

COVENANT MISSION EXCHANGE POLICY

This document attempts to describe how the CMX system operates and the actions required by each party as identified as:

Mission
Donor
Presbytery
Synod Staff

Mission Registration

Mission

Registers at CMX by filling out a form requiring the following information:

Mission Name
Address
Phone
Contact Person
Email
Purpose
Parent Presbytery
Zone (geographic area served)
Mission Type (area of service)
If this is not a Presbytery or Church Project, please submit your tax exempt number:

Username
Password
Please provide a short description of your project. Any pictures must come in a JPEG Format.

The system generates an email to synod staff. The mission is inactive at this point. No one can see or access information about the mission on the CMX website.

Synod Staff

Receives request via email generated by the system. The Executive Assistant will forward the message to the particular Presbytery Exec or designated person/committee.

Below is the message the system generated for the mission:

The Synod of the Covenant has received a request by the following ministry in your presbytery to be added to the Covenant Mission Exchange website.

Mission Information

Name of Mission
Address

Presbytery of _____
Church, Presbytery or organization _____

Purpose:

Short description (less than 50 words)

Contact:

Name of contact person

As part of the process we ask that the parent presbytery acknowledges the existence of the mission/ministry. Kindly reply to this message to acknowledge this mission/ministry within ten days.

Peace,

Multicultural, Racial Ethnic and Justice Committee
Synod of the Covenant

Presbytery

Replies to the email request. The acknowledgment must be received from a Presbytery within the bounds of the Synod of the Covenant. The response should include an acknowledgement of the project. Any additional information provided would be welcome

From:

To: Executive Assistant

Subject: RE: CMX Request

This is an acknowledgement of the valid and ongoing ministry of

EP/GP

Presbytery of _____

Synod Staff

The Executive Assistant forwards acknowledgment email to the Website Administrator who enters the request and response into a file containing all mission acknowledgments.

The Website Administrator enables the mission at the website so it is visible to anyone visiting the website.

It is at this point the mission can be listed on the CMX Website. Interested parties can explore these new mission opportunities and can contact them through a web link, email, mail or phone.

If the 501(c)(3) status of a project needs to be checked the Synod Bookkeeper will be responsible for doing that check.

Donation Process

Donor

Donors are asked to contact the individual mission through a web link, email, mail or phone call and determine the best way to make a financial, time or item donation.

The receiving CMX Project will acknowledge the donation and provide the appropriate tax information.

Safeguard

In the upper right on each mission profile there is a "Report this mission" link. Anyone can click on the link and specify a concern. Any concerns will be transferred to the Web site administrator. They will take appropriate action or pass on the concern to the Synod Executive and the MRJ Committee.

The following disclaimer will be on the CMX website: "The Synod of the Covenant has selected these projects based on their ability to further the mission of the Church. While the Synod of the Covenant has verified that the non-Presbyterian organizations listed on the website are recognized as tax exempt under Section 501(c)(3), it encourages donors to verify the tax status of these organizations and to investigate whether these organizations are trustworthy. The Synod of the Covenant assumes no responsibility for the operation of these organizations."

The Synod of the Covenant will not list a project on the CMX website that is an international project. It will list the project of a congregation or a Presbytery that has an international focus as long as the contribution is going to the congregation or the Presbytery. It is then the responsibility of the congregation or the Presbytery to make sure the appropriate IRS requirements have been met.

The MRJ Committee will review the projects on the CMX Website. After 18 months on the CMX Website an individual project will be reviewed and either continued or notified that it will be removed from the Website. This review will take place prior to the closest spring, summer or fall meeting of the Synod Assembly. It will be the responsibility of the MRJ Committee to determine if the goals of the project have been met or if this is an ongoing project that should continue to receive support. Any reports from the projects will be reviewed by the Synod Executive and the MRJ Committee.

Approved by Synod Assembly December 16, 2010 with two attachments

Attachment # 1

WEYCER, KAPLAN, PULASKI & ZUBER, P.C.
ATTORNEYS AT LAW

Frank Sommerville Shareholder Board Certified - Tax Law Texas Board of Legal Specialization Email: FSommerville@WKPZ.com	3030 Matlock Road Suite 201 Arlington, Texas 76015 Telephone: (817) 795- 5046 Facsimile: (800) 556-1869	Houston Office: Eleven Greenway Plaza, Suite 1400 Houston, Texas 77046 Telephone: (713) 961-9045 Facsimile: (713) 961-5341
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October 11, 2010

VIA EMAIL

Alicia Williams, Treasurer
Synod of the Covenant
1911 Indianwood Circle, Suite B
Maumee, OH 43537

RE: Covenant Mission Exchange Issues ("CMX")

Dear Ms. Williams:

You have requested my firm's advice regarding a new project called Covenant Mission Exchange. This letter contains that advice.

PROPOSED OPERATION DESCRIPTION

The Synod of the Covenant ("Synod") has developed a web site called Covenant Mission Exchange (CMX). This website promotes the ministries in Synod by providing information about its mission, listing needs of Synod ministries, listing volunteer opportunities for Synod ministries and providing the opportunity to accept online donations.

1. SUGGESTED PROJECTS

However here are a few suggested projects:

1. A youth leader wants to plan a "local" mission trip; CMX would help him locate opportunities of service within the Synod.
2. Sometimes a Presbyterian Women's circle wants to make baby blankets or assemble school kits. Then the Presbyterian Women would look for places to distribute the blankets or school kits within the Synod. By using CMX, Presbyterian Women will save money since they wouldn't have to pay for shipping to the Synod's distribution center.

3. A CMX visitor has a special place in their heart for groups dealing with addictions. They want to give to multiple ministries; the website can easily display Synod ministries by area of service.
4. A smaller Synod ministry can secure a much bigger exposure by showcasing their ministry on CMX.
5. CMX could be augmented to provide education for smaller Synod ministries (e.g. how to make a website, how to write a press release, etc). This is something the CMX site does not currently do.

2. PROPOSED DONATION TRANSACTIONS

The Synod created a PayPal account to securely accept donations from a donor's credit card or checking account. The Synod will then transfer the net (after PayPal fees are deducted) donation to the designated mission. The reason for the net donation is that the Synod assembly voted to take on this ministry exchange program only if there was no cost to the Synod (other than staff time, postage, and minimal webhosting fees).

All donors will receive an email receipt for tax-deduction purposes at the time of posting the donation on-line. This receipt is for the full amount of the donation. At regular, reasonable (i.e., monthly) intervals, the Synod of the Covenant will forward each mission the sum of the NET donations received that were designated for that mission.

ISSUES

ISSUE NO. 1: May the Synod accept a donation for a mission when it is not sure of the tax status of the particular mission or if their mission/program focus is strictly aligned with the mission purpose of the Synod?

ISSUE NO. 2: Does the Synod put its Section 501(c)(3) tax status in jeopardy in any way but not ensuring #1, above?

SHORT ANSWERS

ISSUE NO. 1: The Synod cannot accept a donation designated for a mission unless the Synod has approved the mission and verified that it is currently exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

ISSUE NO. 2: If the Synod does not restrict the supported missions to organizations currently exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and the donations to those missions is significant, the Synod jeopardizes its tax exempt status.

DISCUSSION

ISSUE NO. 1: May the Synod accept a donation for mission when it is not sure of the tax status of the particular mission or if their mission/program focus is strictly aligned with the mission purpose of the Synod?

As an organization recognized as exempt under Section 501(c)(3) of the Internal Revenue Code, the Synod must use all of its resources furthering its exempt purposes. Its exempt purposes includes supporting other organizations qualifying as tax exempt under Section 501(c)(3).

As the first step of participating in CMX, an organization must either be qualified under Section 501(c)(3) through the Presbyterian Church USA's ("PC-USA") group tax exemption or through the Internal Revenue Service issuing a favorable determination letter. If the organization does not qualify under one of these two conditions, it may not participate in CMX.

Before listing a project the Synod should require the individual, church or Presbytery provide documentation that the suggested organization meets one of the two conditions. For example, one may find PC-USA affiliated entities at <http://gamc.pcusa.org/ministries/list/> and <http://gamc.pcusa.org/groups/>. The IRS maintains a website listing all the organizations that have received a favorable IRS determination letter. It is <http://www.irs.gov/app/pub-78/>. The Synod should require the nominating person provide a printout of the website listing the entity as qualified as tax exempt. If the specific entity is not listed on these websites, then the Synod should require a letter from the General Assembly Mission Council or copy of the IRS determination letter for the entity.

All of the above listed proposed projects would likely qualify under the Synod's group tax exemption.

You also asked about the deductibility of contributions to the Synod when the Synod is simply acting as a pass-through entity. Normally, the Synod must receive control over the donation from the donor before the donor may claim a tax deduction. For example, if the donor requires the Synod to pay the donation to a donor selected charity, the Synod never received control over the donation and the donor may not claim a tax deduction. Under these circumstances, the Synod may not issue a qualified tax-deductible receipt to the donor.

On the other hand, if the Synod selects a ministry to support with donations from CMX, and the Synod sets an amount as a goal that the Synod wants to pay to the ministry, then the Synod may suggest the ministry on CMX and pay the deduction to the selected ministry. Under these circumstances, the Synod has taken control of the donation and may issue a tax-deductible receipt to the donor.

To demonstrate Synod control over the donation, the Synod should require that individuals, churches and Presbyteries nominate specific qualified projects that will be performed by a tax qualified entity. The written nomination should include an estimated dollar amount that the project will require. The nomination should include a statement that the nominating entity has investigated the project, that the project fits with the Synod's tax exempt purposes, the entity receiving the funds is both tax qualified and will manage the project prudently, they have investigated and verified that the budget amount requested is reasonable, and that they will monitor the project and make written reports to the Synod monthly until the project is completed or until the project is removed from CMX.

ISSUE NO. 2: Does the synod put its Section 501(c)(3) tax status in jeopardy in any way but not ensuring #1, above?

Under Internal Revenue Code Section 501(c)(3), the Synod must use all of its resources exclusively to pursue exempt activities. It is not an exempt activity to raise funds for a nonqualified organization. However, in the Treasury Regulations, the Internal Revenue Service has determined that any non-exempt activities must be significant before it jeopardizes the tax exempt status of an organization. Treas. Reg. Section 1.501(c)(3)-1(c)(1) states that an organization will not be tax exempt if more than an insubstantial part of its activities is not in furtherance of an exempt purpose. The IRS has not published any examples to define "an insubstantial part of activities."

I suggest that any single project that reaches 5% of Synod's annual revenue will likely be treated as significant. To avoid jeopardizing its tax exempt status, the Synod should prohibit nonqualified organizations from using CMX.

You mentioned one project, Airfare Assistance Fund that you are concerned about. This project is administered by a local church, New Covenant Community Church. As long as beneficiaries of the Fund are restricted to a "charitable" class, this project appears to fit within the Synod's exempt purposes. The IRS requires that charitable projects benefit a charitable class of individuals. In this case, the charitable class should be defined as active servicemen and women being deployed or returning from a deployment who lack the resources to pay their airfare to visit family. The church will need something in writing demonstrating that the proposed recipient lacks the resources to pay the airfare and something reflecting payment of the airfare.

I also noticed that some proposed projects may involve international activity. For example, you mentioned the Dougbe River Presbyterian School of Liberia as an example of a foreign mission project. I did not find it as a qualified tax exempt organization on any of the above listed websites. As a result, it does not qualify for CMX without further documentation. From the school's website, it appears to be a project of Noble Road Presbyterian Church. Since Noble Road Presbyterian Church is listed as a part of PC-USA, you may list Noble Road

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Presbyterian Church as sponsor and send the money to Noble Road Presbyterian Church with the designation that it be spent on the Dougbe River Presbyterian School of Liberia project.

Please note that I am not suggesting that ANY local church take responsibility for an international project because of all the international regulations. In fact, the Synod should not be involved in any international activity except through Presbyterian international organizations listed on <http://gamc.pcusa.org/groups/>. International activity is subject to a host of regulations beyond the Internal Revenue Code. I have attached several publications that provide a sample of the international regulations and problems. Only in rare circumstances will an international organization have a favorable IRS determination letter. Since the Presbyterian international organizations already deal with compliance with international laws and regulations, all Synod activities outside of the United States should go through those organizations.

If you have any further questions, please ask.

Very truly yours,

Frank Sommerville
For the Firm

Attachment # 2

WEYCER, KAPLAN, PULASKI & ZUBER, P.C.
ATTORNEYS AT LAW

Frank Sommerville Shareholder Board Certified - Tax Law Texas Board of Legal Specialization Email: FSommerville@WKPZ.com	3030 Matlock Road Suite 201 Arlington, Texas 76015 Telephone: (817) 795- 5046 Facsimile: (800) 556-1869	Houston Office: Eleven Greenway Plaza, Suite 1400 Houston, Texas 77046 Telephone: (713) 961-9045 Facsimile: (713) 961-5341
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October 30, 2010

VIA EMAIL

Alicia Williams, Treasurer
Synod of the Covenant
1911 Indianwood Circle, Suite B
Maumee, OH 43537

RE: Covenant Mission Exchange Issues ("CMX")

Dear Ms. Williams:

This letter responds to your request for additional information about the Synod's operation of CMX.

- 1. If the Synod requires the individual mission projects to supply/issue the donation acknowledgement (versus the Synod providing it), does the Synod avoid a lot of our 501(3) risk concerns?**

RESPONSE: In my prior letter, I advised the Synod that it cannot simply act as a pass through entity. It must take control over the funds before the donation qualifies for a tax deduction to the donor. To demonstrate control, the Synod must require extensive documentation from the third party charitable organizations receiving funds from the Synod.

The easiest way to avoid the extensive documentation requirement is for the Synod to avoid collecting the funds in the first place. Stated another way, to avoid requiring extensive documentation requirements from the third party charitable organizations (including Presbyterian churches and agencies), the Synod would need to stop collecting money in its PayPal account for projects administered by third party charitable organizations.

The Synod can still promote the third party charitable organizations. Instead of accepting funds for a project, CMX will connect donors to that third party charitable organization's website and/or donation acceptance page. The third party would then issue the

donation receipt to the donor. Since the Synod is not receiving any of the funds, it does not need to monitor or

otherwise qualify the specific project.

The Synod's will only need to confirm that the recipient organization qualifies under Section 501(c)(3) of the Internal Revenue Code. For example, the listing of the Airfare Assistance Fund could link to the New Covenant Community Church's website: <http://www.covenantakron.org/index.php?page=airfare-assistance-fund>. The church could accept the donations directly and administer the fund. The church could even setup a PayPal account to accept funds over the Internet. The Synod would not require any documentation from New Covenant Community Church.

2. Does the Synod's posting of mission projects on its website lead donors to believe these are tax-exempt and valid ministries? Does the Synod have a duty to monitor recipient organization's procedures/activities?

RESPONSE: The simple answer is yes. The Synod is endorsing the selected projects and the charitable organizations receiving funds from the website. This means that the Synod could be held liable by donors if the charitable organization misuses the funds. I believe that this liability can be easily remedied by adding a disclaimer to the website. I suggest the following:

"The Synod of the Covenant has selected these projects based on their ability to further the mission of the Church. While the Synod has verified that the non-Presbyterian organizations listed on the website are recognized as tax exempt under Section 501(c)(3), it encourages donors to verify the tax status of these organizations and to investigate whether these organizations are trustworthy. The Synod assumes no responsibility for the operation of these organizations."

If the disclaimer is used along with the changes suggested under No. 1 above, then the Synod will have no duty to monitor the recipient organization's procedures, activities or finances.

3. May the Synod be involved in international mission partnerships?

RESPONSE: No law prohibits the Synod's involvement in international activities. After making this observation, the cost to comply with the laws governing international transactions will be generally prohibitive. The PCUSA World Mission offices are well equipped to navigate international transactions. I suggest you contact April Davenport, Associate General Counsel, General Council Mission Center, PC USA, for details about the laws and regulations that govern international transactions. She can be reached at (502) 569-5350. I will note that failure to comply with some of the statutes can result in criminal charges against the individuals authorizing those transactions. For example, if any of the Synod's funds are paid (directly or indirectly) to anyone on the U.S. Treasury's suspected terrorist lists; the persons authorizing the transfer can be charged with a felony.

The IRS requires that even short term mission trips comply with the international rules but the requirements are slightly less onerous because the church has representatives present in the country. In sum, the IRS requires the church to account for all funds expended on the trip under a qualified accountable expense reimbursement plan. In parts of the world where receipts are

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difficult to obtain, a detailed financial diary listing the amount of each expenditure, the recipient of the funds, the reason for the payment and, if it involves entertainment, food or lodging, the participant names. Further, the overseas recipients of church funds must be screened against the Department of the Treasury suspected terrorist lists. The administration of a short term mission trip is greatly facilitated when the trip is organized and conducted by an experienced mission organization.

If you have any questions, please ask.

Very truly yours,

Frank Sommerville
For the Firm