

CLIENT CONNECTION



General Conference Auditing Service, 12901 Old Columbia Pike, Silver Spring, MD 20904
telephone: 301-680-5040; fax: 301-680-5054

IRS Continues Program on Political Campaign Activity by Charities; Stresses Education and Enforcement

IR-2008-61, April 17, 2008

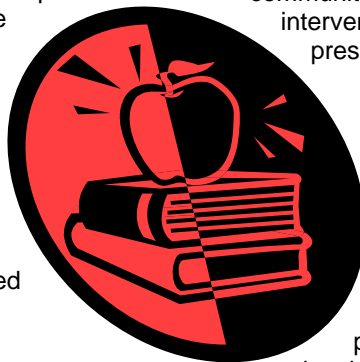
WASHINGTON — The Internal Revenue Service today announced its Political Activities Compliance Initiative (PACI) once again will be in effect for the 2008 election season. The PACI program seeks to educate section 501(c)(3) organizations such as charities and churches about the federal law concerning political campaign activity and to enforce the law in this area.

By law, organizations exempt from tax under Internal Revenue Code section 501(c)(3) may not “participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.”

“We take very seriously our obligation to ensure that tax-exempt organizations have the information they need to make the right decisions about political campaign activities,” said Steven T. Miller, Commissioner of IRS’ Tax Exempt and Government Entities Division. “The vast majority of organizations want to do the right thing, and as in past years, we will continue our efforts to make sure they have the information they need.”

The prohibition against political campaign activity has been in effect for more than half a century and bars certain tax-exempt organizations from intervening on behalf of or in opposition to political candidates. However, these organizations can engage in advocating for or against issues and, to a limited extent, ballot initiatives or other legislative activities.

The IRS is making extensive efforts to educate 501(c)(3) organizations, political parties and candidates. Letters are being sent to the national political party committees explaining the law’s prohibition regarding charities and churches. In March, a letter was published in the Federal Election Commission’s monthly newsletter, asking candidates to ensure that their contacts with charitable organizations do not inadvertently jeopardize the tax-exempt status of any charity. The IRS has issued a news release on the subject in every presidential election year since 1992.



INSIDE THIS ISSUE

IRS Continues Program on Political Campaign Activity by Charities; Stresses Education and Enforcement	1
Schools that Employ Students	2
Seventh-day Adventist Trademark Guidelines	2
Charitable Giving in Uncertain Economic Times	3
Audit Preparation Binders – June 30, 2008	3
Client Audit Surveys	3
Promoting Ethics	3
Bank Accounts	4
Hiring & Firing	4

The IRS also has posted on its Web site a “program letter” to its Exempt Organizations employees. The letter explains the PACI objectives for 2008 and emphasizes the IRS’ priority both to educate the public and tax-exempt community about the law pertaining to political campaign intervention and to maintain a meaningful enforcement presence in this area.

Exempt Organizations Director Lois G. Lerner noted that PACI’s enforcement procedures will remain in the hands of career IRS employees who are experts in the tax law in this area.

“As in the past, we will continue to use existing procedures, including a committee of career civil servants, to determine which cases to pursue,” Lerner said. “We will focus on cases involving allegations of egregious violations.”

Lerner said the IRS Exempt Organizations function plans a report on the 2008 election year which will be based on the experience of prior election cycles, and will continue working with the tax-exempt community to identify areas for additional guidance.

“By continuing to work closely with the tax-exempt community, we can provide guidance and education to help charities and churches comply with the law,” Lerner said. “We also must continue to monitor the actions of tax-exempt

organizations involving political campaigns, in order to carry out our obligation to administer the tax law consistent with congressional intent.”

In June 2007, the IRS released a Report on the Political Activity Compliance Initiative for the 2006 election cycle. This report, PACI 2006, follows the report on prohibited political campaign intervention in the 2004 election cycle, which was issued in February 2006.

<http://www.irs.gov/newsroom/article/0,,id=181570,00.html>

Schools that Employ Students

Academies, colleges and universities have various jobs that are performed by students. The Internal Revenue Service generally allows students who are enrolled and regularly attending classes to be exempt from the payroll withholding requirements for social security, Medicare and federal unemployment taxes. Students employed during the summer and not taking summer classes do not receive an exemption to the tax withholding requirements.

For additional information, please refer to the following website:

<http://www.irs.gov/pub/irs-pdf/p15.pdf>
(page 35 of Publication 15)

<http://www.irs.gov/charities/article/0,,id=120663,00.html>

Seventh-day Adventist Trademark Guidelines

Guidelines

Church trademarks, such as "Seventh-day Adventist," "Adventist," and "Ministry," may be used only in connection with denominational ministries and non-commercial activities of approved lay and professional groups. Use of these trademarks shall be controlled by the General Conference Corporation of Seventh-day Adventists through the Office of General Counsel. Church trademarks shall not be used in any manner that will jeopardize the Church's tax-exempt status.

Procedures

1) Existing Entities. Church entities that have denominational status and are included in the Seventh-day Adventist Yearbook at the time of adoption of this policy and procedure may use the trademarks in their names and ministries.

2) New Denominational Administrative Entities. New administrative entities, such as missions, conferences, union conferences, and divisions that are approved by the

General Conference Committee may use the trademarks in their names and ministries.

3) New Denominational Institutions. When new institutions apply for denominational status (see NAD C 47), the Retirement Plan Committee shall refer all applications of institutions using one of the trademarks to the Office of General Counsel for clearance before the application is approved by the Retirement Plan Committee.

4) Local Churches. Local churches and companies may use the trademarks in their ministries once their status has been approved by the local conference or mission.

5) Lay Groups. Lay and professional groups must apply for written permission to the Office of General Counsel. The articles and bylaws of such groups must indicate that they are independent of the Church and are not its agents as well as meet other criteria. After receipt of written notice of General Conference approval, such groups may use the trademarks solely for noncommercial purposes.

6) Revocation of Permission. For cause the General Conference Corporation Board of Directors may revoke permission of any denominational entity or lay group to use the trademarks. "For cause" includes, but is not limited to, conflict with the objectives or doctrines of the Church as determined by the General Conference and commercial use by nonchurch groups.

Internal Procedure of Seventh-day Adventist Trademark Committee

1) *Requests for Use of a Church Trademark*

a. Office of General Counsel considers request.

b. If Officers approve, the Office of General Counsel presents the request to the General Conference Corporation Board of Directors.

c. If the General Conference Corporation approves, then the Office of General Counsel sends a notice of approval and a license agreement to the applicant to execute.

2) *Evaluation of Unauthorized Use of a Church Trademark*

a. Office of General Counsel evaluates use.

b. Office of General Counsel reports to Officers.

c. Office of General Counsel sends conciliatory letter stating the problem and offering to discuss possible solutions.

d. If response is negative, Office of General Counsel sends polite cease-and-desist letter.

e. If Office of General Counsel receives negative response, the Office of General Counsel and Officers consider the situation for possible litigation or other action.

f. Recommendation for action is submitted to appropriate administrative committee and General Conference Board of Directors for approval.

3) Revocation of permission for use of a Church trademark will follow the same basic procedure as outlines in subsection b. of this internal procedure, with final action on revocation, however, voted by the General Conference Board of Directors.

Divisions other than North America are requested to take appropriate actions in harmony with these guidelines.

http://www.adventist.org/beliefs/guidelines/main_guide5.html?template=printer.html

Charitable Giving in Uncertain Economic Times

A recent study released by Giving USA Foundation indicated that donations by Americans to charities in 2007 remained consistent with the amount donated in 2006. Giving USA Foundation estimated that the total contribution in 2007 was \$306.39 billion.

Current economic conditions may place a substantial burden on the ability of church members to continue to support denominational organizations. Increases in gasoline and food prices will undoubtedly have an impact on church donations. This could result in lower donations of tithe and offerings, ministry programs, and local church budget. Furthermore, our educational system could be impacted by lower enrollment.

Church leaders will need to understand the current economic conditions in their areas to better assess the potential impact on their organization. Cost containment measures may be necessary to minimize the impact of declining revenues.

For more information, please read the following news articles:

http://afp.google.com/article/ALeqM5jxccpBITwO2_Cc8vwcl8Q00NJr2A

<http://www.foxnews.com/story/0,2933,371025,00.html>

Audit Preparation Binder — June 30, 2008 audits

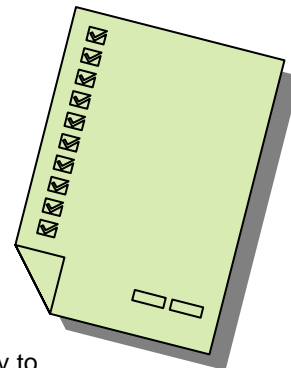


The fiscal year for most educational entities concluded on June 30, 2008. This means that many treasurers, business managers, and accountants are in the process of completing the fiscal year-end accounting.

The fiscal year-end process is an excellent time to prepare for the upcoming audit. Please refer to an article titled "Preparing for an Audit" in the 1st Quarter 2008 *Client Connection* for advice on making the arduous task of closing the books and preparing for the audit much easier.

Client Audit Surveys

Client feedback is an essential part of our mission to provide excellent auditing services to the Seventh-day Adventist Church. To gather this information, GCAS uses an "Audit Client Survey" form which provides an opportunity for our clients to grade us on our service. These forms are reviewed by GCAS management and used as a tool to continually monitor our ability to deliver excellent audit services.



If you received a survey and have not completed it, we encourage you to take a moment to complete it. If you haven't received a survey, please contact your auditor and request a survey.

Promoting Ethics

How ethical is your organization? This may seem like a ridiculous question to pose to administrators of Seventh-day Adventist organizations. However, our denominational organizations are not immune from the ailments of poor ethical decisions and practices.

It is fairly common to hear of corporate and nonprofit scandals in the news. There has also been a rise in various types of scandals affecting religious organizations. To some Adventists, such negative news could never happen in our denominational organizations as we are by nature driven to high ethical standards. Unfortunately, this is not reality and we are all prone to ethical lapses.

Establishing and maintaining a strong ethical foundation within your organization should be a constant endeavor. All employees from the top down should be informed of the ethical foundations that will guide their conduct through all phases of their work.

North American Division Working Policy S 47 (previously known as P 35) addresses one element of creating a strong ethical foundation by establishing a policy by which individuals are to be free from the influence of conflicting interests.

Organizations without a clear and consistent approach towards implementing their ethical foundation risk losing the trust of their constituents, donors and other denominational organizations.

Please click on the following web link to read an article on promoting ethics within your organization:

http://www.guidestar.org/news/features/promoting_ethics.jsp

Bank Accounts



The solvency and safety of the banking system in the United States has recently made news headlines. This was most apparent with the collapse of IndyMac Bank when it was taken over by Federal bank regulators. As if we were watching a color version of the

famous Christmas movie "It's a Wonderful Life," we were able to watch a real run on the bank. The Los Angeles Times reported that 10,000 depositors had balances in excess of the insured limits. Those 10,000 depositors thought that the bank was the safest place to deposit their cash are now faced with the reality of losing a large chunk of their \$1 billion of uninsured deposits.

Got FDIC? This should be a question that all denominational organizations should be asking in regards to their cash and savings accounts. The Federal Deposit Insurance Corporation provides a safeguard to the banking system. It is important to note that not all bank accounts include FDIC insurance. Furthermore, there are dollar limits to the insured coverage.

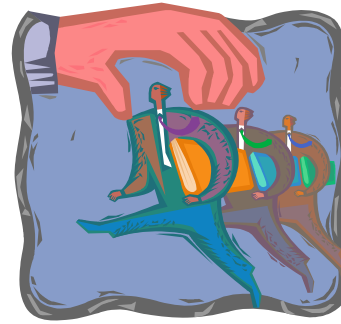
If your organization is blessed with large amounts of cash, your cash management procedures should include a process by which the cash is spread amongst various bank accounts covered by FDIC insurance. There is an old and wise saying that we shouldn't keep all of our eggs in one basket. This definitely applies to bank accounts (and investments).

For more information on the FDIC, please click on the following websites:

<http://www.fdic.gov>

<http://www.fdic.gov/deposit/deposits/insuringdeposits/index.html>

<http://www4.fdic.gov/EDIE/>



Hiring & Firing

Executives interviewed said that, for the most part, staff levels in their accounting and finance

departments will remain unchanged in the third quarter.

- 84% of chief financial officers interviewed said they would neither increase nor decrease the size of their teams.
- Those who do anticipate making changes in the coming quarter were evenly split.
- 32% of CFOs said accounting positions are the most challenging to hire for.
- 18% said audit and finance roles were hardest to fill.
- 6% said they would add personnel.
- 6% are expecting staff reductions.

— Robert Half International

This newsletter is published quarterly by the General Conference Auditing Service. It is sent without cost to administrators of SDA organizations within the North American Division of the Seventh-day Adventists.

If someone in your organization should be receiving it, but is not, please e-mail this information to Linda Fredlund: clientconnection@gc.adventist.org

Please send us your comments, questions, suggestions, or contributions (of articles, not money) to:

Jeremy Smith, Editor
General Conference Auditing Service
PO Box 5005
Westlake Village, CA 91359
Smithje@gc.adventist.org
(805) 413-7138

This newsletter is intended to provide general information about a variety of topics of interest to Administrators of Seventh-day Adventist organizations. If you read an article of interest to you, we suggest that you study further or seek counsel to clarify your understanding of the subject, before taking action. This is a complicated world - be careful.

Not on our mailing list and would like to receive a copy of *Client Connection*? Send your e-mail address to Linda Fredlund, clientconnection@gc.adventist.org



GENERAL CONFERENCE
AUDITING SERVICE

An audit service of the Seventh-day Adventist Church