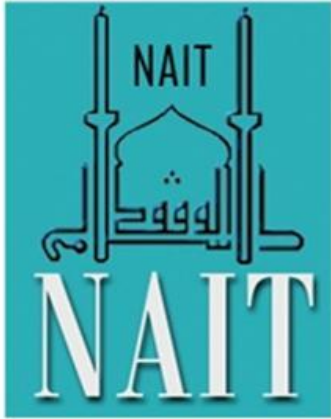


# THE NAIT Times

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## INSIDE THIS ISSUE

<i>Appropriate Internal Controls for Your Center's Cash Receipts</i>	1 2
<i>Does your Center have Excess funds?</i>	2
<i>Is Your Organization Properly Insured?</i>	2
<i>Questions &amp; Answers: Taxes and Exemptions</i>	3
<i>Masjid And School: Structure Matters</i>	4

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## Appropriate Internal Controls for Your Center's Cash Receipts

Most Islamic centers Trustees or Officers place blind trust in their employees which circumstance may later reveal that the trust was misplaced. A recent incident in the Chicago area whereby a man entrusted with a center's finance embezzled over \$600,000 in few years. I believe that "Trust but verify" concept is best in managing Islamic Centers. Centers' leaders have a special fiduciary obligation to ensure that the contributions and assets are protected and used only for the purposes for which they were intended. A good internal control system can help employees and volunteers to remain above suspicion of misappropriation, waste, and inefficiency.

Generally, financial activities can be divided into three basic types:

1. Authorization of transactions,
2. Recording of transactions, and
3. Custody of assets.

Islamic centers should use enough individuals to properly segregate these activities and responsibilities. For example, the same person should not prepare checks for signature, mail the checks, and perform the bank reconciliation.

### Cash Donations Present a Particular Risk for Mismanagement

The following is a model of suggested internal controls for cash receipts of Jumu'ah (Friday) collections and other cash donations:

#### 1. Organize three (3) committees:

- a) Counting Committee:** Consists of three or more members who rotate periodically; Counts the Jumu'ah donations; prepares two copies of the list of checks and three copies of the collection report, one each for the Finance committee and the Audit committee, and attaches the third copy of the collection report to the bank deposit slip.
- b) Finance Committee:** Consists of two members, Financial Secretary and Treasurer; Financial Secretary posts contributions to the donor's records, prepares journal entries and posts these amounts to the general ledger, and files by date the collection report, deposit slip, list of checks and donation envelopes; Treasurer disburses cash and signs checks.
- c) Audit Committee:** Consists of two or more members with at least one being an accountant by training; receives monthly bank statement at home address; compares the bank statement with the weekly collection report and the list of checks from the Counting committee, and the deposit slips; prepares a Monthly Bank Reconciliation Report, and notifies the center's leadership if any discrepancy is noted.

<p style="text-align: center;"><b>NAIT VISION</b></p> <p>A righteous and thriving American Muslim community with sound and expanding human, economic, financial, intellectual, and Waqf resources and institutions.</p>	<ol style="list-style-type: none"> <li>2. <b>Safeguard the cash:</b> Deposit the cash on the day of collection. Cash donation boxes should have two locks. No single person should have the keys to both locks.</li> <li>3. <b>Empower, train, and supervise the volunteers:</b> Specify the responsibilities of employees and volunteers; designate volunteers to do only what they are familiar with; provide training and supervision.</li> </ol>
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### Does Your Center Have Excess Funds?

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**Is Your Organization** Many of today’s Muslim organizations have excess funds set aside for a capital project or just sitting in the bank not earning any money. Many justify having at the bank since no interest is taken. The problem is that you would be empowering the Bank to lend more due to the bank possession of those funds.

Best approach is to invest the excess funds in a Sharia compliant investment. The options are limited and very restrictive. You can invest in Sharia compliant mutual funds but you will risk the money if the market is to experience a correction (Decline). NAIT, in an attempt to lessen the potential impact of a correction, created an investment vehicle (the Islamic Centers Cooperatives Fund” ICCF “is Sharia complaint and mitigated the risk of any correction by creating a “Yield leveling Fund” to minimize the potential of passing on the losses to the centers. In profitable years, NAIT will pass on a portion of the profit to the centers while retaining some for the “leveling fund”. ICCF has paid over \$30 million to its participants since inception in 1980, averaging an annual yield of 4 % over the past 5 years. \$300,000 invested 5 years ago would be \$364,996 today. Why give that up, while helping NAIT and other Islamic Institutions in the process.

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### Is your organization’s Property Properly Insured?

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They say insurance is needed for a rainy day but “good” insurance coverage may protect you in a storm. Center administration must determine the kind of insurance that they need. Property and content are the easy ones. Terms such as Multi Peril or POP are insurance lingo that implies “packaged coverage”. The term multiple-peril coverage is rarely used in commercial insurance. Rather, most insurance companies offer package plans like a Business Owners Policy (BOP) which covers a variety of risks that face a typical small business. However, multiple-peril coverage is a broader, more inclusive term that includes coverage combinations like business automobile, which is a single category of coverage, but actually qualifies as multiple-peril coverage as it may provide indemnification for the perils of liability, physical damage (property), and medical payments.

Dealing with a qualified Agent is important but finding the right insurance company specializing in the religious properties and business covered is key. They understand the risks and address them. To that end, NAIT has a long standing relationship with two major carriers to offer package coverage at a discounted price. Package coverage does not mean everything is covered. You must ask and specify what additional coverage you want, Directors liability, Terrorism, lawsuits indemnity, and many others. Workmen’s compensation is a must if you have employees and irrespective of how they get paid. . It protects employers against any employee injuries while at work. If there is a need to have Insurance quotes from the associated carrier, please contact NAIT.

DIRECTORS AND OFFICERS LIABILITY	EMPLOYMENT PRACTICES LIABILITY
Provides coverage for claims made against directors and officers while acting within their capacity as board members of the nonprofit.	Provides coverage for claims made against nonprofit by individuals alleging that their legal rights as employees were violated.

## Questions & Answers: Taxes and Exemptions

*These answers are based on customary understanding of the laws governing those matters. It should not be relied on without consultation with your tax advisors.*

### 1. Does a Mosque need to apply for tax exempt status?

No unlike other religious organization which must apply to be exempt, Masjids do not but they must file for a “EIN” tax Id number requiring that an SS4 be filled.. Many mosques do so to assure that they are tax exempt.

### 2. Is income from selling food at Jumma or other time taxable to a mosque?

Yes; unless the food is donated and then sold for the benefit of Masjid. If the Masjid buys the food and sells it, the profit is taxable. I used this example to emphasize that any income, even from advertising fee on a Masjid newsletter is taxable.

### 3. Are donations to a Masjid deductible to donors even if the Masjid never applied for IRS tax exemption?

Yes it is. If it is less than \$250.00 a cancelled check is sufficient. If it is over \$250.00, doner must get a receipt from the Masjid or the donation will not be deductible.. This applies to all tax exempt organizations.

### 4. Does an Imam have to pay social security taxes?

No the Imam, just like all clergy, are not subject to social security taxes “withholding”. The Imam, when filing tax returns, must pay “SECA” tax which the clergy portion of social security taxes. Mosques should not recognize the concept of clergy or “minister” for Imam pay and withhold FICA as any statutory employees.

### 5. Can Masjids or religious organizations lobby or get involved in politics.

Yes and No. Masjids can invite political candidates or public officials but cannot restrict it to certain candidate as that may imply endorsement. Even imam and Masjid employees and trustees, if expressing an opinion on a political matter, must indicate it is their personal opinion if expressed outside the center. Activities inside the entity or in its publications, it will be construed as endorsement and may cause a Masjid to lose its tax exemption.

### 6. Can a Masjid or a school lose its tax exempt status?

A- Yes; if it violates any of the restrictions, but can also lose its exemption automatically if it does not file the required reports or informational returns for three consecutive years. Masjids are usually exempt from filing the annual form 990 but all others must file. It is recommended for Masjids to file for 900 filing exemption. Enteritis correcting the reasons for revocation and their “good standing” reinstated will continue to show on IRS revoked list.

## Islamic Center of Irving. An Affiliated, NAIT’s Waqf Center in Irving, Texas



## Masjid and School: Structure Matters

In many communities, both the masjid and Islamic school are governed by a single board. In some cases, the masjid and school may also have their respective boards, but a Majlis Shura, or a Board of Trustees, is their superior overseer. In these arrangements, a lawsuit against one entity exposes the other entities, as well. For example, a recent lawsuit judgment of \$2.8 million in favor of a principal of a California Islamic school holds the local Islamic society liable for payment; the society's Majlis Shura controlled the school board.

Federal law recognizes the concept of *bifurcation* i.e. the division of activities between two related organizations, either or both being tax-exempt. For bifurcation to be successful, the entities must be separate, bona fide legal organizations, and not operated so closely that the activities of one are considered the activities of the other (sham arrangements). Overlapping board of directors, use of common employees, similarity of names, etc. risk this bifurcation, and thus create cross-liabilities, like the one mentioned in the question above.

First and foremost, following the applicable federal, state and local laws, statues, and ordinances is the best protection. Nevertheless, the following can add a measure of shield from cross-liabilities between related organizations; some are good practices to safeguard against liabilities:

- Both the masjid and school to have independent boards; one entity cannot appoint a majority of the other's board; one can recommend a list of potential directors, but the entire list is not binding on the other.
- Only a minority of employees may be shared. For these common employees, each organization is to document allocation of time and compensation.
- Avoid similar names for the two organizations.
- Include arbitration clauses in employees' contracts
- Include indemnification provisions in the masjid/school by-laws.
- Utilize annual employment contracts.
- Provide for grievance hearing for the employees.
- Others that may be dictated by local laws.



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