

# The Treasurer's Toolbox

Now there are different kinds of spiritual gifts, but it is the same Holy Spirit who is the source of them all. There are different kinds of service in the church, but it is the same Lord we are serving. There are different ways God works in our lives, but it is the same God who does the work through all of us.

A spiritual gift is given to each of us as a means of helping the entire church.”

1 Corinthians 12:4-7 (New Living Translation)

First Edition: October 2003

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**1<sup>st</sup> Edition  
October 2003**

This publication is intended to provide a timely, accurate and authoritative discussion of the position of Church Treasurer. It is not intended to be an exhaustive discussion of all items relating to the position of the Church Treasurer. It is also not intended as a substitute for legal, accounting, or other professional advice. If legal, tax or other expert assistance is required, the services of a competent professional should be sought. Although we believe this book provides accurate information, there may be changes resulting from IRS or judicial interpretations of the Tax Code, new tax regulations, or technical corrections that occurred after the printing of this book that are not reflected in the text.

*Thanks to the Stewardship/Cooperative Program Division of the Louisiana Baptist Convention for sharing information from "The Church Treasurer's Role in Stewardship".*

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## **Qualifications of a Treasurer**

The church should desire a church treasurer that exhibits a willingness to work cordially with people and the ability to be fair minded. The person selected to be treasurer should also have knowledge of the working organization of the church. The church treasurer is to be one of the elected leaders in a church.

The character of the treasurer should reflect the highest Christian ideals. The experience and background of the person holding this office should give confidence to church members that the financial affairs of the church will be carried on in a fair and trustworthy way. The person selected to be church treasurer should have knowledge of accounting procedures or the willingness to learn accounting procedures.

The church may wish to set guidelines covering the length of continuous membership prior to election as treasurer. It is sometimes beneficial for the same person to serve as treasurer for several years. The length of service is to be a decision of the church.

### **Personal Commitment**

Long terms of service may provide more stable leadership and continuity of the financial program of the church. If this is the desire of the church, the church should set maximum term limits for continuous service in major church leadership positions. A suggestion would be to set the length of continuous service to a maximum of five years.

One alternative is for the church to elect the treasurer annually. This would allow the church to examine the work of the treasurer. If there is a problem with the quality of work the church should ask appropriate leaders to discuss the situation with the treasurer and set into motion a procedure to improve the quality of work. If the treasurer does not wish to comply with the suggestions, the church may choose to elect someone else to the position. The negative to the annual election is the possibility of inconsistency of work due to a frequent turnover in people filling the treasurer position. If the church has an annual election and agrees the quality of work of the current treasurer is of a high standard, the church may choose to use the election as a time to appreciate the treasurer.

Whatever is the desire of the church concerning length of service, the church constitution and bylaws should indicate the desire concerning service limits of elected officers.

### **Church Structure and the Treasurer**

The treasurer's relationship to church members depends on the organizational and committee structure of the church. For example, in some churches the treasurer would normally relate directly to church members. In other churches the treasurer may relate to a financial committee, which then communicates with the church members. (Some churches call this committee a budget committee, financial committee or stewardship committee.)

## Responsibilities of a Treasurer

**Principal Function:** The church treasurer is responsible for the proper receipt, accounting and disbursement of church funds within policies established by the church for adequate financial control. It is suggested that the treasurer's work focus primarily on financial records and payment procedures rather than the handling of cash. In some churches this duty is assigned to a staff member who works with all church financial matters.

Treasurers may have the following responsibilities:<sup>\*1</sup>

1. Keep accurate records in appropriate financial journals of all monies received and disbursed.
2. Reconcile monthly bank statements and correct ledgers as needed.
3. Sign checks in accordance with church policies and procedures and verify the supporting data for each check request.
4. Make monthly and annual reports to the church. If the church has a committee to oversee the financial matters of the church the treasurer should also make regular reports to the committee.
5. Prepare and maintain records of individual contributions.
6. Prepare and distribute contribution statements.
7. Keep church staff and appropriate committees informed of any trends or changes in fiscal matters.
8. Instill and preserve a high financial confidence throughout the congregation.
9. Submit accurate financial records for annual audit according to church policy.
10. Train an associate treasurer selected by the church.

Working relationships between the treasurer and the church family:<sup>\*1</sup>

1. Serve as ex officio member of the church committee assigned to oversee church financial policy and procedure. Confer with this committee in: recommending and establishing policies related to receiving, accounting and disbursing of church money; developing the annual church budget; providing a continuing program of stewardship education for the church; coordinating the annual stewardship campaign; and preparing and presenting a financial report in the church business meeting. Also confer with moderator about presentation of a financial report.
2. Receive a copy of the deposit slip or a summary of the receipts record from the counting committee or tellers after each deposit.
3. Work closely with the financial secretary in maintaining records of individual contributions.
4. Confer with church staff members and deacons to maintain communication concerning financial matters of the church.
5. Work with staff members, officers and organizations in administering financial details of church projects.
6. At the request of the church committee assigned to oversee church financial matters of the church, serve as advisor to various committees and groups in preparing and maintaining their budgets.
7. Advise the church council and various committee chairpersons about available funds and budget.<sup>1</sup>

**\*As determined by the church. Each church may be different.**

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<sup>1</sup> Powers, Bruce P. ed, Church Administration Handbook, Broadman & Holman Publishers, Nashville TN, 1997, pp 45-46

## Stewardship

It is important for the church treasurer to recognize that all money that comes into the church's financial system is God's money. In fact, part of the stewardship training is for the treasurer to help lead the church and church members to see that all money is God's money. Many people think that it is their money and they will give a portion of it to God. The correct Biblical concept of money is that God owns it all and allows us to manage it for Him. In managing it we are to return a portion of it to God's organized family – the church.

## Church Income

Money may come into the church financial system from several sources. The treasurer should be able to identify the source of the contribution and any use for which it is designated. Accuracy is important here. It is suggested that the treasurer is to keep record of the amount of money entering the financial system from the various avenues. This information should be important during the budget preparation process. The church may receive monies through:

- **Sunday School:** In many Baptist churches, a large part of undesignated income is brought to the church and given through the Sunday School. Offering envelopes should be utilized to allow accurate accounting of an individual's contribution.
- **Worship Services:** Members and guests also give through worship services. These may be regularly scheduled worship services, revival services or special worship events.
- **Groups:** Various groups within a church may give money for special projects or ministries of the church.
- **In the Mail:** Members who are physically unable to attend services of the church (or who do not attend for other reasons) may mail their contributions to the church. Sometimes nonmembers who may come to special events or who have a special affection for the church may send their gifts to the church through the mail.
- **Special Gifts:** Gifts from wills, trusts and other sources may enter the church's financial system. These special gifts may come on a regular basis or on a one-time basis. Their use may or may not be designated by the donor. See the Designated Funds section on page 11 of this manual.
- **In Kind Gifts:** Sometimes people will give the church a gift that is not monetary in nature. These gifts could be land, stocks, bonds, jewelry, automobiles, or a number of other items. For the most part the donor must set the monetary amount of the donation. That amount should be as of the day the church assumes ownership of the gift. For further information please contact the Virginia Baptist Foundation, P.O. Box 17035, Richmond, VA 23226, 804-672-8862 or 800-868-2464.
- **Purchase Income:** People may wish to purchase a Wednesday evening meal or a meal that is held in connection with a special event or pay for a special event or program like a retreat, ski trip or concert. (Note: Any money receipts collected other than regular offerings should be accounted specifically.)

# Sources of Income

## Individuals

The Bible teaches individual responsibility for handling God's money. This is called stewardship. The actual definition of stewardship is "the act of being a steward." The definition of a steward is "one that cares for someone else's things."

Most churches rely on individual contributions from their members and nonmembers to maintain their financial health. Members are expected to contribute to the financial health of the church. Nonmembers may contribute if they so desire. Individuals may make contributions through organizational meetings such as Sunday School, worship or revival services. Additionally, they may mail in their contributions or bring them to the church on a weekday.

## Groups

Groups of people, both inside and outside the church membership, may give money. Groups may consist of organizations such as the Woman's Missionary Union or the Baptist Men's group. These groups may collect money for a special reason and turn it in to the church's financial system. The group contributions will need to be examined to see if any individuals that gave to the group contribution can receive credit for a charitable contribution.

## Churches

Churches may give money to other churches to meet special short-term goals, emergencies or operational support until the receiving church becomes financially able to meet its obligations.

## Businesses

Businesses are allowed to give monetary or make capital donations to a church as a gift or in response to a request. Receipt of that gift needs to be made on official church stationery, signed by a duly authorized officer or by a church staff representative.

## Other

The sources of income to any particular church are innumerable. They may include examples like: Fund-raisers (within and outside the church i.e., t-shirt sales, tickets to banquets, etc.); Trips for church sponsored events (i.e., Youth trips, Sr. Adult trips, etc.) They would also include items such as Revival offerings (paid directly to visiting guests). Rental charges (of church property) and interest-bearing accounts are other sources of income.

As you can see, there could be many sources that generate monies that need to be accounted for. Every church will be unique in identifying these "other" sources of income.

## **Timeline of Receipts**

Gifts to churches may come in daily, weekly, monthly, quarterly, semiannually, annually or whenever a person or group decides to give.

On Sundays, after money has been received and counted by the counting committee, all the money should be deposited immediately in the bank night depository and the duplicate deposit slip and counting committee report should be given to the treasurer. There have been many sad tales told about people who carried money home to be deposited later only to have some of it slip out of a bag and lost. The safest way to maintain an individual's integrity is to immediately deposit the money. If needed, the treasurer can verify the deposit by calling the bank at a specified time.

When the deposited amounts are entered in the books, it is suggested that the treasurer file the bank deposit slips chronologically by the month and date. It is also suggested that the monthly bank statement be filed with the deposit slips.

Gifts received in the church office during the week or special gifts at year-end should be noted as to their source and designation and then deposited. The deposit slip should be given to the treasurer along with information regarding gift designation. All designated gifts, including income received from wills and trusts and interests should be reported to the church members and instructions received as to the disposition of the designated funds. (The stewardship committee may recommend a policy for handling large gifts for church approval.)

Money received may be held in a checking account, savings account or investment accounts until final distribution has been arranged.

It is recommended that someone other than the treasurer count and deposit money received. This will raise the level of accountability and lower the opportunity for funds to be mishandled. Please see the information on pages 20-21 concerning the Counting Committee.



## **Record Keeping**

The church treasurer is to be responsible for the keeping of an accurate financial record of all funds identified with the church. This is true even if the church has a financial secretary to do the day-to-day bookkeeping. A financial record system may be selected by the church's finance committee or the church treasurer and submitted to the church for approval. Any subsequent changes may be handled the same way. There are many sources of financial record keeping systems that market computer software for churches and manual financial record keeping systems. The record keeping system that is used should be one that meets all the requirements of the church and one with which the church treasurer is comfortable.

The church treasurer is responsible for recording or overseeing the recording of all receipts. The collections of monies that come in through meetings such as Sunday School, worship services, revival services, etc. should be done by a counting committee. There should be good communication between the counting committee and the church treasurer.

It is not recommended that the church treasurer be the person or one of the persons to gather and count the money. The church treasurer is responsible for recording or overseeing the recording of all expenditures. The expenditures are to be recorded in the record keeping system in the appropriate categories of the established guidelines of the church.

The church treasurer is responsible for recording or overseeing the recording of all members' gifts into personal contribution records. Persons filing an itemized income tax form may not use cancelled checks as verification of donations. The amount of the donation is to come from the statement issued by the church. In order for the money to be counted as a charitable contribution it must be given in lieu of religious services performed by the church and/or its representatives. Contributions made through the church for special events that are church sponsored religious activities are acceptable. Some examples of this type of contributions are the Lottie Moon Christmas Offering, Annie Armstrong Easter Offering, Cooperative Baptist Fellowship Global Missions Offering, Alma Hunt Offering for Virginia Missions, and a local church building fund.

Individuals may not be given credit for certain items for which they have given money to the church. An example of something that is commonly misused for donations is a church supper or a fund raising dinner. A person may write a check for a church meal but the amount of money that would go to pay for the meal may not count as a charitable contribution to the church. Any amount above the cost of the meal may be considered for a charitable contribution to the church. Other items that will not qualify for donations are registration fees for camps, concerts, etc.

## Charitable Contribution Substantiation Rules

**Substantiation of contributions of \$250 or more:** Donors will not be allowed a tax deduction for any individual cash (or property) contribution of \$250 or more unless they receive a written acknowledgment from the church that satisfies the following requirements:

- The receipt must be in writing.
- The receipt must identify the donor by name (a Social Security number is not required).
- For contributions of property (not including cash) valued by the donor at \$250 or more, the receipt must describe the property. No value should be stated.
- The receipt must state whether or not the church provided any goods or services to the donor in exchange for the contribution and if so, the receipt must include a good faith estimate of the value of those goods or services.
- If the church provides no goods or services to a donor in exchange for a contribution or if the only goods or services the church provides are “intangible religious benefits,” then the receipt must contain a statement to that effect.
- The written acknowledgement must be received by the donor on or before February 1.

It is important for the treasurer to understand that not all monies given through the church are tax deductible contributions. For a designated contribution to be considered tax deductible, it must be for an approved program of the church. An example would be an individual wishing to provide financial support for a student's school tuition. If however the church would vote to create this specific fund, it could qualify as a deductible donation.

## **Distribution of Church Receipts**

### **General Funds**

The church treasurer receives authority for disbursement of church funds from the church when a budget is adopted. The authorized funds should be disbursed promptly when statements/bills are received and due. However, the treasurer may not have the authority to pay non-budgeted items without specific instruction from the church and/or financial committee (Finance Committee, Stewardship Committee or whatever it is called in your church).

In the event that monthly receipts are insufficient to meet budget requirements, an emergency decision for distribution of funds should be made following the wishes of the church. A person or a committee approved by the church and following established priorities should make a report on the decision to the church. In most cases, this will be the treasurer or committee chairman. Unless the church has given permission to the treasurer or committee to make final decisions, it is the church that would have the final authority for the distribution of funds, not the treasurer or committee.

### **Cooperative Program & Associational Funds**

All monies identified by the church as Cooperative Program and associational funds should be sent promptly to the proper organization. Cooperative Program funds are sent to the state convention; associational funds are sent to the associational office or associational treasurer.

### **Designated Funds**

Designated funds are monies received by the church that have special attachments to them. It is strongly suggested that all designated gifts should be disbursed for the specific purposes for which they were given. For public relations reasons it is also suggested that if designated funds are to be spent for items other than what they were designated for that the person or persons that gave the money be contacted and given the opportunity to give their permission for the funds to be spent for a different item, or the persons giving the money to request their money be returned. The donor will need to file an amended tax return if the money is returned and the donors have already claimed a tax deduction on the contribution.

### **Cash Disbursements**

Cash disbursements should be the exception and not the rule. All cash disbursements should be made in accordance with current written financial policies and guidelines of the church. No cash disbursements should be made unless a written request has been received for the disbursement. A paper trail is vital to provide for adequate auditing. Accountability is important.

### **Check Disbursements**

It is suggested that all disbursements be made by check and require two signatures with one of the signatures being that of the church treasurer. The co-signer could be the church secretary, the financial secretary or a member of the church financial committee. When the treasurer's signature is the only signature required on checks, a heavy responsibility is placed upon this person. Many churches have a financial secretary who does all record keeping, writing checks, etc. and the treasurer supervises and signs checks as authorization for disbursement of funds.

# Contributions to the Baptist General Association of Virginia

## Church Contributions

Church contributions should be accompanied by a BGAV Remittance Form. If needed, additional copies are available from the Support Services Team or on our website: [www.vbmb.org](http://www.vbmb.org). Please be sure to print clearly and include your complete return address. For your convenience, only one check is necessary for all Cooperative Program, special offerings and designated gifts submitted on one remittance form.

## Cooperative Program Giving Plans

The BGAV offers three Cooperative Program giving plans: World Missions 1, World Missions 2, and World Missions 3. Churches may also create their own Customized Plan. For more information on your church's current giving plan, contact the Support Services Team.

If your church has voted to change Cooperative Program giving plans, the BGAV Treasurer must be notified in writing on church letterhead. Include the date of church action and details on the new giving plan.

## General Guidelines

All checks channeled through the offices of the Virginia Baptist Mission Board should be made payable as follows:

- Conferences, mission trips, fees, etc. – checks should be made payable to **VBMB**. Always remember to include the reason for payment on the memo line or stub of your check.
- Cooperative Program, special offerings, designated gifts – checks should be made payable to **Treasurer, BGAV** and accompanied by a BGAV Remittance Form.

# **Accountability**

## **Keep Accurate Records**

Accurate and detailed records are essential to make sure all policies and procedures are followed. If records are incomplete or missing, questions may arise. It is the responsibility of the treasurer to make sure all records are being completed and filed, even if someone else is doing the bookwork.

## **Follow Established Church Guidelines**

When a person assumes the position of church treasurer one of the first things to be done is to study the financial policies and guidelines of the church. If the policies and guidelines are nonexistent or incomplete it is the responsibility of the treasurer to request the church to remedy the situation as soon as possible.

## **Bonding Insurance**

Every member of the church counting committee should be bonded for their own protection and for the protection of the church. In fact, bonding insurance should also be purchased to cover anyone in the church that handles money.

## **Credit Cards**

Churches may issue a business credit card to staff members. If a credit card is provided, there are guidelines that should be followed. To make sure there is not any confusion, the church should have written policies in place. The staff member with use of a church credit card must be willing to provide detailed information on each purchase. Following are three critical guidelines:

- Personal charges should be strictly prohibited on a business credit card
- Original receipts should accompany the bill when it is paid
- According to IRS regulations, allowable meal receipts must state the name of each person attending and describe the nature of the meeting

## **Accountability Involves Everyone**

Basically, in a Baptist church, anyone may question or ask to see information. There are a few people or organizations that may inquire into the financial procedures of the church. Those inquiring could be the pastor, staff member, financial committee and internal or external auditor or audit committee. It also could be the local, state or federal government. It is suggested that a professional financial person, CPA or lawyer be consulted before turning over financial information if an individual, organization, group, or government official requests to see financial information that is not publicly available.

## **Reports**

### **Reporting to the Church**

Reporting to the congregation is as important as proper distribution and recording. An informed church is more responsible and active than an uninformed church. Therefore, reporting should be as informative and open as possible. It should be as simple but as detailed as needed. Some churches will require that every penny brought into and sent from the church be presented to the church membership during regular business meetings for discussion. Some churches will request the financial committee to maintain a close vigil over the finances and make a general or summary report to the congregation at regular business meetings. It is the responsibility of the church treasurer to make sure the reports are completed, accurate and presented at the proper time to the proper group. Even churches with a financial secretary should have the treasurer be the final surveyor of the reports before they are given to the proper group.

The financial policies and procedures of the church should outline when the financial reports are to be given. The church treasurer should be aware that the church could call for a report at any time by following the guidelines and procedures.

### **Community**

During the life of a church the church financial information may become public information. When this need arises it should be granted by agreement by the congregation. Most of the time this type of need will arise when the church is in a position of needing to secure finances from an external source (such as a loan for a building program.) Again, it is the responsibility of the church treasurer to make sure the information needed is gathered and presented in a proper fashion. The church treasurer should also review the requested information to make sure no confidential information is disclosed.

### **Denomination**

Because a Southern Baptist church is an autonomous body it is under no obligation to disclose any financial information. The church may voluntarily give financial information to the association, state convention and/or Southern Baptist Convention. An illustration of this voluntary disclosure is the Annual Church Profile that is compiled by the church and sent to the associational office. It is also sent to the state office and the SBC. There are several questions on the ACP relating to the finances of the church. Usually the church treasurer is instructed by the church to provide the person completing the ACP that financial information. If the church enters a financial arrangement with a denominational entity or agency it will be required to provide that entity or agency some financial information.

## Government

While the financial secretary may compile the information and fill out the governmental regulation forms, the church 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. These guidelines change from year to year in some details, so it will be the responsibility of the church treasurer to make sure all forms and information are filed completely and correctly. There is a "Records Retention Checklist" on page 32 to assist the church treasurer in knowing how long to keep records and what records to keep.

## Contribution Reports

As stated on page 9 of this manual, IRS regulations require contribution reports to be prepared and presented to all members and nonmembers who have contributed to the church's budget or designated accounts. These reports are to be kept as a record in the financial office. Any gift to the church must have documentation (i.e., cancelled check, recorded offering envelope or letter from the church acknowledging receipt of goods and money). Individual privacy of these gifts and the records is extremely important. Please refer to page 10 for the Charitable Contribution Substantiation Rules.

## **The Church Audit Committee**

Audits can be performed by anyone, but certain types of audits require certain characteristics and qualifications. Audits of financial reports require that the individuals performing the audit have a reasonable familiarity with the terms, concepts, and practices of the financial world. It is presumptuous of anyone to publicly express an opinion on the accuracy of something that they themselves do not understand. Accordingly, appointments to the Audit Committee should be made with this in mind.

Merely having an Audit Committee will not accomplish the objectives desired by the church's governing body. Some Audit Committees are very ineffective, because they function as little more than a rubber stamp of approval for whatever is presented to them. To be truly effective, an Audit Committee must be given the resources of talent, time, and access. Only then will the Committee's report in the church's annual report to its membership have any true meaning.

### Role of the Audit Committee

The Audit Committee represents the interests of the membership of the church, as well as those of the clergy, the church governing body, and even those of the regional or national church body. The Audit Committee is entrusted to perform a task that none of these individuals or groups can perform, primarily because they do not have access to the financial information and transactions of the church on a daily basis. The members and other interested parties are not in a position to judge the accuracy and fairness of any summarized financial reports which the church produces.

The Audit Committee has the task of attempting to verify the truth and accuracy of the information contained in the church's financial reports, and by expressing an opinion on such information, make them more believable and acceptable to all interested parties. Such credibility can be achieved only if the Committee itself is believable. It is often said that the cornerstone of any audit is *independence*, meaning that the auditors must be unbiased and impartial regarding the material which is the subject of their audit. Only then can they offer a fair opinion on what they have examined.

### Accounting Practices & Procedures

The practices and procedures referred to here are what a business calls an internal control system. While the church will likely not have anywhere near as extensive a system as most businesses, it should recognize the importance of the objectives of such a system: 1) to safeguard the resources of the entity; 2) to promote accuracy in the financial data produced; and 3) to promote operational efficiency. The first two of these are just as important to churches as they are to businesses and therefore a church should be aware of the basic principles of internal control. The Audit Committee can assist in this area by reviewing the practices and procedures and making constructive suggestions. This will likely have the dual benefit of better protecting the church's resources and also making the Committee's job easier in future years.



What follows below is a suggested accounting practices and procedures questionnaire for use by the Audit Committee in evaluating the practices and procedures of its own church. It is based in large measure on a discussion of the subject by Richard Vargo in his book *Effective Church Accounting*, and Committee members are encouraged to obtain and read this volume for much more extensive discussion of church accounting issues and practices.

### Accounting Procedures Questionnaire

1. Does the church have an up-to-date accounting procedures manual?
2. Do the financial secretary's or treasurer's activities involve only keeping the records of cash collections and preparing support for disbursements?
3. Are facilities locked when not in use?
4. Are the accounting records safeguarded at all times?
5. Is an internal Audit Committee operational?
6. Are the accounting records and underlying internal controls audited annually?
7. Are all employees who have access to cash bonded?
8. Are members encouraged to use offering envelopes?
9. Are members encouraged to use checks in making their offerings?
10. Is the handling of collections always controlled by at least two people?
11. Are collections counted in a secure area?
12. Do the money counters verify that the contents of the offering envelopes are identical to the amounts written on the envelopes by members?
13. Are all checks received restrictively endorsed as soon as possible?
14. Is cash deposited as soon as possible after receipt?
15. Is ALL cash received deposited in the bank?
16. Is cash safeguarded in a safe, lockbox, or protective container when at the church?

17. Are collection reports given to the financial secretary or treasurer for entry into the accounting records, and a copy sent to the audit committee for subsequent purposes?
18. Are incoming mail and in-office contributions handled by people who are not responsible for the accounting records?
19. Has the bank been instructed never to cash checks made payable to the church?
20. Are contributions records maintained for members?
21. Are members instructed to report any discrepancies in their notices of contributions to the Audit Committee?
22. Are the contributions records reconciled to the total contributions in the accounting records?
23. Are requisition slips prepared for cash disbursements that do not have standing authorizations?
24. Are pre-numbered purchase orders used for all purchases that do not have standing authorization?
25. Are invoices for goods and services approved by a person in authority before payment is made?
26. Are invoices checked for accuracy before being paid?
27. Are the approvals and checks for accuracy documented?
28. Are all disbursements, except for minor items, made by serially numbered checks?
29. Is a check protector used?
30. Are at least two signatures required for all checks?
31. Do all check signers inspect all supporting documentation before signing?
32. Are invoices and supporting documents marked PAID when checks are issued?
33. Are all voided checks so marked and retained?
34. Is preparing a check made payable to CASH prohibited?

35. Are blank unused checks safeguarded at all times?
36. Is a petty cash fund used for minor disbursements of cash?
37. Are vouchers prepared for all disbursements from the petty cash fund?
38. Are transfers between bank accounts always properly authorized?
39. Are reconciliations of all bank accounts prepared monthly by an individual who is not involved in handling cash or writing checks?
40. Is the petty cash fund reconciled on a surprise basis at least once per year?
41. Are the account balances in the books reconciled with the amounts presented in the financial reports?
42. Are valuables (securities, important documents) afforded protection in a bank safe deposit box?
43. Are two signatures required for access to the safe deposit box?
44. Is an updated inventory of securities, valuables, equipment, and other non-cash assets maintained?
45. Are regular reviews made to determine if insurance coverage is adequate?

### **The Audit Report**

All of the work of the Audit Committee will yield very limited benefits unless the results are communicated to the church leadership and membership. This final step is accomplished in the form of an audit report signed by the members of the Audit Committee and attached to the annual financial reports of the church. While the exact language of the report may vary from church to church, it should consider the following: 1) the subject of the audit report, namely the annual financial reports; 2) what the Committee did, namely audit the records and reports; 3) the limitations of the Committee's work, namely that it is not a guarantee of accuracy; and 4) an opinion on the fairness of the records and reports. The Committee may also wish to include in its report a word of commendation for the tireless work of the church treasurer and financial secretary. This would certainly be in the Christian spirit of lifting up the efforts of these individuals before the congregation they serve.

## Counting Committee

Upon recommendation of the church nominating committee, the church counting committee should be elected annually. The number serving on this committee may vary according to the size of the church membership. However, it should be large enough so that at least three members will always be present to assist in counting the gifts received during the Sunday services. For proper internal control, the financial secretary and the treasurer should not serve on the counting committee.

### Responsibilities of the Church Counting Committee

The church counting committee should be responsible for counting all monies received during all church services. After count has been made, the committee prepares detailed deposits slips, makes bank deposits, and forwards copies of the deposit slips and the summary of receipts record to the treasurer. The committee also marks and arranges members' offering envelopes in numerical or alphabetical order, as previously decided, for the financial secretary or other person responsible for recording members' gifts.

#### Envelope Sorting

1. Separate loose offering from the envelopes.
2. Count the loose offering and record the amount.
3. Separate budget offering envelopes from any special offerings envelopes.
4. Open each envelope, remove the money, and verify the amount enclosed with the amount on the face of the envelope. If there is a discrepancy or if the figures are not legible, record the amount in red on the upper right corner of the envelope.
5. Add the amounts on the budget offering envelopes, using the corrected amount where applicable, and record the total.
6. Add the amounts on the special offering envelopes and record the total.
7. Checks not enclosed in envelopes should have an envelope prepared for the person who signed the check. This will ensure the amount being credited to the individual's record.
8. Separate the cash from the checks and fill out a deposit slip.

(Note: The counting committee should not "cash" checks to accommodate members that are made out to the church. If checks are cashed, they should be made out to "cash". Some people dishonestly use canceled checks made to a church as a receipt for charitable contributions for income tax purposes.)

#### Envelope Arrangement

1. Arrange offering envelopes in numerical order. This will automatically arrange church families together.
2. If numbered envelope packages are not used, arrange envelopes alphabetically by families.
3. Arrange all special offering envelopes and miscellaneous offering receipts alphabetically.

### Depositing

1. After counting the money, make deposit slips in duplicate. This is a safety procedure.
2. The money with the original deposit slip should be taken to the bank and placed in the off-hours depository. At least two members of the counting committee should make the deposit.
3. The duplicate deposit slip should be given to the church treasurer.
4. The same depositing procedure should be followed for the evening service. Never take the receipts home. Never place the receipts in a safe at the church.

### Bonding

Every member of the church counting committee should be bonded for their own protection and for the protection of the church.

## **Trustees vs. Incorporation**

### **Trustees**

Until very recently, churches were not allowed to incorporate in Virginia. Churches are now allowed to incorporate if they so desire, but they can also follow the original procedure outlined below. For smaller churches, a system of trustees, which is simpler to accomplish, will likely be preferred.

A church utilizing the practices and policy outlined in its constitution and bylaws elects its trustees (usually no fewer than three). The church then registers its trustees with the clerk of the circuit court for the jurisdiction where the church is located. A copy of the church's constitution and bylaws, the minutes from the meeting in which the trustees were elected and a list of the trustees, including their addresses, etc. must be presented to the court clerk. The trustees are "appointed" and this action is duly entered into the clerk's records. If and when the trustees are changed, the church should provide an updated list of trustees to the clerk of the circuit court.

Many newer churches in Virginia meet for many years without owning property and without making any legal obligations or contracts. Because of this, the above action is not immediately necessary, but can be pursued by the church early on since there is no harm in doing so. One restriction on churches using the original trustee system is that they cannot own more than 15 acres in a city or town or more than 250 acres in an unincorporated area.

### **Incorporation**

Beginning in April 2002 churches can incorporate in Virginia because of a United States District Court case brought by a church challenging the original law and restrictions on church-owned property. With this court decision, churches can now incorporate in Virginia by making application to the State Corporation Commission.

There is an initial cost of a \$50 charter fee and a \$25 filing fee, plus an annual registration fee of \$25. Corporations, both for-profit and non-profit, must also file an annual report. Churches wishing to incorporate would contact the State Corporation Commission to obtain copies of the necessary paperwork (Form SCC819). Churches that seek to incorporate will have to develop their administrative structure to conform to state regulations.

Incorporation does provide some additional legal protection since the state would always treat the church as a whole, rather than individuals, hence providing an extra layer of protection for the trustees. However, as long as court appointed trustees elected by the church under the original law act with the expressed permission of the church, they would be equally protected.

For more information or to download Form SCC819, go to the State Corporation Commission's website at [www.state.va.us/scc](http://www.state.va.us/scc) or contact the Commission office in Richmond at 804-371-9967 or 800-552-7945 (toll free in Virginia only). Or, contact the Support Services Team of the Virginia Baptist Mission Board at 804-915-5000 or 800-255-2428.

# Church Tax Issues

## Federal Reporting Requirements for Southern Baptist Churches

*The following information is a summary of material obtained from the Annuity Board of the Southern Baptist Convention. For a complete copy contact the Support Services Team of the Virginia Baptist Mission Board or visit the Virginia Baptist Mission Board website at [www.vbmb.org](http://www.vbmb.org).*

The most important federal reporting obligation for most churches is the withholding and reporting of employee income taxes and Social Security taxes. These payroll-reporting requirements apply, in whole or in part, to almost every church. Yet many churches do not comply with them because of unfamiliarity. This can lead to substantial penalties.

**Warning:** Federal law specifies that any corporate officer, director or employee who is responsible for withholding taxes and paying them to the government may be liable for a penalty in the amount of 100% of such taxes if they are either not withheld or not paid to the government. This penalty is of special relevance to church leaders, given the high rate of noncompliance by churches with the payroll reporting procedures.

Many churches do not fully comply with IRS rules and regulations. Here are factors that cause many churches not to fully comply:

- Many church treasurers are unpaid volunteers lacking any specialized knowledge of the unique rules that apply to churches.
- Many church treasurers are annually elected and as a result, the turnover rate can be high. This does not permit treasurers to fully understand the application of the payroll tax reporting rules to churches.
- Some church treasurers assume that churches are exempt from any reporting requirements. This is a false assumption. The courts have rejected the argument that the application of the payroll tax reporting rules to churches violates the constitutional guaranty of religious freedom.
- There are a number of unique rules that apply to churches. Churches cannot be treated like a small business in the community. These special rules include the following.

- 1. Ministers are always self-employed for Social Security purposes with respect to their church compensation.**

This means that they pay the “self-employment tax” (SECA) rather than the employee’s share of Social Security and Medicare taxes (FICA)- even if they report their federal income taxes as a church employee.

- 2. A minister’s wages are not exempt from income tax withholding.**

Ministers use the estimated tax procedure to pay their federal taxes, unless they have entered into a voluntary withholding agreement with their employing church. Most ministers should report their income as employees. The church is to issue a W2 to the minister.

# Maximizing Tax Benefits for Ministers

## Housing Allowance

The most important tax benefit available to ministers who own or rent their homes is the minister's housing allowance exclusion. There are specific procedures that must be followed for housing allowance. These procedures are:

1. The minister must request to the church in writing prior to January 1 the amount of the salary that will be identified as housing allowance. The request must contain the year in which this request is to be applied.
2. The church must provide the minister a written response to the request.
3. The minister must establish the amount of salary to be identified as housing allowance. This amount is based on the fair market rental value of the property, maintenance, utilities and furnishings. The church may not establish the housing allowance amount.
4. The minister will not pay federal tax on the housing allowance. The minister must pay SECA on the housing allowance. The church may choose to report the housing allowance amount on the W-2 for the minister as a separate amount in the appropriate box.

## Accountable Reimbursements

The best way for Southern Baptist churches to handle their ministry-related work expenses is to have the employing church adopt an accountable expense reimbursement process. With this process, **(1)** a church agrees to reimburse ministers (and other church workers, if desired) for those church ministry-related expenses that are properly substantiated as to date, amount, place and business purpose and **(2)** ministers are required to return any excess reimbursements (in excess of substantiated expenses) to the church. Requests to be reimbursed must be submitted within 60 days of the expenditure. Reimbursable expenses can not be funded through a salary reduction process.

## Complying with Federal Payroll Tax Reporting Obligations

**Step 1.** Obtain an Employer Identification Number (EIN) from the federal government if this has not been done. To request forms, contact the Internal Revenue Service at 800-TAX-FORM (800-829-3676) or [www.irs.gov](http://www.irs.gov).

**Step 2.** Determine whether each church worker is an employee or self-employed.

- **Key Point.** Churches must withhold 30 percent of the compensation paid to a self-employed person who fails to provide his or her Social Security number to the church. This referred to as "backup withholding," and is designed to promote the reporting of taxable income.
- **Key Point.** Some employee benefits are nontaxable only when received by employees. A common example is employer-paid medical insurance.



- **Key Point.** The Church Annuity Plan offered through the Annuity Board covers only employees from the church (i.e., those workers who receive a Form W-2 from the church). The Annuity Board also offers the Ministers' Annuity Plan (MAP), a retirement plan for self-employed ministers. Call the toll free number (800-262-0511) for more information.

**Step 3.** Obtain the Social Security number for each worker.

**Step 4.** Have each employee complete a Form W-4.

**Step 5.** Compute each employee's taxable wages.

The amount of taxes that a church should withhold from an employee's wages depends on the amount of the employee's wages and the information contained on his or her Form W-4.

A church must determine the wages of each employee that are subject to withholding. Wages subject to federal withholding include pay given to an employee for services performed. The pay may be in cash or in other forms. Measure pay that is not in money (such as property) by its fair market value. Wages often include a number of items in addition to salary. Here are some common examples:

- Bonuses
- Christmas and special occasion offerings (includes love offerings)
- Retirement gifts
- The portion of the employee's Social Security tax paid by a church
- The personal use of a church-provided car
- Purchases of church property for less than fair market value
- Ministry-related expense reimbursements not under an accountable expense reimbursement arrangement
- Imputed interest on below-market interest church loans
- Most reimbursements of a spouse's travel expenses
- Forgiven or cancelled debts

**Step 6.** Determine the amount of income tax to withhold from each employee's wages.

**Step 7.** Withhold Social Security (FICA) taxes from non-minister employees' wages.

**Step 8.** The church must deposit the taxes it withholds.

Churches accumulate three kinds of federal payroll taxes:

1. income taxes withheld from employees' wages
2. the employees' share of Social Security and Medicare taxes (withheld from employees' wages)
3. the employer's share of Social Security and Medicare taxes.

**Step 9.** All employers subject to income tax withholding, Social Security taxes or both, must file Form 941 quarterly.

Form 941 reports the number of employees and amount of Social Security and Medicare taxes and withheld income taxes that are payable. Form 941 is due on the last day of the month following the end of each calendar quarter:

<u>Quarter Due</u>	<u>Date of Quarter Ending</u>	<u>Form 941 Due</u>
1 <sup>st</sup> (January-March)	March 31	April 30
2 <sup>nd</sup> (April-June)	June 30	July 31
3 <sup>rd</sup> (July-September)	September 30	October 31
4 <sup>th</sup> (October-December)	December 31	January 31

**Step 10.** Prepare a Form W-2 for every employee, including ordained ministers on the church's staff.

**Step 11.** Prepare a Form 1099-MISC for every self-employed person receiving non-employee compensation of \$600 or more.

To illustrate, if an evangelist or guest speaker visited a church in and received compensation from the church in an amount of \$600 or more (net of any travel expense reimbursement properly accounted for by the recipient) then the church must issue the person a Form 1099-MISC before February 1 of the following year.

## Reporting Group Term Life Insurance

Include in the income of church employees the imputed cost of group-term life insurance paid for by the church for coverage in excess of \$50,000. Also, if the church provides group term life insurance on the life of a **spouse or dependent** that exceeds \$2,000, you must include the imputed cost of the policy.

### Cost per \$1,000 of protection for 1-month Period

<b>Age Brackets</b>	<b>Cost</b>
Under 25	5 cents
25 to 29	6 cents
30 to 34	8 cents
35 to 39	9 cents
40 to 44	10 cents
45 to 49	15 cents
50 to 54	23 cents
55 to 59	43 cents
60 to 64	66 cents
65 to 69	\$1.27
70 and above	\$2.06

## Help with W-2, W-3, 1099 and 1096 forms

The IRS operates a centralized call site to answer questions about reporting information on these forms. If you have any questions about completing these forms, call the IRS at 304-263-8700, Monday through Friday, 8:30 a.m. to 4:30 p.m. Eastern Standard Time.

Other important federal filing requirements for churches:  
Form I-9

Every employer in the United States is required to confirm the identity of all new employees and verify that they are either American citizens or aliens legally authorized to work in this country.

- Employers should have completed a Form I-9 for all employees hired after November 6, 1986.
- The Form I-9 should be completed when the employee begins work.
- Retain every Form I-9 for at least three years.
- Present a Form I-9 for inspection to an Immigration and Naturalization Service (“INS”) or Department of Labor officer upon request.

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*Minister's Tax Guide* - Federal reporting requirements for Southern Baptist churches can be found in the Minister's Tax Guide provided by the Annuity Board. A copy may be requested from the Support Services Team at the Virginia Baptist Mission Board at 804-915-5000 or 800-255-2428. It is also available on the Annuity Board web site: [www.absc.org](http://www.absc.org). This publication is intended to provide a timely, accurate and authoritative discussion of tax return preparation, tax reporting compliance and the impact of recent changes in the tax laws. It is not intended as a substitute for legal, accounting or other professional advice. If legal, tax, or other expert assistance is required the services of a competent professional should be sought.

## **Non-Profit Status**

Under Section 501(c)(3) of the Internal Revenue Service Code, all churches affiliated with the Baptist General Association of Virginia are tax exempt. Documentation from the Treasurer of the BGAV is required and can be requested from the Support Services Team. A copy of your church's 501(c)(3) letter should be kept on file in the church office.

## **Sales Tax and Exempt Purchases**

The Virginia Tax Administrative Code provides general guidelines for Retail Sales and Use Tax for churches. Non-profit churches are entitled to exemption from sales tax on certain purchases. In order to qualify, a church must have received determination that it is exempt from taxation under Section 501(c)(3) of the IRS Code. A copy of the Baptist General Association of Virginia's blanket letter is available from the Support Services Team.

Per Virginia Tax Code 23VAC10-210-310, following are some common items that may be purchased exempt from tax. This list is exemplary and not all inclusive.\*

Acolyte robes

Altar cushions and cloths

Baptism, marriage, and membership certificates

Baptismal font

Bibles and Bible stands

Bulletins or programs (including paper and ink used to print these)

Candles and candelabra used at the location of the worship service

Choir robes

Communion supplies and tables

Flags used at the location of the worship service

Flowers and plants, live or artificial, and accessories thereto used at the location of the worship service

Funeral pall

Hymnals and hymnal racks

Light bulbs used at the location of the worship service

Microphones and public address system used in the worship service except when incorporated into realty

Musical instruments used in the worship service (e.g., organ, piano, hand bells)

Name tags for ushers and guests, and attendance records

Offering envelopes

Pews, cushions, chairs or other seating systems

Portable heaters and fans and window air conditioners used at the location of the worship service

Prayer books

Pulpit, lectern, pulpit lamp

Rosaries, crosses, crucifixes

Carpeting used at the location of the worship services (except glued-down carpeting)

Sheet music

Systems to assist persons who are hearing-impaired

Vestments for ecclesiastical celebrants

Wafers, bread, wine, grape juice used in communion service

Some other examples of property which is **exempt** when used in carrying out the work of the church and its related ministries are administrative supplies (letterhead, envelopes) and equipment, cleaning supplies and equipment, fuel oil, food consumed on the premises and gifts for distribution at activities held in the public church buildings.

*\* Current information available from the Virginia General Assembly website: [leg1.state.va.us](http://leg1.state.va.us)*

## Taxable Purchases

The following property is **taxable** because it is not used in rooms in the public church buildings, used in carrying out the work of the church and its related ministries, or because it is affixed to or has become a part of the real estate. This list is exemplary and not all inclusive.\*

Any property used in the parsonage or on church trips, retreats, picnics or similar outings outside a church building

Any property used in maintenance of church grounds, including without limitation lawn mowers, grass seed and fertilizer

Tool sheds and picnic shelters

Baptisteries, stained glass windows, lighting fixtures and other property which when installed becomes a part of real estate

Bulletins, programs or newsletters which are printed outside the public church building (except those used in the religious worship service)

Construction and building materials

Gifts for distribution outside the public church buildings (for example, food baskets)

Heating and air conditioning equipment which is a part of real estate

Kitchen equipment which is a part of real estate

Property used in any manner for recording or reproducing religious worship services

Repair parts, accessories, oil and similar items for use in motor vehicles

*\* Current information available from the Virginia General Assembly website: [leg1.state.va.us](http://leg1.state.va.us)*

## Copyright Law

Many church leaders are unclear or have an incorrect understanding of copyright law and the responsibilities to operate within the expectation of the law. Following are important facts to remember when dealing with copyright issues, specifically printed music.

1. It is incorrect, immoral and illegal to copy music. If someone is losing income because of copying activity, it is generally wrong.
2. Having a CCLI (Christian Copyright Licensing International) license gives the church permission to project, reproduce or copy words and even a page from a hymnal or song book to use within a congregational or group worship experience only. There are also other permissions associated with the CCLI license. Some churches, because of their approach to worship, do not need to purchase a CCLI license. Many do, even if they do not use a projector in their worship.
3. Having a CCLI license DOES NOT give a church, a singing group, or an individual permission to make single or multiple copies of solo sheet music or to make single or multiple copies of any kind of music written especially for a choir or solo voice. A singing group, soloist, duet or choir cannot copy music for their personal use unless they plan to purchase it in the immediate future and cannot obtain it before it is needed or unless they have already purchased it and are copying for convenience only.
4. The CCLI license is for congregational/group singing use only, and not for individuals, ensembles or choirs. This particular area is where most of the confusion lies.

To read more about CCLI and how to obtain a CCLI license, go to [www.ccli.com](http://www.ccli.com) or call the CCLI office at 800-234-2446.

For more information about complying with copyright law or to obtain a brochure, please contact the Courageous Churches Team at 804-915-5000 or 800-255-2428.





## Resources

**Support Services Team**  
**Virginia Baptist Mission Board**  
**PO Box 8568, Richmond VA 23226**  
**Phone: 804-915-5000 or 800-255-2428**  
**Fax: 804-672-7048**  
**Web: [www.vbmb.org](http://www.vbmb.org)**

### **Annuity Board of the Southern Baptist Convention**

2401 Cedar Springs Road, Dallas TX 75221-2190  
Customer Relations Phone: 800-262-0511  
Web: [www.absbc.org](http://www.absbc.org)

- *Minister's Tax Guide* (Federal reporting requirements for Southern Baptist churches)
- *Ministerial Tax Issues* (Answers to common questions)
- *Planning Financial Support* (Of ministers and church employees)

### **Internal Revenue Service**

To request forms: 800-TAX-FORM (800-829-3676)  
Web: [www.irs.gov](http://www.irs.gov)

### **LifeWay Christian Resources**

127 Ninth Avenue, North, Nashville TN 37234  
800-458-2772  
Email: [customerservice@lifeway.com](mailto:customerservice@lifeway.com)  
Web: [www.lifeway.com](http://www.lifeway.com)

The following resources are available in print for further study and reference. These books and pamphlets are available from LifeWay Christian Resources.

- ABC's of Church Budgeting and Promotion
- Basic Budgeting for Churches
- Managing Your Church Finances...Made Easy
- The Church Audit Committee
- The Church Insurance Checklist
- The Church Planning For Special Gifts
- The Church Treasurer

### **NACBA – National Association of Church Business Administrators**

100 North Central Expressway, Suite 914, Richardson TX 75080-5326  
Phone: 800-898-8085 or 972-699-7555  
Web: [www.nacba.net](http://www.nacba.net)

The NACBA is an organization for those who administrate the church business and financial matters and is open for membership. The NACBA also publishes many articles, bulletins and other pertinent information about church finances and liability issues.

### **Social Security Administration**

Phone: 800-772-1213  
Web: [www.ssa.gov](http://www.ssa.gov)

## Records Retention Checklist

Business records, especially those which are voluminous and bulky, should be disposed of as soon as they outlive their usefulness. In fact, of the staggering volume of paper kept by business firms, it is estimated that the majority be destroyed after just three to four years. By systematically following this checklist of many common business documents, you should be able to reduce unnecessary records to a minimum. Developed from the requirements specified in over 900 federal and state regulations, the list summarizes the practices of a large number of companies.

	2 yrs	3 yrs	4 yrs	6 yrs	8 yrs	10 yrs	Indefinite
<b>Accounting</b>							
Bank Statements and Deposit Slips							
Payroll (Time Cards)							
Dividend Checks (Cancelled)							
Expense Reports							
Subsidiary Ledgers (Include A/P and A/R Ledgers)							
Trial Balances (Monthly)							
Contribution Records							
Checks (Payroll and General)							
Payroll (Individual Time Reports and Earning Records)							
Vouchers (For Payments to Vendors, Employees, et. al.)							
Audit Reports							
General Ledger and Journals							
<b>Corporate Records</b>							
Mortgage, Notes and Leases (Expired)							
By-Laws, Charter and Minute Books							
Cash Books							
Capital Stock & Bond Records (Incl. Stock Certificates & Transfer Lists)							
Checks (Taxes, Property, Fulfillment of Important Contracts)							
Contracts and Agreements							
Copyrights and Trademark Registrations							
Deeds and Easements							
Labor Contracts							
Patents							
Proxies							
Retirement and Pension Records							
Tax Returns and Working Papers							
<b>Correspondence</b>							
General Ledger and Journals							
License, Traffic and Purchases							
Production							
Legal and Tax							
<b>Insurance</b>							
Policies (All Types - Expired)							
Accident Reports							
Fire Inspection Reports							
Group Disability Records							
Safety Reports							
Claims (After Settlement)							
<b>Personnel</b>							
Contracts and Agreements							
Daily Time Reports							
Disability and Sick Benefits Records							
Personnel Files (Terminated)							
Withholding Tax Statement							
<b>Purchasing &amp; Sales</b>							
Purchase Orders							
Requisitions							
Sales Contracts							
Sales Invoices							
<b>Traffic (Receiving &amp; Shipping)</b>							
Export Declarations							
Freight Bills							
Manifests							
Shipping and Receiving Reports							
Waybills and Bills of Lading							

**Statute of Limitations:** Many business managers feel that they must keep all original records for at least a certain time (six years is the most quoted), after which no action can be brought against them. In fact, there is no single statute of limitations, there are dozens of them, and the time period for each statute varies depending on the particular law and state. Record keeping policies must be guided by the rule of reason and the probability and dollar amount of risk involved, not by statutes of limitations alone.