

**LEGACY UNITED METHODIST CHURCH  
FINANCE POLICY MANUAL**

*ADOPTED JUNE 2015*

## TABLE OF CONTENTS

<b>Introduction</b>	2	<b>Audit and Review</b>	
		Purpose	8
		Process	8
		Reporting	8
<b>Financial System</b>		<b>Expense Policy</b>	
Basis of Accounting	3	Employee / Non-Employee Expenses	9
Fiscal Year	3	Accountable Reimbursement Plan	9
Funds	3	Church Credit Cards	9
Financial Statements	3	Payroll	9
Annual Budgets	3	Expense Payments	9
Internal Control System	3		
Financial Software	3		
<b>Financial Principles</b>		<b>Business Policy</b>	
Parameters	4	Insurance	10
Equity	4	Regulatory Requirements	10
Budget	4	Service Contracts	10
Application	4	Selection of Vendors	10
Revenues	4	Quote / Bid Requirements	10
Expenses	4		
Assets	4		
Liabilities	4		
<b>Financial Institutions</b>			
Bank Depositories	5		
Endowment Account	5		
Brokerage Account	5		
Credit Union Account	5		
<b>Budget</b>			
Format	6		
Timeline	6		
Authority	6		
Unbudgeted Financial Activity	6		
<b>Accounting</b>		<b>Appendices</b>	
Revenues	7	A: Mission Statement	11
Expenses	7	B: Budget Authority	12
Journal Entries	7	C: Dedicated Accounts	13
Internal Cash Transfers	7	D-1: Internal Control System – Revenues	14
Bank Reconciliations	7	D-2: Internal Control System – Expenses	15
Record Retention	7	E: Electronic Expenses	16

## **INTRODUCTION**

Legacy United Methodist Church (LUMC) operates as a religious organization with 501(c) 3 non-profit charitable status. LUMC is dependent on charitable member giving and therefore must act responsibly, morally, and ethically in all financial transactions of the church. Effective stewardship of church resources is the key to the ongoing concern and operation of LUMC.

The Administrative Team, through its Finance Committee, is responsible for all finance matters at LUMC. They have developed policies governing the collection of revenues, disbursement of expenses, protection of assets, custodianship of records, and all other issues relating to LUMC finance. The Finance Team will review the policies in this document, annually at a minimum, or on an as needed basis.

The Administrative Team has entrusted oversight of finance matters to the Operations Director. Although the Operations Director may exercise minor discretion in administration of these policies, every effort will be made to observe consistent application.

In the event an item is not addressed by this document, the Operations Director will consult with the Pastor prior to final decision. If there is uncertainty or disagreement between the Operations Director and the Pastor, the item will be discussed with the Finance Team. Once a decision is final, this document will be revised accordingly to reflect the impact of the decision and all revisions will be documented for the annual review.

Keeping in mind the primary purpose of LUMC is to worship, serve, and learn about Jesus Christ, all financial activity is expected to be consistent with the vision, mission, strategy, and method of LUMC. Please refer to the **Mission Statement (Appendix A)** for details.

# **FINANCIAL SYSTEM**

## **Basis of Accounting:**

LUMC operates a full cash basis fund accounting system. Revenues are recorded when received; expenditures are recorded when disbursed.

## **Fiscal Year:**

LUMC fiscal year end is December 31.

## **Funds:**

LUMC maintains two funds. The General Fund is responsible for all day to day activity and operations of the entity. The Capital Improvement Fund is responsible for the long range upkeep of church real property and facilities.

## **Financial Statements:**

LUMC prepares monthly financial statements for financial position, activities, and dedicated accounts.

## **Annual Budgets:**

LUMC requires annual budgets for revenues and expenditures for all non dedicated accounts.

## **Internal Control System:**

LUMC makes every economical effort to assure separation of duties between initiation and authorization of transactions, as well as, physical control of assets and recordkeeping, in order to prevent potential sources of misappropriation of assets. The extent of internal control procedures is subject to limited availability of personnel. Please refer to the ***Internal Control System Documentation (Appendix D)*** for details.

## **Financial Software:**

LUMC utilizes a national automated accounting software program specifically designed for churches. The software includes a module for General Ledger activity as well as a module for a dedicated Payroll system which interfaces with the General Ledger.

# **FINANCIAL PRINCIPLES**

## **Parameters:**

LUMC has established parameters to guide financial decision-making and activity. These parameters are designed to promote effective stewardship of church resources and are based on a long-term approach to church viability and existence.

## **Equity (year end net worth):**

In order to provide for adequate cash flow to offset seasonal revenues and expenses, the church will attempt to establish an appropriate fiscal year end net worth balance. This balance should be considered as a percentage of general fund expenditures. It should fall within reasonable levels to assure funds are not excessively accumulated nor are funds inadequately maintained to account for cash flow or unexpected contingencies.

## **Budget:**

Although LUMC will strive for a balanced budget, there may be occasions when a balanced budget is not achievable or even appropriate. In those cases, the budget will be restricted by the following limits.

- Revenues – when excess revenues are anticipated, a plan must be established for the future use of such excess amounts.
- Expenses – when excess expenses are required, the budget must take into account the impact the deficit will have in future years, and, there must be adequate equity available to fund the deficit.

## **Revenues:**

Revenue estimates will be trend based on the last three years of collections. Annual revenues will be analyzed for unusual or extraordinary activity which may adversely affect future estimates.

## **Expenses:**

Expense budgets will be based on a combination of historical data, known changes in contracted expenses, anticipated increases / decreases in program area activity, and inflationary estimates.

## **Assets:**

LUMC only records cash and cash equivalent balances in the financial statements. However, the church does maintain a record of personal and real property for insurance purposes.

## **Liabilities:**

LUMC generally does not record liabilities in the General Fund financial statements except for state payroll tax withholding as it is due and paid quarterly. However, the church does maintain liability accounts for federal payroll taxes and pastor benefit accounts – since these items are processed monthly, amounts on the financial statements usually reflect a zero balance. Liabilities are recorded in the Capital Improvements Fund for Long Term Loans Payable.

## **FINANCIAL INSTITUTIONS**

### **Bank Depositories:**

Bank Depositories and authorized check signers are reviewed and approved annually by the Administrative Team. Check signers are limited to the Operations Director and the four members of the Finance Committee. LUMC maintains bank accounts at Dakota Community Bank.

- Checking account for General Fund
- Savings account for Capital Improvement Fund
- Loan account for property mortgage

All checks are written from the checking account and funds are electronically transferred from the savings account to the checking account to offset capital improvement expenses. Funds are also electronically transferred from the savings account to the loan account to make monthly mortgage payments. LUMC receives a monthly statement of account for each bank account.

### **Endowment Account:**

LUMC maintains an investment account with the Dakotas Conference United Methodist Foundation. The account was established to build equity with long term intent to use earnings for specific budget funding; however, it may be used for various capital improvement projects if needed. The fund is administered by the LUMC Endowment Committee made of an appointed chairperson, the Senior Pastor, the Operations Manager, and the four members of the Finance Committee. LUMC receives a quarterly statement of account on the fund.

### **Brokerage Account:**

LUMC maintains brokerage investment accounts, both General Fund and Capital Improvement Fund, with a Smith Barney local representative. The account is used to convert donor stock contributions to cash assets. The account also houses an investment balance made up of several of the church's dedicated accounts. LUMC receives a monthly statement of account for each fund. These accounts are adjusted for activity annually or when significant transactions occur during the year.

### **Credit Union Account:**

LUMC maintains an account with the United Methodist First Choice Federal Credit Union for the purpose of maintaining staff credit card accounts. Individual credit cards are held under the name of Legacy United Methodist Church and assigned specifically to staff members. Staff members are legally responsible and held liable for any unauthorized purchases. LUMC receives a quarterly statement of account on the bank account. This account is adjusted for activity annually.

# **BUDGET**

## **Format:**

LUMC uses a program based expenditure budget format. The budget is categorized by each operating program including Administrative Services, Pastoral Services, Worship Services, Kids' Services, Students' Services, Adult Services, Support Services, and Conference Services. In addition, the budget is further categorized into Personnel, Program Operations, Missions, and Facility Operations. Monthly financial statements are reported in these formats.

## **Timeline:**

Budget preparation and approval will be based on the following schedule.

- August – Finance Committee reviews current year activity, discusses any noted concerns, and establishes general budget priorities and parameters for next year budget.
- September – Staff and User Groups submit next year budget requests to Administration for discussion and adjustment; Finance Committee reviews submitted budget requests and makes recommendations for preliminary budget.
- October – SPRC makes recommendation for personnel compensation package for next year budget; Finance Committee incorporates personnel compensation recommendations into preliminary budget and submits preliminary budget to entire Ad Team for discussion; Ad Team makes adjustments to preliminary budget
- November – Finance Committee presents final budget recommendations to Ad Team; Ad Team discusses and approves final budget recommendation; final budget is submitted to Charge Conference for approval.
- Within Year – Finance Committee may recommend changes to the annual budget in the event there are significant variances in revenue or expense budget items; Ad Team approves changes to the budget.

## **Authority:**

Budget authority is delegated specifically by program to staff or user groups responsible for administering each program. Please refer to the **Budget Authority Documentation (Appendix B)** for details. Although flexibility is granted to each program administrator, the budget cannot be expended on any item specifically denied in the budget process or any item not in correlation with program or practice purposes. Program administrators will be asked to justify budget deficiencies when they occur.

## **Unbudgeted Financial Activity:**

LUMC operates several dedicated accounts used to fund very specific activities. These dedicated accounts are not subject to the budgetary process. The Operations Director may add or delete dedicated accounts based on need. Authority to access the funds in these accounts is limited specifically to those delegated by the Finance Team. The Finance Team is provided with a monthly statement of dedicated fund activity. Please refer to the **Dedicated Accounts Documentation (Appendix C)** for details.

# **ACCOUNTING**

## **Revenues:**

Revenues are received manually and electronically.

- Revenues received manually are collected at the church or through the mail. Once collected, these offerings are counted, deposited, and recorded.
- Revenues received electronically are collected via a processing agent and deposited directly into the appropriate church bank account.
- All revenues must be supported by proper source documentation maintained on file.

Please refer to the **Internal Control System Documentation – Revenues (Appendix D-1)** for details.

## **Expenses:**

Expenses are disbursed manually and electronically.

- Expenses disbursed manually require preparation of a physical check distributed to a vendor. All checks require two authorized signatures.
- Expenses disbursed electronically are automatically deducted from the church bank account. All electronic transfers require a one-time preapproval by the Finance Team. Please refer to the **Electronic Expenses Documentation (Appendix E)** for details.
- All expenses must be supported by proper source documentation maintained on file.

Please refer to the **Internal Control System Documentation – Expenses (Appendix D-2)** for details.

## **Journal Entries:**

Journal entries are required for several purposes.

- Correcting entries are necessary to correct improperly recorded transactions (incorrect account code, incorrect amount, incorrect vendor, etc).
- Reconciling entries are necessary to record period end transactions initiated by an external source – interest earnings, account fees, etc).
- Adjusting entries are necessary to record internal activity within accounts and funds (balance transfers from one bank account to another, transfer from one dedicated account to another, etc).
- Automatic entries are created independently by the accounting system to record specific transactions (post payroll to general ledger, void checks, etc).
- All journal entries must be supported by proper documentation and maintained on file.

## **Internal Cash Transfers:**

The Operations Director is authorized to transfer cash balances between LUMC bank accounts and funds as needed to account for budgeted financial activity.

## **Bank Reconciliations:**

The Operations Director prepares month end bank reconciliations for all bank depositories. Based on minimal activity at all other financial institutions, reconciliation is prepared quarterly.

## **Record Retention:**

LUMC will maintain financial activity records in both electronic and paper form as required by government regulations.

## **AUDIT AND REVIEW**

### **Purpose:**

- Determine that financial transactions are –
  - Properly approved by the appropriate authority
  - Adequately supported by proper documentation
  - Fully compliant with budget allocations
- Determine that account balances are –
  - Adequately supported by external verification
  - Properly reported on the financial statements
- Recommend improvements for conducting LUMC financial activity

### **Process:**

The Finance Committee conducts an annual review, if possible prior to the end of the first quarter of the subsequent year, of LUMC financial activity. This should not be considered an audit conducted in accordance with Generally Accepted Auditing Standards. Financial transactions will be reviewed on a sample basis, whereas, all financial statement balances will be reconciled to financial institution documentation.

### **Reporting:**

The results of the financial review will be reported at the annual church charge conference.

# **EXPENSE POLICY**

## **Employee and Non-Employee Expense Reimbursement:**

Properly approved and documented expenses are reimbursed as follows.

- Mileage
  - Employees are reimbursed at the IRS rate
  - Non-employees are reimbursed at actual cost
- Lodging is reimbursed at actual cost on a preapproval basis
- Meals are reimbursed at actual cost at a reasonable level
- Other expenses will be reimbursed at actual or previously agreed amounts providing expenses are preapproved

## **Accountable Reimbursement Plans:**

LUMC provides accountable reimbursement plans for reimbursement of employee business expenses for select employees as part of their compensation package. In accordance with IRS regulations, such reimbursements are excluded from employee compensation.

- Expense must have a business connection
- Reimbursement must be requested within 60 days of expense
- Appropriate and acceptable receipt of payment must be included with request
- Allowable expenses include
  - Up to 50% of personal cell phone if used for business purposes
  - Cost of fees and memberships directly associated with business purposes
  - Cost of meals associated with business purposes
  - Cost of goods and services associated with personal ministry activity
  - Other costs specifically preapproved by LUMC

## **Church Credit Cards:**

Select employees are issued church credit cards to be used for business purposes only. In the event the card is used for non business purposes, the employee must reimburse the church accordingly. Statements are issued the first week of each month. Employees are expected to process (code expense and provide source documentation) their credit card statement and submit for payment by the 20<sup>th</sup> of each month in order to avoid late or interest charges on the billing.

## **Payroll:**

LUMC issues direct deposit payroll twice a month on the 15<sup>th</sup> and last day of the month (in either case, payroll will be issued the last working day prior to the actual pay date). Payroll is on a two week delay from the end of the pay period.

- Salaried employees are paid 1/24<sup>th</sup> of their annual salary each payroll.
- Hourly employees are paid at their hourly rate multiplied by hours worked.

The Payroll module in the accounting system tracks all hours worked and leave earned and used.

## **Expenses:**

All other expenses are generally paid twice a month at or near the same time payroll is issued. Exceptions may be made for emergency situations.

## **BUSINESS POLICY**

### **Insurance:**

Legacy UMC will maintain adequate property and liability coverage to assure church resources are properly protected. The Finance Team will review insurance coverage every three years to determine coverage is adequate and premiums are reasonable and cost effective. The Operations Director will update insurance coverage on as needed basis when property is added to or deleted from inventory.

### **Regulatory Requirements**

The Operations Director is responsible to assure Legacy UMC is in compliance with all governmental regulations including the following areas.

- Payroll Tax Withholdings (State and Federal)
- Quarterly Tax Returns (State and Federal)
- Annual Tax Filings (w-2's and 1099's)
- Workforce Safety Reporting

### **Service Contracts:**

Legacy UMC will enter into service contracts for maintenance, inspection, and monitoring of facilities. The Operations Director along with the Trustees will recommend such contracts to the Finance Team for review and approval prior to implementation.

### **Selection of Vendors:**

The Operations Director will oversee the selection of vendors to assure there is no conflict of interest with the church or church staff. Should conflict of interest be a concern, the Operations Director will obtain specific approval from the Finance Team. Each individual having budget authority is required to select vendors with the best least cost products available.

### **Quote / Bid Requirements:**

Any purchase exceeding \$5,000 must have preapproval from the Finance Committee and must be supported by a minimum of three quotes or only be available through a sole source vendor.

## **MISSION STATEMENT**

### ***Our Vision***

Because of the Legacy We Have Received...  
We Build the Legacy God Desires...  
To Leave the Legacy the World Needs

### ***Our Mission***

Radical Hospitality  
Extravagant Generosity  
Passionate Worship  
Authentic Faith Sharing  
Intentional Faith Development  
Risk-Taking Mission & Service

### ***Our Strategy***

Define the “Win”  
Create Steps, Not Programs  
Narrow the Focus  
Teach Less for More  
Remember our Market  
Work at It

### ***Our Method***

discover – connect – impact

### ***Our “Win”***

When Jesus Followers, Together, Transform the World

## **BUDGET AUTHORITY**

### **Program Authority:**

Budget Authority is based on program administration as follows.

- |                                    |                                |
|------------------------------------|--------------------------------|
| ➤ Administrative Services          | Operations Director            |
| ➤ Worship Services                 | Worship Arts Ministry Director |
| ➤ Kids' Services                   | Kids' Ministry Director        |
| ➤ Students' / Young Adult Services | Youth Ministry Director        |
| ➤ Adult Services                   | Small Groups Director          |
| ➤ Missions                         | Missions Director              |
| ➤ Conference Support               | Operations Director            |

In addition to the specific authority identified above, the Pastor can exercise authority in any program area deemed necessary to accomplish the mission of LUMC.

### **Facility Operations:**

The Operations Director in coordination with the Trustees has budget authority over all facility operations. Furthermore, pastors assigned a parsonage have authority over the general operating budget for the parsonage but shall work with the Trustees and Parsonage Committee to address specific capital improvement issues.

### **Personnel:**

The Operations Director in coordination with the SPRC has budget authority over all salary and benefits.

## **DEDICATED ACCOUNTS**

### **Classification:**

Dedicated accounts are separated into specific classes to more clearly identify purpose. Those classes are Missions Support, Legacy Support, and Endowment Support. The Operations Director determines what accounts are in each class.

### **Accounts:**

- ✓ Future Missions – future mission trips (unrestricted) Pastor
- ✓ Open Door – Open Door Community Center (restricted) Missions Director
- ✓ UMCOR – United Methodist Relief (restricted) Missions Director
- ✓ Monthly Mission Focus – specific missions (unrestricted) Missions Director
- ✓ Christmas Offering – Christmas challenge (unrestricted) Pastor
- ✓ Lenten Offering – specific missions (unrestricted) Missions Director
- ✓ Special Projects – specific project or mission administration (unrestricted) Various
- ✓ Personal Youth – youth member contribution accounts (restricted) Youth Director
- ✓ Christian Concern – community in need (unrestricted) Pastor
- ✓ Flower Fund – seasonal live flowers (unrestricted) Décor Coordinator
- ✓ Staff Love Offering – staff support (unrestricted) Pastor
- ✓ In / Out Items – revolving pass through funds (unrestricted) Operations Director
- ✓ Couples Ministry – couples activities (unrestricted) Small Group Director
- ✓ Senior’s Ministry – seniors activities (unrestricted) Small Groups Director
- ✓ Parish Nursing Fund – unused; future staffing assistance (restricted) Pastor
- ✓ VBS – VBS Contributions (restricted) Kids’ Director
- ✓ TV Program Fund – worship technology (restricted) Technology Director
- ✓ Missions Scholarship – unused missions; \$2,000 limit (restricted) Missions Director
- ✓ Legacy Orchard – orchard funds (restricted) Pastor
- ✓ Hospitality / Fellowship – food, beverage, hospitality (unrestricted) Operations Director
- ✓ Hunger Garden – hunger ministry (restricted) Small Groups Director
- ✓ Men’s Ministry – men’s activities (unrestricted) Small Groups Director
- ✓ Building Use Revolving – rental fees (unrestricted) Operations Director
- ✓ DUMF – endowment funds (restricted) Endowment Committee
- ✓ Legacy Endowments – endowment funds (unrestricted) Pastor
- ✓ Memorials – memorial contributions (unrestricted) Pastor

## **INTERNAL CONTROL SYSTEM – REVENUES**

### **Receipts:**

Cash receipt transactions are handled as follows.

- Collections
  - Ushers, event managers, or other individuals responsible for specific collection efforts are required to have at least two unrelated people in control of collections at all times
  - These individuals should secure and identify source of all collections prior to placing in safekeeping.
- Mail - Secretarial staff should determine source of receipt and place in safekeeping
- Electronic Contributions
  - Electronic contributions are directly deposited into church bank account
  - Daily and weekly reports are generated by the processing agent for recordkeeping
- Other
  - In the event collections are received by any other staff or in any other manner, the collection should be given to secretarial staff at the earliest convenience
  - Secretarial staff should determine source of receipt and place in safekeeping

### **Safekeeping:**

Only secretarial staff and the lead counter will have the access code for safekeeping. The lead counter does not have access to the safekeeping area. A drop safe allowing deposits without access to previously deposited items is used for safekeeping.

### **Cash Deposits:**

Cash deposits are prepared as follows.

- When at least three unrelated counters are present, the counters will retrieve the receipts and documentation in safekeeping from secretarial staff
- Counters will count and record all receipts in two forms
  - A summary sheet with account totals only is prepared for the Operations Director; this document is signed by all counters present
  - Individual donor records are prepared for the contributions secretary
- Counters will prepare a bank deposit for all receipts
- The lead counter makes the physical deposit with the bank and provides the Operations Director with bank deposit receipts.

### **Reconciliations:**

Various reconciliations are performed as follows.

- The Operations Director reconciles each bank deposit receipt to the bank account activity
- The Operations Director reconciles the monthly bank statements
- The Operations Director compares annual activity with contribution secretary reports

### **Separation of Duties:**

At no time does the Operations Director or the contribution secretary have access to the receipts.

## **INTERNAL CONTROL SYSTEM – EXPENSES**

### **Disbursements:**

Cash disbursement transactions are handled as follows.

- Manual Checks
  - All bills are submitted to the Operations Director for payment
  - The Operations Director reviews bills for appropriateness, accuracy, and coding
  - If corrections are required, the Operations Director informs affected staff
  - The Operations Director enters all bills into the accounting system and prepares checks for signature
  - The Operations Director reviews checks with a member of the Finance Team and both sign the check
  - Any disbursement involving the Operations Director is specifically addressed with a member of the Finance Team (credit card bill, reimbursement checks, etc.)
- Payroll Checks
  - The Operations Director reviews approved salary documentation to the payroll summary (including timesheets for hourly employees) with a member of the Finance Team
  - The Operations Director and Finance Team member both sign the payroll checks
- Electronic Checks
  - The Operations Director obtains annual approval from the Finance Team to process electronic payments for applicable recurring expenses
  - The Operations Director authorizes automatic payment with approved vendors
  - The Operations Director compares bank activity to vendor statements for amount accuracy and records the electronic checks in the accounting system end of month

### **Budgetary Constraints:**

Requests for disbursement of funds are limited by the following.

- All requests must be authorized / approved by an individual with proper budget authority
- All requests are subject to budgetary limits

### **Reconciliations:**

The Operations Director reconciles the monthly bank statements. The Operations Director also prepares, analyzes, and reviews monthly financial statements for / with the Finance Team.

## **ELECTRONIC EXPENSES**

The following expenses are paid via automatic withdrawal from our checking account. They are monthly / quarterly recurring transactions.

- Internal Revenue Service - employee payroll tax withholdings – federal (monthly)
- Dakota’s Conference – apportionments and pastoral benefits / withholdings (monthly)
- Montana – Dakota Utilities - gas / electricity at parsonage; gas at church (monthly)
- Vanco Services - congregational automated giving (monthly)
- Bismarck Water Department - water / garbage at parsonage; water at church (monthly)
- Northland Financial - copy / printer lease (monthly)
- Waste Management - garbage and recycling at church (monthly)
- Midcontinent Communications - phone, internet and cable at parsonage; internet at church (monthly)
- Capital Electric - electricity at church (monthly)
- BEK Communications - phone and phone system at church (monthly)
- Compassion International - children’s ministry sponsorship (monthly)
- State Tax Department - employee payroll tax withholdings – state (quarterly)
- Payroll (semi-monthly processed through Vanco)