His Reformed Church
Financial & Accounting Policy
Effective Date: February 27th, 2007

Table of Contents

1. PURPOSE ........................................................................................................................................... 3

2. SCOPE .................................................................................................................................................. 3

  2.1 INTERNAL CONTROLS .......................................................................................................................... 4

  2.1.1 Need for Internal Controls .................................................................................................................. 4

  2.1.2 Problems Avoided By Internal Controls ............................................................................................ 4

3. GENERAL RULES & GUIDELINES ..................................................................................................... 6

  3.1 ACCOUNT DEFINITIONS ....................................................................................................................... 6

  3.1.1 Asset Accounts ..................................................................................................................................... 6

  3.1.2 Liability Accounts ................................................................................................................................. 6

  3.1.3 Fund Accounts ..................................................................................................................................... 7

  3.1.4 Income Accounts ................................................................................................................................. 7

  3.1.5 Expense Accounts ................................................................................................................................. 7

  3.2 TITHES & OFFERINGS ......................................................................................................................... 9

  3.2.1 Special Giving Considerations ............................................................................................................. 9

  3.2.2 Contribution Statements ....................................................................................................................... 9

  3.2.3 Separation of Contributions & Income ................................................................................................. 10

3.3 COMPUTER ACCOUNTING SYSTEM ACCESS .................................................................................. 10

3.4 PHYSICAL FACILITIES ACCESS ....................................................................................................... 11

3.5 ANNUAL BUDGET ................................................................................................................................ 11

  3.5.1 Non-Budgeted Expense Accounts ....................................................................................................... 11

4. ROLES & RESPONSIBILITIES .............................................................................................................. 11

  4.1 TREASURER ........................................................................................................................................... 11

  4.1.1 Nomination & Election ......................................................................................................................... 11

  4.1.2 Term of Service .................................................................................................................................... 12

  4.1.3 Transition of Authority ......................................................................................................................... 12

  4.1.4 Functional Duties ................................................................................................................................. 12

  4.1.4.1 Corporate Authorization Resolution ............................................................................................... 13

  4.2 BOOKKEEPER ..................................................................................................................................... 15

  4.3 STANDING COMMITTEES ....................................................................................................................... 15

  4.3.1 Established Standing Committees ....................................................................................................... 15

  4.3.2 Sub-Committees .................................................................................................................................. 16

  4.3.3 Term of Service .................................................................................................................................... 16

  4.3.4 Executive Committee ............................................................................................................................ 16

  4.3.5 Committee Leadership ......................................................................................................................... 16

  4.3.6 Committee Responsibilities ................................................................................................................ 17

5. POLICIES & PROCEDURES ................................................................................................................... 17

  5.1 REPORTING & AUDITING .................................................................................................................... 17

    5.1.1 Treasurer ............................................................................................................................................ 17

    5.1.1.1 Government Reporting ................................................................................................................... 17

    5.1.1.2 Annual Audits ................................................................................................................................. 17

    5.1.2 Bookkeeper ....................................................................................................................................... 18

    5.1.2.1 Monthly Reporting .......................................................................................................................... 18

    5.1.2.2 Government Reporting ................................................................................................................... 18

    5.1.2.3 Annual Audits .................................................................................................................................. 19

  5.2 EXPENSE MANAGEMENT ................................................................................................................... 19
5.2.1 Fiscal Credibility ............................................................................................................. 19
5.2.2 Fund Account Insufficiency .......................................................................................... 19
5.2.3 Expense Account Management Details ....................................................................... 19
  5.2.3.1 Routing For Disposition ....................................................................................... 19
  5.2.3.2 Standard Expense Processing ............................................................................. 20
  5.2.3.3 Standing Authorization Expense Processing ..................................................... 21
  5.2.3.4 Pre-approval of Expenditures & Invoice Processing ....................................... 21
  5.2.3.5 Request For Funds ............................................................................................. 22
  5.2.3.6 Request Approval ............................................................................................... 25
  5.2.3.7 Payment Preparation ......................................................................................... 26
  5.2.3.8 Check Signing & Record Keeping .................................................................... 26
  5.2.3.9 Payment Completion ......................................................................................... 27
  5.2.3.10 Executive Committee Special Expense Processing ....................................... 29
    5.2.3.10.1 Personnel Salaries/Wages ......................................................................... 29
    5.2.3.10.2 Housing/Parsonage Allowances .............................................................. 31
    5.2.3.10.3 Car Allowances ...................................................................................... 33
    5.2.3.10.4 Pastoral Accountable Expense Accounts .............................................. 33
  5.2.3.10.5 Pension Payments ...................................................................................... 34
  5.2.3.10.6 Personnel Insurance .................................................................................. 34
  5.2.3.10.7 Utilities .................................................................................................... 35
    5.2.3.10.8 Assessments – Synod/Classis .................................................................. 35
  5.2.3.11 Property & Equipment Committee Special Expense Processing ................... 36
    5.2.3.11.1 Facilities & Liabilities Insurance ............................................................ 36
  5.2.3.12 Worship Committee Special Expense Processing ......................................... 36
    5.2.3.12.1 Copyright Fees ...................................................................................... 36
    5.2.3.12.2 Pulpit Supply ......................................................................................... 37
  5.2.3.13 Mission Committee Special Expense Processing ............................................. 38
    5.2.3.13.1 Missionary Support ............................................................................... 38
  5.2.3.14 Smith House Fund Special Expense Processing ............................................. 38
    5.2.3.14.1 Installment Promissory Note Payments .................................................. 38

5.3 Contribution Management .............................................................................................. 38
  5.3.1 Board of Deacons ................................................................................................. 38
  5.3.1.1 Sunday Worship Offerings .............................................................................. 38
  5.3.1.2 Other Offerings ............................................................................................. 39
  5.3.2 Treasurer .............................................................................................................. 40
  5.3.3 Bookkeeper ........................................................................................................... 40

APPENDIX A – INCOME & EXPENSE ACCOUNTS ................................................................ 41

APPENDIX B – BOND FUND CONTRACT ........................................................................... 45

APPENDIX C – SUPPORTED MISSIONARY/MISSION DETAILS ........................................ 48

APPENDIX D – RECORDS RETENTION GUIDELINES ....................................................... 52

APPENDIX E – BANK RECONCILIATION STATEMENT .................................................. 53

APPENDIX F – DONATION RECEIPT ............................................................................... 54

APPENDIX G – HOUSING ALLOWANCE EXPENSE FORM ........................................... 55

APPENDIX H – PARSONAGE ALLOWANCE EXPENSE FORM ......................................... 56

APPENDIX I – ACCOUNTING CALENDAR ......................................................................... 57
1. Purpose

The protection of church assets is a basic management requirement for all organizations, whether large or small, profit-seeking or nonprofit. Church leaders have a special fiduciary responsibility to make sure that all church assets are protected and used properly.

In the context of the His Reformed Church, the Church Treasurer (supported by policy approval of the Consistory), is responsible to establish and maintain the internal controls for handling cash receipts and disbursements and all of the other assets of the church.

Financial and accounting records must be clear, timely and accurate. A single error can bring the church leadership’s credibility into question.

Any failure of internal controls or proper accounting principles increases risks to the church, including:

- Impacts to the church’s credit rating, solvency or ability to perform budgeted activities.
- Membership loss of confidence in the ability of the church to lead and govern itself.
- Damage to the character and integrity of the church’s leaders.
- Loss of the church’s tax exempt status.
- IRS fines and/or penalties.
- Undesired denominational scrutiny.

The His Reformed Church has acquired an Employer Identification number (EIN) for IRS reporting purposes. This EIN is: XX-XXXXXXXX.

This policy provides procedures for internal accounting controls and financial reporting for His Reformed Church.

2. Scope

The scope of this policy applies to all aspects of financial management exercised by the following church leaders:

- Consistory
- Executive Committee
- Board of Deacons
- Church Treasurer (hereafter referred to as the “Treasurer”)
- Church Bookkeeper (hereafter referred to as the “Bookkeeper”)
- Standing Committees

The organizational structure of His Reformed Church, for financial internal controls & reporting purposes, is depicted in Figure 1, Organizational Structure.

This policy does not cover other types of financial matters, such as nonprofit organizational guidelines or legal interpretations of specific financial matters.

Additional guidance on financial matters that are infrequent or not applicable to His Reformed Church (at the time of publication of this policy) is available in: *Church & Clergy Tax Guide, 2007 Version*, published by Church Law & Tax Report/Christianity Today International.
2.1 Internal Controls

2.1.1 Need for Internal Controls

Generally stated, internal control can be defined as the various procedures adopted by an organization to safeguard assets, check the reliability and accuracy of financial records and ensure compliance with managerial policies.

The need for internal controls is driven by the fact that:

- Accurate recording of all transactions is essential for maintaining sound interpersonal relationships among those involved in the accounting process and with users of various financial reports.
- Users of financial information need reliable reports to plan effectively.
- Church leaders need reliable data to judge the efficiency of church operations against past or expected performance.

2.1.2 Problems Avoided By Internal Controls
Churches encounter cases of unreliable financial records and/or misappropriated funds as a result of six primary problems:

- Handling of incompatible duties by staff members
  - Many functions or duties performed within the church pertain to financial matters.
    - The church must provide for an adequate separation of duties in order to ensure the accuracy of financial information and to protect its assets.
  - Three basic types of financial activities are performed by the church:
    - Authorization of transactions
    - Recording of transactions
    - Custody of assets
  - For an adequate separation of duties to occur, authorization of transactions, recording of transactions and asset custody shall be performed by separate individuals.
    - When different people handle separate aspects of the same transaction, the likelihood that an error will go all the way through the system is diminished.
    - Each person, in effect, is checking the work of the others.

- Lack of a clear organizational structure
  - Precise job descriptions are just as important to churches as they are to large profit-seeking businesses.
    - In fact, the church needs these descriptions even more so, because as a nonprofit entity, the church does not have the readily identifiable “bottom line” objective of business.
    - Also, the church often uses volunteers, who need both supervision and structure to be most effective.

- Absence of qualified personnel
  - For a variety of reasons, many persons that serve the church in non-ministerial positions accept those positions without the skills and expertise that are developed while serving in those positions.
    - Volunteers, as well as those who are paid employees, are often selected based on their availability, personality, willingness to work and/or reasonable wage requirements.
  - Church leaders need to ensure that any positions filled, which manage the church’s monies or accounting records, are filled by individuals of the utmost integrity.
    - When positions are filled by individuals who are not well known, long-standing members of the church, references should be checked to screen the candidate.
  - Church leaders need to commit themselves to a program of continuing education for those involved with accounting, just as businesses do.
    - Professional training in church management is available through membership and participation in a number of organizations, both interdenominational and interdenominational.

- Lack of accounting procedures & policies
  - Church financial leaders need to prepare and maintain accounting procedures (in written form) to guide every step of their accounting and financial reporting processes.
    - Such procedures and policies allow the church to maintain high standards of internal control that are consistent across the routine turnover of employees and/or consistory terms of service.
  - Policies shall specify the approved procedures to be used to be used in:
- Transaction handling
- Reliable recordkeeping
- Financial report preparation and distribution

- Absence of monitoring of accounting work being performed
  - In smaller churches, the existence of an organized internal audit committee may not be practical.
  - In lieu of such internal support, the Treasurer shall obtain external assistance in the form of a yearly audit by a *certified public accountant*.
    - An audit involves the investigation and examination of the transactions that underlie the church’s financial reports and results in an opinion of those reports.
      - In this process, the auditor follows established auditing standards.
      - A thorough review of the internal control system shall be included in the audit.
      - Any opinions on the church’s financial records resulting from the audit, as well as any recommendations for changes to internal controls shall be reported (in writing) to the Treasurer at the conclusion of the audit.
  - To laypeople, the terms audit and review can mean anything from an extensive investigation performed to a quick “spot check” conducted by someone not connected with the church’s accounting records.
    - To a certified public accountant, however, the terms equate to specific services performed.

- Ignorance of the fact that distasteful incidents could occur
  - Partially as a result of trusting attitudes and a desire to believe that such acts would not occur in the Lord’s house, churches are typically vulnerable to embezzlement.
    - The problem is real and cannot be ignored simply because the thought of it occurring is unpleasant.

3. General Rules & Guidelines

3.1 Account Definitions

3.1.1 Asset Accounts

Asset Accounts are accounting entities established to manage the assets of the church. Asset Accounts are maintained for each entity holding monies belonging to the church, including:

- Bank(s)
- Investment firm(s)
- Equity interests in property

3.1.2 Liability Accounts

Liability Accounts are accounting entities established to manage the liabilities of the church. Liability Accounts are maintained for each type of liability that exists, including:

- Accounts Payable
  - Vendors
  - Individual reimbursables
- Payroll withholding accounts
Employer FICA withholdings
Employee FICA withholdings
Employee income tax withholdings

- Installment promissory notes (outstanding)
  - Note values
  - Note interest

### 3.1.3 Fund Accounts

Fund Accounts are accounting entities established as a group of monies that need to be kept separate. Each fund account has its own sources of income and expenses, and can be reported on separately.

Monies within a fund account are carried forward from one fiscal year to the next.

The relationships between fund accounts, their sources of income and the authority for approval of expenses incurred against these funds are summarized in Figure 2, Fund & Account Relationships.

### 3.1.4 Income Accounts

Income Accounts are accounting entities established to define the sources of income to fund accounts.

Income accounts are primarily composed of general or directed tithes and offerings, plus interest earned by church monies deposited or invested.

### 3.1.5 Expense Accounts

Expense Accounts are accounting entities established to define anticipated categories of expenses. Each group of expense accounts is associated with the Standing Committee responsible for the budget established to address these expenses.

Each Standing Committee shall maintain a detailed description of each individual expense account. These descriptions shall be drafted during the development of budget recommendations to accurately itemize the anticipated expenses within each expense account.

Sufficient details in these descriptions are necessary both for the Board of Deacons’ budget recommendation assessments and to categorize and process incoming invoices and requests for funds.
Figure 2. Fund & Account Relationships
3.2 Tithes & Offerings

Tithes and Offerings consist of monies contributed to the church through various forms, including:

- Collection plate offerings
- Envelope system offerings
- Sunday School offerings
- Special giving account offerings
- Private or public donations
- Wills, endowments, trusts, etc.
- In kind gifts

Contributions may be directed to specific fund accounts, as designated by the donor or as defined on the associated offering envelope.

3.2.1 Special Giving Considerations

Contributions may not be directed to individuals, inside or outside the church.

Special giving funds may be established to accumulate monies to be directed to an individual ministry or individual with special needs, but in all cases, the special giving fund is established first and the contributions are made to the associated special giving fund by any contributing party.

For example, if an individual wished to provide financial support for a student’s seminary tuition (through the church), it would not qualify as a deductible donation and such a transaction could place the church’s nonprofit status in jeopardy. If, however, the church would vote to create a special giving account for this purpose, it “could” qualify as a deductible donation to all parties that contribute to that fund. The advice of a tax attorney should be solicited before establishing such a giving fund.

Special giving accounts typically have a limited life span which ends with the anticipated completion of contributions to that fund and the disbursement of those monies to the designated special giving recipient.

Approval to establish a special giving fund is the responsibility of the Board of Deacons. Upon its approval, the Treasurer, shall direct the Bookkeeper to establish the associated accounting entities within the church’s computer accounting system.

3.2.2 Contribution Statements

Contribution statements are provided to individuals (or families) that make use of the offering envelope system. In order for the individual to use these statements for IRS itemization as a charitable donation, these statements must satisfy the following requirements:

- The statement must be provided in writing and include the name of the church.
- The statement must identify the contributor by name (SSN is not required).
- The statement must identify the dates and amounts of all cash contributions.
- The statement must state whether or not the church provided any goods or services to the contributor in exchange for the contribution, and if so, the statement must include a good faith estimate of the value of those goods and services.
- If the church provides no goods or services to a contributor in exchange for the contribution, or if the only goods or services provided are “intangible religious benefits”, then the statement must contain words to that effect.
- The written statement must provided/mailed to the contributor on or before February 1st.

Statements are not required for individuals (or families) that did not contribute through the use of the offering envelope system for a given year.
Members noticing any discrepancies or inconsistencies on their received contribution statements should bring them to the attention of the Treasurer as soon as they are detected.

Contributions received from public or private sources, for gifts of $250 or greater, shall be responded to with a signed letter (on church stationery) to act as a receipt, indicating the amount of the donation (or its value, at the time of receipt, for “in kind” gifts). Such donation receipts shall be provided to the donor within 60 days of the contribution. If such a contribution is from a member of the congregation that makes use of the offertory envelope system, the normal contribution statement provided is sufficient.

3.2.3 Separation of Contributions & Income

In cases where church events (ex. dinners, retreats, concerts, etc.) where monies are received to cover the cost of the event (in part or in full), the distribution of these monies must be accounted for specifically:

- Contributions must be kept separate from pass-through payments for external goods or services.
- Internally sponsored church events should be constructed to be donation-based only, to avoid the tax burdens associated with providing services for a fee (i.e. services which may constitute taxable income).
- If an individual writes a check for a church meal, for example, only that portion above the cost of the meal shall be considered as a charitable donation.
  - In such cases, the church shall inform the donor of the amount of the contribution that is deductible.
  - If the goods or services provided are considered insubstantial, the entire amount may be considered a charitable contribution.
  - The provided good or services may be considered insubstantial (based on 2006 amounts) if the fair market value of the benefits received do exceed the lesser of 2% of the payment or $86.

Other monies received, such as interest earned on deposits or investments and rental charges for use of church facilities are not considered contributions. These monies are considered as income and must be accounted for separately.

3.3 Computer Accounting System Access

As part of the internal control policies, access to various aspects of the church’s accounting records is controlled by password access. These access controls are implemented to limit various parties’ access to only those aspects of the accounting records that are applicable to their duties and responsibilities.

At the time of the publication of this policy, the church is using a combination of computer software modules, generally referred to under the trademark of Church Windows. The Church Windows computer software modules currently in use consist of the following church management functions:

- Contributions
- Membership
- Financials
- Payroll
- System Administration

Passwords for access to each module shall be established by the Treasurer for each of these functions, as depicted in the table below:

---

**Church Windows Access Controls**
3.4 Physical Facilities Access

As part of the internal control policies, access to various aspects of the church’s accounting records and church monies are also controlled by limited physical access.

Tax records, payment records and supporting documentation are stored in the Deacon’s office. Keyed access to the Deacon’s office shall be limited to the Board of Deacons and custodial staff. Files containing physical accounting records shall be locked when the Deacon’s office is not in use.

Monies that have not yet been accounted for and/or deposited shall be kept in the safe within the Deacon’s office. The combination to the safe shall be known only to the Board of Deacons. The Chairman of the Deacons shall be responsible for changing the safe combination, as often as is deemed appropriate, to ensure secure access is maintained. At a minimum, the safe combination should be changed whenever the membership of the Board of Deacons changes.

The Bookkeeper’s physical accounting records and all blank church checks shall also be adequately secured in a separate locked file.

3.5 Annual Budget

The Annual Budget consists of an approved estimate of church expenses anticipated for the following fiscal year.

The His Reformed Church fiscal year is the same as the calendar year.

3.5.1 Non-Budgeted Expense Accounts

No expense levels are established for the Benevolence Fund or other Special Giving Funds. These funds expenditures are predefined by other diaconal policies and/or decisions.

Other unique funds, supporting such major activities as property acquisitions (i.e. Smith House Fund), are predefined at their inception and typically require a congregational vote to support their establishment.

4. Roles & Responsibilities

4.1 Treasurer

4.1.1 Nomination & Election

The Treasurer is an elected leader within the church. The Treasurer is nominated from within the Board of Deacons and elected by the Consistory.
Nomination and election of a successor Treasurer is conducted during the same time period as the church’s annual budget development, during years in which the current Treasurer’s remaining service on Consistory is less than a year in length.

4.1.2 Term of Service

As dictated by the nomination and election process, the term of service of an elected Treasurer is 1 year less than the term served as Deacon (i.e. 2 years).

If, for any reason, the Treasurer is not able to complete his/her term of service, a special nomination and election shall be held to select a successor Treasurer from the remaining members of the Board of Deacons.

The Chairman of the Board of Deacons is exempt from the position of Treasurer, since these positions represent separate voting positions within the Executive Committee.

4.1.3 Transition of Authority

During the time period between the election of the successor Treasurer and retirement of the current Treasurer, the retiring Treasurer and Bookkeeper shall completely and fully disclose all pertinent information and accounting details regarding the church’s financial status and health to the successor Treasurer.

Transition of the role and associated responsibilities of Treasurer to the elected successor Treasurer shall occur as of the date of the current Treasurer’s transition to the Great Consistory, unless otherwise agreed to by both parties.

The retiring Treasurer shall introduce the elected successor Treasurer to the congregation at the annual congregational meeting, during the review of the previous and newly approved annual budgets.

4.1.4 Functional Duties

The Treasurer receives authority for disbursement of church funds from the Consistory when the annual budget is approved.

The Treasurer is responsible for the proper receipt, accounting and disbursement of church funds within the established policies to achieve adequate financial control.

The Treasurer’s role is focused primarily on safeguarding church assets, analyzing church activities that have financial ramifications, signing checks and issuing financial reports, rather than the actual handling of monies.

Although oversight of all aspects of the church’s normal day-to-day financial matters are the leadership responsibility of the Treasurer:

- The identified division of responsibilities between the Treasurer and the Board of Deacons may be modified through amendment of this policy as the result of a simple majority vote of the Board of Deacons (i.e. 4 of the 6 members of the Board of Deacons).
- The performance of the Treasurer’s duties is augmented by the Board of Deacons and lay staff members (i.e. the Bookkeeper), as shown in the table below:

---

**Treasurer, Board of Deacons & Bookkeeper Responsibilities**
<table>
<thead>
<tr>
<th>Responsibilities</th>
<th>Treasurer Authority</th>
<th>Augmented by Board of Deacons</th>
<th>Augmented by Bookkeeper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of policies and procedures relating to the receiving, accounting and disbursing of church monies</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Confer with Pastor(s) and Executive Committee concerning financial matters of the church</td>
<td>●</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Serve as an advisor to Committee Chairs in preparing and maintaining committee budgets</td>
<td>●</td>
<td>●</td>
<td></td>
</tr>
<tr>
<td>Keep accurate records in appropriate financial journals of all monies received and disbursed</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Reconcile bank statements and correct ledgers, as needed</td>
<td>●</td>
<td></td>
<td>●</td>
</tr>
<tr>
<td>Sign checks in accordance with established policies/procedures and file all related supporting data for each fund request</td>
<td>●</td>
<td>●</td>
<td></td>
</tr>
<tr>
<td>Oversee and maintain the records of contributions</td>
<td>●</td>
<td>●</td>
<td></td>
</tr>
<tr>
<td>Prepare and distribute contribution giving statements and donation receipts</td>
<td>●</td>
<td>●</td>
<td></td>
</tr>
<tr>
<td>Resolve budget funding shortfalls by directing the Bookkeeper to move funds between various church fund accounts</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Make financial reports to the Consistory at established monthly meetings</td>
<td>●</td>
<td>●</td>
<td></td>
</tr>
<tr>
<td>Make financial reports to the Congregation at established annual meetings (or other scheduled meetings, if applicable)</td>
<td>●</td>
<td>●</td>
<td></td>
</tr>
<tr>
<td>Inform Consistory and/or appropriate Committee Chairs of any trends or changes in fiscal matters requiring their attention</td>
<td>●</td>
<td>●</td>
<td></td>
</tr>
<tr>
<td>Administering the payroll of pastoral and lay staff</td>
<td>●</td>
<td></td>
<td>●</td>
</tr>
<tr>
<td>Process approved requests for funds and prepare checks for payments</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Provide various ad hoc financial reports, as needed, to communicate fiscal matters clearly</td>
<td>●</td>
<td>●</td>
<td></td>
</tr>
<tr>
<td>Submit accurate financial records for annual financial audits</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Provide adequate security for church financial records, including the backing-up of any computerized records</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Treat church financial records and knowledge with appropriate degrees of confidentiality</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Instill and preserve a high degree of financial confidence throughout the Congregation</td>
<td>●</td>
<td>●</td>
<td></td>
</tr>
<tr>
<td>Serve as a member of the Executive Committee</td>
<td>●</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Represent the church and serve as the source of all financial information, in response to all inquiries about financial matters (including: Synod, Classis, auditors, IRS, congregation, etc.)</td>
<td>●</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.1.4.1 Corporate Authorization Resolution
This document is filed with the bank by the Treasurer and describes what (or what combination of) individuals are authorized to perform various banking activities.

In its oversight role, the Board of Deacons is responsible for maintenance of the Corporate Authorization Resolution that the church has filed with the bank.

Because the Corporate Authorization Resolution identifies individuals by both name and title, the Board of Deacons is responsible for keeping this record up to date as committee members join (or leave) this committee.

At the time of the publication of this policy, the authorizations and limitations on powers shown in the tables below are in force (and all previous such resolutions are superseded):

### Corporate Authorized Agents

<table>
<thead>
<tr>
<th>Authorized Agent Name</th>
<th>Title</th>
<th>Identifier</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Smith</td>
<td>Deacon</td>
<td>A</td>
</tr>
<tr>
<td>Greg Jones</td>
<td>Deacon</td>
<td>B</td>
</tr>
<tr>
<td>Tom Johnson</td>
<td>Deacon</td>
<td>C</td>
</tr>
<tr>
<td>Steve Mills</td>
<td>Deacon</td>
<td>D</td>
</tr>
<tr>
<td>Nathan Samuels</td>
<td>Deacon</td>
<td>E</td>
</tr>
<tr>
<td>Paul Ramirez</td>
<td>Deacon</td>
<td>F</td>
</tr>
</tbody>
</table>

### Corporate Authorization Resolutions

<table>
<thead>
<tr>
<th>Agent Identifier(s)</th>
<th>Description of Power</th>
<th># of Signatures Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>A thru F</td>
<td>Exercise all of the powers of this resolution.</td>
<td>4</td>
</tr>
<tr>
<td>A thru F</td>
<td>Open any deposit or share account(s) in the name of the church.</td>
<td>4</td>
</tr>
<tr>
<td>A thru F</td>
<td>Endorse checks or orders for the payment of money or otherwise withdraw or transfer funds on deposit with the bank.</td>
<td>1</td>
</tr>
<tr>
<td>A thru F</td>
<td>Borrow money on behalf and in the name of the church, sign, execute and deliver promissory notes or other evidence of indebtedness.</td>
<td>4</td>
</tr>
<tr>
<td>A thru F</td>
<td>Endorse assign, transfer, mortgage or pledge bills receivable, warehouse receipts, bills of lading, stocks, bonds, real estate or other property now owned or hereafter owned or acquired by the church as security for sums borrowed, and to discount the same, unconditionally payment of all bills received, negotiated or discounted and to waive demand, presentment, protest, notice of protest and notice of non-payment.</td>
<td>4</td>
</tr>
<tr>
<td>A thru F</td>
<td>Enter into a written lease for the purpose of renting, maintaining, accessing and terminating a safe deposit box in the bank.</td>
<td>2</td>
</tr>
</tbody>
</table>
Limitations on Powers

<table>
<thead>
<tr>
<th>Limitation(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The bank shall not cash any checks written to “Cash”.</td>
</tr>
<tr>
<td>2. The bank shall not cash any checks written to “His Reformed Church”.</td>
</tr>
<tr>
<td>3. The bank shall not cash any checks written to “First Reformed Church of His”.</td>
</tr>
</tbody>
</table>

4.2 Bookkeeper

The Bookkeeper is a paid lay staff employee, tasked with supporting the church through the performance of the tasks assigned to him/her, as described above.

In general, the Bookkeeper is responsible for:

- Maintenance of the accounting records by recording all income and expenditure transactions, preparing disbursement checks for authorized signatures and preparing financial reports.
- Entering the approved annual budget into the church’s financial records (i.e. Church Windows software).
- Administering the various aspects of payroll for the pastoral/lay staff, including all withholdings/payments for federal/state taxes, FICA, health insurance, pensions, housing and other allowances, etc.
- Preparation of various financial reports and/or the collection of various other financial information and/or records, as requested by the Treasurer.
  - Reporting requirements include:
    - Routine reports used by the Treasurer for review.
    - Routine reports used by the Treasurer for reporting to other portions of the church’s organizational structure.
    - Ad hoc reports used by the Treasurer in support of specific, non-routine financial analyses and/or audit activities.
- Providing guidance to the Treasurer in matters regarding proper accounting procedures to ensure accurate and legal church transactions and records.

The Bookkeeper is under the direct guidance and supervision of the Treasurer. The Bookkeeper shall only perform those tasks and prepare those payments which are in accordance with this policy or are separately directed by the Treasurer.

The Bookkeeper shall reject any requests to perform other tasks or process other payments not approved of by this policy or by the Treasurer and shall inform the Treasurer of any such matters, as soon as practical.

4.3 Standing Committees

Standing Committees are committees established in accordance with the church’s by-laws.

The duties and responsibilities of each committee (excluding the Executive Committee) shall be documented by the Executive Committee and reviewed annually.

The duties and responsibilities of the Executive Committee are established by the Consistory.

4.3.1 Established Standing Committees

The following Standing Committees are currently established:

- Executive
• Evangelism
• Mission
• Congregational Care
• Worship
• Property & Equipment
• Youth & Education

4.3.2 Sub-Committees

Additional committees, as defined in the church’s by-laws, are established as sub-committee roles within other established standing committee, as follows:

• The role of the Church Privilege committee is encompassed within the responsibilities of the Property & Equipment committee, as supported by the Church Secretary.
• The role of the Christian Action and Women’s Ministries committees are encompassed within the responsibilities of the Youth & Education committee.
• Their currently is no standing Scholarship committee.
• The Personnel committee role is performed by the Executive Committee.
• The Budget committee role is performed by the Board of Deacons.

4.3.3 Term of Service

Standing committee member appointments are for a two-year period, with term reappointments allowed for.

To maximize their effectiveness, committee members should be appointed to serve on only one standing committee at a time.

4.3.4 Executive Committee

The Executive Committee is composed of the following officers of the Consistory: President (i.e. Senior Pastor), Vice President, Clerk, Treasurer and Chairman of the Deacons. In the absence of a Senior Pastor, the Vice President shall also assume the role of the Consistory President (i.e. no voting Vice President exists under these circumstances).

The Executive Committee oversees all functional church affairs, including oversight of the Standing Committees.

For purposes of oversight financial management of the church, the Senior Pastor (i.e. Consistory President) is not an authorized agent of the church. In terms of the financial management activities defined in this policy, the Senior Pastor serves in an advisory capacity.

The Executive Committee may request financial reports from the Treasurer and all Standing Committees in the performance of its oversight duties. Standing Committee reports are presented to the Consistory at regular meetings.

4.3.5 Committee Leadership

Each Standing Committee is led by a committee chairperson, hereafter referred to as a “Committee Chair”. The Committee Chair and all other members of each committee are appointed by the Executive Committee.

Committee Chairs exercise final authority over the decisions of each committee. The Committee Chair, at his/her discretion, may subject an issue to a Standing Committee vote in order to resolve it.

In the event of irresolvable disagreement on an issue between a Committee Chair and the appointed members of that committee, such matters may be elevated to the Executive Committee for resolution.
All appointed members of a Standing Committee may participate in a vote. A simple majority of the numbers of appointed members of a Standing Committee are required to carry a vote.

Committees may also include “members at large”, which are not appointed, but play an active role in committee tasks. “Members at large” do not have voting rights within a committee, however.

Each Standing Committee shall contain at least one member of Consistory, but will preferably be represented by both a Deacon and an Elder.

The Senior and Associate Pastor(s) shall serve as advisory members of each Standing Committee, without voting rights.

4.3.6 Committee Responsibilities

Committee Chairs are responsible to generate minutes of each meeting and to provide those minutes for review at the following Consistory meeting (i.e. typically conducted on the 4th Monday of each month).

All church expense account related items (planned expenditures, budget issues, etc.) shall be documented in the committee’s minutes to keep the Treasurer, Board of Deacons and Executive Committee informed of current activities for which near-term requests for funds shall be made or incoming invoices are expected.

Minutes shall also include sufficient information to allow the Consistory to act upon any items raised to it for consideration.

5. Policies & Procedures

5.1 Reporting & Auditing

Financial transactions shall be processed and entered into the accounting system as soon as possible/practical (e.g. it serves no purpose to furnish the church leadership a June 30 financial report in mid-July that includes all transactions up to May 15).

All financial reports shall be proofed before they are delivered/distributed.

5.1.1 Treasurer

5.1.1.1 Government Reporting

The Treasurer is responsible for following Internal Revenue Service regulations concerning payroll tax reporting for church staff and employees.

These responsibilities are revealed and outlined in:

- IRS publication 15, Circular E, Employer’s Tax Guide
- IRS publication 15-A, Employer’s Supplemental Tax Guide
- IRS publication 517, Social Security and Other Information for Members of the Clergy and Religious Workers
- IRS publication 1828, Tax Guide for Churches and Religious Organizations

These guidelines change from year to year in some details; it is the responsibility of the Treasurer to make sure all forms and information are filed completely and correctly.

To avoid IRS complications, church records shall be retained (at a minimum) in accordance with the records retention guidelines of Appendix D, Records Retention Guidelines.

5.1.1.2 Annual Audits
The Treasurer is responsible for the selection and scheduling of an annual audit of the church’s financial records and methods of internal control.

Annual financial audits serve to:

- Verify the accuracy and truth of the church’s financial reports
- Safeguard the resources of the church
- Improve the quality of the financial records produced
- Review the church’s financial practices and policies
- Offer constructive suggestions
- Promote operational efficiency

The annual church financial audit shall be conducted by a certified public accountant, who is not a member of the church’s congregation. Independence is important to achieve:

- An unbiased and impartial assessment of the materials that are the subject of the audit
- A sense of believability and acceptability to all interested parties

If an audit cannot be conducted by a certified public accountant, the audit shall be conducted by an equally qualified individual, designated by the Regional Synod or Classis (ex. retired CPA, former church treasurer with an accounting background, etc.)

At the time of the publication of this policy, all accounting services are being provided to the church by:

- Reynolds, Stevenson & Associates LLP, 38 E. Jeremiah, Heaven, MI 49111.

5.1.2 Bookkeeper

5.1.2.1 Monthly Reporting

The Bookkeeper is responsible for providing the Treasurer with a monthly bank reconciliation report. This report will be made available to the Board of Deacons, following the Treasurer’s review.

An example of an approved reconciliation report format is shown in Appendix E, Bank Reconciliation Statement.

Upon completion of the monthly bank reconciliation, the Bookkeeper shall prepare the following reports and provide them to the Treasurer:

- Bank Reconciliation Statement
- Treasurer’s Report
- Balance Sheet

All reports shall identify the date & time they were printed and clearly document any information not included.

These reports shall be based upon the state of the computer accounting records at the time of the successful bank reconciliation.

This ensures that all reports represent the same condition/snapshot of the church’s financial state.

5.1.2.2 Government Reporting
The Bookkeeper is responsible for providing the Treasurer with evidence that IRS (and any other applicable government) guidelines have been followed in the management of hired/contracted personnel salary/wage and expense related activities.

Evidence to be provided (quarterly) shall include:

- Salary distributions
  - Pastoral
  - Custodial
  - Secretarial
  - Bookkeeper
- Withholdings held, deposited and paid
- Monthly Federal Tax Deposit Coupons (Forms 8109) generated
- Employer Quarterly Tax Returns (Form 941) filed
  - Form 941 due dates are April 30, July 31, October 31 and January 31 and are based on the calendar quarter that ended one month prior to that date.

Evidence to be provided (annually) shall include:

- Forms W-4 and W-9 received (or changed)
- Forms W-2 and W-3 generated
- Forms 1099-MISC, 1099-INT, 945 and 1096 generated

5.1.2.3 Annual Audits

The Bookkeeper is responsible for assisting the annual audit of the church’s financial records, by making all applicable financial records, forms and supporting materials available to the selected auditor.

Although the Bookkeeper may assist the auditor(s) in answering questions that arise, he/she shall not participate actively in the auditing process.

5.2 Expense Management

5.2.1 Fiscal Credibility

Authorized funds shall be disbursed promptly when statements/invoices are received and due. It is important to take the church’s credit and credibility within the community into account when processing, approving and disbursing funds.

5.2.2 Fund Account Insufficiency

In the event that the balance of the appropriate fund account is insufficient to meet budget requirements, an emergency decision for distribution of funds needs to be made. Possible options that may be presented to Board of Deacons for approval include:

- Conducting a special offering for the insufficient fund account
- Transfer of funds from the General Fund to another fund account
- Allowing another fund account to loan monies to the General Fund account

The results of any such Board of Deacon decisions shall be communicated to the Bookkeeper (by the Treasurer) for appropriate action.

5.2.3 Expense Account Management Details

5.2.3.1 Routing For Disposition
All incoming mail related to church financial obligations (bills, invoices, bank statements, etc.) shall be routed as follows:

- Received bills/invoices known to be related to the expenses of a Standing Committee shall be placed in the appropriate Committee Chair’s mailbox for disposition.
  - In general, these bills/invoices will come addressed to the church and identified as being “attention to” a specific Committee Chair (or appointed member of a committee).
  - The Committee Chair shall disposition the received bills/invoices himself/herself.

- Received bills/invoices that have associated standing authorizations (as defined in this document) shall be placed in the Treasurer’s mailbox for disposition.
  - The Treasurer shall review and provide these items to the Bookkeeper for disposition.
  - Standing authorizations dispositioned by the Bookkeeper do not require the Committee Chair’s signature for approval. Procedures for processing of standing authorizations are documented below.

- All other received bills/invoices (including received bank statements) shall be placed in the Treasurer’s mailbox for disposition.
  - The Treasurer shall review these items and either:
    - Place the received bills/invoices in the appropriate Committee Chair’s mailbox for disposition, or
    - Provide these items to the Bookkeeper for disposition.

5.2.3.2 Standard Expense Processing

Many committee expenses are processed in accordance with standard expense processing guidelines. Standard expense accounting procedures consist of:

- Pre-approval of Expenditures & Invoice Processing
- Request For Funds
- Request Approval
- Payment Preparation
- Check Signing & Record Keeping
- Payment Completion

Committee Chairs are responsible for approval of the same expense accounts that they participated in the budget development of (with the exception of standing authorizations documented within this policy). These groupings of expense accounts are shown in Figure 2, Fund & Account Relationships, Appendix A, Income & Expense Accounts and are summarized in the table below:

<table>
<thead>
<tr>
<th>Committee Chairs for:</th>
<th>Expense Account Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive</td>
<td>5.10.xx to 5.18.xx</td>
</tr>
<tr>
<td>Property &amp; Equipment</td>
<td>5.20.xx</td>
</tr>
<tr>
<td>Worship</td>
<td>5.21.xx</td>
</tr>
<tr>
<td>Youth &amp; Education</td>
<td>5.22.xx</td>
</tr>
<tr>
<td>Congregational Care</td>
<td>5.24.xx</td>
</tr>
<tr>
<td>Evangelism</td>
<td>5.25.xx</td>
</tr>
<tr>
<td>Mission</td>
<td>5.30.xx</td>
</tr>
</tbody>
</table>
5.2.3.3 Standing Authorization Expense Processing

In some cases, special expense processing guidelines are applicable. These special processing guidelines are referred to as standing authorizations.

For example, payment of staff salaries/wages or payments of the church’s utility bills do not require the approval of a Committee Chair to allow for processing.

Expenses in this category require the same processing as standard expenses, with the exception that the invoice processing and request for funds are completed by the Bookkeeper, rather than the applicable Committee Chair:

- The Bookkeeper does not need to prepare a Request For Funds form in support of standing authorization expenses, but all supporting documentation is required.
- Expense processing, in this case, does include the Payment Preparation, Check Signing & Record Keeping and Payment Completion steps (as documented in the procedures below).

Identification of those expenses accounts that require either Committee Chair submittal of Requests For Funds to be processed or have standing authorizations are detailed in Appendix A, Income & Expense Accounts

Additional information, related to expense accounts that have standing authorizations, is included in the special expense processing sections (for each applicable committee) below.

5.2.3.4 Pre-approval of Expenditures & Invoice Processing

Committee Chairs are responsible to ensure that they and their Standing Committee members follow all policies and procedures established in this document in the processing of expenses.

Committee Chairs are responsible to exercise control over all expenditure pre-approvals by:

- Ensuring that out-of-pocket purchases are authorized in advance
  - Failure to establish clear guidelines in this area can result in unnecessary tension where personal expenditures do not qualify for reimbursement.
  - Expenditures related to the consumption of committee member’s personal property do not qualify for reimbursement.
    - This includes (but is not limited to) items such as paper, printer cartridges, office supplies, gasoline, parking costs, etc.

- Ensuring that vendor purchases are appropriate and properly documented
  - Failure to ensure that vendor purchases are within budget limits and expectations could result in the church being financially obligated for expenses that would not otherwise be approved for payment.
  - All vendors shall be instructed to clearly annotate their invoices as being to the attention of the Committee Chair’s name, using the church’s mailing address.
    - Properly annotated invoices allow for more efficient mail routing and thus more rapid payment processing.

- Ensuring budget limits are not exceeded
  - Failure to remain within approved budget limits can seriously impact other church expenditures or the church’s overall financial health.
  - Committee Chairs shall not approve expenses that are applicable to other Standing Committees, even if those expenses are part of the approved budget.

- Documenting all expenditure approvals in Standing Committee meeting minutes submitted to Consistory.
Clearly communicating approved expenditures aids in the distribution of bills/invoices received by the church to the appropriate Committee Chair for disposition.

Committee Chairs are responsible to exercise control over all expenditure invoice processing by:

• Ensuring that all invoiced products & services have been received and are in acceptable condition.
  o Replacement of damaged items (or getting refunds) is very difficult to obtain if the vendor is paid in full prior to making them aware of the problem encountered.

• Ensuring that all invoices accurately reflect the anticipated amount.
  o Obtaining account credit is very difficult to get if the vendor is paid in full prior to making them aware of the error that occurred.

• Ensuring that all supporting documentation is available to support preparation of the associated Request For Funds.
  o Handwritten documentation, other than those handwritten by the service provider on printed company letterhead/forms do not qualify for reimbursement.

5.2.3.5 Request For Funds

Committee Chairs are responsible to properly complete a Request For Funds by:

• Ensuring that all Requests For Funds are properly completed, including:
  o All necessary information, legibly printed, including:
    ▪ DATE: Enter date of request form completion.
    ▪ PAY TO: Vendor to be paid (or individual to be reimbursed).
    ▪ REASON/FOR: Description of what the funds were used for.
      ▪ Provide adequate details to help ensure timely processing of the request. Additional information should be attached if the space on the Request for Funds Form is insufficient.
    ▪ AUTHORIZING DEPARTMENT: Circle the name of the Committee submitting the request.
    ▪ Expense Account Details: Two sets of expense account detail entries are included on each form to allow for the distribution of submitted expenses to multiple expense account numbers.
      ▪ LINE#: Expense account number to be debited.
        o Line numbers (and amounts) for requests involving more than two expense accounts shall be provided as separate attached supporting documentation.
      ▪ Examples:
        ▪ Petty cash fund reimbursements
        ▪ Monthly local grocery expenses
    ▪ AMOUNT: Total amount the identified expense account is to be debited by.
    ▪ DESCRIPTION: Adequate details (item description, invoice #, and billing company) to relate the attached supporting documentation to the amount listed.
      o This information is especially important to recreate requests in which the Request For Funds form and supporting documentation become detached from each other.
• SIGNED (Committee Chair): Committee Chair signature indicating proper form completion, verification of supporting documentation/amounts and approval of expenditures.
• DATE (Committee Chair): Enter date of request form submittal to the applicable member of the Board of Deacons.

• Routing the completed Request For Funds form (and all supporting documentation) to a member of the Board of Deacons who is serving on or representing that Standing Committee.
  
  o In cases where a Standing Committee is not represented by a member(s) of the Board of Deacons, the request shall be routed by the Committee Chair to another member of the Board of Deacons.
  o In cases where the only Deacon serving on a Standing Committee is also the Committee Chair, the request shall be routed by the Committee Chair to another member of the Board of Deacons.
  o This serves to ensure that two individuals, at least one of whom is a member of the Board of Deacons, approve each budget expenditure.

Any Board of Deacons rejection shall result in the return of the Request For Funds to the Committee Chair for resolution.

An example of a properly completed Request For Funds form is shown in Figure 3.

The steps involved in the pre-approval of expenditures, invoice processing and request for funds are summarized in figure 4.
**GRANT REFORMED CHURCH**

**Request for Funds**

<table>
<thead>
<tr>
<th>Date</th>
<th>Pay To</th>
<th>Reason/For</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/30/06</td>
<td>Fred Bigelow</td>
<td>Reimbursement Required For: Church Van Repairs</td>
</tr>
</tbody>
</table>

**Authorizing Department:** Please circle one.

- Executive; Personnel
- Executive; Administration
- **Property & Equipment**
- Worship & Fellowship
- Youth & Christian Ed.
- Christian Action
- Congregational Care
- Evangelism
- Missions

**Line #** 5.20.75 | **Amount** $243.50 (paid by F.B.)

**Description**

- NAPA Invoice # 27635 (Parts)

**Line #** 5.20.75 | **Amount** $142.85 (paid by F.B.)

**Description**

- Joe’s Garage, 123 Easy St., Newaygo, MI

**Signed**

- **Dan Smith** (Committee Chair) Date: 11/02/06
- **John King** (Treasurer/Deacon) Date: 11/07/06

---

**Figure 3.** Properly Completed Request For Funds Form
5.2.3.6 Request Approval

The representative Deacon (or Treasurer, if applicable) shall review the completed Request For Funds form and attached, supporting documentation for:

- Completeness
- Accuracy
- Appropriateness (relative to the approved budget)

The representative Deacon is responsible to approve or disapprove a received Request For Funds form. In the absence of the representative Deacon (due to illness, vacation, personal/business travel, etc.), the Deacon’s request approval role shall be fulfilled by one of the remaining members of the Board of Deacons.
If approved, the representative Deacon shall:

- Complete the last section of the Request For Funds form:
  - SIGNED (Treasurer/Deacon): Deacon’s signature indicating proper form completion, verification of supporting documentation/amounts and approval of expenditures.
    - Representative Deacons are responsible to ensure that all approved Requests For Funds are:
      - Within the scope of the currently approved budget, and
      - Are not subject to any delay, modification or suspension decision of the Board of Deacons.
  - DATE: (Treasurer/Deacon): Enter date of request form approval.

- Submit the completed Request For Funds form (and attached supporting documentation) to the Bookkeeper for payment preparation.

If disapproved, the representative Deacon shall return the Request For Funds form (and attached supporting documentation) to the submitting Committee Chair for resolution.

Reasons for disapproval include (but are not limited to):

- Failure to date the request.
- Failure to provide adequate identification of the payee.
- Failure to adequately explain the nature of the request.
- Failure to identify the requesting committee.
- Failure to identify the expense account #.
- Failure to provide the correct amount (due to math error or inability to associate the amount with the supporting documentation).
- Failure to document the relationship between the supporting documentation and the request.
- Failure to sign and/or date the request.
- Failure to comply with the procedures and/or intent of this policy.

5.2.3.7 Payment Preparation

The Bookkeeper shall review the completed Request For Funds form (if applicable) and supporting documentation for:

- Completeness
- Accuracy

The Bookkeeper is responsible to prepare each payment by:

- Making all applicable entries into the computer accounting system (i.e. Church Windows Financials module) to debit the appropriate account(s).
  - The computer accounting system must document the Request For Funds form number (located in the upper right corner of the form), except for standing authorizations.
- Prepare associated 3-part check(s) for authorized signature.

The Bookkeeper shall retain and mark all voided checks and retain them for reconciliation purposes. To maintain proper accounting records, the computer accounting records shall be updated by the Bookkeeper to identify the applicable check number as having been voided.

5.2.3.8 Check Signing & Record Keeping
The Treasurer is responsible to sign all payment check(s) and perform the associated record keeping activities. In the absence of the Treasurer (due to illness, vacation, personal/business travel, etc.), the Treasurer’s check signature role shall be fulfilled by one of the agents authorized for check endorsement as documented in the current Corporate Authorization Resolution in force with the bank.

• The Bookkeeper shall provide the following to the Treasurer (or authorized agent, when applicable) for filing in the Deacon’s office:
  o Approved Request For Funds form (original), where applicable.
    • Exception is made for standing authorizations only.
  o Prepared check(s)
    • The Request For Funds form number shall appear on each check (except for checks used to pay standing authorizations)
  o All supporting documentation (originals or copies, as applicable) provided with the approved request or pertinent to a standing authorization(s).

• The Treasurer (or authorized agent, when applicable) shall:
  o Sign the check (if properly supported/documented).
  o Sign the check stub to be retained in the Deacon’s office files (to indicate who signed the check).
  o Annotate the Request For Funds form number on the check stub to be retained in the Deacon’s office (if not a standing authorization).
  o File the Request For Funds form (original), the signed/annotated check stub(s) and supporting documentation in the Deacon’s office files.

5.2.3.9 Payment Completion

The Bookkeeper shall complete the processing of payment(s) by:

• Filing the Request For Funds form (copy), supporting documentation and the applicable part of the check stub(s) in the Bookkeeper’s files.
• Preparing the envelope to be used for payment mailing.
• Sealing the signed check and any appropriate supporting documentation in a properly prepared envelope.
• Providing the completed envelope to the Church Secretary for postage and mailing.

The steps involved in the request approval, payment preparation, check signing & record keeping and payment completion procedures are summarized in figure 5.
Figure 5. Payment Processing.

Request For Funds Submitted To Deacon

Request Approved?

Yes

Request Signed & Submitted to Bookkeeper

Bookkeeper Updates Accounting Records & Prepares Check(s) For Treasurer Signature

Treasurer Reviews Documentation & Signs Substantiated Checks(s)

All Supporting Documentation Filed By Treasurer

Bookkeeper Files Backup Documentation & Prepares Payment For Mailing

Secretary Mails Payment

No

Returned To Committee Chair For Resolution
5.2.3.10 Executive Committee Special Expense Processing

5.2.3.10.1 Personnel Salaries/Wages

Wages and salaries are established by the Executive Committee (in its role as the Personnel Committee) and are reviewed for possible adjustment annually.

Any changes made to wages, salaries, allowances, etc. are:

- Approved by Consistory
- Documented in the minutes of those meetings, with the:
  - Terms and conditions approved
  - Date of approval
  - Members present
  - Members voting
  - Members not voting (due to conflict of interest)
  - Comparability data used (see below)

To ensure fair compensation is provided for services performed and to guard against the possibility of unreasonable compensation or excess benefit transactions (as defined by the IRS), the following objective sources of compensation guidance are used in the establishment of the levels agreed upon:

- *Synod of the Great Lakes, Church Staff, Salary and Benefit Guidelines*, approved by the Synod of the Great Lakes Assembly

Pastoral and lay staff expenses include salary/wage expenses that are subject to taxes and withholdings.

Pastors fall into one of two categories:

- Pastors who are considered “self-employed” for Social Security purposes.
  - Pastors in this category:
    - Pay “self employment tax” (SECA) rather than the employee’s and employer’s shares of Social Security and Medicare taxes (i.e. FICA tax). FICA taxes are not withheld from their taxable income.
    - Are not exempt from income tax withholding. Such pastor(s) either:
      - Use the estimated tax procedure to pay their federal & state taxes quarterly (and have no federal or state taxes withheld by the church),
      - Or have entered into a voluntary withholding agreement with the church (via submittal of a Form W-4 to the church).
    - Report their taxable income as a church employee.
    - Are eligible for housing or parsonage allowances as “non-taxable” income.

- Pastors who are considered “employees” for Social Security purposes.
  - Pastors in this category:
- Are not subject to any unique tax categorizations in their role as church employees.
- Pay the employee’s share of FICA taxes (Social Security and Medicare taxes)
- Have the employer’s share of FICA taxes paid by the church.
- Are not exempt from income tax withholding.
  - These pastor(s) report their taxable income as a church employee.
- Are eligible for housing or parsonage allowances as “taxable” income.

Lay staff employees are considered employees for both income tax and Social Security purposes.

Personnel salaries/wages are subject to the withholdings and reporting indicated below:

- The church shall issue annual Form W-2 statements to the pastor(s) and lay staff employees (prior to February 1 of the following year).
  - Accordingly, Form W-3 shall be submitted to the Social Security Administration.
- Employee withholdings made by the church shall be made in accordance with federal and state regulations, using the withholding status indicated on the employee submitted W-4 form (if applicable).
  - Based on the usual level of annual tax liability, withholdings shall be deposited monthly (using Federal Tax Deposit Coupon, Form 8109) to an authorized depositary.
- FICA-exempt pastors are required to complete a Form W-4 only if voluntary income tax withholding is desired.
- Form 1099-MISC shall be generated (prior to February 1 of the following year) for all non-employee’s (i.e. self-employed persons/contractors) compensation or honoraria totaling $600 or more.
  - Form 1096 shall be used to report 1099-MISC summary totals.
  - Form 945 shall be submitted annually if back withholdings were made due to lack of Form W-9 (or other evidence of the recipient’s SSN).

<table>
<thead>
<tr>
<th>Compensation Type</th>
<th>Employee Withholdings</th>
<th>Employer Withholdings</th>
<th>Reporting Method (on Form W-2):</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>FICA Exempt Pastors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base Salary</td>
<td></td>
<td></td>
<td>Taxable</td>
</tr>
<tr>
<td>Housing/Parsonage Allowance</td>
<td></td>
<td></td>
<td>Non-taxable</td>
</tr>
<tr>
<td>Car Allowance</td>
<td></td>
<td></td>
<td>Taxable</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Compensation Type</th>
<th>Employee Withholdings</th>
<th>Employer Withholdings</th>
<th>Reporting Method (on Form W-2):</th>
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<tbody>
<tr>
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<tr>
<td><strong>FICA Exempt Pastors</strong></td>
<td></td>
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</tr>
<tr>
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<td>Taxable</td>
</tr>
<tr>
<td>Housing/Parsonage Allowance</td>
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<td>Non-taxable</td>
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<tr>
<td>Car Allowance</td>
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<tr>
<td>Compensation Type</td>
<td>Employee Withholdings</td>
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<td>Reporting Method (on Form W-2):</td>
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<td>Federal Income Tax</td>
<td>State Income Tax</td>
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<tr>
<td>Other Income (gifts, bonuses, honoraria, property, car, etc.)</td>
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<td><strong>FICA Non-Exempt Pastors</strong></td>
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<td>●</td>
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<tr>
<td>Car Allowance</td>
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<td>Other Income (gifts, bonuses, honoraria, property, car, etc.)</td>
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<td><strong>Lay Staff Employees</strong></td>
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<td>Secretary Wages</td>
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<tr>
<td>Exclusions (medical/life/accident policies, pensions, accountable reimbursements, non-cash de minimis gifts/fringe benefits, etc.)</td>
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</table>
A tax benefit is available to FICA-exempt pastors that own or rent their homes, via a housing (or parsonage) allowance exclusion.

A pastor making use of the parsonage:

- Is not entitled to a housing allowance, since the:
  - Pastor is not charged rent for use of the parsonage.
  - Parsonage utilities are paid by the church as a facilities expense.
- Will have a parsonage allowance established by the Executive Committee:
  - The parsonage allowance is established by estimating the fair rental value of the parsonage, plus the anticipated costs associated with maintenance, utilities, insurance and furnishings.
  - The pastor will estimate the parsonage expenses to be identified as part of the parsonage allowance, using the form in Appendix H, Parsonage Allowance Expense Form.
  - The Executive Committee shall provide the pastor a written response indicating the established allowance and document the results of its decision in its minutes.
- A FICA-exempt pastor will not pay federal/state taxes on the parsonage allowance.
  - The Executive Committee will reduce the pastor’s compensation by the designated parsonage allowance.
  - The Bookkeeper will report the parsonage allowance amount on the Form W-2 for the FICA-exempt pastor as a separate amount in the appropriate box.

Pastors that own or rent their own home and choose to occupy that home, instead of the parsonage, are entitled to a housing allowance.

The procedure to be followed for establishing a housing allowance is:

- The pastor must request to the Executive Committee in writing prior to January 1 the amount of their salary that will be identified as housing allowance.
  - The request must contain the year in which the request is to be applied.
- The pastor will establish the amount of salary to be identified as housing allowance.
  - This amount is based on the mortgage payment amount or fair market rental value of the property (whichever is less), plus maintenance, utilities, taxes, insurance and furnishings.
  - The request form in Appendix G, Housing Allowance Expense Form, shall be used.
- The Executive Committee shall establish the housing allowance amount at the amount specified by the pastor, if deemed reasonable.
  - The Executive Committee shall provide the pastor a written response to the request and document the results of its decision in its minutes.
- A FICA-exempt pastor does not pay federal/state taxes on the housing allowance.
  - The Executive Committee will reduce the pastor’s compensation by the church-designated housing allowance.
  - The Bookkeeper will report the housing allowance amount on the Form W-2 for the FICA-exempt pastor as a separate amount in the appropriate box.

Regardless of when hired, 30% of the pastor’s compensation is hereby designated as a housing allowance for the current year and all future years, unless otherwise specifically established. This estimation is in accordance with the guidelines documented in *Synod of the Great Lakes, Ministerial Salary Guidelines and...*

The written response provided to the pastor (and documented in the minutes) by the Executive Committee shall state:

The following resolution was duly adopted, by the Executive Committee of His Reformed Church, at a regularly scheduled meeting held on _____________, a quorum being present:

Whereas, pastors who own their own homes do not pay federal income taxes on the amount of their compensation that their employing church designates in advance as a housing allowance, to the extent that the housing allowance represents compensation for ministerial services, is used to pay housing expenses, and does not exceed the fair rental value of the home (furnished, plus utilities); and

Whereas Pastor _____________ is compensated by His Reformed Church exclusively for services as a Minister of Word and Sacrament; and

Whereas, His Reformed Church does not provide Pastor _____________ with a parsonage; therefore, it is hereby:

Resolved, that the total compensation paid to Pastor _____________ for the calendar year ________ shall be $__________, of which $__________, is hereby designated to be a housing allowance; and it is further

Resolved, that the designation of $__________, as a housing allowance shall apply to the calendar year _______ and all future years unless otherwise provided.

5.2.3.10.3 Car Allowances

Car allowances are part of a non-accountable reimbursement plan.

Non-accountable reimbursements are considered taxable income and are reported on the pastor(s) Form W-2 in the same manner as their base salary.

5.2.3.10.4 Pastoral Accountable Expense Accounts

Several types of ministry-related expenses of the pastor(s) are considered to be reimbursable as part of an accountable reimbursement plan.

Accountable reimbursements are not considered taxable income and are not reported on the pastor(s) Form W-2.

Expense accounts are established in the annual budget for the maximum amount that shall be reimbursed during that year for a given category of expense.

Categories of pastoral accountable reimbursements are as follows:

- Medical “out of pocket” expenses
- Mileage expenses
- Professional education expenses
- Books and publications expenses
Standard expense processing procedures (as defined in this document) are to be followed in seeking all pastoral expense reimbursements.

Submitted Requests For Funds shall include adequate documentation (including receipts) substantiating the amount, date, pertinent details and business purpose of each reimbursed expense. Requests must be submitted within 30 days of the incurred expense.

Medical reimbursement allowances are based upon pastoral identification of “out-of-pocket” medical expenses not paid by their church-provided or personal insurance plans.

At the time of the publication of this policy, mileage reimbursements are made in accordance with the IRS guidelines. The standard mileage rates for the use of a car (including vans, pickups or panel trucks) are:

- 48.5 cents/mile (for business miles driven)
- 20 cents/mile (driven for medical or moving purposes)
- 14 cents/mile (driven in service to a charitable organization)

5.2.3.10.5 Pension Payments

Pension payments (for pastors ordained with the RCA) are made to the RCA 403(b) Retirement Program for each applicable pastor, at the negotiated annual amount.

Quarterly pre-tax retirement contributions are made to:

- Fidelity Investments Tax Exempt Operations, PO Box 770002, Cincinnati, OH 45277-0089.

In the past, the RCA retirement program consisted of two different retirement plans: the RCA Retirement Plan and the RCA 403(b) Retirement Plan. Up until December 31, 2004, all employer and church contributions were made to the RCA Retirement Plan, which is a nonqualified deferred compensation plan. No employee contributions could be made to this plan. Instead, employees who wanted to make pre-tax deferrals to a retirement plan could make voluntary salary reduction contributions to the RCA 403(b) Retirement Plan.

However, contributions (both employer/church and employee) made since January 1, 2005 have been credited to the RCA 403(b) Retirement Plan, which has been renamed the RCA 403(b) Retirement Program. The nonqualified RCA Retirement Plan was "frozen" effective December 31, 2004.

Fidelity Investments serves as custodian and record-keeper for these accounts. Contact the RCA Benefits Services office with any plan-related questions.

Pension payments (for pastors not ordained with the RCA) are made to the agreed upon program for each applicable pastor, at the negotiated annual amount.

At the time of the publication of this policy, quarterly pre-tax retirement contributions (for the associate pastor) are made to:

- Nationwide Life Insurance C., PO Box 182021, Columbus, OH 43218-2021.

5.2.3.10.6 Personnel Insurance

Medical, dental, and prescription drug benefits are available as part of the RCA Insurance Program. In addition, coverage for long-term care, long-term disability,
employee life insurance, dependent and supplemental life insurance, and accidental death and dismemberment insurance are provided through the UnumProvident insurance company.

RCA Insurance Program payments are made directly to:

- RCA Insurance Program, 475 Riverside Dr., New York, NY 10115

Pastors may opt out of the RCA medical insurance coverage (for a fee), allowing a pastor to be covered by an alternate medical insurance policy (ex. Priority Health medical insurance).

At the time of the publication of this policy, Priority Health Insurance Program payments are made directly to:

- Priority Health, PO Box 1571, Grand Rapids, MI 49501-1571

The Board of Deacons shall review the associated policy at least once every two years to ensure that coverage is adequate, as well as ensuring that a fair market price is paid.

5.2.3.10.7 Utilities

Various facilities expenses involve the routine payment of utility bills related to the church, parsonage and any acquired properties. These expenses include the following:

- Electric bills (DTE Energy)
- Natural gas bills (American Gas & Oil)
- Lawn care (Mike’s Lawn Care)
- Snow plowing (Bob Jones Plowin)
- Telephone bills (ATT/SBC & Riverside Internet Services)
- Trash service bills (Allied Waste Services)
- Water & sewer bills (City of His)

At the time of the publication of this policy, the vendors for these utilities are as listed immediately above.

5.2.3.10.8 Assessments – Synod/Classis

Assessment fees are paid each year to the various organizational levels of the Reformed Church of America (RCA):

- General Synod
- Great Lakes/Regional Synod
- Northern Michigan Classis

These fees are assessed as a fixed amount per person, based upon the number of documented, active members within the His Reformed Church.

The Board of Elders is responsible for the maintenance of the church’s membership records. Accuracy in the determination of the number of active church members is essential to ensure that assessment fees are properly determined.

Assessments are sent to the General Synod for distribution to the other RCA organizations.
At the time of the publication of this policy, these assessments (based upon 320 members) were set at:

- $38.34/member (General Synod)
- $16.09/member (Great Lakes/Regional Synod)
- $16.84/member (Northern Michigan Classis)

Assessments payments (all 3) are made directly to:

- Distribution Center RCA, 4500 60th St. S.E., Grand Rapids, MI 49512-9670

5.2.3.11 Property & Equipment Committee Special Expense Processing

5.2.3.11.1 Facilities & Liabilities Insurance

Facilities and liabilities insurance is purchased by the church to provide the following types of coverage:

- Property insurance
- Liability insurance
- Excess liability insurance
- Bonding insurance
- Vehicle insurance

At the time of the publication of this policy:

- Facilities and liabilities insurance is currently purchased from Brotherhood Mutual Insurance Company.
  - Property, liability, excess liability and bonding insurance are covered under policy # XXXXXXXXXXX.
  - Vehicle insurance (for the 1991 Ford van, 2004 Chevrolet van and 1995 Vintage trailer) is covered under policy # XXXXXXXXXXX.

- These policies are locally managed by the Jacobson Agency, who can be reached at 616-555-1212.

Brotherhood Mutual insurance payments are made directly to:

- Lockbox A, Brotherhood Mutual Ins. Co., Fort Wayne, IN 46859-1588

The Board of Deacons shall review the associated policy at least once every two years to ensure that coverage is adequate, as well as ensuring that a fair market price is being paid.

5.2.3.12 Worship Committee Special Expense Processing

5.2.3.12.1 Copyright Fees

The copyright law is clear on copying music. If you do not have express permission from the rightful owner of the song, you cannot make a copy.

Many worship committees or church music leaders who have made efforts to honor the law and have tried to obtain permission first from the copyright owner before making copies have found this to be a time-consuming challenge and in many cases, an administrative nightmare. Many have agreed that the copyright law is fair, but not practical.
As a result, more than 145,000 churches across North America take advantage of the Church Copyright License from CCLI. The Church Copyright License is a contractual agreement with songwriters and publishers from around the world.

For an annual license fee, a church receives legal authorization to copy from over 150,000 songs for congregational use.

At the time of the publication of this policy, the annual fee for a church of 200 to 499 members is $223.

In simplified form, the Church Copyright License:

- Allows the church to:
  - Print songs, hymns and lyrics in bulletins, programs, liturgies and song sheets for use in congregational singing.
  - Create your own customized songbooks or hymnals for use in congregational singing.
  - Create overhead transparencies, slides or use any other format whereby song lyrics are visually projected (such as computer graphics and projection) for use in congregational singing.
  - Arrange, print and copy your own arrangements (vocal and instrumental) of songs used for congregational singing, where no published version is available.
  - Record your worship services (audio or video) provided you only record live music. Accompaniment tracks cannot be reproduced.
  - You may charge up to $4 each for audiocassette tapes and CDs, and $12 each for videotapes and DVDs.

- Does not allow the church to:
  - Photocopy or duplicate octavos, cantatas, musicals, hand bell music, keyboard arrangements, vocal scores, orchestrations or other instrumental works.
  - Translate songs into another language. This can only be done with the approval of the respective publisher.
  - Rent, sell or lend copies made under the license to groups outside the church or to other churches. (It is allowable to distribute recordings to shut-ins, missionaries or others outside the church.)
  - Assign or transfer the license to another church or group without CCLI's approval.

CCLI payments are made directly to:

- CCLI Copyright Licensing Intl., 17201 NE Sacramento St., Portland, OR 97230-5941

5.2.3.12.2 Pulpit Supply

The pulpit supply budget is established to defray the costs of visiting pastors or lay preachers who provide sermon messages (at a minimum) as part of the liturgy of worship.

At the time of the publication of this policy, the pulpit supply reimbursement levels are as follows:

- For morning worship services: $125
- For evening worship services: $75
5.2.3.13 Mission Committee Special Expense Processing

5.2.3.13.1 Missionary Support

The following information must be kept up to date to properly support those missionaries selected and funded by the Mission Committee:

- Missionary’s name
- Mission role
- Contact information
- Supporting agency to whom payments are made
- Amount of support provided
- Due date of annual payments

The above information for the currently supported missionaries, at the time of the publication of this policy (including other annually paid mission committee activities), are documented in Appendix C, Supported Missionary/Mission Details.

5.2.3.14 Smith House Fund Special Expense Processing

The Smith House property was purchased using three different funding methods:

- Donations
- Interest bearing installment promissory notes
- Non-interest bearing installment promissory notes

5.2.3.14.1 Installment Promissory Note Payments

Interest bearing and non-interest installment promissory notes were signed for a period of up to 5 years. The church may choose to pay off these installment promissory notes prior to their maturity, if desired.

Interest bearing and non-interest bearing installment promissory notes may be paid off at their face value at any time prior to their reaching maturity.

In addition, interest is paid annually against all interest bearing installment promissory notes still in force. This interest is due on January 1 of each year. Installment promissory notes paid off prior to the end of the calendar year are to have their interest prorated (on a monthly basis).

All of the pertinent details associated with the interest bearing and non-interest bearing installment promissory notes issued are documented in contracts contained in Appendix B, Bond Fund Contract.

The Treasurer is responsible for determining which installment promissory notes shall be paid off in each given year, prior to their maturation.

Forms 1099-INT shall be issued to each party that is paid interest in a given year. These forms shall be mailed prior to February 1 (of the year following the year for which earned interest is applicable).

5.3 Contribution Management

5.3.1 Board of Deacons

5.3.1.1 Sunday Worship Offerings
At least 3 members of the Board of Deacons shall be present when contributions are handled, counted and tabulated.

If an insufficient numbers of deacons are available, additional help shall be solicited from the Great Consistory.

The Deacon in Charge (or Chairman of the Deacons) shall oversee the offertory counting process and make the offering deposit at the bank as soon as possible.

The offering counting process consists of the following basic steps:

- Log into the computer accounting system and enter correct date.
- Verify that the amounts written on all envelopes are identical to their contents.
- Enter all envelope collections into the accounting system (to the funds specified).
- Rubber band and place collection envelopes in appropriate drawer.
- Enter the plate cash total(s) into the accounting system.
- Enter the plate check total(s) into the accounting system.
- Endorse all checks for deposit, using the appropriate bank’s “deposit only” stamp.
- Verify that check and cash totals agree with the sum of the totals recorded from offertory envelopes and plate checks/cash recorded on the collection tally sheet.
- Enter corrections into the accounting system, as determined by those tallying the collection (if needed) and repeat previous step.
- Print and three-hole punch batch total and fund total reports.
- Place reports and collection tally sheet in appropriate binder.
- Log out of the computer accounting system.
- Ensure bank deposit slip is prepared.
- Ensure bank deposit slip, cash and checks are placed in bank deposit bag.
- Lock bank deposit bag in Deacon’s safe until deposit at bank is to be made.
- Provide a donation receipt for larger donations, as soon as possible. IRS regulations require donation receipts (for any single gift greater than $250) to be delivered within 60 days.

The Deacons involved in the offertory counting process shall strive to accurately record each contributor’s offering, including any distributions expressed on the offertory envelope. In cases where the directions to be followed are not clear, the Deacons present shall use their best judgment to resolve any discrepancies.

Example:

1) An offertory envelope’s contents do not match the information documented on the front of the offertory envelope. In such a case, the Deacons shall accurately enter the actual amount of the contribution received and use their best judgment as to whether to distribute the contribution as close as possible to the details provided on the offertory envelope or approach the contributor for further guidance.

Each member of the Board of Deacons shall be bonded for their own protection and for the protection of the church. In fact, bonding insurance shall also be purchased to cover any member of the church that handles monies.

5.3.1.2 Other Offerings

Public or private donations (other than Sunday worship offerings) may, on occasion, involve the donor approaching various church leaders and/or staff for guidance. Donors shall be directed to the Board of Deacons to allow for receipt of the gift. No other church leader or staff member shall take physical custody of such gifts.
At least 2 members of the Board of Deacons shall be present when such donations are received and secured. In accordance with internal control standards, received monies shall be handled only by those Board of Deacon’s members associated with contribution management. The Treasurer’s position does not involve the direct management of received funds.

The Treasurer shall provide guidance, if applicable, as to the fund account the donation should be made to.

The following process shall be used for such offerings:

- Received donation shall be provided to an appropriate Board of Deacons’ members for processing.
- Treasurer shall be consulted for fund account guidance for the logging of the donation.
- Endorse any checks for deposit, using the appropriate bank’s “deposit only” stamp.
- Enter the donation into the computer accounting system, using the same contribution processing procedures as the Sunday worship offering.
- Post the donation (i.e. contribution batch) in the computer accounting system.
- Ensure bank deposit slip is prepared.
- Ensure bank deposit slip, cash and checks are placed in bank deposit bag.
- Lock bank deposit bag in Deacon’s safe until deposit at bank is made.
- Provide a donation receipt to the donor, as soon as possible, following deposit of the donation. IRS regulations require donation receipts (for any single gift greater than $250) to be delivered within 60 days.

The approved donation receipt is shown in Appendix F, Donation Receipt.

5.3.2 Treasurer

The Treasurer shall not be involved in the counting of worship offerings or the deposit of the monies received.

The Treasurer may assist in the entry of the collections into the accounting system, however. This separation of responsibilities provides for an elevated level of accountability and perceived integrity.

5.3.3 Bookkeeper

The Bookkeeper shall reconcile the returned bank statement against the offering deposit slip and inform the Treasurer of any differences occurring.

If a difference exists (due to an incorrectly posted contribution batch amount), the Treasurer shall adjust the applicable contribution batch in the computer accounting system, before the batched is posted from the Contributions to Financials computer software modules.

Upon completion of this reconciliation, the revised Contributions batch shall be posted in the Financials software by the Bookkeeper.

If no difference exists, the existing Contributions batch shall be posted in the Financials software by the Bookkeeper.
## Appendix A – Income & Expense Accounts

<table>
<thead>
<tr>
<th>Account Number</th>
<th>Account Name</th>
<th>2007 Annual Budget</th>
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</thead>
<tbody>
<tr>
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<td>4.10.21</td>
<td>Special Mission Trip, Honduras</td>
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<td>Special Gifts - Cadets</td>
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<td>Special Gifts - Gems</td>
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<td>Special Giving - Sr High Youth</td>
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<td>Contributions - Mission Fund</td>
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<td>Contributions - Sunday School</td>
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Appendix B – Bond Fund Contract

INSTALLMENT PROMISSORY NOTE

Amount:$_______ Date: January 1, 2006

For value received, the undersigned His Reformed Church (the "Borrower"), at 123 West Slate Road, His Michigan, 49111, promises to pay to the order of ______________________ (the "Lender"), at ________________________________ (or at such other place as the lender may designate in writing) the sum of $________ with interest from January 1, 2006, on the unpaid principle at the rate of ______% per annum.

The unpaid principle and accrued interest shall be payable in annual installments of interest only, beginning on January 01, 2006, and continuing until January 01, 2011, (the "Due Date", at which time the remaining unpaid principle and interest shall be due in full.

All payments on this Note shall be applied first in payment of accrued interest and any remainder in payment of principle.

If any payment obligation under this Note is not paid when due, the remaining unpaid principle balance and any accrued interest shall become due immediately at the option of the Lender.

The Borrower reserves the right to prepay this Note by making payment in full of the then remaining unpaid principle and accrued interest.

The Borrower reserves the right to extend this note beyond the due date if necessary.

If any of the following events of default occur, this Note, and any other obligations of the Borrower to the Lender, shall become due immediately, without demand or notice:

1)  The failure of the Borrower to pay the principle and any accrued interest in full on or before the Due Date;
2)  The Death of the Borrower or Lender;
3)  The filing of bankruptcy proceedings involving the Borrower as a debtor;
4)  The application for the appointment of a receiver for the Borrower;
5)  The making of a general assignment for the benefit of the Borrower's creditors;
6)  The insolvency of the Borrower;
7)  A misrepresentation by the Borrower to the Lender for the purpose of obtaining or extending credit.
If any one or more of the provisions of this Note are determined to be unenforceable, in whole or in part, for any reason, the remaining provisions shall remain fully operative.

All payments of principle and interest on this Note shall be paid in the legal currency of the United States. The Borrower waives presentment for payment, protest, and notice of protest and nonpayment of this Note.

No renewal or extension of this Note, delay in enforcing any right of the Lender under this Note, or assignment by Lender of this Note shall affect the liability or the obligations of the Borrower. All rights of the Lender under this Note are cumulative and may be exercised concurrently or consecutively at the Lender's option.

This Note shall be construed in accordance with the laws of the State of Michigan.

Signed this 1st day of January, 2006.

Borrower:
His Reformed Church

By Thomas Jones, Treasurer
   His Reformed Church

ASSIGNMENT

ONLY COMPLETE THE FOLLOWING INFORMATION TO ASSIGN PAYMENTS TO A NEW PARTY,

For value received, the above Note is assigned and transferred to__________________________.

("Assignee") of ________________________________,
   (City)                        (State/Province)

______________________________.
   (Country)
Dated:___________________

By:__________________________________