service, or for loss of office or employment, and includes payment for unused sick-leave credits.

In certain circumstances, the transfer of all or part of the retiring allowance to a registered pension plan or to a registered retirement savings plan is permitted.

Box (28) – Other Income
Refer to the *T4001 - Employers' Guide - Payroll Deductions (Basic Information)* and *T4130 -Employers' Guide - Taxable Benefits 2001 – 2002* to determine the types of payments that are considered "other income."

Included in this box are amounts such as the following:

- Honoraria
- Research grants (net of expenses)
- Death benefits—the gross amount of any payment on or after the death of an employee in recognition of the employee's service in an office or employment. The applicable benefits are made payable to the survivor and total amounts in excess of $10,000 are taxable at CRA stipulated lump sum rates. Do not make deductions for pension, group insurance, CPP or EI.

SECTION 5.0 TOOLS AND RESOURCES

5.1 COMPUTERIZED ACCOUNTING SOFTWARE

The following are boxed software that are widely available:

- QuickBooks
- Simply Accounting
- Other Church software – It appears from an initial survey that Quickbooks and Simply Accounting are very popular. Listed below are some other products but please understand we are not endorsing them but merely providing this for information.

Product	Website	Approximate Cost
Church Watch	www.churchwatch.com	$585
Donarius	www.donarius.com	$105
Genesis	www.dm2.ca	$450
Church Windows	www.churchwindows.com	$995-$1,070
PowerChurch Plus	www.powerchurc.com	$395
Servant Keeper	www.servantpc.com	$499
Shepherd's Staff	www.shepherdstaff.com	$399*-$1,299**
Viansoft	www.vian.com	$895
		*finance only** added modules (membership)

In certain cases, annual license fees will be required for continued use of the software listed.

Congregations are free to select their own software to suit their own requirements. There may be congregations that still use manual systems or a combination of manual systems and excel spreadsheets. If this meets the needs of the congregation and also, if you the Treasurer are able to prepare Financial Statements in a timely and accurate manner, there is no requirement to switch. There is no doubt however that these days there is much more work in maintaining a manual accounting system. <u>It is only a question of time</u> when you or the next Treasurer will switch to computerized software.

5.2 DATA INTEGRITY AND SECURITY

With respect to security, your primary consideration is to maintain the safety and integrity of the data stored on the computer in much the same way you would the attempt to keep your paper records safe and secure from prying eyes or being lost. Put another way, you wouldn't leave paper records out in the rain or lying around in the foyer. For computers, safety involves:

Physical Security

- The data must be kept physically safe. Always keep an up-to-date backup of the data stored on a flash drive, external drive, disks, or back up tape so that the data could be restored if the computer were stolen, damaged or malfunctioned (once the hard drive has crashed and smoke is coming from your computer it is too late to do a backup).

- The need for a backup cannot be overemphasized. The hard drive of your computer is a mechanical device that can and may well fail, and in doing so, can result in a loss of software programs and data and usually happens at the most inconvenient time.

- Automate the process if your software has a scheduler so the onus is not on you or others to initiate the backup process but please make it part of your regular routine. Remember not doing backups is similar to leaving paper records out on the picnic table, it will rain!

- The backup media should be stored off-site from the source computer.

Responsibilities

- Important church data <u>should not be only stored on your home or business computer</u>. It may become inaccessible in the case of an accident, sickness or disagreement with the church. If you do use your home computer, then you need to keep it password protected and safe from those who do not have a need to know the contents. Also, you must have an agreed method of duplicating the data onto the Church's computer as a backup. At a minimum, you should make sure the files are duplicated on the Church computer at least once a week. You have both a moral and fiduciary responsibility for the safety of the data.
- Confidentiality and privacy must be maintained. Any computer software or application containing confidential financial, personal, or human resources data must be adequately protected from unauthorized access.
- If you are the primary user, you have a responsibility to ensure that the equipment is properly maintained or able to be maintained.

Access

To protect the integrity of both data and software programs, you should consider an access policy that restricts computer access to the people who are knowledgeable about the use of the equipment and understand the need and will help to protect the privacy and integrity of any personal data.

SECTION 6.0 BASIS OF ACCOUNTING

Ever since 1494, when Father Luca Pacioli, a Franciscan monk wrote the first book on double entry accounting, we have relied on debits and credits to keep track of our finances. So perhaps it is here we should begin.

In order to comply with the *Book of Forms* the Treasurer must keep track of the receipts (credits) and disbursements (debits). Another way to think of this is what comes in (cash) and what goes out (cash). Many congregations maintain their books on a "cash" basis. Other congregations will keep their books on an accrual basis. A simple way to think of accrual accounting is it keeps track of what is "owed" to the congregation and what the congregation owes to others at <u>a point in time</u> like December 31st, 20XX. If you want to explore accrual accounting and use it throughout the year.

If a congregation does not use the accrual method but chooses to use the cash basis then the financial statements do not comply with GAAP (Generally Accepted Accounting Principles). This means if an external auditor carried out an audit or a review engagement, his/her report would have to qualify the financial statements because they don't comply with GAAP. So should you panic or be worried? No. But for larger congregations with significant assets and a larger amount of revenue and costs, the congregation may require an external audit and in this case they will want to comply with GAAP.

Chart of Accounts

Before the chart of accounts is set up (this is a listing of accounts that have unique numbers and descriptions for the assets, liabilities, revenues and expenses), some thought should be given to the end product – the end products are the financial statements. What categories of expenditures should be reported? Would the congregation (or the Board of Managers) like to see more detail, or less detail? Basically, each major item should have a separate general ledger account.

Here is a sample list of account names/descriptions:

Receipts – (see Section 7)

Loose Offerings – Cash in the offering plate at Sunday services that is not attributed to a specific donor and miscellaneous offerings at other meetings of the congregation.

Numbered Envelopes – Contributions received in envelopes for various operating expenses of the congregation, *Presbyterians Sharing* and other funds or projects as indicated on the envelope or by the donor.

Pre-authorized Remittance – Automatic bank withdrawals made from a donor's bank account to the congregation's bank account.

Gifts from organizations – Gifts from organizations within the congregation toward the current expenditures of the congregation (Record separately by organization, if desired).

Presbyterian Record Subscriptions – Contributions by members toward the cost of the Presbyterian Record subscriptions.

Presbyterians Sharing and Presbyterian World Service and Development – In many congregations individuals may tick or write on their envelopes if they wish the money directed towards *Presbyterians Sharing* and/or PWS&D.

General Assembly Budget Grant – Payments received from General Assembly Budget funds, through the Life and Mission Agency.

Gifts and Donations – Gifts from individuals and non-church groups.

Funds – Gifts for funds within the church such as building fund, VBS program, Choir and Organ fund, etc.

Other Designated Offerings – Amounts raised from miscellaneous charitable appeals these funds are held in trust and must be remitted to the proper organization or trustee in a timely manner.

Money For Using the Church Building – Usually other church groups and for other events i.e. weddings.

Disbursements – (see Section 9)

Stipend – Payment of minister's salary.

Salaries – Payment to organist, church officer, secretary (record separately, if desired).

Pulpit Supply – Honoraria paid during minister's vacation, etc.

Manse Expenses – All expenses incidental to the manse including maintenance of the manse – repairs, painting, taxes (record separately, if desired).

Worship Expense – *Book of Praise*, Bibles, Sacrament Supplies, Music Supplies, Session Records, Calendars.

Printing, Postage – Printing and stationery, postage and supplies.

Church School Expense – Lesson materials and teaching aids, Vacation Bible School expenses, fellowship expenses, fees for educational expenses.

Maintenance Expense – Repairs to buildings and equipment, service, contracts, snow removal, gardening, etc.

Taxes – local improvement taxes.

Pension Fund – Contribution by congregation to the Pension Fund.

Mission and Outreach – Contributions to *Presbyterians Sharing*, PWS&D and other mission work

Utilities – gas, water, etc. for church building, excluding manse.

Presbytery Assessment

When the major categories have been decided on, they must be properly defined. For example, the above example mentions "Maintenance Expense", including minor repairs to buildings and equipment. But what about repairs to the manse? Fortunately, in the above example the category "Manse Expenses" has been set up and is well defined, and definitely includes repairs to the manse. This will save you time in the future when having to answer the question about "manse expenses" or some other area you know about. The table below shows that with some forethought you can get your chart of accounts to serve more than one purpose.

Think about making your job easier when you design your chart of accounts

INCOME	**Annual report**	**T3010B Line # For CRA**	**PCIC Line Statistics Form**
Tax receipted offerings:			
General	X	4500	20
Presbyterians Sharing…	X	4500	20
Special donations / appeals	X	4500	20 or 22
Rental income	X	4610	20
Interest and investment income	X	4580	20
Grants from other charities (PCIC)	X	4510	23
Proceeds from asset disposition	X	4590/4600	21
Revenue from fund raising / bake sales, etc		4630	20
Revenue from governments	X	4540/50/60	25
Total other gifts received where tax receipt was ot issued	X	4530	22
Other -			
Open offerings	X	4650	20
GST refunds (as negative amount)	X	4920	30

EXPENSES	**Annual report**	**T3010B Line #**	**PCIC Line Statistics Form**
Stipend of Principal minister, including increments & travel	X	4880	28 a
Minister's utilities	X	4880	28 b
Continuing education allowance	X	4880	28 c
Other payments	X	4880	28 d
Other professional workers	X	4880	29
Housing allowances	X	4880	30
Other salaries and wages – organist, secretary, janitor	X	4880	30
Employee related benefit expenses- employers share of CPP, EI, pensions, H&D, etc	X	4880	30
Office supplies	X	4840	30
Church utilities costs	X	4850	30
Occupancy	X	4850	30
Advertising and promotion	X	4800	30
Travel and vehicles	X	4810	30
Interest and bank charges	X	4820	30
Other expenditures	X	4920	30
Debt repayments	X	4920	31
Christian education program costs	X	4920	30
Remitted for *Presbyterians Sharing…*	X	5050	33 a
Other mission and benevolent gifts (qualified donees - form T1236)	X	5050	33 b

6.1 INTERNAL CONTROL

The purpose of internal control is to protect the reputations of individuals involved with church finances and to protect the church's assets. The church has a duty to its volunteers to protect them from unfounded accusations against which they cannot defend themselves. It is wise for the church to arrange its affairs so that volunteers are not put into a position of unwarranted temptation. Internal control usually involves dividing financial duties in a manner that creates checks and balances. A good accounting system must contain a series of checks and balances to ensure that monies and property or other assets belonging to the congregation are properly received, adequately protected, accurately recorded, and effectively used.

The basic rule is that no one person should be in complete control of any one accounting transaction:

- Cheques must be signed by two signing officers who are at arm's length.
- Cash must be counted, recorded, and deposited by at least two people who are at arm's length, preferably people other than the Treasurer. The recording of the deposits should only be done by the Treasurer. Cash should be counted by at least two people at the church and deposited as soon as possible, preferably by using the bank's night deposit bag.
- All tax receipts for contributions and receipts for other income must be prepared in duplicate, see **section 7.4.**
- Expenses should be compared to budget and paid only on presentation of an approved invoice or voucher.
- All church financial activity, including that of the Women's Missionary Society (WMS) or the Atlantic Mission Society (AMS), youth, Sunday school, etc., must be included in all records and reports, including the Annual Report and the annual Registered Charity Information Return, unless the WMS/AMS has its own registered charity number

6.2 INVESTMENTS

Where the congregation has investments there should be at least two individuals ideally with a business or investment background, who are responsible for tracking and reporting on the investments to the Board of Managers/ session /trustees/congregation. Investment funds cannot be added or removed from the account without the authorization of the Treasurer and one other person, perhaps a trustee, convener of the Board of Managers or the Clerk of Session.

6.3 BANK RECONCILIATIONS

Bank reconciliations and bank statements should be scrutinized on a monthly basis. If possible an independent person should verify the monthly bank reconciliations. This approval should be documented by dating and initialing the reconciliations.

Preparing a Bank Reconciliation

Reconciling the congregation's bank accounts is really quite similar to balancing a cheque book. It can be done quite easily by following these steps:

- Obtain the bank statement and cancelled cheques for the month.
- Check all deposits to see that they agree with the bank accounts in the general ledger or the general cashbook. If the last day of the month is a Sunday, that day's deposit will be outstanding, and must be noted on the reconciliation.
- Verify the charges against the account by checking off each amount on the bank statement corresponding to a cancelled cheque.
- Identify any bank charges (service charges or overdraft interest). These should be the only amounts not checked off in the preceding step. Enter them in the general ledger.
- Sort the cheques into numerical order, and then check off the amounts that have cleared the bank in the general ledger or cash disbursement journal. As some of the cheques cleared in the current month may have been issued in a previous month, it will be necessary to refer to the list of cheques outstanding at the beginning of the month to check them off.

- Make a list of all cheques that have been issued, but have not yet cleared the bank. This is done by scanning the previous month's outstanding list, and the list of cheques issued during the month, and writing down each amount that was not checked off in the preceding step.
- Rule off the general ledger book (or both the cash receipts and cash disbursements journal). Total each column for the month. Check the additions by cross adding: the total of the detail column. Totals in cash receipts must equal the total of the "Amount Deposited" column; the total of the detail column totals in cash disbursements must equal the total of the cheques written. Add the month's totals to the year-to-date totals at the end.
- Since a separate general ledger account or manual cashbook is kept for each bank account, a separate bank reconciliation must be done for each account.
- Prepare the bank reconciliation in the following format:

Bank Reconciliation
June 30, 20XX
General Cash Acct # 123-4567

Balance per bank		$25,000.00
Less: Outstanding cheques:		
Chq # 34	$ 1,000	
Chq # 50	3,200	
Chq # 52	800	(5,000.00)
Add: Outstanding deposits		1,000.00
Balance per general ledger		$ 21,000.00

6.4 PRESBYTERIANS SHARING (THE GENERAL ASSEMBLY BUDGET)

As Presbyterians, we commit to doing mission and ministry together. One way we do this is through our givings to ***Presbyterians Sharing**,* the budget approved each year by The General Assembly.

Presbyterians Sharing covers the cost of General Assembly and its committees, but it does so much more. Our gifts create, sustain and renew congregations. We support inner city, native, refugee, urban, remote and chaplaincy ministries. We equip leaders and congregations in Christian education, worship, evangelism, mission and stewardship, youth ministry and justice work. Together we enable leadership development of ministers and lay leaders through our theological colleges. We recruit and send mission personnel to serve our partners around the world, facilitate exchange visits and work with other churches in ecumenical partnerships. Together we speak on issues at national and international forums.

The Session is responsible for all aspects of stewardship and mission and ministries of The Presbyterian Church in Canada (*Book of Forms* 113). Section 113.6.1 states: "The Session will ensure that the congregation is made aware of the allocation for the General Assembly (known as *Presbyterians Sharing*) submitted by the presbytery, and report to the presbytery the response of the congregation to that allocation". .

There are great resources to help congregations make a connection to Presbyterians Sharing.

- Photos, videos, mission capsules and articles for newsletters can be found at www.presbyterian.ca/sharing
- Meet the international mission staff at www.presbyterian.ca/ministry/world/staff
- See what we support in Canada at www.presbyterian.ca/canadaministries/list
- Download photos for at www.flickr.com/photos/pcconnect/.

More information can be found by contacting the Stewardship Department of the Life and Mission Agency, at 50 Wynford Drive.

Presbyterians Sharing Allocations

Suggested Allocation
Each congregation is given a **suggested allocation** based a formula passed by General Assembly. The allocation is determined using a percentage of the congregation's dollar base on a graduated scale.

The dollar base for each congregation is listed in the final column on the right side of the page of the Statistical and Financial Reports of The Acts and Proceedings. It is the money raised by the congregation for all congregational purposes in a given year, minus funds collected for *Presbyterians Sharing* and other mission givings and minus money used for debt repayment (principal and interest). To calculate your congregation's suggested allocation for a given year, you need the dollar base from previous year. Then you use the following formula:

- 13% of the first $50,000 (or part thereof of the dollar base) plus
- 18% of the next $50,000 (or part thereof of the dollar base) plus
- 21.5% of the remainder

You may use the online calculator at www.presbyterian.ca/sharing/calc to calculate your congregation's suggested allocation.

This amount is published in the most recent Acts and Proceedings.

In the fall, presbyteries receive the suggested allocations for their congregations for the coming year. It is the responsibility of the presbytery to review the suggested allocations, taking into account the particular situation of each congregation and making adjustments as necessary. The presbytery then passes the suggested allocation on to each congregation.

Accepted Allocation
It is the session's responsibility to inform the congregation of the suggested allocation and to report the amount accepted by the congregation back to presbytery (Book of Forms, 113.6.1).

The congregation decides, usually at its annual meeting, what allocation it will accept. The **accepted allocation** is reported back to presbytery immediately after the congregation's annual meeting. The presbytery reports back the accepted allocations to the stewardship office of the national church.

Allocations are not assessments; they are voluntary. But they do provide a guideline for what is a fair amount for the congregation to contribute to the common mission and ministry work we do through The Presbyterian Church in Canada. Here are some guidelines that our church has suggested over the years:

- Congregations are urged to meet their allocations; they may even accept a higher figure than that set by presbytery.
- Congregations may work at growth in giving. As their own needs increase, so do the needs of the national church for heating, staff salaries and programs.
- If a congregation accepts an allocation less than its suggested allocation, it is encouraged to make a plan that will help it to grow so that the church's mission work will not fall behind. Positive growth, even in incremental steps over time, motivates congregations and affirms that they are moving in the right direction.

Remittance of Funds

Many congregations have a separate line for *Presbyterians Sharing* on their offering envelope. This provides a weekly reminder of their participation in the work of the broader church. All monies designated to *Presbyterians Sharing* must be remitted within the year of designation, even if they exceed the accepted or suggested allocation of the congregation.

Many congregations include their accepted allocation in their annual budget, with the intention that it will be fulfilled. By including it in the overall congregational budget, everybody participates. If they don't receive enough designated contributions throughout the year to meet their accepted allocation, they top it up from their budget at year end.

Whether it is in your budget or not, telling the story of *Presbyterians Sharing* using photos, mission capsules, videos, and newsletter articles throughout the year helps the members of your congregation feel connected to the work, know how their money is being used and, most importantly, pray for the ministries.

When and how to remit

Since the budgetary needs are current—the money received in a given year is required for that specific year—congregations are encouraged to send in their gifts on a regular basis. The 1992 General Assembly recommended that congregations submit their gifts on a monthly basis. Contribution should be made no less than on a quarterly basis.

Some congregations have a separate individual who tracks contributions to *Presbyterians Sharing*. If this is the case in your congregation, he or she should receive a notice of the amount contributed and deposited each week. A cheque for the amount on hand should be forwarded each month, and definitely no less often than quarterly, to The Presbyterian Church in Canada.

Cheques should be payable to "The Presbyterian Church in Canada". Each cheque should be accompanied by a remittance slip. These forms are supplied by the Financial Services department in the national church office. Please complete this slip accurately and completely, to ensure that your contributions are properly credited to your congregation. (Remember, we have more than a few congregations named Knox or St. Andrew's in our Church!). Please include your congregational ID code.

SECTION 7.0 RECEIPTS

The basic source of cash receipts is, of course, the Sunday offering. The cash receipt journal, however, must be set up to handle other receipts as well – for example, gifts from other congregational organizations, a grant from the General Assembly Budget through the Life and Mission Agency (if the congregation is aid-receiving), hall rental fees, etc.

7.1 THE WEEKLY OFFERING

When the offering has been counted, a copy of the Offering Summary Report will be given to the Treasurer. The totals from this report can be entered directly into the cash book. In an electronic accounting system, one entry can be made for each deposit and the amounts allocated to the correct funds.

Section 162.2 of the *Book of Forms* states: "It is required that all offering, whether for general revenue or mission, be counted and recorded before being removed from the Church."

There are three basic jobs that must be done in counting, checking, and recording the offering:

1. Counting the offering, both loose and by envelope;
2. Recording the envelope offering;
3. Depositing the money in the bank.

There are, of course, many variations on how to count the offering, set out below is a suggested approach.

Counting the Offering

1. Separate the loose offering, the regular numbered envelopes, and other envelopes. The loose offering and the miscellaneous envelopes are set aside to be counted by the leader and co-leader.
2. The numbered envelopes are sorted into groups of 1-100, 101-200, etc. and the groups are then further sorted into numerical sequence. If a second envelope is used with the same number, such as for a building fund, place it behind the regular envelope.
3. Open the envelopes and check the amount of money contained within against the amount marked on the envelope. It is important that this be done accurately. If the amount is not legible, or there is a difference, write the correct amount on the envelope and draw a circle around it. Procedures for dealing with discrepancies in the case of duplex or triplex envelopes should be decided by the Board of Managers early in the year. If no amount listed on the outside of the envelope, write on the amount, circle and have a second counter also initial.

Recording the Offering

1. While the envelopes are being opened by one member of the counting team, the other member should be recording the envelope numbers and amounts on the Weekly Envelope Offering Report. One copy of this report will go to the Envelope Secretary and one copy will go to the Treasurer.
2. Total the envelope offering for each type of fund (Operating Fund, Building Fund, etc.) Take a grand total of the envelope offering.
3. Count the loose offering and record it on the Offering Summary Report. The bills and coins of each denomination are placed together, bills facing upward.
4. Record miscellaneous envelopes on multiple copies of the sundry count sheet. Envelopes specifically identified for church school or another group should not be opened, but directed to the Treasurer of the respective group. **Adequate detail on the miscellaneous offerings should be maintained** so that the Treasurer and envelope secretary may take the required action e.g., issue regular envelopes, issue official tax receipts, etc.
5. After the leader and co-leader have checked the cash and the cash summary sheet of each team of counters, the cash may be gathered together and a combined cash summary sheet prepared. The bills of each denomination are placed facing upward and coins rolled or placed in an envelope, and cheques stamped with "deposit only" stamp. The combined cash summary sheet covers the total amount to be deposited to each bank account. The leader then completes a separate bank deposit slip for each bank account, in duplicate, and indicates in the appropriate space the amount to be deposited.
6. The leader prepares multiple copies (copies will go to the Treasurer and the Envelope Secretary) of the Offering Summary Report.
7. Mark all cheques, on the back, "For deposit only – Presbyterian Church, City." This is most easily done by having an inexpensive rubber stamp made up.

Depositing the Proceeds

1. Place the money, cheques and duplicate deposit slips in a suitable deposit bag and together place the bag in a bank depository or safe. If neither depository nor safe is available, other arrangements must be made that will keep the cash safe until it can be deposited into the bank.
2. The duplicates of the deposit slips, after receipt and return by the bank, are given to the Treasurer.

7.2 OTHER REVENUES

Many congregations receive rental income. When this is received it should also be counted under miscellaneous or unnumbered envelopes. A copy of the cheque or a note should be made so that the Envelope Secretary can properly record these amounts. This information should also go to the Treasurer for proper coding and entry.

7.3 BANKING

The *Book of Forms* requires that the bank accounts be identified as belonging to the congregation, and that all funds received be deposited without delay. Many congregations use a night depository facility at their bank; the Sunday morning offering is deposited by the counting team on their way home from Church. The Treasurer then receives the duplicate deposit slip, which will be used in the monthly bank reconciliation. It is desirable that a congregation maintain separate bank accounts for its Operating Fund, and any special funds, such as a Building Fund or any endowment funds.

Congregations that have opted to use the Marsh insurance program for Presbyterian Congregations have the following coverage when handling money. Employee Dishonesty coverage with a $100,000 limit that provides coverage for loss of money or securities caused by employee dishonesty. Coverage is also included in the amount of $10,000 for loss of money and securities that are on or off the premises.

7.4 GIFTS FOR CHARITABLE DONATIONS

Charitable Registration

In accordance with legislation enacted in 1966 by the Government of Canada, all congregations/churches must be registered with the Charities Division, CRA, in order to issue income tax deductible receipts. Registration certificates and numbers are issued directly to each congregation/church.

In general, for a donation to be tax receiptable, the donation must be in the form of an outright gift. CRA defines a gift as "generally a voluntary transfer of property for which the **donor expects and receives nothing of value in return**." In addition, there must be financial sacrifice – the donor's personal resources are reduced. Many gifts are cash donations and should be tax receipted in the manner described below.

The Content of Receipts

CRA has issued very detailed rules relating to receipts which are contained in Regulation 3500 of the Income Tax Act, and Interpretation Bulletin IT-110R3 entitled "Gifts and Official Donation Receipts". The following highlights are some of the major requirements.

Sample receipts go to the CRA website:
www.cra-arc.gc.ca/tax/charities/pubs/receipts-e.html.

Government regulations require that a charity issue receipts in duplicate. The original is to be sent to the donor, and the duplicate kept on file for possible audit purposes. In Quebec, receipts must be issued in triplicate, and two copies are to be sent to the donor. It is important that the total amount of receipts issued agrees with the total recorded in the church books and financial statements.

Each receipt must bear on its face:
1. a serial number, preferably imprinted by numbering machine
2. the name and address of the congregation
3. the charitable registration number, and
4. a notation that it is an "official receipt for income tax purposes"

As all congregations cannot afford to have special receipts printed, serially numbered receipt forms can be purchased in duplicate. It is acceptable to use two rubber stamps, one bearing the name and address of the congregation and the other, "Official Receipt for Income Tax Purposes, Registration Number..........".

Each completed receipt must contain:
1. the date of issuance; or year end if for total donations received in a year;
2. the amount of the donation, listed both numerically and in words (e.g. $25.00 and twenty-five dollars);
3. the name and address of the donor;
4. the signature of the authorized signing officer;
5. where the donation is a gift of property other than cash, the receipt must also contain a brief description of the property, the name and address of the appraiser if an appraisal has been made, and the date of the appraisal. The amount shown on a receipt for a gift of property must be the fair market value of the property as of the date the gift is made. When a donor has given both cash and a gift in kind, separate receipts must be issued for both since the receipting requirements differ.

Prepare receipts legibly so that they cannot be easily altered without detection. If a receipt is illegible or incorrect, cancel it by marking "cancelled" across the face. Retain the original copy with duplicate copy(ies). Mark the replacement receipt "Replaces receipt No......." without obliterating or dropping the number of the replacement receipt.

CRA will not allow improperly completed receipts to be used by the donor as deductions from income.

Sometimes an extra copy of the official tax receipt may need to be issued. The extra copy should not include the charitable registration number and must contain the notation: "This copy is for your information only and is not an official receipt for income tax purposes."

To replace a lost official tax receipt, a charity may issue a replacement which must contain all of the information usually required on the receipt, plus a notation to the effect that "this cancels and replaces receipt #" (insert the serial number of the lost receipt). The charity's copy of the lost receipt must be retained and marked "cancelled".

Give particular attention to the dating of receipts. Subsection (1) of Income Tax Regulation 3501 reads, in part:
"Every official receipt...shall show clearly...

(e) the day on which, or the year during which, the donation was received;
(f) the day on which the receipt was issued where that day differs from the day referred to in paragraph (e) or (e.1); ...[(e.1) refers to gifts of property other than cash]."

Further, a receipt on which the day or year of receipt is incorrectly or illegibly entered "shall be regarded as spoiled". (Sec. 6, Regulation 3501) **The effect of these regulations makes it illegal to issue a receipt in one year and receive the cash in another without bringing it to the attention of CRA.**

December 31st and Gifts made by mail

A donor is entitled to an official tax receipt for an eligible amount of a gift made in the year. If a gift is made in December, but put in the mail and received in January, it can be counted for December if it was mailed in December. Proof of a properly addressed envelope with a post mark stamp should be kept.

CRA's Rules on Non-Receipting

CRA has set out a number of situations in which tax receipts should not be issued (please refer to Interpretation Bulletin IT-110R3 for more information). According to CRA, tax receipts should not be issued:

- for amounts received by loose collection where it is impossible to identify the amount contributed by a particular donor;
- for donations of services where the donor requests a receipt for the value of those services. The person providing the service should bill the congregation for her/his work and receive payment in the usual fashion and deposits the cheque into their account. If the person who has provided the service cares to donate an equivalent amount to the congregation, s/he should do so by way of a new cheque and receive a receipt in return. Otherwise, the congregation could find itself in the position of being a party to a fraud whereby the person who provides the service evades tax by not reporting the consideration received (in the form of a tax receipt) as income;
- for most donations of old clothing, furniture, and the like with some exceptions for gifts with a substantial value (see "Gifts-in-Kind" section). If the congregation is planning a fund-raising event such as an auction, the Charities Division, CRA should be consulted prior to issuing tax receipts for donated goods;
- where only a pledge has been received.

Gifts of Listed Securities:

CRA has made it very attractive to give a gift of listed Securities. The capital gain which is usually taxed at a rate of 50% has been reduced to zero for individuals donating publicly listed shares. Instead of giving a gift of money, individuals may find it is much more tax efficient to give a gift of publicly listed shares

Please go to http://www.presbyterian.ca/resources/online/307 for information on donating listed securities and how the national church can assist your congregation in receiving and selling these shares.

Gifts-in-Kind

A donation of property other than cash is referred to as a gift-in-kind. A gift of property to a charity is tax receiptable. To establish the value of the gift-in-kind, an estimate of the fair market value of the item on the date on which it was donated (i.e. legally transferred to the charity) is needed. Generally, "fair market value" is taken to be the highest cash price that the property would bring in an open market. If there has been an arm's length sale of the property near to the date of the donation of the property, the charity might use this value for purposes of the tax receipt.

An independent appraiser who is not associated with either the donor or the charity must value all gifts over $1,000. In general, the donor should have the appraisal done, as the donor will benefit by receiving the income tax receipt. Should the donor not be willing to arrange an appraisal, the charity should consider not issuing a tax receipt.

CRA Regulation 3500 requires that a tax receipt for a gift-in-kind record the nature of the gift and the name of the appraiser.

Penalties

The penalty for willfully circumventing the rules or for failure to comply in a major respect is severe. Section 168(1) of the Income Tax Act empowers the Minister of National Revenue to take steps to revoke a charity's status.

Resources

The Charities Division of CRA welcomes questions about charitable tax receipts. Their toll free number is 1-800-267-2384 or write to:

Charities Directorate
CRA
Ottawa, ON K1A 0L5

CRA also offers reference guides, which are available on request. Some of the most commonly used include:

- *Gifts and Official Donations Receipts* (Interpretation Bulletin IT-110R3)
- *Gifts and Income Tax* (IT – P113)
- *Gifts-in-Kind to Charity and Others* (Interpretation Bulletin IT-297R2)

7.5 PRE-AUTHORIZED REMITTANCE (PAR) PROGRAM

PAR, or Pre-Authorized Remittance, is a "direct debit" program that allows people to support their congregation through an automatic monthly withdrawal from their bank account. Automatic bank withdrawals help congregations to maintain a regular, dependable flow of contributions, and provide church members with a convenient way of providing ongoing, faithful support for their church.

The United Church administers the PAR program for The Presbyterian Church in Canada and a number of other denominations. This allows us to keep the cost of a PAR program to a minimum for congregations. Once a month, all PAR givings are debited to donor's accounts and then the total, less a service fee, is electronically transferred to local church accounts. The local congregation issues the income tax receipts in the same way that they do for envelope donors. PAR donations can be separated into donations to the local congregation, *Presbyterians Sharing* etc. Individuals can also make PAR contributions directly to *Presbyterians Sharing* or *Presbyterian World Service & Development*, if they wish.

Currently the United Church of Canada charges the congregation 50 cents per debit per month (with a cap at $45). This monthly fee charged to the churches helps to offset the costs related to bank charges, promotion of PAR, and the staff who administer the program. These fees have remained constant for several years.

For information packages (sample brochures, offering cards, question and answer sheets) contact the PCC's Stewardship office at 1-800-619-7301 or check out our website at http://www.presbyterian.ca/donate/par.

SECTION 8.0 CHARITABLE ACTIVITIES

A charity must spend all of the funds it receives – whether receipted or not – on charitable activities and in pursuit of the charity's charitable purposes. Once a charity deposits money into its bank account, it may use the funds only to carry out its charitable activities.

What makes an activity charitable is whether or not it is carried out to achieve or work towards the organization's charitable purpose. In Canada the relief of poverty, the advancement of education, the advancement of religion and certain other activities recognized by the courts are legitimate charitable purposes, provided that they also benefit a large enough segment of the public.

One important exception to the rule that a charity must spend all of its resources on activities it carries out itself, is that if a charity gives resources to another Canadian registered charity or qualified donee, it is deemed to have spent the resources on its own activities. This means that a Canadian charity cannot simply hand over resources to a Canadian or foreign individual or organization that is not a qualified donee. Failure of a charity to meet its obligations to direct and control its resources and activities exposes the charity to penalties and possibly the loss of its charitable status. The charity should not disperse more than 50% of its income for that year to qualified donees. When two or more charities are designated by CRA as associated charities – such as a congregation and its denomination – they are not limited to transferring to each other a maximum of 50% of one year's income, as is the case with other qualified donees.

8.1 FOREIGN ACTIVITIES

A charity may carry out its activities both in Canada and outside of Canada. The requirement that a charity use all of its resources on activities that it carries out itself can create a challenge.

The simplest ways to carry on an activity outside of Canada is for a charity to work with other Canadian charities (i.e. qualified donees) already doing the work outside of Canada or to send its own employees and volunteers to do the desired work. Working with the denomination is one way for congregations or churches to do this.

Agency Agreements

In CRA's Policy RC4106 a Canadian registered charity can carry out its own activities by using a foreign agent or by entering into a joint venture arrangement with a foreign charity. Both these approaches are complex. Some of the requirements include having a signed agreement in writing which:

- specify the nature of the activities or projects to be carried out;
- includes the financial and other reporting to be made by the agent to the charity;
- have the charity's funds held separately from the agent's funds, include provisions regarding limits of the agency, termination and liability, including the scope of the principal's exposure to liability as a result of the agents actions
- It must be shown that they agent is actually carrying on the charitable work.
- Meaningful input in establishing policies and administering the activity

Charitable Goods Policy

CRA considers it reasonable for a registered Canadian charity to transfer property directly to a non-qualified donee without an agency agreement if the nature of the property means it can only be used for a charitable purpose. For example, it is generally reasonable to assume that a copy of the Bible will be used for religious activities, that medical equipment will aid the sick, and that student books will be used for educational purposes in a school.

Capital Projects

For churches taking on building projects such as a church or school or medical facility in a foreign country.

If it is a development project for relief of poverty – such as school, hospital, water purification system, that church should ensure that the relief of poverty is within its charitable purposes and objects set out in the constating documents (letters of patent if incorporated or declaration of trust or similar document if unincorporated.) which were filed with the government either when the church incorporated and/or when it applied to the federal government to obtain its charity registration number. If the relief of poverty is not covered in these documents, an amendment should be made and CRA notified before engaging in this type of project.

The issue of ownership of the building will arise. CRA appears open to the possibility that a title-holding arrangement with a local charity or government body might be allowed, provided the terms of the arrangement clearly set out that the property will be used exclusively for charitable purposes. CRA encourages charities to consult with its Charities Directorate in order to reach such a determination. If it is perceived as making a gift to a non-qualified donee the church could lose its registered charity status under the ITA. One needs to show ongoing charitable use of the building, and the ongoing relationship with the charity. Denominations, with paid staff in the region, regular contact, agency agreements, etc. are often able to do projects of this sort.

8.2 DESIGNATED GIVING POLICY

When a congregation receives designated funds they must spend the designated funds as they were designated. Sometimes this can cause problems, particularly if the amount of designated funds given exceeds the cost of the program or item that the funds were designated for. (Example: $20,000 was donated to purchase an organ which cost $15,000). It may be helpful for a congregation to have a "designated gift policy" and make donors aware of the policy whenever it solicits or accepts designated funds.

The policy should clearly state that the funds are being accepted on the condition that they will be used for the specified purpose unless the designated purpose has been completed or, for some reason, cannot be completed, in which case the Board may decide that the funds are to be used for another charitable activity of the congregation.

Sample Designated Giving Policy:

Spending of funds is confined to (approved programs and projects. Any contributions designated toward an approved program or project will be used as designated with the understanding that when the need for such a program or project has been met, or cannot be completed for any reason as determined by the Board/Session of the congregation, the remaining designated funds will be used where needed most.

If you are running a campaign for a specific program or project, you can tailor the information to specifically suit the campaign and include it on all promotional material.

Acting as a Conduit

Q: We want to support someone in need; can we channel the funds through the congregation so we can get a tax receipt? And we want to give money to a group in the community doing work with youth. They are not a registered charity. Can the congregation hold a fundraiser for them and receipt the gifts?

A: A congregation is not permitted to act as a "Conduit". Terms like "channel" "funnel" or "pass through" should trigger a warning bell for treasurers. The law does not permit a congregation to act as a conduit for passing on resources.

A congregation is required by law to use all of its resources in pursuing its own charitable purposes. The congregation must have direction and control of its resources, including all of its property and any gifts received. A congregation cannot receive gifts or issue receipts for funds over which it has no control. This control is seen to be lacking in situations where the donor directs that his or her donation be channelled through a particular person or organization.

The one exception to this rule is the 'qualified donee'. Congregations can receive funds to transfer to a qualified donee – generally a Canadian registered charity, where the qualified donees' activities are seen to be the activities of the transferring charity. (When congregations receive funds for Presbyterians Sharing they are transferring the funds to a qualified donee – the national church. Likewise they may receive funds for their local food bank, if it is a registered charity, because it would fit with the congregation's mandate to provide food for the hungry.) However it is up to the congregation – and not the donor – to determine whether to use the qualified donee rule. Administratively though, the CRA will allow a congregation to receive a gift designated by the donor or another organization if that organization is a qualified donee.

The bottom line is:
Is the group a qualified donee?
If not, is the congregation in control of the activities? If not, it cannot fund them.

Q. Can the church accept donations and send them to a sister congregation if they are not receipted?

A. Funds, even those not receipted, become the congregation's property the moment they are deposited in its bank account. The congregation must use these funds themselves or give them to a similar qualified done that fits with their mandate. It is not legal to channel the funds, even if they are not receipted to an organization in another country. Regardless of the fact the money was not receipted, the congregation cannot send money to an entity that is not a qualified donee.

Q. What does it mean to have control over the activities?

A. Work conducted by its own employees or volunteers.

A local congregation may raise funds for or on behalf of a specific Canadian registered charity which carries on work falling within the mission mandate of the congregation. When the charity does this, it is not acting simply as a conduit, but as agent of the designated purpose.

8.3 BENEVOLENCE FUNDS

Many congregations have benevolence funds. It is important to note that that benevolence programs must be based on helping the poor and needy in the community and not just members of the local congregation. To be legitimately charitable all activities undertaken by a congregation must be available to a wide enough segment of the public to qualify as a public benefit. If a congregation restricts consideration for benevolent assistance only to members of the congregation, it would be conferring a benefit on its members by virtue of their membership in the congregation.

With respect to all relief assistance, care should be taken to ensure that those who receive assistance are not materially enriched. Ensure that there is not:

- fire insurance which covers much or all of the costs associated with a loss
- a life insurance policy where the proceeds will meet the needs of the family
- eigibility of an unemployed individual for wage loss insurance under EI or other plans.

To provide relief assistance, the responsible group or individual in the congregation must determine the amount of support to be given on a needs and means basis. Needs are determined on the basis of total reasonable expenses less all sources of current income.

Benevolent assistance is considered social assistance for the purposes of the ITA.

SECTION 9.0 DISBURSEMENTS

One tried and true method of payment is by cheque, signed by two signing officers in the congregation (one example could be Treasurer, convener Board of Managers). The two signing officers would examine a properly detailed invoice or supporting voucher. Neither officer should sign the cheque until they are fully informed about the transaction, and understand its terms completely. In addition, if the invoice applies to a specific group in the congregation, the invoice should be presented to, and approved by, the group involved with that part of the budget.

This method of payment may seem rigid and excessively time-consuming, but it provides protection to all concerned. If both signing officers exercise due care, a major protection against error is achieved. By insisting on payment by cheque, all payments will be recorded, and this results in protection against paying the same bill twice. Payments by cash of all but very minor accounts should be avoided.

In the cash disbursements journal, columns will be set up for the various types of expenditures. As each cheque is written it should be recorded in the total expenditure column and in the appropriate detail column, or entered into your accounting software package.

Where a cheque has been issued, the invoice should be stamped "PAID" and the cheque number should be written on the invoice. The invoices should then be filed by vendor in alphabetical order. In an electronic accounting system, cheques can be posted in batches with the same details as in a manual system.

9.1 REMITTANCES TO THE NATIONAL OFFICE

Pink Form for Members of the Pension Plan

- Minister
- Order of Diaconal Ministries

Grey Form for Members of the Pension Plan

- Secretary
- Organist
- Custodian
- Any person employed by a committee of the General Assembly, a Board or College where the employer pays (7.0%)

Make cheques payable to "The Presbyterian Church in Canada"

Yellow Form

- *Presbyterians Sharing…*
- Presbyterian World Service and Development
- Loan Repayments

Make cheques payable to "The Presbyterian Church in Canada"

Payments to the Presbyterian Record should be made by payable to "Presbyterian Record Inc."

SECTION 10.0 SPECIAL FUNDS

A congregation may receive funds designated for other specific uses. It is important where a congregation receives a gift or bequest with conditions (designations) that a decision is made up front whether to accept the gift with the conditions as stated. Once the cheque is cashed, it is too late, you have in fact accepted the conditions. It is in fact the case that sometimes you may have to refuse a gift or bequest because the conditions are not acceptable to the congregation and don't fit with the objectives of the congregation. Therefore, prior to cashing the cheque, the Treasurer should ensure that the congregation will not have a problem accepting the gift or bequest and the conditions that go along with it.

Examples are a special fundraising campaign, an outreach program, bequests received through estates (called endowments), and trusts set up from gifts given by those in the congregation (inter vivos). These receipts must be accounted for properly in the books of account or spreadsheets. You need to be able to report on the bequests or gifts that had specific designations. In some cases donors may give to the memorial fund in which case you can deposit all amounts into one account and track this separately. An example of reporting on separate funds is:

The Presbyterian Church in Canada
Betty M. Hoskinson Fund -Music Fund interest to be spent
At Dec 31st, 2010
Prepared on: Feb, 21 2011

Capital Account	**2009**	**2010**
Fund balance, Jan 1	0	26,815
Bequest -Jan 5, 2009	26,000	
Revaluation of assets- Market Gain	815	1,100
Fund balance, Dec 31,	**26,815**	**27,915**
Income earned		
Interest	854	975
Dividends	125	154
	979	1,129
Disbursements		
Guest soloist Cecilia Bartoli	(500)	
Visiting Choir -Hungary		(650)
Christmas pageant	(479)	(479)
	979	1,129
Total under administration December 31	**26,815**	**27,915**

Each fund should be given a name and an account number. Each fund should also have a file which sets out:

- Purpose of the fund

- Type of Fund (designated, internally restricted, building fund, special campaign; outreach; bequest; special trust)
- Terms and Conditions related to the fund. If this is a bequest, what are the terms from the will? If money has been given by a donor with conditions and the congregation accepted the gift and the conditions then these must be complied with and no changes to the terms and conditions are allowed. Also, has the congregation set up further conditions (internal restrictions) for how, when and for what the income and capital can be used?

The congregation may name a trustee to be responsible for monitoring the fund and reporting back to Session or the congregation. Sometimes a committee is set up to monitor the fund. Whatever the approach a summary of fund activities should be prepared and a report presented to the congregation at the annual meeting.

Fund activities include receipt of the initial gift or bequest; any receipts from campaigns; income or interest and any disbursements from the fund. If a separate bank account is kept for the fund then the opening and closing balances in the fund should be reconciled to the bank balance.

<u>A final note: All disbursements should be authorized by the committee or trustee/individual who has been appointed by the congregation to monitor and supervise the fund.</u>

SECTION 11.0 GOVERNMENT REGULATIONS

11.1 GOODS AND SERVICES TAX

Province	**GST or HST**	**Rate**
Ontario	HST	13%
British Columbia	HST	12%
New Brunswick	HST	13%
Newfoundland and Labrador	HST	13%
Nova Scotia	HST	15%
Territories and other provinces	GST	5%

Many charities do not have to be registered for the GST and therefore they do not have to collect it since, in general, donations, grants, and subsidies received by charities are exempt from GST/HST. However charities are allowed to claim rebates on the GST/HST they have paid out during the year (quarter).

Gross Revenue Test

In order to simplify the administrative burden on charities, a gross revenue test was introduced for small charities so that they are not required to determine the tax status of the supplies they make, hence making it easier to determine whether they have to register for GST purposes. Charities whose gross revenue is $250,000 or less in either of their previous two fiscal years automatically are not required to register, regardless of the amount of their total taxable supplies. The large majority of charities that meet this condition are not making more than $50,000 in taxable supplies and, therefore, should not be registered. Of course, charities meeting this test would continue to be entitled to claim a 50% rebate of the GST paid.

The gross revenue test is based on an amount which charities are currently required to keep for income tax purposes in order to meet their reporting requirements for their Revenue Canada Annual Information Return (Form T3010B). Gross revenue includes all sources of revenue (donations, grants, property income, investment income, and related business income) and is defined in the same way as it is defined for income tax purposes (i.e., it has the same meaning as gross revenue for purposes of the T3010B form).

A congregation does not have to register for GST purposes if it meets either of two conditions:

1. The congregation's gross revenue for either of its previous two fiscal years was $250,000 or less;
   or
2. The congregation meets the existing small supplier test (i.e., it makes less than $50,000 in taxable supplies—another word for "supplies" is sales. There are very few congregations who have sales greater than $50,000).

However, if a congregation engages in commercial activities and it cannot pass the gross revenue test, it might be required to collect taxes and register for GST unless it makes less than $50,000 in taxable supplies (sales).

For GST purposes, a congregation is defined as a registered charity under the Income Tax Act. It must have a registration number and that number must not have been revoked. As such, the congregation is entitled to recover a rebate of GST paid on all expenses, except where an input tax credit has been claimed.

Each congregation that currently is a registered charity for income tax purposes with a valid registration number is automatically a charity for GST purposes.

For congregations who do have sales, the church will collect GST/HST on their taxable sales, but it is only required to remit 60% of the GST/HST collected (with certain exceptions). On various goods and services the congregations purchases there will be GST/HST. Congregations can claim a rebate. This calculation will vary depending on which province you live in....read on.

Harmonization

Three Atlantic Provinces (Newfoundland, Nova Scotia, and New Brunswick), Ontario and British Columbia have "harmonized" the GST with their provincial taxes (HST). Quebec has harmonized its sales tax with GST.

Congregations should be prepared to separate these taxes in order to claim back their appropriate rebates.

Please go to http://www.presbyterian.ca/pcconnect/daily/5288 for further resources for Treasurers and HST. Remember depending on the province you reside in the rebate calculation may not be a straight forward 50%.

Should We Register?

If the congregation has no commercial activities (sales) and only receives donations, gifts, grants, and subsidies, there is no reason to register. It is still entitled to claim its rebate. This calculation will differ depending on what province you are in and if that province has the harmonized sales tax in operation.

If the congregation is heavily into commercial activity (sales) and the volume of GST/HST taxable transactions is over $50,000 per annum, and the gross revenue exceeds $250,000, then the congregation must register.

Registering for GST Purposes

If commercial revenues have been determined to be in excess of $50,000 and gross revenues exceed $250,000, or if the congregation wishes to register despite qualifying for the exemption, the local GST office should be contacted to request a registration form. Note that a congregation must have some commercial activity (sales) in order to be eligible to apply for voluntary registration.

Registrants are required:

a. to collect GST on all commercial sales subject to GST,
b. to show their registration number and the amount of GST charged on all invoices for commercial sales, and
c. to remit the GST on a regular basis.

The GST regulations require each invoice to show the vendor's GST registration number and the amount of GST included in the invoice. This does not mean that new invoices have to be purchased – a rubber stamp with the number and a space for the amount of tax is acceptable.

a) Non-Registrant

Non-Registrant charities or congregations may claim a rebate of GST paid on purchases for all charitable activities. Note the calculations for the rebate are somewhat more complex with HST and differ by province. It is not necessary to be registered with the GST to claim this rebate, but the congregation's charitable registration with Revenue Canada must be valid. (It hasn't been revoked because you didn't send in the T3010B form each year)

Form GST 191E may be obtained from the local GST office. This form comes with a guide which explains how to complete it. The GST office will assign a rebate number and send a new form for each successive filing. Completing the form is relatively simple if the accounting books and records readily show the GST amounts paid.

All purchases on which tax has been paid are eligible for the rebate and include: general operating expenses such as rent, utilities, office equipment, and supplies; reimbursement of employees' and volunteers' expenses that include GST (these can be subject to certain limitations); purchases made for the goods and services the congregation offers (commercial activity) for which it is not required to collect GST because it is a small supplier (under $50,000 rules); miscellaneous small expenditures (e.g., meals, taxi fares) will normally have GST included in the total. The GST component may be calculated at 5/105 times the total payment. The rebate would then be calculated at 50% of this GST component. Note if you are in a province that has HST the calculation will differ.

GST/HST can also be extracted on the amount reimbursed to employees or volunteers for kilometers driven by applying the factor 5/105 to the payment. HST would be 13/113 if in Ontario and 12/112 if in British Columbia. The rebate on a mileage allowance can only be recovered if the allowance paid is based on actual kilometers driven.

b) Registrant

Congregations registered for the GST/HST will file two forms on a monthly, quarterly or annual basis – GST/HST Rebate Application for Public Service Bodies (Form GST 66E) and GST/HST Return for Registrants (Form GST 34E).

Virtually all charities will be claiming a refund on filing (as rebates will normally exceed GST collected). Note that the time limit for claiming GST rebates is four years for charities; two years if total taxable revenues exceed $6 million per annum.

Revenues and Commercial Activities

Most of the sources of income for congregations are not subject to GST. Examples include:
- personal and corporate donations
- government grants and subsidies
- fees for research, counseling, rehabilitation, education, and social services.

In addition, charities will be granted three broad exemptions under which the provision of otherwise taxable goods and services, other than a sale of real estate, will not be subject to GST/HST:

1. A congregation that qualifies as a small trader (annual sales of GST taxable goods and services under $50,000) will not have to collect GST on its sales unless it has opted to register under GST. If a congregation has distinct branches or divisions, each branch or division may apply to be treated as a separate entity for this purpose.
2. GST will not apply to goods or services provided for a nominal charge if it is reasonable to expect that the nominal charge will not cover the direct costs (excluding labour, capital, and overhead costs) incurred for those goods or services. Nominal charge is defined as "less than direct costs."
3. The provision of food, drink or accommodation to relieve poverty, suffering or distress will not attract GST/HST.

If any of these three exemption conditions is met with respect to particular goods or services, GST/HST will not apply. At all times, however, the exemption rules will not affect transactions in real property by the congregation.

11.2 GST & COMMERCIAL ACTIVITIES

Rental of Facilities

Previously, short-term rental of facilities was considered GST/HST taxable. Effective January 1, 1997 no determination of length of rental period need be made. Consequently, all rentals of church facilities are now GST/HST exempt and include the following situations:

1. rentals of church facilities where the tenant has full, continuous, and exclusive use of the space;
2. rental of a gymnasium or a meeting room for one evening a week by groups such as the Scouts, an adult athletic association, a group of retirees, etc.;
3. rental of space for 5 days each week during business hours by a school or daycare;
4. rental of the sanctuary for a portion of each Sunday by another church;
5. one-time rentals of space for a wedding reception, a meeting, or other non-repetitive functions;
6. rental of parking spaces.

Services rendered by a Minister and/or Church Employees

Fees to be directed to employees of The Presbyterian Church in Canada for services rendered (weddings, funerals, etc.) are considered honoraria and are not subject to GST/HST. However, if an employee (e.g. church organist) is a registrant under the GST, that employee must charge GST on the value of the services rendered.

Seminar and Conference Fees

Fees charged for seminars, conferences, meetings, and conventions are exempt from GST.

Admission to Amateur Performances

Admissions are exempt where at least 90% of the performers are volunteers and receive no remuneration.

Fund-Raising Dinners

The entire price of the ticket is GST exempt. (Previously, only the portion for which the congregation issued a tax receipt was exempt.)

Recreational Services

Any fees for recreational programs conducted by the church are GST exempt provided that the program is primarily for:

- children aged 14 and under (except where the program involves overnight supervision throughout a substantial portion); or
- underprivileged or mentally or physically disabled individuals.

Daycare Services

Fees for daycare services provided by a congregation primarily to children 14 years of age and under are exempt.

Catering Services

Catering services provided by a congregation are exempt from GST.

Filing

All registrants are required to file a GST/HST return for each reporting period, even if there is no money to be remitted or refunded. Filing frequency can be monthly, quarterly or annually.

If the filing schedule is annually, the return must be filed within three months of the end of the reporting period.

Cash flow considerations, particularly as they relate to rebates, may be the most significant factor in deciding which reporting option to choose. Non GST registrant charities are only entitled to file two (2) rebate claims per year.

Books and Records

Under the GST/HST, accounting records and systems will have to be modified somewhat to allow for the recording of GST/HST collected (on sales), GST/HST paid, and rebate claims (whichever is applicable). At the end of each filing period, the books must provide enough information to determine how much GST/HST has been charged and paid, as well as the amount recoverable through rebates.

Purchase Invoices

Sales records and invoices must be kept in order to support claims for the GST/HST rebate. Suppliers registered for the GST will provide invoices containing their GST registration number and other required information. These records must be kept for six years and made available to CRA Excise auditors on request.

Remittances (for those congregations who have taxable sales and have collected GST/HST. Note very few congregations will be remitting money to CRA)

Cheques for GST/HST should be made payable to the Receiver General, and your GST account number must be noted on your cheque. Remember that it is not necessary to remit all GST collected. Only the net amount of tax—the difference between 60% of the tax collected, less the amount of the rebate—need be remitted.

11.3 RECORD RETENTION

The table below was first published by the Canadian Council of Christian Charities. This organization has an excellent website www.cccc.org that is highly recommended. You can join and become members. One of the benefits of membership is an excellent book published each year and available on line that is entitled the Charities Handbook.

How Long Should Records be Kept?

The following chart provides some common examples of records and suggested retention periods. Every attempt has been made to give accurate information in this schedule. You may wish to check with your lawyer or other professional advisor for information specific to your situation.

Type of Record	**Retention Period**
Governing Documents (Letters Patent, Certificate of Incorporation, Bylaws)	Permanent
Official Receipts for Income Tax Purposes	3 years*
Official Receipts for Income Tax Purposes (Perpetual Endowment Gifts)	Permanent
Official Receipts for Income Tax Purposes (10 year gifts)	Permanent
Minutes of Directors' Meetings	Permanent
Minutes of Executive Committee Meetings	Permanent
Minutes of Members' Meetings	Permanent
Payroll Records, T4's	7 years
Personnel Information: sick leave, time sheets, attendance, discipline, vacation	Permanent
Record of Employment (ROE's)	7 years
T-4 Summaries	Permanent
General Ledger (for legal defense reasons)	Permanent
Monthly Trial Balance	7 years
Bank Reconciliations	7 years
Financial Statement Working Papers	7 years
Approved Budgets	7 years
Year End Financial Statements	Permanent
Bank Statements/Cancelled Cheques	7 years
Invoices/Receipts of payment	7 years
Inventory Records	7 years
Donation Records	3 years
Church Envelope Records	3 years
Insurance Policies	Permanent
Employment Applications	Permanent
Performance Reviews	Permanent
Volunteer Application Forms	Permanent
Confidential Record of Reference Checks	Permanent**
Suspected Child Abuse Report	Permanent
Suspected Child Abuse Follow-up Report	Permanent
Authorization and Consent for Minors	Permanent
Employee & Volunteer expense claims (For legal defense reasons)	Permanent

* *Records that are to be kept for a certain period (e.g., 2 years after the end of the tax year to which they apply) are rounded up to the next year (e.g., 3 years).*

** *The police record check itself may be destroyed, but keep a permanent record that it was received and vetted.*

No books or records should be destroyed prior to the expiration of the retention period without written permission from the Minister of National Revenue. Permission is obtained by applying to the Director, Taxation of your local District Taxation Office. The same clearance should be obtained from the provincial taxation authority. The following information will be required:

1. A clear identification of books, records or other documents to be destroyed;
2. The taxation years for which the request applies;
3. Details of any special circumstances which would justify destruction of the books and records at an earlier time than that normally permitted; and
4. Any other pertinent information.

Permission will not likely be granted to destroy permanent records such as minutes, by-laws, and general ledgers. We suggest that the presbytery archivist be consulted about the care and/or storage of these records.

SECTION 12.0 PREPARING FINANCIAL STATEMENTS

The *Book of Forms* charges the Treasurer "to produce his accounts, properly audited, to the annual meeting of the congregation". Of course, the "accounts" must be organized into financial statements to convey meaningful information. Usually, two statements are prepared: a Statement of Revenue and Expenditure, and a Statement of Financial Position (or Balance Sheet). To enable the Board of Managers to perform their function properly, the Treasurer should be prepared to submit statements, in a summarized form, monthly.

12.1 STATEMENT OF REVENUE AND EXPENDITURES

The purpose of the statement of receipts and expenditures is to provide information about the sources of receipts of the congregation and how the resources were used.

When the chart of accounts has been set up properly, the monthly Statement of Receipts and Expenditure is very easy to produce. In fact, it is simply a recap of the accounts on a single page. When the total expenses are deducted from total receipts, the net result is a surplus or deficit for the period.

A quick analytical review of this statement should be performed. This is to ensure that the numbers are reasonable by comparing the current year numbers to the actual numbers from the prior year or to the current year's budget and explaining any variations.

A statement of receipts and expenditure should always show comparative figures. This statement could be set up with five columns:

1. Current month
2. Budget – current month
3. Year to Date – Current Year
4. Year to Date – Previous Year
5. Budget for the year

The Board of Managers should decide with the Treasurer on the format to be used in interim (monthly) reports.

If the figures for the current month are reported, the surplus or deficit for the month should be added or subtracted to the accumulated surplus or deficit at the beginning of the month to obtain the overall surplus or deficit for the year to date.

SECTION 13.0 AUDITING THE RECORDS

Section 170 of the *Book of Forms* indicates that it is the duty of a congregational Treasurer to produce the financial accounts of the congregation "properly audited" to the annual meeting of the congregation.

While the word "audit" has assumed a precise and technical meaning in financial circles, it can have three meanings as far as congregations within The Presbyterian Church in Canada are concerned:

1. An audit by an external, licensed, public accountant.
2. A "review" by an external, licensed, public accountant.
3. An independent and diligent scrutiny of the records by volunteers to ensure that receipts received and disbursements made are accurately recorded and documented.

The Audit Committee (for the national church offices) affirmed in principle the three definitions noted in the Clerks of Assembly report to the 2007 General Assembly (A&P 2007 p. 254-55). It also suggested congregations may wish to conduct an external audit particularly if their size and the complexity of assets they handle warrant it. The Audit Committee (for the national church offices) notes, however, there is no legal requirement for the majority of congregations to have an external audit nor does CRA require one.

The Audit Committee recommended that when a congregation asks volunteers within the congregation to examine the accounts of the church the volunteers should consider performing the following steps:

1. Review bank reconciliations for the year-end and other months on a sample basis.
2. See if there is separation of duties among two or more people who are at arm's length to each other. (i.e. the person who receives and approves the invoice does not issue the cheques.) If not, consider the implications.
3. Consider backups for expenses as considered necessary.
4. Examine the minute book of the Board of Managers and ask the Clerk of Session if there are any matters discussed at Session that were of a financial nature and ask for extracts of those specific items.
5. Examine the accuracy of the books of account by reviewing cash receipts, cash disbursements, payroll and general ledger transactions.
6. Ensure proper authorization of transactions. (For example, verifying two signatures on cheques. Note in some congregations only one person signs the cheques. Where this occurs extra testing of disbursements should be considered.)
7. Ensure all donated monies designated for *Presbyterians Sharing* or PWS&D have been forwarded to the national office.
8. Review any internally restricted funds to ensure the purpose for which they were established is being followed.
9. Ensure that all payroll deductions have been made and remitted on a timely basis.
10. Ensure that all pension deductions have been remitted along with the employer's portion to the Pension Office at the national office along with any health and dental premiums.
11. Verify cash receipts against charitable tax receipts issued and make sure this ties into the financial statements and to what is reported on the T3010B.
12. Ensure that the Annual Information Return – T3010B was completed and forwarded to the Charities Division, CRA, not later than six months after the previous fiscal year-end (most congregations have a calendar year end, therefore June 30th is the key date).
13. Ensure that insurance coverage is up to date.
14. Ensure that receipt records are reconciled to accounting records.

15. Ensure that GST recoveries are filed.
16. Review bequests for appropriate designations.
17. Review equipment leases.
18. Compare expenses (and revenues) with budget and prior year and get explanation for unexpected variances.
19. Consider whether an expenditure is a repair and maintenance item or a capital asset to ensure proper accounting treatment.
20. Ensure the financial statements are approved by the Board of Managers, finance and maintenance committee or Session, depending on the congregational structure.
21. Review investments – verify value; allocation of income.
22. Givings designated for specific areas should be reviewed to ensure they comply with the donor's wishes.
23. Search for unrecorded liabilities (this covers services performed or materials received for which the church has not be invoiced).
24. Review postmark on envelopes for December 31st cut off of donations.

Findings by reviewers should be presented to the annual congregational meeting.

The Treasurer's Role

The Treasurer should ensure that complete financial records, including financial statements for the year, are made available to the reviewers as soon as possible after the year-end. All bookkeeping records should be made available. In addition, the reviewers will need access to source documents such as original invoices, cancelled cheques, charitable donation receipts, etc.

SECTION 14.0 COMPLETING THE ANNUAL STATISTICAL REPORT

There is a Statistical Report, which must be filed annually and submitted to The Presbyterian Church in Canada. This report is an important document as it becomes the official record of your congregation. It is printed in the *Acts and Proceedings* of General Assembly each year and is subsequently distributed to all Presbyterian churches in Canada and many partner churches throughout the world. The filing deadline is noted on the top of the report and is usually due sometime in February or March of the following year.

SECTION 15.0 COMPLETING THE T3010B – ANNUAL CHARITY RETURN

What is it?

An annual return which is filed with the Charities Directorate of the CRA to confirm compliance with the provisions contained in the Income Tax Act. It provides accountability and transparency to the public since it is available through the CRA website. **It is due within six months of the end of the church's fiscal period.**

What happens if we don't file?

Failure to file the T3010B on a timely basis is cause for the congregation to have its charitable status revoked. It would then not be able to issue tax receipts for donations. Further it could be subject to a $500 penalty (to be administered as a re-registration fee). The T3010B is used to confirm compliance with the provisions contained in the Income Tax Act (ITA). Names of late filers are published on the CRA website.

What do I need to get started?

- Financial statements & accounting records

- Financial records from other groups within the church (i.e. WMS unless filed separately, Sunday School, Choir, etc)
- Pre-printed T3010B label (mailed to you by CRA) – *Registered Charity Basic Information Return* and blank *T3010B Form Return*.
- T4033B – *Completing the Registered Charity Information Return* (called the Guide)
- T1235 – *Directors/Trustees Worksheet*
- T1236 – *Qualified Donees Worksheet*
- Schedules 1 to 6. (Note: you may not have to complete all these schedules)

Look on CRA's website if you need any of the forms or the guide. www.cra-arc.gc.ca

There is a guidebook for Presbyterian congregations available on our website at http://www.presbyterian.ca/resources/online/1512.

SECTION 16.0 FREQUENTLY ASKED QUESTIONS

16.1 CHARITABLE GIVING AND CONGREGATION'S WORK

Q: What if our congregation was asked to issue a tax receipt for a donation to a non-profit organization that is doing good work, but does not have charitable status?

A: However worthy the project, the congregation cannot do that. You may issue tax receipts only to charitable organizations. Another common request is that congregations issue receipts for funds donated to cover the costs of tours to developing countries, in which the donors plan to participate. The law requires that gifts must be gifts, and the portion of benefit or control retained or returned to donors clearly identified and recognized.

Q: Am I able to receive a charitable tax receipt for the contributions of my services to the congregation?

A: No. A gift must involve property. Contributions of services such as time, skills, and effort are not property and therefore do not qualify. However, there is nothing to prohibit a charity from paying for services and then later accepting the return of all or a portion of the payment as a gift—provided it is returned voluntarily.

Q: I would like to donate some funds to the congregation, but I want the donation to help out a relative that is sick. Can I do this?

A: No, a congregation may not issue an official receipt for income tax purposes if the donor has directed the congregation to give the funds to a specified person or family. In reality, such a gift is being made to the person or family and not to the congregation. There are cases where a donor may specify where the donation should be used. If the donation provides no personal benefit, the directed gift does not benefit any person not dealing at arm's length with the donor, and decisions regarding utilization of the donation within a program rest with the congregation, then a donor may specify where the donation should go.

Q: I would like to donate to a foreign congregation. Can I give my funds to my local congregation and ask them to send it to the congregation so that I can still claim a tax deduction?

A: You may donate money to any group on your own (provided they are legal), but if you are hoping to receive an official tax receipt then this brings up other issues.

Q: What are the general requirements for a registered charity to maintain its registered status?

A: To maintain its registered status, a charity must continue to operate for charitable purposes and to comply with the requirements of the *Income Tax Act*. These requirements include:

- devoting all of its resources to charitable activities
- operating for the benefit of the public and not for private gain
- following the requirements of the *Income Tax Act* when issuing official donation receipts
- filing a Registered Charity Return each year

(The CRA conducts audits to verify whether charities are complying with these requirements. Charities that break the rules may be subject to financial penalties, suspensions, or revocation.)

Q: Is it acceptable to use the Treasurer's address when filing the Registered Charity Return?

A: No, the address used should be the actual address of the church. Sometimes Treasurers use their personal address so that CRA correspondence and forms come directly to them. However, Treasurers come and go, and important correspondence from the CRA sometimes does not reach the church or the new Treasurer. Therefore, it is recommended that the actual church address is used for all CRA correspondence.

16.2 CONGREGATION'S INCOME

Q: Are we allowed to rent out the church facilities to earn some additional income?

A: Some congregations make a great deal of money by renting out their space; others make such a small amount that it's basically a nuisance for their municipalities to try to collect it. Many municipalities actually express surprise that a congregation property was being used for something other than church use. So this is an area where experience varies all across the country.

16.3 FINANCIAL MANAGEMENT

Q: Should a Financial Statement include a balance sheet?

A: A balance sheet is strongly recommended as part of your financial statement. Full disclosure of all your financial matters is important to your congregational membership, reduces problems with the CRA and makes it easier to manage your books as well.

Q: When should we start deducting from the pay for casual staff?

A: Casual workers are generally considered to be employees. You should refer to the CRA's guidelines on whether one is an employee or not.

Q: Is it okay for only one member of the congregation to count, record, and deposit the collection?

A: It is not okay for one member to control the congregation's donations. The offering must be kept in the custody of, at least, two authorized members of the Board of Managers until the receipts have been counted, checked, and deposited. The persons should be at arm's length. Every congregation should establish procedures for this important matter.

Q: What is arm's length and what does it mean for congregations?

A: "Arm's length" is a legal concept describing the relationship in which the parties act independently of each other. "Not at arm's length" also includes individuals who are related to each other by blood, marriage, adoption, common-law relationships, or close business ties.

Q: Is it necessary for our congregation to register with the Workplace Safety and Insurance Board (WSIB)?

A: WSIB states that religious organizations are not required to register... For more information, see the provincial WSIB website or call the WSIB office in your province.

Q: Where can I find information on the retention and destruction of books and records?

A: Please see Section 11.3 in the handbook for a list of records and what constitutes the proper retention period.

Q: What rules apply to electronic files?

A: Electronic files are subject to the same rules as paper records.

Q: Our previous Treasurer has books and records from church and refuses to pass them back to the church. What should we do?

A: The congregation remains responsible for maintaining adequate books and records and for meeting its filing requirements. It may wish to consider legal means to obtain the documentation from the previous Treasurer. Keep CRA informed of steps you take.

16.4 GETTING AUDITED

Q: Why should a congregation have an audit?

A: An annual audit is a good way to:

- protect the persons the local congregation elects to positions of financial responsibility from unwarranted charges of careless or improper handling of funds;
- build trust and confidence of the persons supporting the congregation in the way their money is being accounted for and used. Trust and confidence lead to improved patterns of support;
- set habits of fiscal responsibility to assure that when there is a change in personnel there will be continuity in accountability;
- assure that gifts made to the church with special conditions attached are consistently administered in accordance with the donors' instructions, and thus let the donors know their gifts are used as intended;
- provide checks and balances for sums received and expended.

Conducting an audit is not a symbol of distrust.
It is a mark of responsibility.
It is good stewardship demonstrated for all to see.
It is a message to local church donors that you care about their gifts.

16.5 PENSION AND BENEFITS PLAN

Q: I'm a new Treasurer. What do I need to know about payments for the pension and benefits plan for our minister?

A: In addition to statutory payroll deductions, you are required to deduct and remit ***monthly*** deductions for pension and group life insurance benefits. Please use the *green* remittance form to record member pension, member group life insurance, (optional life insurance if applicable) and congregational assessment (employer pension).

You will receive a **quarterly** invoice from the finance department for the Health and Dental Plan. Please pay according to the invoice.

Assistance and forms are available from the Pension and Benefits office. Treasurer memos are updated yearly and mailed to the congregational Treasurers in November. They are also available on the Pension and Benefits webpage.

Q: We are hiring a minister at **half time**; how do we calculate the pension and group insurance contributions?

A: Contributions are based on the annual maximum qualifying income (MQI) and the percentage of part-time to full time. The qualifying income or contributions cannot exceed the MQI. For example, for a member at the 8th increment of the 2010 Minimum Stipend Schedule, the MQI is $64,140. At 50% time employment, the MQI now becomes $32,070 (64,140 x .5).

Contributions are based on $32,070. Pension contributions are 32,070 x .06 = $1,924.20 annual; group insurance contributions are 32,070 x .125 = $400.88 annual.

Q: Why is a congregation required to pay a 6 month vacancy period for Health and Dental premiums?

A: The Health and Dental Plan is not an insurance plan. The Presbyterian Church in Canada is charged according to the claims made by the plan members plus sponsor administration costs. The total cost of the plan is borne by the number of health and dental 'positions' and is in no way related to a specific member.
The Presbyterian Church in Canada Health and Dental position premiums also support Pulpit Supply Insurance for ministers, Maternity/Parental Leave top-ups, and 24 month coverage for the families of members who deceased in active service and for widows/widowers of retirees.

Premiums paid during the six month vacancy period allow the Church to maintain premium stability during periods of usage fluctuation.

Q: How do we enroll a congregational employee in the Health and Dental Plan?

A: Please contact the Pension and Benefits office for enrolment forms. We require written authorization from the Clerk of Session that the employee meets the eligibility requirements of weekly employment of 20 hours or more and that if the congregation employs other eligible employees, they will also be enrolled in the Health and Dental Plan. Enrolment forms are sent to the employee.

16.6 RESTRICTED FUNDS

Q: What are restricted funds?

A: Designated gifts must be accounted from gifts given to the congregation for its general purposes such as money dropped on the plate on Sunday morning. Restricted funds must be used for the purposes specified or else the donor (or the executor or an heir of a deceased donor) can take you to court and claim the condition under which the gift or bequest was given was not complied with, even years later. An example of a restricted fund is a gift of $15,000 that is to be used toward the purchase of an organ. Documentation for this restriction must be maintained in the congregation's records. Even if the target amount for the organ is not reached the funds cannot be used for other purposes. If you have a campaign for a project underway consider putting in a sentence that says if sufficient funds are not raised or an excess is received, session can repurpose these funds to similar or other areas of the operation of the church.

Another example is a gift of $100,000 with instructions that the gift is to be invested and the interest income only is to be used for purchasing music for the music program. In this case, the amount of $100,000 is to be invested permanently as an endowment. Only the income from the gift can be used for the specific purpose stated, the purchase of music. In this case, these two types of assets should be reported separately.

On Line Resources

Presbyterian Church Pension Information
http://www.presbyterian.ca/resources/online/321

Presbyterian Church Financial Information & Resources page
http://www.presbyterian.ca/resources/online/1512
    X & Y 2011 http://www.presbyterian.ca/resources/online/1513
    2010 Statistical Report http://www.presbyterian.ca/resources/online/1514
    T1223E http://www.presbyterian.ca/node/5586
    Insurance/Risk Management http://www.presbyterian.ca/resources/online/2291

Watch for downloadable cashflow, payroll and small congregation spreadsheets coming to the PCC/ Finance/Administration online resources in 2011.

CRA Charities & Giving
http://www.cra-arc.gc.ca/chrts-gvng/menu-eng.html

On line Payroll Deduction Calculator
http://www.cra-arc.gc.ca/esrvc-srvce/tx/bsnss/pdoc-eng.html

CRA Payroll Deductions & Remittances
http://www.cra-arc.gc.ca/E/pub/tg/t4001/README.html?=slnk

T3010B Guide
http://www.presbyterian.ca/resources/online/1512 click on download for the guide.

CRA Forms & Publications
www.cra-arc.gc.ca/formspubs/menu-e.html

Charity and the Law
www.charitylaw.ca

Online professional development courses to members and non-members
www.cma-canada.org.

Sample receipts go to the CRA website:
www.cra-arc.gc.ca/tax/charities/pubs/receipts-e.html.

Canadian Council of Christian Charities:
www.cccc.org

APPENDIX A

Understanding cash and accrual basis accounting

Print

Stan Snyder, CPA and expert bean counter

The difference between cash and accrual basis accounting has to do with the time frame in which revenues and expenses are recorded and reported. Cash basis accounting will suffice if your business is a simple one. However, the accrual basis will give a more accurate picture of the results of business operations.

Comparing cash and accrual basis accounting

Cash basis accounting is a very simple form of accounting. When a payment is received for the sale of goods or services, a deposit is made, and the revenue is recorded as of the date of the receipt of funds — no matter when the sale was made. Checks are written when funds are available to pay bills, and the expense is recorded as of the check date — regardless of when the expense was incurred.

The primary focus is on the amount of cash in the bank, and the secondary focus is on making sure all bills are paid. Little effort is made to match revenues to the time period in which they are earned, or to match expenses to the time period in which they are incurred.

Accrual basis accounting matches revenues to the time period in which they are earned and matches expenses to the time period in which they are incurred. While it is more complex than cash basis accounting, it provides much more information about your business. The accrual basis allows you to track receivables (amounts due from customers on credit sales) and payables (amounts due to vendors on credit purchases). The accrual basis allows you to match revenues to the expenses incurred in earning them, giving you more meaningful financial reports.

CASH BASIS	ACCRUAL BASIS
Revenues are recorded when they are received, which may be before or after they are earned.	Revenues are recorded when they are earned, which may be before or after they are received.
Expenses are recorded when they are paid, which may be before or after they are incurred.	Expenses are recorded when they are incurred, which may be before or after they are paid.
Financial statements reflect revenues and expenses based on when transactions were entered rather than when revenues were earned or expenses incurred.	Financial statements match revenues to the expenses incurred in earning them, and more accurately reflect the results of operations.
No receivables are recorded.	A receivable is recorded when payment is not received at the point of sale.
No payables are recorded.	Payables are recorded when payment is not made at the time of purchase.
No method of tracking partial payments is available.	Revenues and expenses are recorded in full, even though partial payments may be made over extended time periods.

Should I use cash or accrual basis?

The primary advantage of the cash basis is that it is quick and easy. For a business that does not sell on credit, and pays bills as they are incurred, it may be all that is necessary. The cash basis records only cash transactions, making the cash account a crude measure of how well the business is performing.

However, when a business makes sales or purchases on credit, the cash basis does not accurately reflect the results of operations. The cash basis does not provide a system for managing unpaid bills or for tracking customer receivables.

When a business makes sales on account — i.e., on credit — the accrual basis of accounting will not only record the revenue in the proper time period, it will also keep track of accounts receivable: amounts due from customers on completed sales. The accrual basis matches revenue to the time period in which it was earned, making your financial reports more meaningful.

Expenses recorded on the accrual basis may be coded to the proper time period by entering bills in the accounts payable account. Using accounts payable also provides reports showing amounts owed to vendors, making it easier to organize and prioritize bills and manage your cash flow. The accrual basis gives a more accurate picture of profit or loss because it includes all revenues and expenses, paid or unpaid.

NOTE Another advantage of using the accrual basis in Microsoft Office Accounting is that an accounting system set up on the accrual basis can also generate cash basis reports. This is the best of both worlds, matching revenues to expenses and giving information on accounts receivable and accounts payable while still being able to generate reports that approximate what happened on a cash basis.

How do I record revenues on either the cash basis or accrual basis?

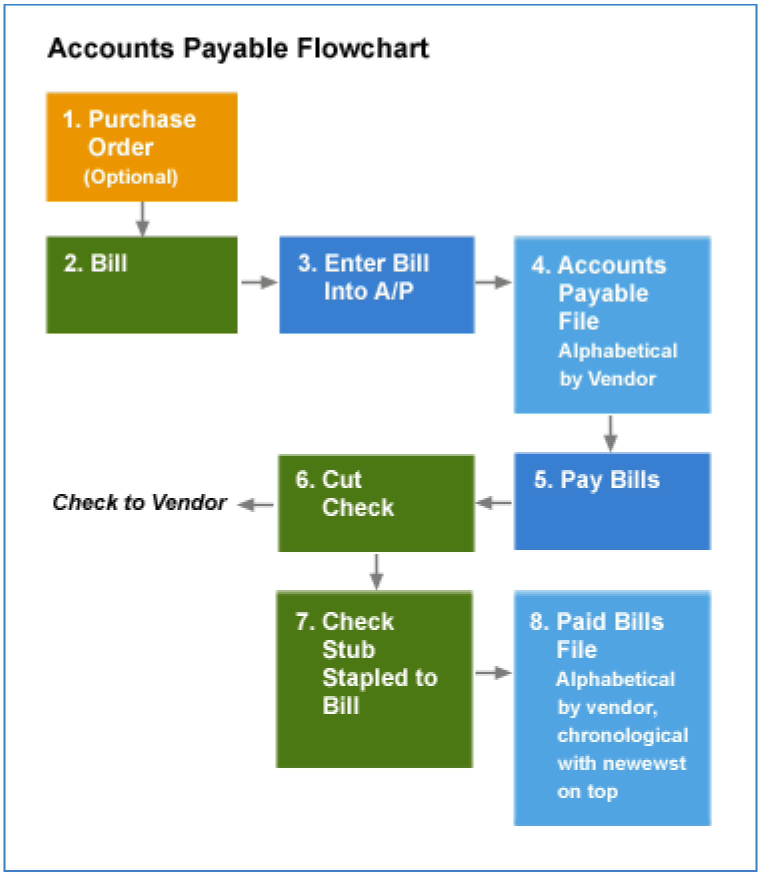
Most business owners understand accounts receivable intuitively. A business creates invoices at the point of sale and between the time the sale is made and the payment is received the company has accounts receivable. Therefore, to record revenues on the accrual basis, use the invoice form to record sales.

When cash is received at the point of sale, the cash receipts form is used and there are no accounts receivable on that sale. To record revenues on the cash basis, use the cash receipt form to record sales.

If you have been using cash basis and want to switch to accrual basis, pick a date — today's date works just fine — and begin recording transactions using invoices and bills. All reports before that date will be cash basis, and all reports after that date will be accrual basis.

How do I record expenses on the accrual basis?

The accounts payable process is merely the flip side of the accounts receivable coin. To use the accrual basis to record expenses, use accounts payable by first entering bills, and then issuing checks to pay the bills. The accounts payable flowchart demonstrates the flow of transactions in an accounts payable system.



1. The accounts payable process begins with an order placed with a vendor. The order may be verbal, or it may be represented by a purchase order. Many small businesses do not use purchase orders even though they are an excellent way to track orders and the details related to those orders.

   NOTE In Microsoft Office Accounting Professional, purchase orders can be converted into bills, allowing the user to compare and verify the purchase order details to the bill at the time of entry.

2. For those businesses not using purchase orders, the accounts payable process begins when a bill is received.
3. Enter bills into accounts payable immediately upon receipt. File unpaid bills in an accounts payable file.
4. Bills are filed alphabetically by vendor, with the newest bill on top.
5. When bills are ready to be paid, the Pay Bills form shows all unpaid bills. It can be filtered by due date and sorted by vendor name or due date. Credits can be applied to individual bills and full or partial payments made.

   NOTE Microsoft Office Accounting allows bills to be paid via check, electronic funds transfer, or credit card, all from the Pay Bills form.

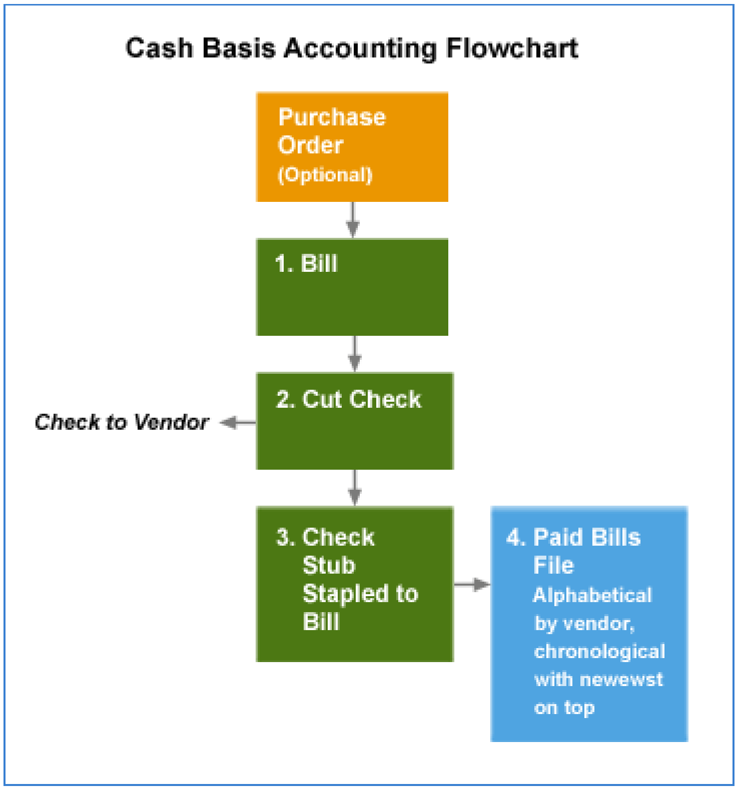
6. After the checks are generated in Office Accounting, you can use the program to print them. If you are using voucher checks, the program will print the reference number of each bill being paid on the voucher for easy identification by your vendor.

   NOTE For information about ordering integrated checks designed for Office Accounting, click "Checks and forms" in the See Also box at the top of the page.

7. Tear off the check stub and staple it to the bill. The check stub records the check date, amount of each payment, and reference number (the vendor's invoice number).
8. File the bill with the check stub in the paid bills file. Paid bills should be filed in an organized manner, sorted alphabetically by vendor with the newest bills on top or in the front of the file. When you are looking for a paid bill, it is most commonly a recently paid bill. Filing the newest bills chronologically, in the front of the file, will make finding the one you want quick and easy.

How do I record expenses on the cash basis?

The cash basis records expenses by entering checks. The following flowchart shows the details of the cash basis payment process.



1. The cash basis payment process begins with a bill. Because the cash basis does not use accounts payable, bills are not entered into the accounting system until they are paid. Purchase orders are not entered into a cash basis system, therefore you need to set up a manual filing system to track both purchase orders and unpaid bills.
2. Cut a check and enter the check as an expense in the accounting system. The expense is displayed in your financial reports using the date of the check. This is the primary difference between cash and accrual basis accounting. Cash basis accounting records the expense using the date of the check to determine when the expense is reported in your financial statements. Accrual basis accounting uses the date of the bill to record the expense regardless of when the check is cut. Using the cash basis, there is no way to get accrual basis reports because information about the bill date — the actual transaction date — has not been entered?
3. Remove the check payment stub from the check and staple it to the bill, and send the check to the vendor.
4. File the paid bill in a paid bills file, sorted alphabetically by vendor, with the newest bills on top or in the front of the file. When you are looking for a paid bill, it is most commonly a recently paid bill. Filing the bills by vendor and chronologically, with the newest bill in the front of the file, will make finding the one you want quick and easy.

Hybrid systems — combining cash and accrual basis

Each system has its advantages and disadvantages. It is difficult, if not impossible, to maintain a purely cash basis accounting system that shows a complete picture of business operations. The accrual basis, while more accurate than the cash basis, requires several extra steps in recording transactions.

Many businesses use a hybrid system, writing checks for purchases when the date of the purchase is the same as the date the expense was incurred, and entering bills when the bill date is not in the same month as the check date. Likewise, the cash receipts form is used for sales where payment is received at the point of sale, and an invoice is used for sales made on credit. This method yields an accrual basis system, but has the advantage of ease of entry for cash purchases or sales.

Many businesses use this combination of invoices, sales receipts, checks, and bills. This hybrid system is completely acceptable from an accounting standpoint and produces accurate accrual basis financial reports as long as proper attention is paid to transaction dates.

Benefits and costs of accrual basis accounting

The extra effort required in using the accrual basis is offset by the organizational and reporting capabilities of your accounting system. The extra effort required to enter invoices and receive payments is offset by the ability to track details about amounts due from customers. The extra effort required to enter bills and pay bills is offset by the ability to track details about amounts due to vendors.

For example, after a vendor bill is entered into accounts payable, it can be tracked by using accounts payable reports.

- In Office Accounting, the **Financial History** tab in the vendor record shows all bills, credits, and payments for that vendor.
- The A/P Aging Summary and A/P Aging Detail reports show outstanding (unpaid) bills. Details of all accounts payable may be analyzed in the accounts payable aging report. The accounts payable aging report is a standard accounting report that shows the balance of all unpaid bills at any point in time. This is a good report to use to prioritize payments and manage cash flow.
- The Profit and Loss report will show all bills — whether the bill has been paid or not — on the accrual basis, and only paid bills on the cash basis.
- The balance sheet will show the vendor liabilities (unpaid bills) in the accounts payable account.

When bills are entered immediately upon receipt, any bill can be found by looking in the accounts payable reports. With this system, if a bill cannot be found in the reports or in the bookkeeper's inbox, you can be confident that it has not been received. Likewise, all unpaid invoices may be tracked in accounts receivable reports, and a complete history of customer payments may be found in the customer records.

While the cash basis of accounting will suffice if your business is a simple one, the accrual basis will, in most cases, give a more accurate picture of the results of business operations. Using the accrual basis, the profit and loss report will include revenues that have been earned but not received and expenses that have been recorded but not paid. The accrual basis allows you to generate reports on customer receivables and vendor payables, and send statements to customers detailing the amounts due. The balance sheet will show amounts due from customers (accounts receivable) as an asset, and amounts due to vendors (accounts payable) as a liability. In addition, using the accrual basis allows you to generate both accrual basis and cash basis reports. Using the cash basis will yield only cash basis reports.

About the author

Stan Snyder is a certified public accountant with over 25 years experience dealing with the accounting and computer problems that small business owners face. He teaches computerized accounting classes at Colorado Mountain College, and regularly consults with small business owners using accounting software of all types. If you have questions about this topic or another accounting topic, send Stan some feedback by responding to the question below "Was this article helpful?" Stan may use your questions or topic ideas in an upcoming column.

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