



The Roman Catholic Church

DIOCESE OF TUCSON

Fiscal Services

PARISH ACCOUNTING MANUAL

Version 2016.01.01

Table of Contents

DECREE 7

INTRODUCTION 8

CANONICAL DEFINITIONS..... 9

Ecclesiastical Goods under Canon Law..... 9

Pastor and Administrator Expectations under Canon Law 9

“Persons” Under Canon Law 10

DIOCESAN NORMS..... 11

Annual Financial Report to the Bishop 11

Board of Directors 11

Budgeting Principles and Guidelines..... 12

Budget Approaches..... 13

Budgeting Assumptions and Guidelines Memo 14

Budget Process 14

Capital Budgets 15

Budget Implementation 15

Coordination of the Board of Directors, Finance Council and Pastoral Council..... 16

Diocese Support..... 16

Billings in Support of Chancery Operations 16

Billings in Support of Non-Chancery Operations and Organizations 17

Finance Council..... 17

Duties of the council: 18

Additional Activities of the Finance Council 19

Analysis Criteria for the Finance Council..... 19

Signs of Financial Difficulties for the Finance Council to Consider 20

Financial Reports to the Faithful..... 20

Long-Range Planning 21

Mass Offerings, Stole Fees, Visiting Priest Stipends..... 21

Mass Offerings..... 21

Stole Fees..... 22

Stipends Paid to Visiting Priests 23

Ordinary and Extraordinary Administration..... 23

Pastoral Council 24

ACCOUNTING and FINANCIAL TOPICS..... 25

Annual Catholic Appeal 25

Bank Accounts25

Bingo Operations26

Cash vs. Accrual Accounting27

Catholic Foundation Endowments28

Catholic Tuition Support Organization (CTSO)29

Chart of Accounts30

Contributed Services30

Contributions, Agency Transactions, Exchange Transactions.....30

Contributions30

Agency Transactions.....31

Exchange Transactions.....31

Credit Cards.....31

Custodial Funds, Parish Organizations, Ancillary Organizations.....32

Custodial Funds and Parish Organizations.....32

Ancillary Organizations.....32

Debit Cards.....32

Deferred Revenue.....33

Electronic Check Deposits33

Excess Funds33

Financial Recordkeeping33

Fixed Assets and Depreciation34

Fundraising.....35

Gifts of Securities.....36

Health Benefits Billing and Payment36

Investments36

Investment Income36

Mass Offerings and Stole Fees37

Missions37

Chapels of Ease37

Missions with Parish Status37

Month-End Close.....37

Reconciliations37

Review of financial statements.....37

Offertory Collection and Count37

Parish Pooled Investment Trust (PPIT)38

Payroll38

Petty Cash.....39

Priests' Salary Subsidy..... 40

Scrip 41

E-Scrip 41

Paper Scrip..... 41

Special Collections 42

Split-Interest Gifts 43

Charitable Gift Annuity..... 43

Charitable Remainder Trust..... 44

Trust Funds 44

Unrestricted, Temporarily Restricted, Permanently Restricted Net Assets 44

Year-end accounting for the three classes of net assets..... 46

RELATED TOPICS..... 47

Census and Stewardship..... 47

Personnel Management 47

Records Retention 48

School Operations 49

Allocation of Parish Expenses to Schools 49

Budgets for Schools..... 49

Deferral of Tuition & Fees for Schools..... 49

Insurance for Schools 49

Parish Stewardship Tuition Rate..... 49

School Cafeterias 50

Tuition Billing & Collection for Schools 50

INTERNAL CONTROLS..... 51

Internal Control Objectives..... 51

Components of Internal Control 51

The five components of internal control are: 51

The control environment includes the following factors: 52

Categories of Risk..... 52

Types of Controls..... 52

Informal Systems Behind the Formal System 53

Management Override..... 53

Honest and Capable Employees 54

Segregation of Duties 54

Fraud 55

Varieties of Fraud 56

Guidelines to be Followed if Fraudulent Activity is Suspected or Observed:..... 57

Internal Controls of Financial Processes57

- Cash Controls57**
- Computer System Controls58**
- Payroll Controls59**
- Property and Equipment Controls.....59**

Internal Control Checklists.....61

- Bank Accounts.....61**
- Computer Controls62**
- Disbursements63**
- Electronic Check Deposits (ECD).....64**
- General Financial Procedures65**
- Offertory Collection and Count66**
- Parish Office Receipts.....67**
- Payroll.....68**
- Petty Cash69**
- Property, Equipment and Movable Items.....70**
- Scrip Certificates71**

TAX ISSUES.....72

- Charity & Benevolence Funds.....72**
- Christmas Bonuses.....73**
- Contributed Services73**
- Donor Acknowledgement Letters (Charitable Contribution Substantiation & Disclosure)73**
- Employee Expense Reimbursement.....74**
- Gifts of Real Property.....74**
- Independent Contractor vs Employee Classification.....75**
- Life Insurance76**
- Lobbying and Political Activity76**
- Payroll for Lay Employees.....76**
 - Income Tax Withholdings76**
 - Payroll Records77**
 - Social Security (FICA) Tax77**
 - Unemployment Taxes:.....77**
 - Year-End Tax Reporting (W2)77**
- Personal Use of Parish Vehicles.....77**
- Priest and Deacon Compensation78**
- Private Inurement79**
- Raffle/Fiesta Prizes79**

Tax Consequences for Income Received by Priests	80
Tax Exemptions	80
Tax Exempt Ruling and Related Disclosures	81
Travel Policies	82
Air Travel	82
Auto Travel	82
Fly/Drive Itineraries	83
Lodging	83
Meals and Entertainment	83
Tuition Payments	83
Reference Guide	84

DECREE

Office of the Bishop

In accordance with Canon 1276 of the Code of Canon Law, I hereby direct the publication of the 2015 edition of the *Parish Accounting Manual*. As Ordinary of the Diocese of Tucson, I direct that all parishes and schools follow the policies and procedures contained within this manual.

This manual of parish financial policies and procedures is provided to guide pastors, administrators, business managers, bookkeepers, members of the parish corporate board of directors, and members of the parish finance council in fulfilling their stewardship responsibilities as prescribed by Canon Law. This manual also provides the accounting principles followed by the Diocese of Tucson. All who are entrusted with the ministry of administration are expected to be acquainted with these policies and procedures and to follow them conscientiously in their decisions and actions. Hopefully, they will lead to additional insights and greater assistance so that parishes and all God's people will be served with professionalism according to the Gospel values of justice and charity.

A special word of gratitude is extended to all those who serve in the ministry of administration. Your service provides a wonderful gift in safeguarding parochial resources and promoting the mission of the Church. May the Lord's blessing be with you and your ministry.

This manual has been approved by me for implementation effective July 1, 2015.

Faithfully yours in Christ,



The Most Rev. Gerald F. Kicanas, D.D.
Bishop of Tucson

INTRODUCTION

The ministry of church finance administration makes a vital contribution to the life of the universal Church in general, and of each parish in particular. St. Paul reminds us that the gift of administration is one of the charisms of the Holy Spirit. Pursuant to canon 515, § 3, all parishes established by the Diocese possess juridic personality. As separate juridic persons, the parishes within the Diocese are subject to Canon Law obligations and possess Canon Law rights; see canon 113, § 2. Pursuant to canon 1256, all temporal goods legitimately coming into the possession of the parish become the property of the acquiring parish. Pursuant to canon 532, such temporal goods must be administered in accordance with the norms set forth in canons 1281-1288. Those entrusted with this ministry serve all those called to service within the parish as co-workers. Additionally, they are charged with the responsibility of being good stewards of the financial gifts of the faithful and conscientious custodians of the ecclesiastical goods of each parish; and each parish, though recognized as the owner of its own temporal ecclesiastical goods, is subject to the supervisory authority of the Bishop as prescribed in canon 1276. It is pursuant to the supervisory authority vested in the Bishop that this manual is promulgated.

The principles of good stewardship require those responsible for conducting the affairs of the parishes to do so in a manner that is truly Christlike, recognizing the call to serve the needs of all in concert with the Diocesan Church. At the same time, exemplary professional conduct and standards of operation are imperative to the effective management and functioning of each parish and its ministries and services.

These policies and procedures are not to be viewed as a static document. The policies will be revised as needed on the diocesan website. Questions, comments or suggestions may be directed to the Chief Financial Officer.

CANONICAL DEFINITIONS

Canon law is defined as a body of regulations adopted by the Catholic Church to bring order into the life of the ecclesiastical community.

Ecclesiastical Goods under Canon Law

Ecclesiastical goods are those temporal possessions that belong either to a moral person or a public juridic person that functions in the name of the Church (such as a diocese or a parish).

Temporal goods include money, stocks, land, buildings, copyrights and patents. A parish holds and administers temporal goods to serve the mission that the Lord has entrusted to the Church. Parish property never belongs to an individual person as if it were his or her own personal property. Parish property always belongs to the parish in its capacity as a juridic person and is the concern of the Christian community.

Canon law states four broad purposes for parish property:

- 1) Pursuit of divine worship;
- 2) Support for clerics and other ministers;
- 3) Performance of the apostolic works proper to the Church; and
- 4) Works of charity, especially concern for the needy.

Ecclesiastical goods are not the property of private individuals, but are considered to be part of the common heritage of the church community. It is not surprising, therefore, to see that extensive norms are included in the Code relative to the ways ecclesiastical goods can be acquired and held.

Canon 1273 uses the concept of “stewardship” when referring to these responsibilities. This implies a twofold duty: to administer the entrusted goods as a prudent householder would do and to give an account to the faithful of the goods received and the uses of these goods.

Pastor and Administrator Expectations under Canon Law

“Administration” as defined by canon law is the direction and management of goods, property and activity of a juridic person for purposes befitting its mission. An administrator of a parish may be the pastor or another person appointed by the Bishop to fulfill the canonical responsibilities of administration.

- Canon 519 notes that the pastor shares in the threefold duties of teaching, sanctifying and governing:

“The pastor...exercising the pastoral care of the community committed to him under the authority of the diocesan bishop...carries out the functions of teaching, sanctifying, and governing...with the assistance of lay members of the Christian faithful, according to the norm of law...”
- Canon 1283 provides that:
 - The administrator must take an oath before the Ordinary that he will be an efficient and faithful administrator.
 - The administrator is to prepare, sign and regularly update a detailed inventory of all parish property and assets. Copies of the inventory are to be filed in the parish and chancery archives and updated as necessary.
- Canon 1284 – The administrator is bound to fulfill his duties with the diligence of a good householder to:

- Take care of the goods entrusted to his care;
 - Accurately collect and safeguard income;
 - Pay loans when due;
 - Keep well-ordered books of income and expenses;
 - Draw up a report on administration at the end of each year; and
 - Arrange and keep in a suitable and safe archive the documents and deeds which form the basis of ownership of properties.
- Canon 1280 – The administrator is to preside over the Parish Finance Council and, through the assistance and expertise of its members as advisors in financial matters, is to supervise carefully the administration of all parish goods.
 - Canon 1279 – Assisted by the Parish Finance Council, the pastor acts according to the norms of the statutes of the public juridic person (the parish). Diocesan policies, validly enacted, would constitute statutes for the parish and include establishing an annual budget.
 - Canon 1287:
 - Administrators must present to the local ordinary an annual financial report of their administration; and
 - Administrators are to give an accounting to the faithful of their finances.

“Persons” Under Canon Law

The *Code of Canon Law* speaks of 3 types of “persons” who are entrusted in various ways with carrying out the mission of the Church.

First of all, there are *physical persons* that are individuals who have acquired a number of rights and corresponding liabilities in the Church by virtue of baptism. The second category, *moral persons*, comes into existence without the intervention of any legal authority. The Code recognizes two such moral persons, the Catholic Church and the Apostolic See. The third category is *juridic persons*, those “artificial” persons who, in canon law, are subjects of rights and obligations.

A parish is a juridic person with all the resulting privileges and obligations provided for under canon law.

DIOCESAN NORMS

Annual Financial Report to the Bishop

According to the Decree on the Bishops' Pastoral Office in the Church, the Bishop is called to devote himself to his apostolic office as a witness of Christ to all people. This means that he must know something about those entrusted to his care if he is to teach, to sanctify and to govern them. If a bishop is to be bishop, he is to be an overseer, *episkopos*. His role of oversight is spelled out in the canon law on governance. Several canons concern reports to be made to the Bishop.

Canon 1284 states that administrators are bound to fulfill their function with the "diligence of a good householder...consequently, they must...draw up a report of the administration at the end of each year..."

The content of the annual report is left to local determination.

The Bishop in the Diocese of Tucson has established a norm requiring an annual report from each parish that provides details on ordinary and extraordinary income, ordinary and extraordinary expenses, bank accounts, Parish Pooled Investment Trust accounts, loans, construction projects, and property purchases & sales.

In addition, information concerning the Parish Finance Council is to be included in the report. That information includes listing the names, addresses and occupational information of Council members as well as a listing of the dates of meetings.

A copy of the annual financial report to the Faithful is to be attached to the report.

The annual report should conform to the format established by the diocesan fiscal office and mandated by diocesan norms. The PAFR is found on the Diocesan website under Fiscal and includes instructions & procedures.

The PAFR is to be prepared on an accrual basis. If your parish uses the cash basis of accounting throughout the year, see the Accounting Issues Section of this manual for an explanation of adjustments that should be posted at the end of the year to conform to this requirement.

The PAFR is to be reviewed by the Finance Council and approved by the Parish Board. The PAFR should be forwarded to all Finance Council and Board members prior to the review/approval meetings. The Pastor, Treasurer and Preparer should sign the signature page.

The report is due to Diocesan Corporate Matters no later than September 30 of each year.

Board of Directors

The Board of Directors exists to perpetuate the parish corporation, protect its assets and to make every prudent effort to ensure its financial viability. Two of the more important tools which aid the Board to fulfill its fiduciary responsibility are the parish budget and the annual financial statements.

Fiscal authority of the Board includes:

- Acquisition, lease or sale of property
- Execution of construction or major remodeling contracts
- Investment management
- Lending or borrowing money

- Recordation of endowed or restricted funds
- Similar transactions.

The Board is responsible for approval of the yearly budget which is reviewed by the Finance Council then presented to the Board for approval. All budgets (operating and capital, if applicable) are to be completed and approved by June 30th of each year. Budgets are to be in a format consistent with Board policy. Samples of the operating and capital budgets are on the Diocesan website under Corporate Matters. Approved budgets are not submitted to the Administrative Offices unless requested.

The Board is responsible for approval of the Parish Annual Financial Report to the Diocesan Bishop. The Pastor, Treasurer and Preparer are to sign the financial report before submission to the Bishop.

The Parish Corporate Board of Directors' Manual and Guidelines contains the policies and procedures for parish boards. Additional resources can be found on the Diocesan website under Corporate Matters.

Budgeting Principles and Guidelines

Budgeting is important in gaining an accurate overview of the financial health of the parish. It forces the parish and its organizations to plan. What programs will they attempt? What activities will they sponsor? The financial report to the faithful should portray activities in such a way that parishioners can compare how money is being raised and spent and how the parish had originally intended to raise and spend the money. A parish without a budget will run a greater risk of getting into financial trouble than one that prepares such a tool.

The Bishop in the Diocese of Tucson has established the following norms with regard to budgets for parishes operating within the Diocese of Tucson:

- *Each parish must establish an annual operating budget and a separate capital improvement budget, if necessary.*
- *Diocesan-approved templates for operating and capital budgets are provided on the Diocesan website under Corporate Matters.*
- *The Parish Finance Council must review the budgets and present them to the Board.*
- *The Parish Board must approve the budgets by June 30th of each year.*

Budgeting can be a time-consuming and arduous process. Looking into the future requires many assumptions, much uncertainty and considerable cooperation and compromise among people. Furthermore, it requires a concerted effort to devote full attention to the budget process. Budgeting, however, is essential to proper planning, control and evaluation of parish operations.

There are ten reasons why budgeting is important to our parishes. Budgeting:

- 1) Formalizes the planning process;
- 2) Reduces emotion-charged discussions;
- 3) Serves as a basis for performance and program evaluation;
- 4) Is a basis for control;
- 5) Aids in communication and coordination;
- 6) Gets staff involved;
- 7) Increases the commitment to give;
- 8) Generates confidence in the parish's leadership;
- 9) Allows for continued operation when cash receipts and disbursements are mismatched; and
- 10) Allows time to lend or borrow prudently.

Budget preparation should begin several months before the start of the new fiscal year. The budget should be put together in the spring, so it can be reviewed and approved before the new year begins. Have a timeline for budget preparation and share it with all parties involved. Otherwise, you will find yourself putting together a “guess” budget at the last minute

The pastor and the Finance Council can produce budgets from the “top down”. Alternatively, they can request each program or department to come up with estimates of income and expense and then add the departmental budgets together to build the budget from the “bottom up”. The top-down approach is generally faster and more streamlined, but it can leave many segments of the parish feeling left out, and it may overlook important sources of income or significant expenses. The bottom-up approach requires more time but usually results in a budget that has wider acceptability.

Budget Approaches

Incremental Budget: The most common way to prepare a budget is to look at income and expense for the past and current year and project how each category may increase or decrease in the year to come. The advantage of this approach is that it is easy to prepare and understand. The disadvantage is that the budget relies on the past, which cannot be changed, rather than on the future which can be changed. It also assumes that current programs are the priority of the parish without evaluating alternatives.

When using this approach, look at each type of income and expense separately and consider whether it was unusual in any way last year. Will it likely go up or down? Has there been a trend over the past few years? Think about any new projects or programs your parish will be implementing in the new year. These will certainly involve additional costs and, hopefully, generate some additional revenues as well.

A small parish will generally find the incremental budget approach the easiest to implement.

Program Budgeting operates on the premise that programs function to achieve certain purposes and by clearly establishing those purposes the parish can improve both the use of its resources and the effectiveness of programs. It provides a better understanding of what each program is attempting to do and directs program leaders to pay attention to program achievements and goals. It also provides a better understanding of what parishioners’ contributions are supporting. This approach, however, takes longer than incremental budgeting.

The program budget approach is most likely the one that larger parishes will want to use.

Steps in program budgeting:

- 1) Define program objectives (for example, increase religious education enrollment by 5%)
- 2) Delineate activities needed to carry out objectives
- 3) Determine the nature and levels of resources needed to support the activities
- 4) Determine the budget requirements to provide resources listed in Step 3
- 5) Prepare a budget for each activity
- 6) Prepare a program budget by grouping activity budgets

Zero-Based Budgeting takes the program budget a step further. This approach to budgeting is generally done every 5 to 10 years or with changes in parish leadership. It examines the mission of the parish to see if objectives have changed or need revision. This will determine what new activities are necessary to carry out those revised objectives. This is the most difficult budget to prepare as it requires the most time and planning in conjunction with thinking and doing things in new and different

ways. It also ensures that the parish will direct resources to those programs and activities that will accomplish the mission of the parish.

Budgeting Assumptions and Guidelines Memo

Fiscal Services prepares an annual memo giving guidance on those expenses that are not under the control of the parish. The memo is completed as soon as possible in the budget season but may not be available until April due to the time it takes to finalize benefit contracts, approve raises and other considerations. The Budget Memo can be found on the Diocesan website under Fiscal.

Budget Process

Revenue is usually the most important – and the most difficult – part of the budget to estimate reliably. It should receive as much care and study as expense projections and should be estimated conservatively. Revenues determine what expenses the parish can afford. But looking at it from the other end, the estimated costs of the parish's goals, plans and activities determine how much revenue it is going to need. While this may seem obvious, they indicate the basic problem inherent in budgeting: "Which comes first, the revenue or the expenses?" The realistic answer is that both sides of the money equation need to be worked on together. Plans must be realistic, based on an appraisal of likely revenue sources and new or increased sources may have to be developed to make possible the execution of priority plans.

Budget low on income and high on expenses. Your goal is to end the year with a surplus or at a minimum to break even. It is much less painful to figure out how to spend some unexpected income than to decide how to cut expenses that are running ahead of revenues. Don't include unlikely or uncontrollable sources of income. For example, it is very difficult to project bequest income, so you should not plan on receiving it unless you know with certainty that the amount will be received during the budget year. If you have been conducting a capital or other special fundraising campaign, will it continue in the new year? And are any of those dollars available to cover expenses or are they being put aside for a special purpose?

You may be receiving a grant or other funding that is restricted for a certain purpose. When you receive such a grant, be sure you understand what the money can and cannot be used for. Budget for that project as a separate category, and be sure you do not include any expenses that the grant will not cover unless you also include other sources of revenue.

Payroll and personnel are frequently large expense categories. Look carefully at all these line items. Do you plan to add a new staff person? To increase someone's hours? Do you plan to give any raises? In general, even projecting a level-staffing pattern will result in some increases in personnel costs.

Remember to budget for cash outlays that are not traditionally considered expenses. These include payments on outstanding loans, purchases of equipment or other capital items and major repairs to buildings and grounds.

Do not include special collections or the Annual Catholic Appeal in either income or expense. These are pass-through items—you collect the funds and send them directly to the Diocese.

As noted previously, you will probably need to budget by program areas if you are a larger parish. In general, programs will include Community of Faith, Liturgy, Proclamation, Service to Others and, if applicable, Parish School. Line up your budget by program, with a goal that each program will pay for itself. In practice, offertory in the Community of Faith column will underwrite many expenses in other

categories. Identify line items by programs, so you have a budget for payroll, personnel, office expense, etc. for each program.

It is important to coordinate the preparation and approval of the parish school budget with the parish school board to avoid catastrophic consequences in the middle of the fiscal year. Often, the school budget includes a subsidy from parish operations and the parish budget must include adequate resources to provide that subsidy or alternative courses of action must be implemented.

Budgets are to be reviewed by the Parish Finance Council and approved by the Parish Board by June 30th of each year. Budgets are to be in a format consistent with Board policy. Samples of operating and capital budgets are on the Diocesan website under Corporate Matters.

Capital Budgets

Parishes that are planning major repairs, renovations, new construction or the purchase of major equipment should also prepare a capital budget.

Factors to consider in capital budgeting include:

- How well does the present equipment or facilities serve the needs of the parish in terms of condition and capacity? Have maintenance costs reached the point where it would be economical to replace worn equipment with new or reconditioned equipment?
- What are the alternate plans of financing: outright purchase, installment purchase, long-term rental etc.
- What sources exist for financing each of these alternatives: special donations, installment purchase paid out of excess operating funds, special fund drives etc.

The Diocesan-approved template for capital budgets is provided on the Diocesan website under Corporate Matters.

Budget Implementation

As soon as the budget(s) have been approved by the Parish Board:

- Review the budget to look at timing of income and expense. This will help you with projecting cash flow during the year, and it will make your budget to actual financial reports more accurate. Using a computer spreadsheet, you can project each line item throughout the twelve months. With the influx of winter visitors, income and spending patterns can differ markedly between summer and winter, so consider seasonal fluctuations. Some programs may not operate during all 12 months. If you are planning large capital expenditures, plug these into the spreadsheet when you plan to expend the dollars. By adding a beginning cash balance and a few formulas in your spreadsheet, you can develop a useful cash flow statement.
- Almost all computerized accounting programs will allow you to enter budget figures into the system, either by month or on an annual basis. This will allow production throughout the year of budget-to-actual statements of income and expense. Enter the budget by line item and by program to maximize the value of the reports. Throughout the year, as you make deposits and write checks, refer to your budget to be sure you code your entries to line up with your budget. Don't code expenses to categories only because you have not spent all the dollars budgeted there, however. Always remember that you want your expenditures to be recorded as accurately as possible both for information now and as a guide for future budgets.
- Use your accounting software to produce reports for the Board, Finance Council and for parishioners. Look at the reports that are built into the system and use them wherever possible. Many programs will allow you to export your reports into Excel or another spreadsheet program, so you can add information or reformat your reports as necessary.

- Consider the ultimate end products -- your Annual Financial Report to the Bishop and parishioners and monthly or quarterly financial statements for the use of the Pastor, Parish Board, and Parish Finance Council. Look at all the schedules that are required and think about whether the way you are recording transactions will generate the data you'll need at the end of the year. The PAFR is integrated with the Uniform Chart of Accounts, so use of the two should help you produce the reports you need.

Coordination of the Board of Directors, Finance Council and Pastoral Council

The accepted practice for the coordination of the Board of Directors, the Parish Finance Council and the Parish Pastoral Council is for the Finance and Pastoral Councils to operate separately with at least annual reports to the Board of Directors.

It is recommended that the lay members of the Board be ex-officio members of the Pastoral and Finance Councils along with the Pastor. Because of their Board oversight duties, it is not recommended that lay members of the Board serve as council officers or chairpersons of other parish committees.

Diocese Support

The Diocese bills parishes for two categories of support:

- *Billings in support of chancery operations*
- *Billings in support of other diocesan operations and organizations*

Unless stated otherwise, the billings are made on a monthly basis from Fiscal Services.

Billings in Support of Chancery Operations

The Church, as divinely instituted, has the right to require material support from its participating members and institutions for its ministries and services. Bishops are authorized by the 1983 Code of Canon Law to raise funds for the diocese in the following ways:

- Administrative fees (Canon 1264)
- Extraordinary tax (Canon 1263)
- **Free will offerings (Canon 1262)**
- **Judicial fees (Canon 1649)**
- Special collections (Canon 1266)
- Seminary tax (Canon 264)
- **Tax (Canon 1263)**
- Wills and bequests (Canon 1299)

The Bishop in the Diocese of Tucson uses three of the above sources to support the ministerial and administrative functions of the Diocese:

1. Free will offerings
2. Judicial fees.
3. Tax

Free will offerings take the form of the Annual Catholic Appeal conducted by the Diocese of Tucson Catholic Foundation for Stewardship and Charitable Giving (Catholic Foundation). Monies raised in the Appeal are distributed to various agencies and ministries outlined in the Appeal brochure as approved by the Foundation's Board of Directors. The parish goals for the Appeal are set at a percentage of a five-year average of offertory collections. The goals are not "quotas" and the parishes are not billed for any shortfall in their goals.

Tax: Canon 1263 provides for a tax on juridic persons subject to the Bishop in proportion to their income. This tax is referred to as the “chancery assessment” and is levied on parish sustaining contributions.

The chancery assessment for each parish is calculated using the following formula:

- Parishes with sustaining contributions greater than \$30,000: 7%
- Parishes with sustaining contributions of \$30,000 or less: 3.5%

The Diocese bills the parishes for this assessment on a monthly basis.

Sustaining contributions include parish, mission & holy day offertory income, unrestricted contributions, net bingo revenue, and stole fees. Sustaining contributions excludes school tuition, temporarily or permanently restricted contributions, bequests, grants and mass offerings. The diocesan bishop may exempt parishes that face financial challenges from this assessment. NOTE: Unrestricted, Temporarily Restricted and Permanently Restricted contributions are found under the Accounting Issues section.

Judicial fees are billed to individuals in marriage annulment cases. If parishioners default on the fee, the parish is billed.

Billings in Support of Non-Chancery Operations and Organizations

The Diocese also bills parishes in support of other organizations in the diocese:

- Priest Assurance Corporation (**PAC**)
- Priest Salary Subsidy Assessment (**PSS**)
- Pooled Self-Insurance Retention Trust (**PSIRT**)
- School Subsidy Assessment

The *Priest Assurance Corporation* pays for priests’ health and retirement plans as well as supports unassigned priests. It is billed to parishes based upon the proportion of each parish’s sustaining contributions to total sustaining contributions. The total amount billed to parishes is based upon the budget approved by the PAA board of directors.

The *Priest Salary Subsidy* is distributed to parishes that have been determined to have special financial needs. It is billed to parishes based upon the proportion of each parish’s sustaining contributions to total sustaining contributions for all participating parishes. The subsidy is not billed to parishes that receive the subsidy.

The *Pooled Self-Insurance Retention Trust* manages the property, auto, general liability, and workmen’s compensation insurance program for the Diocese of Tucson. Insurance is billed to all Diocesan entities according to standard insurance industry practices which allocate costs based on square footage, replacement value, number of parishioners, and number of students.

The *School Subsidy Assessment* is billed to parishes in the Tucson metropolitan area in the total amount of \$150,000 per year. The assessment is used to support Tucson area Catholic high schools. Each parish’s assessment is based upon the proportion of each parish’s sustaining contributions to total sustaining contributions for all participating parishes. The high schools use the assessment to reduce tuition rates paid by Catholic families in the Diocese.

Finance Council

Canon 537 of the revised Code requires a finance council in each parish, subject to special norms established by the diocesan Bishop and composed of members of the parish selected according to

those norms. The task of the finance council is to assist the pastor in administration of the property and finances of the parish.

The importance of an active, informed council cannot be overemphasized. The active informed council would hold to the mission of the parish, protect the integrity of pastoral objectives, establish adequate council policies and ensure consistent adherence to those policies.

The Council is an advisory body and does not substitute for the pastor as the chief administrator and legal representative of parish matters. The relationship between the pastor and the Council is one of support and collaboration. The establishment of the Parish Finance Council does not lessen the authority of the pastor to act and decide on behalf of the parish as defined by Canon Law.

Members are appointed by the pastor and should include persons knowledgeable in business, finance, law, accounting, insurance, etc. along with persons from the parish-at-large. Members should be active in the parish and knowledgeable in the scope of parish programs and services. Members should not be related to the pastor and/or parish staff.

It is suggested that the term of office for each member be two or three years, except the first year, in order to have staggered terms of office. Provision could be made so that a member could be reappointed for an additional term.

The Bishop of the Diocese of Tucson has established the following norms regarding the Parish Finance Council:

- *The Council shall be composed of at least 3 members in addition to the Pastor and bookkeeper;*
- *Membership in the Council shall be diverse and include men, women and various occupations with financial expertise;*
- *The 3 additional members shall not be parish employees or serve in a volunteer function that affects their ability to make impartial and objective recommendations;*
- *The Council shall meet at least quarterly;*
- *The Council shall maintain written minutes of meetings;*
- *The Council shall review the annual operating budget and a separate capital improvement budget, if necessary, for the parish. The budgets are then submitted for approval by the Parish Board.*
- *The Council shall review the Parish Annual Financial Report and present it to the parish board for approval.*
- *The Council shall review the annual Financial Report to the Faithful.*

In fulfilling its responsibilities, the Parish Finance Council must be directed by the values of the Gospel as well as by good business practice. Efficient and effective use and management of parish resources must be measured as much by contribution to parish mission and ministry as by commonly accepted business standards.

Duties of the council:

- Review financial reports on at least a quarterly basis.
- Analyze parish revenue and expense trends on at least a quarterly basis.
- Review bank statements and reconciliations on at least a quarterly basis. Particular attention should be given to debit card transactions as it has been found that purchases can easily get out of hand when debit cards are used.
- Perform surprise reconciliations of petty cash.
- Monitor the system of internal financial controls for compliance with the Parish Accounting Manual.

- Review adequate security and safety of all parish cash, buildings, land and other assets.
- Assess the fiscal soundness of the parish and assist in formulating plans to resolve weaknesses.
- Ordinary administration including: review of an annual operating budget and a separate capital improvement budget;; and annual reports to parishioners.
- Extraordinary administration requiring approval of the Ordinary: review major one-time financial transactions in excess of \$25,000; borrowing funds;
- Formulate and overseeing capital campaign and master planning; establishing a cemetery/columbarium; demolishing parish buildings.
- Communicate the annual operating and capital budgets to parishioners.
- Review the Parish Annual Financial Report for submission to the Parish board.
- Assist the pastor in encouraging stewardship and increased giving within the parish.
- Coordinate any fundraising programs, including the Annual Catholic Appeal.
- Analyze the feasibility of land purchases, new building projects and the rental of land and buildings subject to diocesan policies.
- Monitor all diocesan policies relative to financial matters.

In smaller parishes or in parishes with limited staff, the Parish Finance Council can and should assume a more active role in monitoring the internal controls of the parish and in providing a second pair of eyes. The control environment is enhanced by the oversight of the Parish Finance Council, its independence from the pastor, the experience and stature of its members, the extent of its involvement and scrutiny of activities, the appropriateness of its actions and its ability and commitment to ask difficult questions of the pastor.

Additional Activities of the Finance Council

The following activities could be performed by one or more members of the Parish Finance Council to strengthen the internal controls of the parish:

- Reconcile the parish checking account.
- Reconcile offertory count sheets to the bank statement.
- Serve as the second signature on checks over a certain amount and to those made payable to the pastor or administrator.
- Perform surprise audits of petty cash and scrip.
- Review past due amounts for CCD fees and school tuition.
- Review results of fundraising events and controls for the parish and organizations operating under the purview of the parish.
- Review the IOI payroll register report on a quarterly basis to determine that hours and wages/salaries paid are reasonable.

Analysis Criteria for the Finance Council

In analyzing the fiscal soundness of the parish, the Parish Finance Council can use the following criteria:

- The parish should have a Parish Finance Council operating in accordance with diocesan norms.
- The parish is to have at least three (3) months of operating funds in reserve.
- The reserve may be in a combination of a checking account and savings account with a local financial institution.
- Excess funds over the three-month operating reserve are to be held in the Parish Pooled Investment Fund along with any significant amount of restricted funds.
- The parish is required to have sufficient resources to honor donor restrictions and custodial funds.
- The parish should be current in remitting all obligations to vendors and the diocese.

- The parish should not be experiencing negative trends, such as reductions in offertory income, decline in the number of enrolled parishioners, negative cash flows.
- The parish should have an excess of ordinary income over ordinary expenses in four of the past 5 years. Non-repetitive sources of revenue and expense should be eliminated in determining the surplus.
- The parish should have an ongoing stewardship program.
- The parish should provide a comprehensive annual report to parishioners.
- For those parishes with long-term debt, the parish should have a debt liquidation program and be committed to monthly or quarterly payments to liquidate the debt within a specified period of time (5, 7 or 10 years).

If a parish meets all of the above criteria, the parish is classified as sound. If the parish meets the criteria, but only marginally, the parish is classified as marginal. If the parish does not meet at least 7 of the above criteria, the parish is classified as weak.

Signs of Financial Difficulties for the Finance Council to Consider

Regardless of classification, the Council should be aware of signs of current or impending financial difficulties:

- *Negative trends*: ongoing losses, deficiencies in net asset categories, declining financial ratios, adverse cash flows, and loss of substantial contributors.
- *Other indicators*: long-term commitments that cannot be met, denial of credit from suppliers, restructuring of debt or sale of assets, and changes in demographics.
- *Internal matters*: dependence on the financial success of a particular event, the need to revise operations significantly, and the need to seek new sources of funding. Disagreements among the pastor, the board of directors and the finance council may also indicate problems.
- *External matters*: changes in laws that affect charitable giving, the loss of a major donor, and uninsured losses. Adverse publicity regarding other charities or scandals may also negatively affect the operations of the parish.

Financial Reports to the Faithful

According to Canon 1287 and the principles of good stewardship and effective leadership, the laity is to be informed regarding the financial status of the parish. Most importantly, there should be a relationship of trust that urges the pastor to be efficient and faithful in his administration of church goods especially since they are held for the benefit of others.

Parishioners, who work tirelessly and selflessly to address the spiritual needs of their communities, have high expectations of their parish. Parishioners recognize the needs of their parishes and want to respond generously to those needs. But they also want to be sure that the parish makes optimum use of their sacrificial gifts. There is no acceptable alternative to accountability. Good stewardship does not occur outside a system of accountability. Providing clear, basic explanations of financial activity starts with the detail record of transactions and evolves to the report to parishioners.

Parishioners generally read parish financial statements for different reasons than readers of financial statements prepared for businesses. Parishioners are more likely to be interested in the efficiency of the parish in providing programs and services rather than in the net income of the parish. The parish operates under a great deal of scrutiny from parishioners who expect that their offerings will be used in a very efficient manner with virtually no abuse or waste.

The financial report to the faithful should be simple & easily understood, be concise so that the reader does not get lost in detail, be all-inclusive in scope embracing all activities of the parish, and be

prepared on a timely basis. It might be the publication in the weekly bulletin of the amounts collected in the previous week's collection. There might be some comparison to the amount budgeted and maybe a year-to-date figure for both.

The Bishop in the Diocese of Tucson has established a norm that requires each parish to present an annual report to the faithful listing major sources of income and expenses as well as a statement of financial position.

Simple financials are automatically completed when the Parish Annual Financial Report is prepared. These may be used as the annual Financial Report to the Faithful.

Long-Range Planning

Long-range planning (3-5 years) is recommended and encouraged for each parish. Planning enables a parish or institution to be alert to and plan for (other than react to) changes involving demographics, the social environment and the financial status of a parish and the surrounding community.

Procedures

- 1) Inventory the assets of the parish
 - Parishioners by category, age, marital status, school age, etc.
 - Perform a physical evaluation of all church facilities in terms of capacity and conditions
 - Inventory personnel (employee and volunteer)
 - Assess current financial assets
- 2) Answer demographic questions
 - What changes are or will be occurring in the community?
 - What changes will influence physical, social and economic demographics of the parish?
 - Will changes in demographics require a change in program?
- 3) Assess the impact of program changes on facilities and/or personnel
- 4) Determine financial planning opportunities
 - Physical facilities
 - Personnel
 - Operating expenses
 - Services
 - Compensation
 - Inflation
- 5) Determine sources of funding
 - Ordinary income
 - Extraordinary income
 - Income opportunities (fundraisers etc.)
 - Investment income
 - Special capital drives

Mass Offerings, Stole Fees, Visiting Priest Stipends

Mass Offerings

Mass offerings are to be kept in a special separate book by the pastor or rector of the parish, listing the number of Masses to be celebrated, the intention, the amount of the stipend given and when the Mass was celebrated.

The Ordinary is obligated to examine this book each year either personally or through delegation of authority to others.

There should not be a payment of a stipend if one was not given for that particular Mass. In addition, only one Mass stipend is to be paid daily and that is for the first Mass of the day. If another Mass is offered that same day, then the stipend is to be given to an offering chosen by the Ordinary. The only exception to this rule is for Masses celebrated on Christmas. A priest who concelebrates a second Mass that day may not collect a stipend. Stipends are not to be paid for the Pro Populo (For the People) Mass offered by the pastor of a parish each week, as there is no stipend given.

It is not lawful for any priest or parish to accept more stipends for Masses than can be said within a calendar year. Should there be more stipends than can be celebrated in a calendar year, those intentions and the related mass stipends should be sent to a parish or pious institution that is in need of or can fulfill the calendar year requirement unless the donor requests otherwise. If the intentions and stipends are sent away, then a note must be made in the special ledger of the number of Masses, the intentions, the amount of the donation and the priest entrusted to say the Mass.

The norm in the Diocese of Tucson is that Mass offerings are paid on a bi-weekly or monthly basis on a regularly scheduled payroll. The stipend per Mass is \$10; however, at the pastor's discretion, the stipend may be set at \$5 per Mass to fulfill pastoral needs of the parish.

Mass offerings are taxable for both income and Social Security tax purposes.

Stole Fees

The priest should not request a fee for administering the sacraments, being mindful that the needy are not deprived of the help of the Sacraments due to poverty.

The norm for stole fees in the Diocese of Tucson is one of the two methods:

- *Method 1: Charging a specific fee for the parish, then giving a portion of the fee to the celebrant of the Sacrament; or*
- *Method 2: Allowing those receiving the Sacrament to make a goodwill offering to the celebrant of the Sacrament.*

The second method is preferred as this does not deprive those less fortunate economically from receiving the Sacraments. However, Method 1 has become a necessary reality as some individuals would otherwise never contribute for the support of the Church. If Method 1 is used, the stole fee is at the discretion of the pastor.

If the parish charges a fee and those receiving the sacraments give a goodwill offering to the celebrant, the priest should not receive the celebrant's portion of the stated fee.

Stole fees are taxable for both income and Social Security tax purposes.

Stipends Paid to Visiting Priests

During the course of the year, it becomes necessary for a priest to fill in for another priest who is ill, on vacation or otherwise absent from the parish. The stipend paid to the visiting priest is to be negotiated between the pastor or parish administrator and the visiting priest.

Payment of stipends is processed according to the total amount expected to be paid in the calendar year. If total stipends are less than \$600 payments are made through accounts payable. If total stipends are \$600 or more payments are made through payroll.

Ordinary and Extraordinary Administration

Canon 1279 provides that the administration of ecclesiastical goods pertains to the one with direct governance over the moral or juridic person to whom the goods belong. The diocesan bishop is responsible for those belonging to the diocese, the parish pastor or administrator for those belonging to the parish.

The Code distinguishes between acts of *ordinary administration* and those acts that require written permission of the Ordinary called *extraordinary administration*.

Acts of ordinary administration are routine acts that occur on a repetitive basis; they include payment of bills, distribution of salaries and stipends, banking of receipts, ordinary repairs to property, etc. Acts of extraordinary administration are to be determined by the Bishop and usually refer to specific actions whose cost exceeds a certain sum of money.

The Bishop of the Diocese of Tucson has established the following norm regarding extraordinary administration:

Acts of extraordinary administration include:

- *Spending in excess of \$25,000 on any capital item or project;*
- *Undertaking any capital campaign in excess of \$25,000;*
- *Executing any loan or mortgage documents in excess of \$25,000;*
- *Sale of parish property worth in excess of \$25,000;*
- *Engaging in any litigation; and*
- *Establishing a cemetery or columbarium.*

Acts of extraordinary administration require the pastor to consult with his Finance Council and seek its advice regarding the proposed action. The action then is to be reviewed and approved by the Board of Directors and then submitted to the Bishop. The approval of the Bishop must be obtained before any of the above actions can be finalized.

Pastoral Council

In January 2005, Most Rev. Gerald F. Kicanas, Bishop of the Diocese of Tucson required all parishes to have a pastoral council as permitted by the Code of Canon Law #536.

One year later the newly incorporated parishes of the Diocese of Tucson adopted bylaws, one of which stipulates that each parish is to establish a Pastoral Council. (Article IX Section 6).

The pastor has the primary responsibility for the spiritual and material welfare of the parish. The Pastoral Council along with the Finance Council and the Board serve both the parish and the diocese in providing support for its leadership and membership.

ACCOUNTING and FINANCIAL TOPICS

Parish accounting differs in many respects from accounting for a commercial business; accordingly Diocesan accounting standards and principles are different from a commercial business and even a nonprofit organization. Financial Accounting Standards Concept No. 4 outlines the following distinguishing characteristics of “non-business” organizations:

- Receipts of significant amounts of resources from individuals who do not expect to receive either repayment or economic benefits proportionate to the resources provided
- Operating purposes that are other than to provide goods and services at a profit
- Absence of defined ownership interests that can be sold, transferred or redeemed or that convey entitlement to a share of the assets in the event of liquidation

Concept No. 4 notes that the users of nonprofit financial statements are likely to be those providing the resources, those who benefit from the programs and services provided by the parish, oversight bodies (such as the Parish Finance and Pastoral Councils) and managers (the pastor or administrator).

Financial information provided by the accounting system at the parish should provide information that is useful in:

- Making resource allocation decisions;
- Assessing services and the ability to provide services;
- Assessing stewardship and performance; and
- Providing information about economic resources, obligations, net resources and changes in them.

The two most commonly used financial statements of the parish are the *Statement of Financial Position* and the *Statement of Activities*. Depending on the version used, Quickbooks may call the Statement of Financial Position the Balance Sheet and the Statement of Activities may be called the Profit & Loss Statement.

The statement of financial position reports the *net assets* of the parish. The focus of the statement of financial position is on the assets and liabilities of the parish as a whole. The statement of financial position reports the amounts of net assets of the parish in each of three classes of net assets – permanently restricted, temporarily restricted and unrestricted.

The statement of activities classifies revenues, expenses, gains and losses within the three classes of net assets. The focus of the statement is on the parish as a whole and should provide information about expenses reported by their functional classification such as major programs.

Annual Catholic Appeal

Contributions to the Annual Catholic Appeal are *agency* transactions and the beneficiary is the Catholic Foundation. Amounts collected are credited to 209010-Annual Catholic Appeal when received from donors and charged to the same account when disbursed to the Foundation.

Bank Accounts

Parishes are authorized to maintain one checking and one savings account for the general use of the parish and an additional checking account may be used for a parish school. Additional checking accounts may be maintained only when required by Federal or state laws. The Bishop must approve any deviation from this policy.

General Checking Account - Parish	Each parish should maintain one account for general purposes, including deposit of all cash receipts and writing of all checks for expenses, payroll, fundraising events and funds from parish organizations.
General Checking Account – School	A separate checking account may be maintained for the school if authorized by the pastor. The pastor is to be the regular check signer.
Savings Accounts	The benefit of saving accounts should be researched. If fees are not charged for the checking or the savings account, then a savings account may be beneficial. If a fee is partially based on the checking account balance it may be best to keep all funds in the checking account.
<i>NOTE:</i>	<i>THE TOTAL OF ALL CHECKING AND SAVINGS ACCOUNTS SHOULD NOT EXCEED THE 3-MONTH OPERATING RESERVE. EXCESS FUNDS ARE TO BE ON DEPOSIT WITH THE PARISH POOLED INVESTMENT TRUST (PPIT).</i>
Mission Account	Not permitted
Festival or Fiesta Account	Not permitted
Capital or Building Fund Account	Not permitted; to be deposited in PPIT.
Cafeteria or Milk Fund Account	Permitted if parish operates a school and must account separately for cafeteria and commodity transactions
Bingo Account	Arizona law requires a separate account if the parish operates bingo.

Bank accounts must be titled in the name of the parish and reflect the parish's Federal tax ID number (EIN). All parish funds must be maintained in financial institutions insured by the Federal government and all bank account balances must be included in parish financial reports.

Bingo Operations

All parishes and organizations of the Diocese of Tucson must comply with civil law as it pertains to the conduct of a bingo operation. Any parish that conducts a bingo operation should possess the current issue of the Arizona Revised Statutes governing the games of bingo.

A license is required for any parish sponsored bingo operation. The bingo license must be in the name of the parish and is obtained and renewed annually from and by the Arizona Department of Revenue Bingo Section. Bingo licensees are required by the State of Arizona to file a quarterly financial report of bingo operations.

By state law, all records pertaining to bingo operations shall be kept for not less than three (3) years.

Internal controls must be implemented to safeguard the accurate processing of all bingo proceeds.

Parishes that do not operate a parochial school must record the income generated by Bingo as parish fund raising revenue for the undesignated use of the parish. Net bingo proceeds are included in the calculation of Sustaining Contributions used to determine parish assessments.

Parishes that operate a parochial school must record revenues from Bingo as school fundraising income.

A separate checking account is required for bingo. No check shall be drawn to "cash" or a fictitious payee. Separate cash receipts and disbursements must be maintained to record the transactions of the bingo account.

Expenditures that may be paid from the bingo checking account are:

- Accounting/bookkeeping expense.
- Arizona State Bingo Tax;
- Bingo license fees
- Bingo supplies and equipment
- Facility rent or janitorial services and utilities attributable to bingo games
- Prizes awarded
- Repairs to bingo equipment

All other expenditures fall within the meaning of the definition of the lawful purpose of the organization. This definition is found in ARS, Title 5, Chapter 4, Article 1, Section 401, Item 6, which states:

"Lawful purposes" means the expenditure of net proceeds of a game of bingo exclusively by a licensee for the purposes of carrying out its mission and its aims or for the purpose of charity or betterment of the community."

The interpretation of "lawful purposes" as it relates to a parish sponsored bingo operation means that checks written from the bingo checking account may be for any proper parish debt or obligation so long as the Parish is not the payee.

Bingo licensees are subject to periodic inspections of game operations and to an audit of their financial records.

Bingo change funds may be used in one of two ways as follows:

- (1) Change funds may be maintained on an imprest basis similar to petty cash. These funds would be carried over intact from one period to another and would be held in safekeeping by the Parish.
- (2) Change funds may be obtained for each bingo occasion and then re-deposited to the bank account after each session.

Both Federal and State governments have reporting requirements that must be complied with when prizes are awarded above certain prize levels. Refer to the appropriate governmental agency for current information.

Bingo regulations are found in IRS Publication 3079, Gaming Publication for Tax-Exempt Organizations.

Cash vs. Accrual Accounting

There are two general methods of recording transactions: the cash or the accrual basis.

The **cash** basis records transactions at the time cash is either received or disbursed. The primary advantage of the cash basis is its simplicity.

The **accrual** basis records transactions when the activity or benefit accrues, that is when the goods are used or the transactions occur regardless of when the cash is received or disbursed. The advantage of the accrual method is that it more accurately portrays the financial picture of the parish. If a parish is slow in paying bills, a statement of activities prepared on a cash basis might not indicate an operating deficit and might mask the problem until it reached a crisis stage.

It is recommended that the accrual basis be used to prepare financial reports for the pastor and the Parish Finance Council and must be used to prepare the parish's annual financial report to the Bishop.

Practically speaking, many parishes account for income and expense on a cash basis throughout the year. This simply means that income is a result of bank deposits and expenses are posted when checks are written. At the end of the year (June 30), however, it is important to add in both income and expenses that have not been recorded in your bank statement. Many of these entries are made by general journal entries that involve an entry to a balance sheet account (assets and liabilities) offset by an entry to income or expense. The entries would be posted as of June 30 and reversed in the next fiscal year.

- *Annual Financial Report schedules.* Review this document as it may contain a lot of useful line items that might be overlooked and require year-end adjustments.
- *Accounts payable.* Beginning July 1, watch for checks you write that are for expenses from the prior year. Are you paying June's utility expenses in July? Are you paying employees for services performed in June? These amounts should be recorded as accounts payable at June 30.
- *Deferred tuition and registration.* Have some parents made early tuition or registration payments that relate to the next school year? This is not income until after the new school year begins. Until then, it should be recorded as deferred revenue. When the new school year starts, credit tuition revenue and debit the deferred tuition entry.
- *Earnings on Parish Pooled Investment Trust (PPIT) and Catholic Foundation funds.* The Diocese will send you a report of earnings on all monies on deposit with PPIT and the Foundation will provide a statement of the market value of investments. You can use these same reports to check that the balances you show for these accounts match the ones on the Diocese and Foundation books.
- *Outstanding assessments and Diocese bills.* If the parish has not paid all their bills to the Diocese, the unpaid portion should be recorded as a payable at June 30. Check with the diocesan fiscal office to make sure you have recorded all unpaid bills..
- *Outstanding loan balances.* During the year, it is easy for loan balances to get out of synch. Call the diocesan fiscal office and request June 30 balances; if necessary adjust your balances to match.
- *Prepaid expenses.* As the end of the year approaches, carefully analyze checks you write. Are you paying now for something that will be used after July 1st? For example, are you paying to send a staff person to a conference that will not take place until August? Are you paying July's copier payment in June? These items should be posted to prepaid expense.
- *Tuition receivable.* Do parents owe tuition from the just concluded school year? Record this as a receivable, with the offsetting entry to tuition revenue, if you believe you will collect it. A listing of tuition that is not likely to be collected should be provided to the pastor and Parish Finance Council

Catholic Foundation Endowments

The Catholic Foundation provides the resources for parishes to establish and manage endowments received for the benefit of the parish or quasi-endowments established by the parish for long-term

purposes. The Catholic Foundation for the Diocese of Tucson invests these funds in many types of financial instruments including stocks and bonds that can increase or decrease in market value. Financial Accounting Standards Board Statement 124 requires nonprofit organizations to report the market value of such investments on their financial statements.

The parish, therefore, should adjust the amounts held by the Foundation to market value to reflect the value of investments according to the statement provided to the parish by the Foundation. Statements are currently issued quarterly.

The entry to adjust Foundation investments to market value:

107260 Investments held by Catholic Foundation	xxxx	
4x8420 Gain on investment held by the Catholic Foundation		xxxx

The entry is reversed if there was a decrease in market value.

Dividends and interest received from the Foundation deposits are booked as revenue unless the earnings cannot be used by the parish. The earnings are booked as shown below:

100110 - Checking	xxxx	
4x8020 - Dividends/Interest on Catholic Foundation Deposits		xxxx

Catholic Tuition Support Organization (CTSO)

The Catholic Tuition Support Organization of the Diocese of Tucson (CTSO) is a qualified School Tuition Organization (STO) that provides tuition assistance for students in the Catholic Schools throughout the Diocese of Tucson. Per ARS 43-1089 and 43-1121, individual and corporate taxpayers are provided a dollar-for-dollar tax credit for contributions made to CTSO

The CTSO encourages all parents of students enrolled in Catholic schools to apply for tuition assistance. Tuition assistance is first awarded based primarily on financial need. Most schools use a third party such as FAIR or FACTS TUITION to evaluate the financial need of the applicant. Contact the CTSO for procedures for the submittal, awarding and funding of tuition assistance

CTSO funds are released to schools every four months during the school fiscal year; for a specific calendar of release dates contact CTSO. The funds distributed are held by the school in trust for the students.

A common practice followed by many Schools is to use CTSO monies to offset tuition expense for all students. This practice does not comply with State regulations that STO monies are scholarships awarded to individual students and must be accounted for by student. Compliance with this regulation is critical, especially since the State now allows the Arizona Department of Revenue to audit private schools to verify that scholarships have been awarded to individual students and used for tuition purposes. If compliance with this procedure cannot be proven, the State can disallow further CTSO monies to that school.

The following booking procedures are recommended to ensure compliance with State regulations for CTSO funds. Note: Recorded scholarships do not have to be booked to Tuition Revenue by individual student but can be booked in total; i.e. if \$1,000 in CTSO scholarship is recorded for 100 students in the same time period, \$100,000 can be booked as Tuition Revenue.

July 1, 2009: CTSO funds are received by the School

_1001xx—Checking	160,000	
2099xx--CTSO Scholarships		160,000

Aug 1, 2009: CTSO scholarship money is booked to the student accounts

The amount of the student's CTSO scholarship is recorded as a payment against that student's tuition. The following entry is booked in the School's accounts:

2099xx--CTSO Scholarships	2,000	
4462xx--Tuition Revenue		2,000

Chart of Accounts

All parishes are required to use the Uniform Chart of Accounts issued by Fiscal Services and found on the Diocesan website under Pastoral Center/Fiscal. Keep this reference handy during the budgeting process. If you are implementing QuickBooks, the fiscal office has a template containing the parish chart of accounts and formatted reports that will save you time in the transition.

Contributed Services

Contributions of services should be recorded in the accounting records of the parish only if all of the following conditions are met:

- The parish typically would need to purchase the services if they had not been provided.
- The services require specialized skills.
- The services are provided by individuals with those specialized skills. Specialized skills include accounting, financial, construction, educational, electrical, legal and medical and are provided by accountants, investment advisors, contractors, teachers, electricians, lawyers, doctors and other professionals and craftspeople.

Although a significant number of volunteers serve the parish, the criteria are not likely to be met.

If the above criteria are met, the parish should record the estimated value of services as a credit to Account 4x4480. The amount is not a tax-deductible contribution, however, and the guidance in the tax section of this manual should be followed in acknowledging the services provided to the parish.

Contributions, Agency Transactions, Exchange Transactions

Current accounting principles are quite specific in recognizing and classifying contributions, and agency and exchange transactions. Financial Accounting Standard 116 (FAS 116) provides guidance in this area.

Contributions

FAS 116 defines contributions as follows as “A *contribution is an unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner. Other assets include securities, land, building, use of facilities or utilities, materials and supplies, intangible assets, services, and unconditional promises to give those items in the future.*”

One of the key terms in the definition is *nonreciprocal transfer*. In other words, donors do not receive something of equivalent value in consideration for their contributions.

Another important term is *unconditional promise to give*. FAS 116 defines this as “a promise to give that depends only on passage of time or demand by the promisee for performance.”

A *conditional promise to give* is a transaction that depends on an occurrence of a future and uncertain event. A conditional promise to give is not recognized until the conditions are substantially met. At this point, the promise would become unconditional and the related accounting rules would apply. A

conditional promise would be deemed unconditional if chances of not meeting the conditions are remote.

A conditional promise would include a donor's pledge to a capital campaign if a certain amount was raised. The conditional promise would be deemed unconditional and recorded on the parish records at the point that the campaign reaches the goal specified by the donor.

Contributions also need to be distinguished from agency and exchange transactions.

Agency Transactions

In an agency transaction, the parish accepts cash or other assets from another party and agrees to disburse them to a specified beneficiary. The parish should recognize the value of those assets as a liability to the specified beneficiary. This situation occurs when the parish receives contributions for special collections or the Annual Catholic Appeal.

In certain situations, the donor may explicitly grant *variance power* to the parish. Variance power is the unilateral power to redirect the use of the assets to another beneficiary. The parish must be able to override the donor's instructions without approval from the donor, specified beneficiary, or any other interested party. If the parish has variance power, the amount is recorded as a contribution.

Exchange Transactions

Exchange transactions are reciprocal transfers in which each party receives and sacrifices something of approximately equal value. These are the types of transactions typically found in commercial businesses. A buyer of goods or services compensates the seller of the goods or services with cash, another asset, forgiveness of debt or a promise to pay in the future.

Parishes enter into a variety of exchange transactions. Salaries paid to employees or amounts paid for utilities are clear examples of exchange transactions. On the revenue side, sale of scrip or raffle tickets, school tuition and fees paid for religious education classes are classified as exchange transactions. Some transactions may contain elements that make classification difficult.

Credit Cards

Many priest and employees or incur expenses connected with the parish which are paid with personal credit cards.

The employee is to keep receipts for the expenditure and complete an expense report requesting reimbursement from the parish. The documentation is to clearly state the business purpose of the expenditure.

The parish should reimburse the employee before payment is due to the credit card company.

In rare instances, it may be necessary for the parish to establish a credit card account with a limited authorization level for employees. These instances should be the exception and if authorized limits for all parish credit cards exceed \$25,000, the approval of the Ordinary is required.

Custodial Funds, Parish Organizations, Ancillary Organizations

Custodial Funds and Parish Organizations

The National Church has adopted a reporting system “designed to produce full disclosure”. Full disclosure requires that all funds of a particular parish, regardless of source, structure or separation of management should be reported in a single set of financial statements.

Most parishes sponsor volunteer organizations that conduct fundraising or social activities in the name of the parish. The incomes of these organizations are assets of the parish and are subject to administrative provisions of both canon and civil law. The financial activity of these organizations are to be included in the parish financial accounting records.

Parish organizations do not have separate tax-exempt identification numbers and do not file informational or other returns with governmental agencies. In addition, contributions to such organizations qualify as charitable contributions on the donor’s income tax return because of the organizations’ affiliation with the parish. It is necessary for the pastor to monitor the activities of such organizations, including their finances, to ascertain that the groups are operating within the tax-exempt purpose of the Church.

The following practices should be followed in maintaining parish organizations funds:

- The parish bank account is to be used to deposit the income and to pay the expenses of such organizations.
- Authorization procedures are to be established with each organization setting dollar limits on how much can be expended without board, pastor or membership approval.
- Reports are to be given to the leadership of the organizations reporting the activity and unexpended balances of each organization’s funds.
- The organizations’ activities are to be incorporated into the financial reports of the parish.

Ancillary Organizations

Ancillary organizations include St. Vincent de Paul Societies, Catholic Daughters and the Knights of Columbus. Such organizations are incorporated on a national basis, have their own tax identification number and are not under the control of the parish.

The activities of such groups are not included on the financial statements of the parish.

If the organization operates on parish property, a lease or operating agreement should be negotiated between the parish and the organization to outline the basic understanding of the rights and obligations of each party.

Debit Cards

The use of debit cards is strongly discouraged because of several risks including: bypassing internal controls; the liability to the parish if an unauthorized transaction is made; and the ease of using the card that leads parishes to over-spend. In addition, most banks do not cover any part of a fraudulent debit charge whereas usually they will cover fraudulent credit card charges over \$50 per item.

If the parish feels a debit card is necessary, strict procedures should be followed including:

- Use of the debit card should be restricted to appropriate individuals.
- Receipts are to be turned into the bookkeeper immediately for reconciliation to the bank statement.

The debit card transactions on the bank statement should be reviewed by the Parish Finance Council on at least a quarterly basis.

Deferred Revenue

Deferred revenue occurs when fees for service are received in one fiscal year that relate to services performed in subsequent fiscal years. The deferred revenue account is to be used for school or religious education tuition only. For example, tuition payments received in March 2015 for the school year beginning August 2015 is to be recorded to 206510 – Prepaid Tuition until the school begins. When the school year begins, a journal entry is to be recorded as follows:

2065xx	Deferred revenue	xxxxx
4x6310	Tuition income	xxxxx

School or religious education registration and fees are not treated as deferred income but are recognized in the year received.

This accounting treatment does not apply to donations received. See further guidance on restricted contributions below.

Electronic Check Deposits

Electronic Check Processing (ECD) is a banking service which allows paper checks to be deposited electronically to the bank. Checks are scanned and the images are electronically sent to the bank for deposit through the internet using the bank's server. A software program allows the user to observe and correct mis-scanned checks as well as print deposit confirmations.

ECD is a safer way to deposit checks as there is no transporting the checks to the bank or the night deposit box. It gives quicker access to money for cash flow management and allows access to check images 24/7. ECD deposits also eliminate the need to copy checks.

Dual Control should be used to scan the checks and send the deposit to the bank. Dual Control is the processing of a procedure by two individuals. Dual Control offers additional protection of the funds and the reputations of the individuals processing the funds. Dual Control may be two staffmembers or a staffmember and a volunteer; the volunteer may change from week to week.

Excess Funds

All funds over and above the parish's three-month operating expenses should be on deposit with PPIT.

Financial Recordkeeping

An individual with a proven ability to maintain financial records should perform the parish's bookkeeping responsibilities. The Pastor, Board members and Finance Council members are to provide oversight and approval of financial activity; they should NOT serve as the bookkeeper or enter transactions to the accounting program.

Accounting records and source documentation are to be kept on the parish premises at all times. A backup of computer files should be retained off-site or in a fireproof location but all original records and computer files should be at the parish. In addition, when the bookkeeper is an employee the duties are to be performed at the parish. It is preferred that contracted bookkeepers also perform their duties at the parish but are not required to do so. All records are the property of the parish.

In addition to complying with the time requirements for record retention, issues of security and safety are important. Permanent records should be maintained in a manner that will protect them from damage by fire, water or other hazards. The media used for records must be evaluated and, if necessary, more permanent backup copies should be created. Records containing sensitive or confidential information must be protected from unauthorized access.

Fixed Assets and Depreciation

A parish must account for the property used in its operations. Examples of such assets include land, land improvements, building and related improvements, furniture, fixtures, vehicles etc.

Proper accounting for property requires that such items be capitalized if the assets are expected to last longer than one year and cost in excess of \$1,000. The cost of the expenditure is charged to an asset account in the 109000 – 109899 range and not to expense accounts beginning with a “5”. The amount to be capitalized should be the total cost to acquire the asset even if the parish makes multiple payments to acquire the property.

Examples of major repairs that should be capitalized include:

- New HVAC systems
- Repaving the parking lot
- Major landscaping
- New roof

Every parish must maintain permanent records of all property. Each asset record should include the following information:

- Asset description
- Serial number
- Purchase date
- Vendor
- Purchase price
- Physical location
- Person responsible for asset
- General ledger account charged to
- Disposal date, when applicable

Although generally accepted accounting principles require depreciation of fixed assets, Diocesan accounting principles do not depreciate fixed assets. The costs of determining original cost of parish property as well as the age of many parishes buildings would make the implementation of this principle difficult and would outweigh any benefits.

Donations of property are recorded at fair value when received, if the parish has a clearly measurable and objective basis for determining the value. If values are not reasonably determinable, the donations are not recorded. A concerted effort should be made to value all significant donations of property.

Procedures should be established to provide for the ongoing maintenance of facilities. Maintenance should consist of both daily and routine activities, while a plan should be established for long-term improvements, such as roof replacement, parking lot repaving and other major maintenance. If necessary, parish budgets should include a capital as well as an operating budget. The capital budget should take into consideration necessary long-term repairs and improvements to the facilities in order to keep them safe and operational.

Fundraising

These guidelines reflect the belief that all fund raising activities within the parish should reflect a spirit of Gospel faith. Following are principles that reflect those beliefs:

- Appeals for money should be directed toward motivating Catholics to meet their Christian need and responsibility to give and share with others.
- We expect each parishioner to support the financial needs of their parish through participation in the use of the Sunday envelope. The intent is to communicate parishioners' responsibility to support their parish and let the people decide how they can best participate.
- Appeals to raise money for parish needs should be made on a theologically sound basis and be conducted in such a manner as to lift the hearts of all to praise God and serve their neighbor.
- Appeals for money are presented in a truthful and forthright manner informing parishioners of how the money is to be used and assuring them that funds given will be used for the purpose intended. A final report should be given to parishioners stating the amount actually raised and how the funds were expended, including the costs of the appeal itself.
- Catholics should be made aware at the time of an appeal that they are meeting their responsibility to support the needs of the parish, the Diocese, the national Church or the international Church as appropriate.

A parish generally conducts many fundraising events during the year, such as annual festivals, major dinner/dances or bingo. Many parishes rely on special fundraising events to supplement the weekly offertory as a source of revenue. These events can generate a significant amount of additional funds needed by the parish to meet their financial needs. As such, it is important that each parish take special care to ensure the adequate safeguarding and monitoring of these funds.

Certain fundraising events may require prior approval of licensing with a state or local agency (bingo, casino night). In addition, certain events may require the submission of activity reports with state and/or local agencies.

The financial activity for special fundraising events should be monitored separately but be included in the parish accounting records. Receipt and disbursement activity should have its own designated account codes when recorded in the parish accounting records.

An appointed committee of reputable and practicing members of the parish should coordinate each event. The pastor may or may not be a member of the committee but should monitor its activities.

All monies collected from the event should be deposited to the parish bank account. A special separate bank account in the parish name should be maintained for bingo activities. Under no circumstances should monies be taken before deposited to pay event-related obligations.

All disbursements related to the event should be made through the parish checking account.

A report of the financial results of the special event should be prepared in a timely manner after the event. This report should be reviewed and approved by the Parish Finance Council.

Any parish function that is "open to the general public" such as a fiesta, picnic or bazaar serving liquor will require a Special Events License. The Arizona Department of Liquor Licenses and Control issue this license. The license must also be circulated to local (city/county) authorities as well. For more details about the license, fees and availability, please visit the information on License #15 on the Liquor License and Control website.

Failure to comply with reporting regulations may subject your parishioners to special IRS scrutiny and could jeopardize the tax-exempt standing of the parish. If your parish conducts any fundraising activities, consult the IRS website and see Publication 3079: *Gaming Publication for Tax-Exempt Organizations*.

The inclusion of alcohol, gambling or carnival rides may also require additional liability insurance. Contact the Diocesan Property & Insurance department for further clarification.

Gifts of Securities

The policy of the Diocese is that parishes must sell all gifts of securities, including securities held by brokerage firms.

In the event that your parish receives such gifts, please contact Fiscal Services to arrange for the transfer of ownership and appropriate credit to the accounting records of the parish.

Health Benefits Billing and Payment

The following expenses are debited by Fiscal Services directly from the parish's checking account on a monthly basis. The amount is based on the number of participating employees and the monthly premium charged by the insurance carrier. The amount to be debited is reported on the RETA Trust billing invoice emailed to parishes at the end of the month prior to the debit transaction.

- Medical
- Dental
- Vision
- Life and Accidental death & dismemberment
- Long term disability

Investments

Parishes are not to maintain accounts at a commercial stock brokerage house or other similar financial organizations. A parish is not to buy or sell stocks or bonds or make investments of parish funds in money market accounts, time certificates of deposit or any other investment instruments. These are absolute prohibitions. Any stock donated to or otherwise owned by a parish must be sent to Fiscal Services. The stock will be sold and the funds transmitted to the parish or deposited into the parish PPIT account.

If a parishioner wishes to donate stock or bonds to the parish, the registration of the securities must be in the corporate name of the parish. The stock or bonds are then sent to Fiscal Services to be sold.

Investment Income

Investment income is composed of dividends, interest, realized & unrealized gains & losses on investments. It arises from amounts earned on bank accounts, funds held by the Catholic Foundation and PPIT deposits. Investment income is reported as unrestricted income unless the use of the assets received is temporarily or permanently restricted.

Temporarily restricted investment income should be added as an addition to the unexpended balance of the fund. An entry should be made to the separate donor file, if one has been established, increasing the unexpended balance.

The classification of gains and losses on donor-restricted endowment funds can be complicated and requires careful analysis. Donors may require that the parish permanently retain some portion of gains or losses on the donor-restricted endowment. If such a situation arises, please contact the fiscal office of the diocese for further guidance.

Mass Offerings and Stole Fees

For accounting purposes, mass offerings are recorded in Account 414460 when received and in Account 512012 when paid to the celebrant. Stole fees are recorded in Account 414450 when received and in Account 512013 when paid to the celebrant.

Missions

Chapels of Ease

If a mission is truly functioning as an extension or chapel of ease of the parish, then it should be treated as an integral part of the parish accounting system. However, specific accounts should be maintained to record the receipts and expenditures relating to each mission. Allocations should be made to the mission accounts for shared expenses such as priest salaries.

Missions with Parish Status

If a mission is being treated with parish status, a separate cost center id will be assigned by the diocesan fiscal office and a separate accounting system shall be maintained for that mission similar to any other parish.

Month-End Close

The following procedures should be done before the books are closed for the year:

Reconciliations

- Amounts due to the Diocese should be reconciled to the monthly billing statement.
- Bank statements should be reconciled to the parish general ledger.
- Investments should be reconciled to Catholic Foundation statements.
- Parish records should be reconciled to the PPIT statements.
- Scrip should be inventoried with any inventory shortage recorded to the scrip account.
- Stewardship records should be reconciled to the general ledger.
- Tuition receivables should be reconciled to subsidiary records.
- Accounts payable should be accrued.

Review of financial statements

- Details of the general ledger should be reviewed for accuracy.
- Maintenance accounts should be reviewed for amounts that should be capitalized.
- Significant variances from the budget should be reviewed for bad postings.
- Unclassified and uncategorized income and expense transactions should be transferred into the appropriate accounts

Offertory Collection and Count

Two people are to be with the offering at all times until it is deposited at the bank. Having 2 people involved protects the funds and the reputations of the individuals handling the funds. There is a much smaller chance of embezzlement when two people are present because theft would require that they conspire together. By the same token, their reputations are protected because they are witnesses to each other's honesty.

“Secure” locations are not locked drawers, cabinets or safes that are accessible to many people. In addition, cash boxes such as the one holding the petty cash should be locked and secured and kept in a secure location.

It is best if the collection and other cash is not accessible to pastors. This protects the good name of the pastor. The first accusation by a disgruntled parishioner or employee can be that the pastor “has his hand in the till.” If the procedures of the parish are such that the pastor never handles cash under any circumstances and everybody in the parish knows that, allegations against the pastor of misappropriating parish funds are minimized.

Parish Pooled Investment Trust (PPIT)

PPIT was established to assist parishes in maximizing earning on their investments. All parish funds over the 3-month operating reserve are to be kept in PPIT. Funds from parish capital campaigns must also be kept in PPIT. Contact Fiscal Services for deposit and withdrawal procedures.

The Board of Directors for PPIT invests a parish’s funds in many types of financial instruments according to parish instructions. These financial instruments can include stocks and bonds that may increase or decrease in market value. Financial Accounting Standards Board Statement 124 requires nonprofit organizations to report the market value of such investments on their financial statements.

The parish, therefore, should adjust the amounts held with PPIT to market value to reflect the value of investments according to the statement provided to the parish by Fiscal Services. Statements are currently issued quarterly.

The entry to adjust PPIT investments to market value:

1012xx PPIT Deposits	xxxx
4x8430 Gain on investments in PPIT	xxxx

The entry would be reversed if there was a decrease in market value

Payroll

Payroll is the process of paying compensation to parish personnel including Diocesan, Extern and Order priests assigned to the parish as well as religious and lay individuals.

Compensation paid to priests and women religious should be in accordance with the scale approved by the Bishop and Presbyteral Council. This scale is published in the annual Budget Guidelines and Assumptions memo found on the Diocesan website under Fiscal department.

Compensation paid to school principals and teachers should be in accordance with the Diocese of Tucson Recommended Administrative Salary Schedules for Principals and Teachers. This schedule is available from the Diocesan Catholic Schools department.

Compensation paid to lay employees should be in accordance with the suggested pay scales available from the Diocesan Human Resources department.

The proper recording and maintenance of payroll records is not only essential in determining the results of parish operations but to comply with Federal and state tax requirements. The Internal Revenue Service and State of Arizona require that records reflect the remuneration paid to each employee performing service for the parish. They also require numerous reports relating to payroll

that must be prepared and submitted in accordance with specified due dates. Information regarding employee sick days along with work related injuries would also be required for OSHA and workers' compensation programs.

The Diocese contracted with Interlogic Outsourcing, Inc. (IOI) in FY2008 to provide the following payroll services:

- A web-based payroll system.;
- Calculating, collecting, reporting and payment of payroll taxes.;
- Collecting and distributing lay employee pension contributions, workers' compensation insurance premiums, and 403b contributions.
- Preparation of paychecks.
- Tracking accrued & used vacation & sick leave for employees.

The Diocese centralized the data processing of employee information into IOI's demographic program by Human Resources as of January 2015. Accordingly, new hire paperwork and employee status changes are to be forwarded to DOTHR as soon as possible so the information is entered in a timely manner.

Parishes should review applicable payroll reports to ensure that employee information has been entered correctly into IOI.

Parishes are responsible for entering the information needed to process employee & priest paychecks. Reconciliation of employee timesheets and priest timesheet/earning reports are to be reconciled to applicable IOI reports prior to transmittal to ensure compensation is paid accurately.

Distribution of payroll expense to the proper general ledger accounts can be done through manual journal entries by parish personnel. The parish can also contract with IOI (for a fee) to download the journal entries into the ledger.

Petty Cash

It is usually more efficient to establish a petty cash fund than it is to write numerous small checks for very small amounts. For example, if the parish needs a roll of stamps, the petty cash fund is the most efficient way to handle the payment.

The amount of the petty cash fund is dependent upon the needs of the parish. It is strongly recommended that petty cash should not exceed \$250. The cash should be secured in a locked box with access limited to the custodian of the fund.

As funds are disbursed, a receipt detailing the expense is completed and placed in the petty cash box. Original invoices or supporting documentation should be attached to the receipt. The recipient of the reimbursement should sign a petty cash receipt indicating that they have received the funds. At all times, the total of the receipts and the cash in the box should equal the total fixed amount of the petty cash fund.

When the fund becomes depleted, a check is written payable to the custodian of the petty cash fund for an amount equal to the expense receipts in the box. The custodian cashes the check and replenishes the petty cash box. The check is coded to the various expense accounts detailed on the receipts, NOT to the petty cash account. The only time the petty cash account is used is when the fund is established or the amount of the fund is increased or decreased. The receipts should be defaced and attached to the check request.

Petty cash fund is established:

100190 Petty Cash	\$100	
100100 - Checking		\$100

Replenishing petty cash and booking expenses:

5x3010 – Office Supplies	\$25	
5x3025 - Postage	\$10	
1001100 – Checking		\$35

Note that the Petty Cash fund amount does not change when expenses are booked.

Sometimes, it is necessary to advance petty cash funds prior to expending the money. For example, an individual may request \$10 to purchase stamps at the post office. In these cases, the individual should sign a petty cash receipt noting the amount received. The custodian must ensure that a valid receipt from the post office is obtained from the individual along with the return of any unexpended funds.

Priests' Salary Subsidy

The priests' salary subsidy is assessed to parishes based on a pro rata share of regular collections. It is distributed to parishes that are determined to have special financial needs. Parishes receiving the subsidy are not assessed the subsidy.

The priests' salary subsidy program is not a substitute for parish stewardship efforts. The subsidy is intended as a short-term solution to extraordinary and temporary financial hardships at a parish.

Parishes that face unusual financial challenges can apply for the subsidy as follows:

- Request an application form from the Chief Financial Officer (CFO) of the Diocese.
- Complete the application.
- Obtain the approval and signature of the Vicar Forane in their vicariate.
- Attach the most recent financial statements reviewed by the Parish Finance Council.
- Attach a projected budget for the subsequent fiscal year approved by the Parish Finance Council.
- Attach copies of minutes of the Parish Finance Council for the current fiscal year.
- Attach a copy of the annual report made to parishioners.

Applications for the Priests' Salary Subsidy may be requested from the Diocesan CFO. The application and supporting documents must be returned to the Diocesan CFO by April 15.

The Salary Subsidy Review Committee will review the application and addendums. The pastor, Parish Board and/or Parish Finance Council may be asked to meet with the Committee to address areas of concern. The Committee will make their recommendations to the Bishop prior to May 1 of each year. The final decision of the Bishop will be made and communicated to the applicants no later than May 15.

Parishes that are awarded the subsidy but are not meeting financial obligations to the diocese will not receive the monthly subsidy. Instead, the subsidy will be applied to their monthly bills.

Scrip

E-Script

Increasingly, stores are issuing discount cards to customers and the customers have the option to setup their account so that a percentage of the sale is contributed to the parish. When the customer purchases something using their card the store gives the percentage directly to the parish via electronic transfer to the parish bank account.

E-Script is the safest way to manage fundraising through scrip programs. Parishioners authorize a vendor (usually a grocery store) to pay a percentage of their purchases to the parish. The vendor then deposits the contributions directly to the parish bank account. There are no certificates to track, no cash/checks to manage, and no physical safety issues. The deposits are booked into parish records through journal entries with the bank statement providing the supporting documentation.

Paper Scrip

Scrip certificates are purchased from stores (department, grocery, drug etc.) in one of two methods: 1) purchased from the store at a discount and sold by the parish at the face value to parishioners; or 2) purchased from the store at face value, sold by the parish at face value, then the store issues a rebate to the parish when the scrip certificate is used.

Scrip is not stewardship. Stewardship is giving back a portion of one's earthly goods for the work of the Lord. When parishioners purchase scrip, they receive full value for the amount they spend. Perhaps the store that provided the certificates has exhibited stewardship while the buyer merely provides a conduit for them. Scrip certificates can be a good supplement to stewardship but never the main thrust of those efforts.

No portion of the money paid for scrip is a deductible contribution to the parish and the parish should not issue a charitable deduction letter to purchasers of scrip.

Purchases and sales of scrip certificates should be accounted for in asset account
108530 – Scrip Inventory.

When scrip certificates are purchased at a discount (example, face amount of scrip is \$5,000; you pay \$4,800 for the certificates):

108530 - Scrip inventory	5,000
110100 – Checking	4,800
4x7450 - Scrip income	200

When scrip certificates are purchased at face value (example, face amount of scrip is \$5,000; you pay \$5,000; you later receive a check for \$200 from the issuer):

108530 – Scrip inventory	5,000
110100 – Checking	5,000
110100 – Checking	200
4x7450 – Scrip income	200

Sales of scrip certificates (identical no matter what method is used to purchase scrip):

110100 – Checking	5,000
108530 – Scrip inventory	5,000

Scrip certificates should be inventoried at least monthly and an adjustment to the scrip inventory should be recorded as part of the closing process.

Shortages or overages of scrip certificates should be credited to an inventory adjustment account as follows:

5x9620 – Scrip shrinkage	xxxxx
108530 – Scrip inventory	xxxxx

Receipt of eScrip monies should be accounted for when the bank statement is received:

100110 – Checking	xxxxx
4x7450 – Scrip income	xxxxx

Sales of scrip can add up to large sums of money. The purchase of paper scrip, however, offsets all but a small percentage of the income, leaving a very small profit margin. Be extremely vigilant! Given the above scenario, a loss of a \$100 paper certificate will require \$2,500 in scrip sales to recover the loss and break even!

Special Collections

Special collections are *agency* transactions and are not the funds of the parish. As such, amounts received should be recorded in the 2090xx liability accounts. The following special collections are taken annually in each parish.

The parish should deposit the collection in the parish checking account, crediting the applicable liability account. One check from the parish should then be prepared for each collection, payable to the Diocese of Tucson, and remitted no later than 4 weeks after the date of the collection to Fiscal Services

A schedule of special collections can be found on the Diocesan website under Human Life & Dignity then select Collection. Special collections include the following:

The Black & Indian Missions was mandated by the III Plenary Council in 1884 and continues as the embodiment of the Church's concern for evangelizing the Black and Indian peoples of the United States. These funds are granted to dioceses throughout the United States, supporting and strengthening evangelization programs that otherwise would cease. The Diocese of Tucson receives a substantial grant from the Black & Indian Missions program to support parishes at San Carlos, San Solano and St Kateri Tekakwitha.

Catholic Relief Services provides funding for Catholic Relief Services, the United States Conference of Catholic Bishops (USCCB) Department of Social Development and World Peace, relief work of the Holy Father, and USCCB's Migration and Refugee Services

The *Holy Land collection* supports sacred places, educational and charitable institutions in the Holy Land and educates young men for the Missions of the Custody of the Holy Land in Syria, Jordan, Lebanon, Cyprus, Rhodes, Israel and Egypt.

The *Catholic Home Missions appeal* strengthens the Catholic Church where it is weak in the United States and its territories where resources are thin and priests are few. Grantees include 85 Latin and Eastern Catholic dioceses in Appalachia, the South, the Southwest, the Rocky Mountain States, Alaska and the islands of the Pacific and Caribbean. The Appeal also supports about 25 organizations and religious communities engaged in home mission work. The appeal fund a wide

range of pastoral services, including evangelization, religious education, the maintenance of mission parishes, and training seminarians and lay ministers and ministry with ethnic groups, especially Hispanics. As a qualifying mission diocese, the Diocese of Tucson receives substantial funds from this collection.

The *Catholic Communications campaign* supports the process of evangelization by fostering activities in relation to television, radio and other media and through special projects of the Catholic press. A portion of these funds are retained in the diocese to support local communication projects.

The *Holy Father collection* enables the Holy Father to respond with emergency financial assistance to requests to aid the neediest throughout the world – those who suffer as a result of war, oppression and natural disasters. It provides the faithful with a tangible opportunity to not only empower the weak, defenseless and voiceless, but also sustain those who suffer.

The *Catholic Schools collection* provides funding for academic scholarships at the Catholic University of America in Washington, D.C. Catholic University was founded in 1887 by the American Bishops and is the only United States university with pontifical faculties. Students are enrolled from all 50 states and almost 100 countries in 11 schools: theology and religious studies, philosophy, law, arts and sciences, social work, nursing, engineering, music, architecture, library and information sciences, and Canon Law. A portion of the collection is retained in the diocese to assist in the administration of diocesan schools.

The *World Mission collection* dates back to 1926 when it was established by Pope Pius XI. The day of the collection is celebrated in all the local churches as the feast of catholicity and universal solidarity so Christians the world over will recognize their common responsibility with regard to the evangelization of the world.

The *Campaign for Human Development appeal* was mandated by the United States bishops to address the root causes of poverty in America through promotion and support of community-controlled, self-help organizations and transformative education.

The *Diocesan Priests' Retirement collection* provides funding for the Priests' Retirement Plan in the Diocese of Tucson.

Split-Interest Gifts

Split-interest gifts arise when donors enter into arrangements that benefit a parish and other organizations. Three of the more common split-interest arrangements are charitable gift annuities, charitable remainder trusts, and trusts held by third parties

Split-interest gifts take many forms and, depending on the form used, will involve different concerns for the parish. Some arrangements may require the parish to comply with certain legal provisions and involve significant recordkeeping.

Charitable Gift Annuity

In a charitable gift annuity, the donor contributes assets to the parish in exchange for the parish's promise to pay a fixed amount for a specified period of time to the donor or to payees designated by the donor. These instruments should be referred to the Catholic Foundation for the Diocese of Tucson. The Foundation will hold the assets and fulfill the obligations for the benefit of the parish.

Charitable Remainder Trust

In a charitable remainder trust, a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary over the trust's term. Upon termination of the trust, the parish receives any assets remaining in the trust and, depending on the donor's wishes, will have unrestricted or restricted use of the assets. If the trust requires the parish to administer the trust, the Catholic Foundation should be contacted. The Foundation will administer the assets for the benefit of the parish.

Trust Funds

In some circumstances, a donor may establish a trust that is administered by a party other than the parish. The terms of the trust may provide for the parish to receive income earned on the trust assets in perpetuity. The donor will establish what restrictions, if any, apply to the use of the income.

Unrestricted, Temporarily Restricted, Permanently Restricted Net Assets

If the Pastor, Parish Board or Parish Finance Council sets aside funds from the offertory or other unrestricted revenues for a special purpose, the amounts are unrestricted and not restricted. The designation can be removed at any time without expending the funds for the designated purpose. Financial Accounting Standard 117 (FAS 117) made significant changes in the way parishes report assets and liabilities. The previous term, "*fund balances*", has been replaced by the term, "*net assets*".

Diocese of Tucson accounting principles require that the net assets of a parish be classified into the following three classifications: unrestricted, temporarily restricted and permanently restricted.

Unrestricted Net Assets are contributions that are neither temporarily or permanently restricted.

Unrestricted contributions also include contributions that are designated by the donor for an operating activity of the parish. Operating activities include contributions for flowers, maintenance, utilities, youth programs or any other operating expense of the parish.

Note: Unrestricted contributions **are** included in Sustaining Contributions reported in the Parish Annual Financial Report

Parish Appeals: Contributions to parish appeals for operating expenses are unrestricted. However, the parish must honor all statements made by the parish in its fundraising appeals about the use of a gift. If a donor responds to a specific appeal, the assumption is that the donor's intent is that the funds be used as outlined in the appeal.

All aspects of a proposed appeal should be explained fully, fairly and accurately to the donor. Any limitations on the use of the gift should be clear and complete in the appeal letter.

The following items should be included in the appeal:

- The parish's proposed use of the gift;
- Any description of the financial condition of the parish or narrative about events must be current, complete and accurate. There should be no material omissions or exaggerations of fact; and
- Tax consequences and reporting requirements. The donors should clearly understand the current and future income tax consequences of the gift.

If a parish does not account for the gift properly the following problems may result:

- Inadequate accounting. All funds given for specific purposes, projects or programs should be accounted for separately. The restricted fund should be charged only for costs directly attributable to that gift.
- Donations improperly expended. Separate revenue and expense accounts must be maintained so that monies donated for one purpose are not expended on another.
- Inability to account to the donor. The parish may not be able to tell the donor how the parish has spent their gift.

If the parish is unable to fulfill the donor's intent, the donor should be contacted to suggest an alternative use of the contribution. If the donor is unwilling or unable to change the original restriction, the funds should be returned.

If a parish receives a donation for a program or services that the parish does not provide (such as serving meals to the indigent), the parish should remit the funds to an organization that provides the program or service or return the funds to the donor.

Credibility, accountability and transparency are vital in our role as good stewards of parish resources. The parish should either maintain specific accounts in the general ledger to account for the expenditure of each designated contribution or should maintain subsidiary records to provide details on how the gift was spent.

One possibility is to establish a file for each significant unrestricted-but-designated contribution. Documentation regarding the specific donation should be included in the file including the date of the contribution, donor letter, the account credited and the purpose of the contribution. As the gift is expended, copies of supporting invoices/checks etc. should be put into the file to maintain adequate documentation as to how the gift was expended. A ledger sheet can be included in the file that details the contribution(s), expenses related to the donation and the remaining unexpended balance. Account 4x4210 should be credited with unrestricted but designated contributions.

Temporarily Restricted Net Assets are contributions or other revenues that are specified for new building projects, major remodeling projects or repayment of material debt.

If the pastor or Parish Finance Council set aside funds from the offertory or other unrestricted revenues for a special purpose, the amounts are *designated* and not temporarily restricted. The designation can be removed at any time without expending the funds for the designated purpose. Temporarily restricted net assets arise from outside donors to the parish.

Note: Temporarily restricted contributions are **not** included in Sustaining Contributions calculated in the Parish Annual Financial Report.

Permanently Restricted Net Assets are contributions that cannot be removed by actions of the parish or by the passage of time.

The most common type of permanently restricted contribution is the endowment, whereby the donor stipulates that the funds must be invested in perpetuity with only the income to be expended. The original amount of the contribution is permanently restricted; the income generated by investing the funds is either temporarily restricted (if the donor has specified how the income must be spent) or unrestricted (if the parish can spend the money for any parish expense).

Note: Permanently restricted contributions are **not** included in Sustaining Contributions calculated in the Parish Annual Financial Report.

Again, if the pastor or Parish Finance Council set aside funds from the offertory or other unrestricted revenues in a fund intended to be maintained over a long period of time with only the income spent on parish operations, the fund is not an endowment (permanently restricted) but a *quasi-endowment*. The decision to establish the fund can be rescinded at any time and the fund used for other purposes. A permanently restricted fund arises from outside donors to the parish.

Our responsibility to properly manage donations to the parish cannot be emphasized enough. We must be ever mindful of the Holy Father's admonition that "openness, honesty and transparency should be the hallmark of all that we do as Church." As stewards of the Church's resources, we are accountable to the faithful and must ensure that the intention of their free will offerings is honored.

Year-end accounting for the three classes of net assets

At the end of the fiscal year, the net asset component of the balance sheet should be clearly delineated between the three classes of net assets.

It is unlikely that the accounting software used by the parish will maintain this distinction and, therefore, the bookkeeper will need to break down the net assets by journal entry.

If files have been established for restricted contributions, the unexpended balances of those files can be added together. The total will be the amount of temporarily restricted net assets at the end of the year.

The permanently restricted net asset amount should reflect the prior year balance of endowments received since the parish's inception plus the principal amount of any new contributions received in the fiscal year just completed (Account 414470).

The entry at year-end would be to debit unrestricted net assets (Account 300000) and credit Account 310000 (Temporarily Restricted Net Assets) and Account 320000 (Permanently Restricted Net Assets) to reflect the proper ending balances in these accounts.

The parish should ensure that there are sufficient cash and investment balances on hand at the end of the year to fulfill the parish's obligations to expend donations as intended by the contributor.

If the parish does not have sufficient resources to cover its obligations to expend restricted funds, the matter should be addressed immediately with a corrective action plan by the pastor and Parish Finance Council.

RELATED TOPICS

Census and Stewardship

An effective Parish Census System allows records of:

- Baptisms, Confirmations, Deaths, First Eucharists, Marriages
- Ministries and parish organizations
- Multiple funds and pledges
- Parishioners and family members
- Volunteer hours and service
- Weekly and special collections

A census software package enables the parish staff to better understand who their parishioners are and enable the parish better serve them. It can also provide financial and census reports to assist parish management in making decisions for the good of the entire parish community.

Census data may be maintained manually in smaller parishes; however, computerization in the church office is only one step in an ongoing process of becoming a more responsive parish. It allows for easy access to parishioners, whether by mail or by phone, and also serves as the source for providing stewardship envelopes to parishioners for their weekly offertory contributions. Many envelope companies, such as *Our Sunday Visitor*, simply need a data file from the system emailed to them in order to generate their mailing list for quarterly envelope distribution.

A registration form should be developed that incorporates all of the necessary data for input into the census system.

Upon submission of this registration form by a family that is joining the parish, a letter could be generated or a phone call could be made by the pastor to welcome the new parishioners. Existing parishioners should be given a reminder at least annually to update their family's records with the parish to make sure the database is current.

There are several software packages available to help a parish manage their parishioner data, including:

- ParishSOFT
- Parish Data System, Inc.
- Parish Census Church Management Software

Personnel Management

Personnel Management is the administration of personnel including interviewing candidates for positions, checking references, performing a background check in accordance with diocesan policies and hiring qualified personnel. This process produces personnel records and wage information for payroll. The complete policies and procedures can be found in the Personnel Policy Guidelines and Procedures Manual (Human Resources Manual) available from the Diocesan Human Resources department.

Personnel and payroll documents should be completed and retained in each employee's personnel file. The required documents are listed on the New Hire Checklist which is found on the Diocesan website under Human Resources.

Employees should complete and sign a form as evidence that they have received and read the Diocesan Personnel Policies and Procedures Manual. School employees should also sign a form as evidence that they have received and read the School Personnel Policies and Procedures Manual.

Employers are required to complete Form I-9, Employment Eligibility Verification, to verify each employee's eligibility to work in the United States. This form is to be certified by the employer and retained by the parish for three years after hiring or one year after termination, whichever is later. Diocesan policy requires that copies of the proof of identity be attached to the I-9. I9s should be kept together in one file and not placed in the employee's personnel file. Copies of the I9s are to be forwarded to Diocesan Office of Human Resources within 3 days of hire.

Parishes should maintain written descriptions of job responsibilities and lines of authority to assure clear understanding of authority and responsibilities in various positions. The job descriptions are to be kept in the employee personnel folders. Examples of written job descriptions are found on the Diocesan website under Human Resources.

All lay individuals who are considered employees of the parish and meet the eligibility requirements are to be enrolled in the diocesan benefits programs. These programs are found in the Personnel Policies Guidelines binder.

Employees are to request approval for working overtime; however, if overtime has been worked with no approval the employee is to be paid the overtime. If an employee continues to work overtime without approval, disciplinary measures may be needed. Disciplinary policies are found in the Personnel Policies Guidelines binder.

In the event of any threatened or actual dispute between a parish and a person regarding employment, scope of responsibilities, advancement, termination, discipline, or failure to hire, the parish is to immediately notify the Diocesan Office of Human Resources.

Records Retention

The records retention guidelines for parish records were prepared to assist the parishes in establishing control over routine records and to preserve records of permanent value. Retention records were devised based on canon law, state and Federal statutes and practical parish realities. If questions arise regarding records-related issues, please contact the applicable office at the Diocese of Tucson Bishop Moreno Pastoral Center.

Electronic records are replacing hardcopy records and parishes are encouraged to use this form of recordkeeping if they think the records can be kept safely and in a retrievable format. Safe recordkeeping includes keeping certain records confidential and not accessible to non-authorized internet users. Retrievable records should be kept in a location – backup server, flash drive, online – from which the records can be efficiently retrieved.

The Diocese has adopted the USCCB record retention schedule which can be found at <http://www.usccb.org/>. Enter "Diocesan Financial Issues Manual" in the Search field then look in the table of contents for "Record Retention".

School Operations

There are several unique aspects to the operation of a parish school that need to be considered, planned and implemented in an effective manner. The Department of Catholic School of the Diocese of Tucson has issued operational guidelines in the *Handbook of School Policies and Procedures, 2011 edition*.

Allocation of Parish Expenses to Schools

In order to be able to better evaluate the fiscal soundness of a parish school as a “stand-alone” entity, many parishes will allocate a portion of parish operating expenses to the school department(s). This could include, but not be limited to: facilities and grounds maintenance costs, including in-house and contract maintenance and janitorial staff; parish finance office expense for time and effort spent on school accounting/finance issues; clergy/religious time dedicated to school activities; parish administrative staff time and costs for phone and/or front desk support, postage, copying, supplies, etc. Although a percentage allocation method for these types of expenses may not be precise, it still helps give a more representative picture of the true cost of operating the school.

Budgets for Schools

Per the *Handbook of School Policies and Procedures*:

- Each pre-school, elementary, and high school principal and the finance committee of the Local School Board must prepare the annual school budget. In parish schools the budget is presented to the pastor and parish finance committee for approval. The parish Corporate Board of Directors gives the final approval of the prepared budget.
- In non-parish schools, budgets are approved by the governing board.
- A copy of all budgets must be sent to the Department of Catholic Schools by May 31st for the following school year. The end-of-the-fiscal-year financial report will be given to the superintendent at the school visit.

It is important to coordinate the preparation and approval of the parish school budget with the parish school board and the parish finance council to avoid catastrophic consequences in the middle of the fiscal year. Often, the school budget includes a subsidy from parish operations and the parish budget must include adequate resources to provide that subsidy or alternative courses of action must be implemented. Any amounts reflected as a subsidy from the parish to the school should be included as such in the parish operating budget.

Deferral of Tuition & Fees for Schools

School registration usually takes place in the spring (March-April) preceding the start of the actual school year in August. Accordingly tuition, registration and fees may be paid in one fiscal year for the following fiscal year’s school activity. Pre-paid tuition should be recorded as deferred revenue on the parish’s books and not recognized as income until the fiscal year to which they apply. Registration and fees should be recognized and recorded on the parish’s books as income in the year it is paid

Insurance for Schools

Each school should carry student accident insurance. Contact the Department of Catholic Schools for the name of the contracted insurance company and procedures.

Parish Stewardship Tuition Rate

Most parish schools offer a reduced rate of tuition to families who have been registered in and contributing to the parish for at least a year. Generally, this subsidized rate is awarded to those families who meet some minimum level of stewardship giving on an annual basis (e.g., \$30 per month for 12 months). This stewardship rate usually provides a significant savings to families as compared

to the full tuition rate, which is generally equal to the actual cost of educating each student. School families should be reminded of this commitment on at least a quarterly basis during the school year and of their level of stewardship year-to-date, which could easily be incorporated into the periodic statements discussed in the next section.

A parish with a school will often make an arrangement with surrounding parishes that do not have a school to allow their parishioners a reduced rate of tuition provided they are registered, contributing members of that neighboring parish. The parishes without schools then pay the parish school a subsidy amount for each child registered in the school to help offset the reduced tuition rate.

The pastor and the principal must approve accounts that are to be written off.

School Cafeterias

Any parish which operates a school cafeteria that receives Federal aid in either cash subsidies or commodities is required to conform to guidelines issued by the Arizona Department of Education for accounting for school food service programs. Each parish should have a copy of the Accounting Manual issued by the Department of Education to conform to Federal Regulations.

Tuition Billing & Collection for Schools

School families are typically offered one of several arrangements for the payment of tuition for their child(ren): monthly, quarterly or semi-annually directly to the school office or monthly to an outside agency, such as SMART-First Financial (if offered by the school). If an organization such as SMART is handling the billing and collection, families will receive a coupon book for their monthly payments and will be able to track their account information online. Reports are available online for the school office or parish finance staff to review for delinquencies and other issues. It is ultimately the responsibility of school management to ensure that families are current on tuition obligations.

If payments are to be made directly to the school office on some periodic basis, school management or parish finance staff needs to provide each of these families with a statement of amounts owed to them for that period of time. This includes registration fees, tuition, book fees, athletic or other extracurricular fees, etc. It could also incorporate a statement of year-to-date stewardship contributions as discussed above.

INTERNAL CONTROLS

The United States Conference of Catholic Bishops has issued a guide on internal controls, *Diocesan Internal Controls: A Framework (the Guide)*. The Guide defines internal control as a *process* designed to ensure that goals are met with respect to effective and efficient operations, reliable financial reporting and compliance with laws and regulations. Because of inherent limitations (human error, possible collusion and intentional disregard), effective internal controls can only provide *reasonable*, not absolute, assurance that these goals are met.

Internal controls represent accountability made manifest and put into daily practice. Properly established and observed, they remove the issue of trust from the table, because they exist independent of any individual or group of people. They are the organizational equivalent of routines we all observe in daily life, such as locking our doors when we leave home, putting our money in our pocket or purse instead of leaving it on the table or keeping our checkbook in a safe place.

Mandating adherence to a set of internal controls diminishes any message that “we don’t trust you”. If internal control policies and procedures are established at a time when no wrongdoing is suspected, pastors and administrators can model compliance with the policy as a way of saying that the rules are the same for everyone.

Achievable internal controls and segregation of duties vary widely depending on the size and complexity of each parish. This manual contains guidelines that should be applied prudently to your parish and its particular situation and resources.

Internal Control Objectives

There are four objectives of internal control:

- *Proper authorization and approval.* Healthy parishes are structured and managed to ensure that the “who, what, where and when” of financial transactions are clearly defined. Accounting controls that govern authorization and approval processes ensure that transactions are executed in conformity with the parish’s mission and intent.
- *Proper documentation and accurate recording.* This objective ensures that no fictitious transactions are processed and that all valid transactions are recorded at the correct amount and in the correct accounts.
- *Proper physical security.* This objective is to ensure that only those who are authorized have physical or indirect access to documents, computers, money or other valuable property.
- *Effective detection.* Effective detection provides a safety net for the parish. If an employee or volunteer overrides or disregards a provision in the internal control system, detection will enable the parish to respond to and correct the breach in a timely manner.

Components of Internal Control

The five components of internal control are:

- *Control activities* are the policies and procedures that help ensure management directives are carried out.
- *Control environment* sets the tone of the parish, influencing the control consciousness of the staff and volunteers. It is the foundation for all other components of internal control, providing discipline and structure.
- *Information and communication* systems support the identification, capture and exchange of information in a form and timeframe that enables people to carry out their responsibilities.

- *Monitoring* is the process that assesses the quality of the internal control system's performance over time. *Risk assessment*.
- *Risk assessment* involves the parish's identification and analysis of relevant risks to the achievement of its objectives and the entity's formation of a basis for determining how the risks should be managed.

The control environment includes the following factors:

- *Administrator's philosophy and operating style*. This includes the administrator's approach to taking/monitoring risk, attitudes toward financial reporting and attitudes toward information processing and accounting personnel and their functions.
- *Commitment to competence*. The pastor determines the skills and knowledge that are required to perform jobs within the parish and makes sure that these jobs are performed by staff who possess the required knowledge and skills.
- *Human resource policies, practices and procedures* relate to hiring, orientation, training, evaluating, counseling, promoting, compensating and taking remedial actions.
- *Integrity and ethical behavior* are the products of the parish's standards, how they are communicated and how they are reinforced in practice. They include communication of ethical and behavior standards through policy statements, codes of conduct and by example. They also include the administrator's actions to remove or reduce incentives and temptations to act illegally or unethically.
- *Organizational structure*. An appropriate parish structure considers key areas of authority and responsibility and the appropriate lines of reporting for personnel and functions. Authority and responsibility for activities and reporting relationships and hierarchies should be appropriately established
- *Parish Finance Council involvement*. The control environment is enhanced by the oversight of the Parish Finance Council, its independence from the pastor, the experience and stature of its members, the extent of its involvement and scrutiny of activities, the appropriateness of its actions and its ability and commitment to ask difficult questions of the pastor.

Categories of Risk

Three major risks exist for a parish system of controls:

- Failing to record all valid transactions or entering bogus transactions
- Inaccurately recording transactions
- Permitting unauthorized removal of assets

Types of Controls

There are 3 types of internal controls:

- Preventive
- Detection
- Correction

Preventive controls are intended to prevent the occurrence of an error or irregularity. Authorization controls, such as requiring the bank to request a PIN number on wire transfers, is an example of a preventive control. Detection controls are intended to detect problems that have occurred such as reviewing signatures on checks during bank reconciliation. Corrective controls relate to who corrects problems after they have been detected. Posting of journal entries only by approved personnel is an example of a corrective control.

Certain controls apply to virtually all areas of parish internal control:

- *Involving the pastor and Parish Finance Council in key financial decisions.* To discharge its duty of care, the pastor and Council must stay informed about the parish's methods of safeguarding assets and managing resources.
- *Segregation of duties.* At a minimum, no person should have access to both an asset and the recording of the asset in the general ledger.
- *Ensuring the security of cash and vital documents.* At a minimum, ensure that cash, blank checks and other values are guarded in a locked, fireproof filing cabinet or safe.
- *Tracking and sequencing standard form and documents.* Many parishes use pre-numbered invoices, receipts and checks. For these controls to be effective, the numerical sequence of the documents must be accounted for.
- *Using a second set of eyes.* Dual controls are at the heart of good accounting controls. If someone not involved in the transaction becomes involved, such as having a member of the Parish Finance Council reconcile the bank account, controls are enhanced.

Informal Systems Behind the Formal System

However well intentioned, internal controls can be rendered useless through malicious intent or simple carelessness if they are:

- *Poorly constructed.* This can occur when the staff is untrained or uneducated about the importance and purposes of accounting controls.
- Improperly or inconsistently implemented. This can occur during periods of staff turnover.
- *Subverted through collusion among two or more people.* This can occur when two or more members of the count team embezzle the offertory.
- *Overridden by managers.* This occurs when a person in a position of authority cajoles or requests an employee to ignore controls.

Even though effective formal systems of internal control are adopted, the system may not correspond to the informal day-to-day operations of the parish. For example:

- How are internal controls managed in the absence of employees during lunch, vacations or sick leave?
- How accessible are accounting records, computer terminals and assets to unauthorized employees and volunteers?
- If an unreconciled bank statement is left open on a desk accessible to all, checks could be removed or substituted to cover up a defalcation.
- If the key to locked files is kept in an unlocked desk drawer, the locked files are compromised.
- If dual signatures are required on checks but one individual signs blank checks the internal control is circumvented.

Management Override

The initial concern in the internal control environment is the possibility that controls will be overridden at the request of the pastor or other supervisory employee. The possibilities for this override will depend, in part, on how employees are requested to respond to the requests.

Certain conditions increase the possibility of override:

- The nature of parish operations. Parish operations are distinct and separate from diocesan management and the ability to override controls in such an environment are substantial.
- Small operations. Pastors assume key roles in parishes and have responsibility for all phases of operations. Larger organizations generally segregate management authority among many individuals.

Honest and Capable Employees

Employees in whom a great deal of trust has been placed often perpetrate frauds. Honest and capable employees, however, can and do function effectively in an environment where other elements of internal control are lacking.

Once honest and capable employees are in place, care must be taken to ensure that the control is not vested in the individual but in the processes, policies and procedures of the parish. It is never acceptable to bypass or circumvent controls and rely solely or predominantly on the integrity of the employee.

In many parishes, financial personnel are competing for resources with program personnel. Since programs are at the heart of the parish, there is a natural tendency to commit resources to them. This may lead to some neglect of financial accountability and an unwillingness to expend money to hire adequate and qualified staff, update necessary computer systems etc. Appropriate staff training and development is sometimes neglected as well, particularly when volunteers are being used for some financial functions.

Weaknesses in personnel can occur when the parish fails to hire, attract and retain the best possible personnel in financial positions. The parish, however, must focus on obtaining, training and retaining qualified personnel to maintain the financial records of the parish.

The following controls with respect to employees should be implemented:

- Require annual vacations of employees to ensure that any fraud requiring their constant attention would be discovered during their absence. This control requires that other employees or volunteers be cross-trained to fill in for vacationing employees.
- Know your employees. Watch for signs that an employee is spending more than his/her salary would seem to allow or exhibiting signs of stress.
- Screen all employees before hiring in conjunction with diocesan policy.

Segregation of Duties

Segregation of duties is one of the critical elements of control. If duties are effectively separated between individuals, no one person has control over an entire transaction.

The responsibilities of authorization, custody of assets and recordkeeping functions should be divided among different individuals. A person with the ability to authorize a transaction must also be capable of obtaining custody of some asset and of controlling the related record of the transaction in order for a defalcation to be perpetrated without other individuals' cooperation or subsequent detection. A person having access to assets must be able to authorize their removal and to adjust the accounting records to perpetuate a fraud. The individual with responsibility for accounting records cannot benefit from altering accounting records unless they have access to assets. **UNLESS AN INDIVIDUAL CAN AUTHORIZE TRANSACTIONS, TAKE CUSTODY OF ASSETS, AND ACCOUNT FOR THE TRANSACTION, THE SINGLE-HANDED PERPETRATION OF A FRAUD THAT IS NOT DETECTED IN THE NORMAL COURSE OF OPERATIONS IS IMPROBABLE.**

As long as the parish has at least 3 individuals involved in a transaction, controls can be effectively segregated. The use of volunteers, including the Parish Finance Council, is an excellent way for smaller parishes to maintain effective segregation of duties.

The pastor or administrator of a parish typically understands all phases of parish operations and has day-to-day contact with employees and volunteers as well as tremendous oversight capabilities. The

pastor should exercise that capability in monitoring of internal control policies and procedures. For example, the pastor could review the bank reconciliation in the event that a member of the Parish Finance Council is not available to perform that function. In addition, the pastor is aware of the nature and volume of transactions and is able to determine unusual transactions or trends that may signal a problem with internal controls. For example, the pastor will be in an excellent position to notice unusual drops in offertory income and request assistance from knowledgeable members of the finance council or the fiscal office at the diocese in determining the reason for the decrease.

While the pastor represents an effective control over operations, excessive reliance on the pastor poses substantial risk. The pastor is generally in a position of trust and when he instructs employees to circumvent internal control processes, his instructions will likely be followed without question. In addition, the pastor cannot substitute for employee and volunteer duties in many instances. For example, the pastor should not be involved in counting or handling the offertory collection. To do so places him in an untenable position in the event of a defalcation involving the offertory.

Fraud

Canon 1284 states that all administrators are to perform their duties with the diligence of a “good householder”. This canon implies the duty to ensure that no abuses exist in the administration of Church goods within the diocese.

In the past, the Church has been plagued by embezzlement charges. In our diocese alone, we have had a number of fraud allegations involving clergy, lay employees and volunteers.

Embezzlement is a fraudulent practice, whereby a perpetrator comes into initial possession of an item lawfully and then converts it to personal use. It differs from theft in that a thief comes into possession of assets unlawfully. Embezzlers have a fiduciary duty to care for and protect the property and by converting it to personal use, they violate that duty.

Embezzlement is a product of motivation and opportunity. The motivation may be economic need or greed, egocentricity, ideological conflicts or psychosis. Loose or lax controls provide the opportunity.

Motivation and opportunity are interactive: the greater the economic need, the less weakness in internal control is needed to accomplish the fraud. The greater the weakness in controls, the less motivation is needed.

Embezzlement most often occurs when internal controls are absent, weak or loosely enforced; employees are hired without adequate background checks; and/or employees are loosely managed or under great economic stress.

All of the above conditions exist in a parish environment where staff are stretched, budget dollars often preclude hiring an adequate number of staff and trust is deeply ingrained in the church culture. In addition, churches are recipients of substantial cash income and unexpected donations so that total revenue is difficult to estimate and easy to misappropriate.

In most cases of fraud, it is an individual whom you least suspect. The FBI profile of an embezzler indicates he/she is an employee with 5-6 years of experience, often described as good-to-above average worker, highly desirable, reliable, bright, motivated, trustworthy and an achiever with good self-control.

Usually, it is less expensive to prevent fraud than it is to detect it. Therefore, fraud prevention should take precedence over detection. Fraud prevention measures include hiring honest people, paying them competitively, treating them fairly, and providing a safe and secure workplace, adequate feedback on performance and codes of ethics. It also includes adequate internal controls including effective segregation of duties.

Varieties of Fraud

Collusion: Internal control failures can result in the collusion of two or more individuals. Individuals acting collectively to perpetrate and conceal an action from detection can alter financial data or other management information in a manner that cannot be identified by the control system. For example, two volunteers counting the offertory collection could collude to pocket the collection prior to preparing the bank deposit.

Lapping is one of the most common types of employee fraud. It is the postponement of entries for the collection of receivables to conceal an existing cash shortage. A person who records cash in both the cash receipts journal and subsidiary accounts receivable journal perpetrates the fraud. The employee defers the recording of cash receipts from one source and covers the shortage with receipts from another source. The employee must continue to cover the shortage through repeated lapping, replace the stolen money or find another way to conceal the shortage.

Theft is the diversion of cash, checks or other assets by individuals who are not authorized to have access to the property. It can take the form of removing computer equipment from an unlocked office or cash from an unsecured safe.

Accounts Payable Fraud: An employee may falsify payments to real vendors or create phony vendor addresses to which checks are sent. Alternatively, an employee may intentionally overpay an invoice, take the refund from the supplier and pocket it.

Payroll Ghost and Unauthorized Pay Charges: Padding the payroll is another common form of fraud. With this, an employee might either prepare checks for employees after their employment has ended or add nonexistent employees to the payroll. Unauthorized pay charges and the non-recording of vacations used are frequent occurrences when there are no ongoing monitoring mechanisms or procedures in place.

Kickbacks: An employee may take bribes or kickbacks from vendors and suppliers. Kickbacks can be very difficult to detect since there are no records and the deals are usually made in cash.

Other fraudulent activities include all types of petty or small thefts. These activities include submitting phony invoices, inflating reimbursable personal expense items and misappropriating petty cash. Although the amounts stolen are relatively small with these activities, they may be the most common types of employee fraud.

There is rarely any predictable pattern of defalcation. However, a poor system of internal controls, collusion between employees and management override are present in a vast majority of fraud incidents.

No system of internal controls can prevent or detect every defalcation. However, there are other red flags that managers should be aware of as predictors of problems:

- A change in employee's lifestyle, spending habits or behavior
- Ignoring policies

- Unusual banking activities
- Decline in employee morale/attendance
- Unexplained budget variances

Guidelines to be Followed if Fraudulent Activity is Suspected or Observed:

1. The suspected embezzler should NOT be approached or apprehended. A premature approach to the suspected person might jeopardize the gathering of necessary evidence or result in a lawsuit or physical harm to the persons involved. The pastor, employee or volunteer should not communicate with any other parish lay leaders, employees or other parishioners concerning the suspected embezzlement until such time as he is notified by the Vicar General or Chief Financial Officer (CFO) to do so.
2. An immediate call should be made to the Vicar General or CFO.
3. Details of the incident should be written down and placed in a secure place.
4. There should be no attempt to contact law enforcement agencies or a lawyer. The Vicar General or CFO will coordinate contact with appropriate law enforcement authorities.
5. The Vicar General or CFO will consult with other diocesan officials and consultants as deemed appropriate to discern appropriate actions to pursue in light of canonical, civil and criminal statutes, the nature of the allegations and other significant circumstances.
6. Once sufficient facts have been uncovered to determine that a fraudulent activity has occurred, the Vicar General or CFO will contact appropriate law enforcement authorities to report the incident. At this point, the pastor or administrator, with the approval of the Vicar General, may share this information with the Parish Finance Council.
7. The CFO will report the matter to insurance carriers.

Do not change internal control procedures, employees or other operating controls until such time as instructed by the CFO. In no way should the matter be handled at the individual parish level. Such action could potentially lead to erroneous information being obtained or improper allegations being levied

Internal Controls of Financial Processes

Cash Controls

Of all the accounting controls implemented by a parish, those affecting cash should be the most elaborate, regularly exercised and rigidly enforced.

Internal controls over cash must ensure that:

- All cash intended for use by the parish is received;
- All cash received is deposited in the parish bank account;
- All cash disbursements and adjustments to cash accounts are authorized by responsible personnel and are made for valid reasons;
- All cash receipts, disbursements and adjustments to cash accounts are properly recorded;
- All cash accounts are reconciled to the books of account in a timely manner;
- The parish has enough cash to meet its needs;
- Cash is held only at reputable financial institutions and is under Federally insured limits;
- Restrictions imposed by donors are observed; and
- All cash-related transactions are recorded in the correct amount, in the correct period and in the correct account.

Ideally, a segregation of duties should be in place for the following functions: receiving cash, recording cash receipts, disbursing cash, recording cash disbursements and reconciling cash

accounts. In small parishes, this may require the involvement of a member of the Parish Finance Council on a regular basis.

Potential errors and fraud:

- Cash receipts
 - Incorrectly recording cash receipts
 - Contributions received are not recorded and the cash is misappropriated
 - Checks are deposited but not recorded; checks are written to employees in the same amount and also are not recorded
 - Receipts from donors or others are misappropriated and collectible tuition or other revenues are written off or otherwise credited
 - Lapping occurs (cash receipts are misappropriated and shortages are concealed by delaying postings of cash receipts)
- Cash disbursements
 - Intentionally or mistakenly paying for goods never received or services never rendered
 - Intentionally or mistakenly paying an invoice twice
 - Intentionally or mistakenly paying phony invoices
 - Intentionally or mistakenly paying improper check requests
 - Checks are made out to wrong payees
 - Checks are forged
 - Disbursements are misclassified or not recorded
 - Disbursements are recorded at the wrong amount or in the wrong period
 - Checks are issued for the benefit of employees or third parties and payees are changed in the cash disbursements journal
 - Cash disbursements are overstated; the overstated amount is recorded and the difference is misappropriated
 - Kiting occurs (exploiting the time required for a check to clear the bank to conceal shortage of cash)
- Accounts payable
 - Unauthorized purchases are made
 - Purchases are recorded but goods or services are not received
 - Liability is incurred but not recorded
 - Purchase amount is recorded incorrectly
 - Purchase is charged to wrong account or is recorded in wrong period
 - Purchases at other than favorable terms are made to facilitate side deals for the personal benefit of employees
 - Misclassification to conceal unauthorized purchases occurs
 - Purchase discounts are taken but not recorded; amount of discounts is misappropriated

Again, in smaller parishes, this may require the involvement of a member of the Parish Finance Council on a regular basis.

Computer System Controls

Computer systems frequently allow employees the ability to perform incompatible duties. Often an employee with access to a terminal can:

- Initiate transactions
- Record transactions
- Have custody of company assets
- Alter files

The problem is a combination of inadequate physical security, uncontrolled access and the high probability that computerized controls are absent from the system.

Computers make it necessary to restrict access to computers and databases to authorized employees. The use of locks and passwords enhance physical security.

Every parish should ensure that formal plans for file backup are established and performed.

Payroll Controls

Payroll and related employer taxes and benefits constitute a substantial portion of the parish's operating budget. As a result, the controls governing payroll and related employer taxes and benefits deserve special attention.

The parish should ensure that the data entered into the payroll system is correct so that accrued, used and unused vacation and sick leave is tracked accurately. The 045- Vac & Sick Accrual report should be printed during each payroll processing and reviewed to ensure accruals are correct.

Internal controls should be designed to ensure that:

- All payroll is based on proper authorization and records and is paid at approved rates;
- All payroll is paid only to bona fide employees;
- Only authorized payroll transactions are recorded;
- Payroll is properly reported to Federal and state taxing authorities;
- All payroll-related tax deposits are made in a timely manner;
- Compensation is paid only for work authorized and performed;
- Employee payroll withholdings and special deductions are based on signed authorizations by employees;
- All payroll transactions are properly charged or allocated to the appropriate programs;
- Payroll records are retained in accordance with government policies.

Potential errors and fraud related to payroll include:

- Unauthorized work or work not performed is paid for
- Vacation and sick pay are recorded but not earned
- Fictitious employees are on the payroll
- Employee earnings are computed on improper rates or inaccurately computed
- Payroll costs are misclassified
- Payroll is recorded in the wrong period.
- Time cards are padded

Property and Equipment Controls

Internal control objectives related to property and equipment include:

- Ensuring that property and equipment are purchased only with proper review and authorization
- Recording property and equipment purchases properly as to account and period
- Identifying disposals, retirements, trade-ins and write-offs promptly and recording correctly as to account, amount and period
- Adequately safeguarding property and equipment

Potential errors and fraud related to property and equipment include:

- Purchases of property are recorded in the wrong account or are not recorded
- Unnecessary equipment is acquired
- Employees are able to conceal unauthorized purchases for their own benefit

- Property remains on the accounting records after disposal
- Sales of property are not recorded and proceeds are misappropriated
- Impairments in value of property and equipment are not identified and properly recorded

Internal Control Checklists

Bank Accounts

- All parish funds are kept in bank accounts, PPIT, or the Catholic Foundation.
- Bank accounts are under the name of the parish, not in the name of an individual.
- The parish has one checking account.
- The parish has one bank savings account if approved by the pastor.
- The school has a separate checking account if approved by the pastor.
- Cafeteria and Milk funds are kept in separate bank accounts.
- Bingo funds are kept in a separate bank account.
- Funds for parish organizations are kept in the parish bank account and reported on the parish financials.
- The only authorized check signers are to be the Pastor, Administrator, Associate Pastor(s), Vicar Forane, Board members, Finance Council members, and Business Managers who have no disbursement responsibilities.
- The bookkeeper is not a signer on the parish checking account.
- Bank statements are received unopened by the pastor and reviewed prior to reconciliation.
- Bank statements are reconciled within a month of receiving the statement.
- Bank statements and reconciliations are reviewed at least quarterly by a finance council member. Cash withdrawals, debit card purchases, electronic disbursements, and large check amounts should be closely reviewed.

Bank reconciliation procedures include:

- Accounting for the sequence of all check numbers.
- Comparing the date, payee, and amount on the cleared checks to the cash disbursements journal.
- Comparing bank deposits to cash receipt records.
- Comparing electronic transactions to appropriate documentation.
- Investigating other reconciling items (e.g., checks returned for insufficient funds).
- Following up on old outstanding checks.

Internal Control Checklist

Computer Controls

- Computer backups are performed on at least a weekly basis.
- Backups are stored in a fire-proof or off-site location.
- Access to computer programs and files is restricted through use of passwords and physical protection.
- Passwords are not shared.
- Passwords are changed on at least a quarterly basis.
- Computers connected to the Internet have adequate protection from unauthorized access including antivirus software, an adequate firewall, and spam blockers.

Internal Control Checklist

Disbursements

- The pastor approves all expenditures.
- Competitive quotes or bids have been obtained for high dollar purchases.
- Capital expenditures in excess of \$25,000 are reviewed by the finance council, approved by the Board, and approved by the Bishop.
- Payments can be made through prenumbered checks, electronic transfers, credit cards and debit cards.
- All disbursements are to be supported by **ORIGINAL** receipts or invoices (aka supporting documentation).
- Supporting documentation must include the reason for the disbursement. This includes credit and debit receipts.
- Payments are not made from statements or “balance due” billings unless supporting invoices are included.
- A check request is approved by the pastor when no receipts are available (mass stipends, loan payments, etc.).
- Check stock is kept in a locked cabinet and regularly inventoried on at least a monthly basis.
- Check preparers do not sign checks.
- When a mistake is made in preparing a check, the check is altered and kept in a permanent file.
- Check signers do not prepare checks.
- Only authorized individuals sign checks. See: Internal Control Checklist – Bank Accounts.
- Supporting documentation is given to the check signer along with the checks.
- The signer reviews the invoices to ensure they agree with the amount and vendor being paid.
- Another check signer signs checks made payable to the pastor after reviewing supporting documentation
- Checks over a pre-determined amount have two signatures.
- Checks are not signed “in blank”.
- Signature stamps are not used on checks.
- Check signers do not enter transactions to the accounting records.
- If possible, the person mailing the checks is independent of the persons requesting, preparing or signing checks.
- The parish obtains W-9 forms from all vendors indicating tax identification numbers. An annual 1099 is issued to all vendors that are paid \$600 or more in a calendar year.
- Paid bills are filed by vendor by fiscal year.

NOTE: The use of debit cards is strongly discouraged because of several risks including: bypassing internal controls; the liability to the parish if an unauthorized transaction is made; and the ease of using the card that leads parishes to over-spend. In addition, most banks do not cover any part of a fraudulent debit charge whereas credit card companies usually cover fraudulent charges over \$50 per item.

If the parish feels a debit card is necessary, strict procedures should be followed including:

- Use of the debit card is to be restricted to appropriate individuals.
- Receipts are to be turned into the bookkeeper immediately for reconciliation to the bank statement.
- Debit card transactions on the bank statement should be reviewed by the Parish Finance Council on at least a quarterly basis.

Internal Control Checklist

Electronic Check Deposits (ECD)

- The check scanning and bank deposit are processed through Dual Control. See Accounting Issues – Electronic Check Deposits.
- The counters separate cash, envelopes and free-floating checks.
- Either the counters or Dual Control do the following:
 1. Endorse the checks as soon as possible.
 2. Compare the amount written on the envelope to its contents.
 3. If the envelope amount does not match the contents, the incorrect amount on the envelope is crossed-out and the correct amount is written in.
 4. If an envelope has both checks and cash, the cash is left in the envelope and the envelope is given to dual control.
- The counters count and prepare cash for deposit.
- Envelopes and free-floating checks are given to Dual Control.
- Individual batches are processed for free-floating checks, check-only envelopes, and envelopes with checks and cash.
- *Free-floating checks* are totaled by each Dual Control member; the two totals are reconciled.
- *Check-only envelopes*: Checks are totaled and reconciled to the total of the envelopes.
- *Envelopes with checks and cash*: The contents of the envelopes (both checks and cash) are totaled and reconciled to the total of the envelopes.
 1. Cash is deposited manually.
 2. Checks are electronically deposited.
- Dual Control processes the checks according to bank procedures.
- Verification reports listing the check numbers and amounts are printed for each batch.
- The verification reports are reconciled to the batches.
- “Void” or “Cleared” is stamped across the account numbers on the checks to prevent re-use of the check.
- The checks are destroyed after 90 days.
- The verification reports are kept for seven years.

Internal Control Checklist

General Financial Procedures

- The parish has a Board of Directors (**Board**) that complies with diocesan norms.
- The parish has a Parish Finance Council (**PFC**) that complies with diocesan norms.
- Annual budgets are reviewed by the finance council and approved by the Board.
- Debt obligations are reviewed by the finance council, approved by the Board, and approved by the Ordinary.
- Financial statements are prepared within 4 weeks of the end of the month.
- An annual financial report is filed with the diocese.
- An annual financial report is provided to parishioners.
- Financial statements include a budget to actual comparison so that significant variances can be investigated.
- Financial statements are reviewed by the finance council on at least a quarterly basis.
- Accounting books and records remain on the premises at all times.
- The parish has a 3-month operating reserve.
- Funds over the 3-month operating reserve are deposited to PPIT.
- Cash balances are sufficient to cover unremitted special collections, custodial funds and deferred revenue.

Internal Control Checklist

Offertory Collection and Count

- Two people are with the offering at all times until deposited at the bank
- The offertory collection is placed into plastic tamperproof bags immediately after collection.
- The offertory is placed in the safe immediately after mass.
- Two individuals are needed to access the safe.
- Count procedures are in writing and furnished to each counter.
- The parish bookkeeper, pastor, associate pastor, administrator and members of the board and finance council are not involved with the offertory count.
- Parish employees and their families are not involved with the offertory count.
- At least two individuals who are unrelated to each other count the collections.
- Counters have a criminal background history check and a credit check.
- Counters are registered parishioners in good standing.
- Counters are approved by the Pastor.
- Counters are rotated.
- Counters take “vacations” for at least a month every year.
- The collection bags are tracked.
- The offertory is counted in a secure location.
- The amount of offering is written on the outside of the envelope for posting to parishioners’ accounts. Loose checks are listed for posting to donors’ records.
- The count is entered on a summary sheet.
- The summary sheet is prepared in ink.
- The summary sheet is signed by all counters.
- The offertory collection is deposited separately from office receipts.
- Paychecks or personal checks are not cashed with offertory monies.
- The count team prepares the deposit slip in duplicate. One copy of the deposit slip goes with the deposit; the other goes to the bookkeeper for recording the deposit.
- Deposits are taken to the bank within 24 hours of the count.
- Bank receipts are returned to the parish.
- The bank receipts are reconciled to the deposit slips.
- Someone other than the bookkeeper posts donor and parishioner records.
- The offertory envelopes and listing of checks is given to the individual responsible for maintaining the parish census.
- Donor records are reconciled to the general ledger posting of offertory.
- The treasurer or a finance council member compares the bank statement deposits to the weekly count sheet on at least a quarterly basis.
- The finance council reviews the trends in offertory income on a regular basis.
- Year-end Contribution Statements include the following:
 - 1) *“This statement is for your records. Please examine it carefully. If it does not agree with your records, please communicate this directly to the Pastor.”*
 - 2) *“No goods or services were provided in connection with this contribution”.*
- Offertory monies are not accessible to the pastor.

Internal Controls Checklist

Parish Office Receipts

- If possible, two people open the mail.
- The people opening the mail do not enter transactions to the accounting records.
- One individual is responsible for receiving monies brought to the parish office.
- Checks are restrictively endorsed immediately upon receipt.
- Monies received are recorded in a daily log, held in a safe and deposited at least weekly.
- Pre--numbered acknowledgement receipts are issued for all monies received in the office.
- The acknowledgement receipts are issued in numerical order.
- One copy of the receipt is left in the receipt book.
- The receipt includes the date, name, amount, check number if applicable, and the purpose of the monies.
- The receipt is signed by the person issuing the receipt.
- The deposit is prepared by someone who does not routinely issue receipts.
- The deposit is reconciled to the receipts by someone other than the one preparing the deposit.
- Office receipts should be deposited separately from the offertory collection.
- If possible, the deposit is taken to the bank by someone not involved in the parish office receipt process.
- Bank receipts are reconciled to deposit slips.
- Refunds require the approval of the pastor.
- Checks are not cashed with office receipts.
- Office receipts are not accessible to the pastor.

Internal Control Checklist

Payroll

The processing of payroll was outsourced to Interlogic Outsourcing Inc (IOI) as of July 2008.

The entering of employee data into IOI was centralized to Human Resources as of January 2015.

- Payroll documents and reports are in a limited-access, fireproof location that is locked when unattended.
- New hire paperwork is forwarded to Human resources as soon as possible so the new employees receive their first paycheck timely.
- Employee Status Change Forms (ESCFs) are completed for pay-rate changes and forwarded to Human Resources by the first week of the payperiod that the change takes place.
- Priests, including Order priests, are paid through payroll.
- Only principals, teachers and religious have contracts as a term of employment.
- The parish follows Arizona's minimum wage law.
- Employees are not paid in cash.
- Parish funds are not used for employee loans or payroll advances.
- Overtime is paid at 1.5 times the employee wages for all hours worked over 40 per week.
- Employees authorize all payroll deductions by signing the applicable form.
- Entries on timesheets cannot be erased.
- Priests complete and sign a Timesheet/Earnings form.
- Non-exempt employees complete and sign timesheets documenting the number of hours worked and hours paid for vacation and sick leave.
- Exempt employees complete and sign timesheets documenting the number of hours worked as well as the hours of vacation & sick leave taken.
- Timesheets are reviewed and signed by the employees' supervisors.
- Hours and earnings entered into IOI are reconciled to the timesheets before transmission.
- IOI accrual reports are reviewed periodically to ensure accruals are calculated appropriately.

Internal Control Checklist

Petty Cash

- The petty cash amount is appropriate for the parish's needs.
- Petty cash purchases are for insignificant purchases that are ordinary, necessary and reasonable for daily operations.
- Petty cash is kept secured in one location and under the control of one individual.
- Loans are not made from petty cash.
- Personal checks are not cashed from petty cash.
- Vouchers are completed for each petty cash purchase.
- Supporting documentation for the purchase is attached to each voucher.
- The vouchers & documentation are kept in the petty cash box.
- Petty cash is reconciled when cash needs to be replenished.
- "Over & short" amounts found during the reconciliation are resolved.
- Replenishment checks are written for the amount of the vouchers in the petty cash box.
- A finance council member performs surprise reconciliations of petty cash; discrepancies are resolved.

Internal Control Checklist

Property, Equipment and Movable Items

- The Bishop has approved the purchase of property and equipment above \$25,000.
- Competitive bids and quotes have been obtained for major purchases. The bids and quotes are retained in the files.
- Sale or disposal of property has been reviewed by the finance council, approved by the Board and approved by the Bishop.
- Physical safeguards are adequate to protect buildings, equipment and other movable items (alarms, locks etc.).
- A list of all individuals with keys to parish buildings is kept.
- A check-out system for individuals needing temporary access to parish buildings is followed.
- A record of equipment and other movable items is maintained in written, photographic or video form.
- Parish buildings have been photographed or videoed for submittal to the insurance company if necessary.

Internal Control Checklist

Scrip Certificates

- Scrip certificates are kept in a secure location when not out for sale.
- Certificates are kept in a locked cash box when available for sale.
- Only authorized personnel can access the cash box.
- Scrip certificates are handled like a cashier's drawer: counted when taken out and counted when put back in the safe.
- Scrip certificates are reconciled with sales and purchases at the end of the month by two individuals.

TAX ISSUES

Although the Internal Revenue Code does not establish any accounting, financial reporting or auditing requirements on parishes, the Code affects the existence and operations of the parishes in many respects.

Charity & Benevolence Funds

The IRS prohibits the parish to pass money or benefits to any named individual for personal use. The intent of the donor ordinarily determines whether the money given is treated as a charitable contribution or a nondeductible transfer to an individual. Did the donor intend to make a contribution to the parish or only to benefit the designated individual? Was the parish as an intermediary in order to obtain a tax deduction for a nondeductible transfer to an individual?

The parish is not allowed to act as an intermediary in order for a donor to obtain a tax deduction for a nondeductible transfer to an individual. This type of activity is considered "money laundering", an illegal act which hides the true reason and source of the transaction. Money laundering is a criminal offense; the donor as well as the Board members can be sent to prison.

The fact that the money was given to the parish does not determine if the gift is a deductible contribution.

A parish may want to establish a fund to help a particular family to pay medical bills or other extraordinary personal expenses. Contributions to that fund are not deductible. An option is to establish a fund at a financial institution. Contributions are still not deductible but the parish is not placed in a compromising position.

Other examples of nondeductible contributions:

- Scholarship assistance to pay the tuition for a particular child
- Payments made to a fund to rebuild the Smith family home that was destroyed by fire

The parish may establish a benevolence fund to assist needy individuals. The parish must exercise discretion over the use of the funds and is not required to follow the "suggestions" of donors to the fund.

Contributions to benevolence funds are deductible if they are not earmarked for particular recipients. A gift to the parish benevolence fund to assist the unemployed is deductible; if the gift is restricted for the Smith family, the gift is not deductible.

Guidelines for benevolence funds should be formalized and a board at the parish should oversee the fund. Suggested guidelines include:

- Parish has a ministry to needy individuals and the Parish desires to establish a Benevolence Fund (Fund) to support needy individuals.
- Parish intends to operate the Fund according to the highest standards of integrity.
- Parish will develop written guidelines to document the need, establish reasonable limitations on support per person during a specified time period and obtain external verification of the need.
- Parish will accept only contributions to the Fund that are "to or for the use" of the Parish and their use must be subject to the control and discretion of the Parish Board. Donors may make suggestions but not designations or restrictions concerning the identity of the needy individuals.
- Parish will provide evidence of charitable contributions for gifts that meet the criteria outlined in this guideline.

Christmas Bonuses

In the spirit of Christmas, and in appreciation of the dedicated work of our parish employees, the Bishop supports the practice of offering a nominal bonus or gift from the parish to their clergy, religious and lay employees. These gifts are to be reasonable and take into consideration the parishes' financial status. The spirit of appreciation is also often expressed to our many employees and volunteers by conducting an annual appreciation event, either in the Christmas season or at another time of year.

Christmas bonuses should be included in the budget presented to the Parish Finance Council for approval and a listing of such bonuses should be given to the Council at the next regular meeting.

Cash gifts or bonuses given or paid to any individual are considered taxable income and must be reported by the employee in their Form W-2 according to Internal Revenue Service regulations.

For accounting purposes, charge any taxable cash payments to the employee compensation account in the appropriate department. Non-taxable gifts, such as a ham or turkey, can be charged to other administration.

Contributed Services

When a person makes a gift of service to his parish, it is a gift of one's talent. The gift of services, however, does not qualify as a charitable deduction and should never be receipted by the parish or included on the volunteer's annual contribution statement. It is permissible to write a letter thanking the volunteer for donating time that saved the parish money

Donor Acknowledgement Letters (Charitable Contribution Substantiation & Disclosure)

A charitable contribution is a gift given without something of value received in return. The gift must no longer be under the control of the donor.

IRS regulations state that it is the donor's responsibility to obtain a written acknowledgment of charitable contributions. However, it is Diocesan policy to assist donors by providing Donor Acknowledgement Letters (***Acknowledgement***). Acknowledgements are to be sent by January 31st to assist the donors in tax preparation.

The Acknowledgement should include the following:

- Name of organization.
- Date Acknowledgement was issued.
- Donor's name.
- Date of contribution.
- Amount of cash contribution.
- Description (but not value) of non-cash contributions.
- A description and good faith estimate of the value of any goods or services provided by the parish in return for the contribution.
- Statement that *"No goods or services were provided by the organization in return for these contributions"*.
- Statement that *"This statement is for your records. Please examine it carefully. If it does not agree with your records, please communicate this directly to the Pastor."*

Also per Diocesan policy, parishes are to track all offertory donations that are received by a known donor, regardless of whether the donor used a parish envelope or not.

A parish that receives a “quid pro quo contribution” (a payment that is part contribution/ part payment for goods or services) in excess of \$75 is required to provide an Acknowledgement to the donor that:

- States that the amount deductible is limited to the excess of any money and property contributed over the value of the goods or services provided by the parish; and
- Provides a good faith estimate of the value of goods or services furnished to the donor by the parish.
- Example: A parish sells dinner tickets for \$100. The parish must then provide a good faith estimate of the value of the meal to the purchaser and the amount of the charitable contribution.

This requirement does not apply for token goods such as calendars, bookmarks or key chains.

The parish should not provide valuations of any non-cash donations such as vehicles. The parish is not in the appraisal business and should not determine values.

IRS Publication 1771 states that donors can claim a federal tax deduction of any single contributions less than \$250 of cash, check or other monetary gift only if the donor maintains a record of the contribution. The record can be in the form of either a bank record (such as a cancelled check) or a written acknowledgement from the charity such as a receipt or letter. All donations of less than \$250 to the parish may be totaled and that total reported on the Acknowledgement

Publication 1771 also states that donors can claim a federal tax deduction for single contributions of \$250 or if a written acknowledgement is obtained from the charity. The parish Acknowledgement is to list each donation of \$250 or more and the date of donation.

Additional details for Letters are addressed in IRS Publication 1771: *Charitable Contributions – Substantiation and Disclosure Requirements.*

Employee Expense Reimbursement

Parishes generally reimburse employees under plans defined by the IRS as “Accountable Reimbursement Plans”. This means that, in order to be reimbursed, employees must account for expenses by providing a receipt for each expenditure and by declaring the business-related purpose of the expense. If this method is followed, the amount received by employees is not reportable or taxable as compensation.

If the parish pays a car or other allowance, documentation is not required of the employee but the amount is included on the employee’s Form W-2 as taxable compensation.

IRS *Publication 15-B: Employer’s Tax Guide to Fringe Benefits* provides additional guidance on this topic.

Gifts of Real Property

Gifts of real property are very complex and involve many issues such as screening for environmental hazards; cost-benefit analysis; identifying funding sources for payment of taxes, maintenance and other costs while the property is being held for sale; and compliance with Internal Revenue Service requirements.

Acceptance of a donation of real property requires the approval of the Bishop.

Please contact the Property and Insurance for guidance before accepting a gift of real property.

Independent Contractor vs Employee Classification

The mission of the Church requires the efforts of the laity and it is important to record and report their compensation properly. Two methods are prescribed by the Internal Revenue Service to report compensation: Form W-2 for employees and Form 1099-MISC for independent contractors. The classification has far-reaching consequences and determines the parish's liability for FICA, income tax withholding, potential coverage under the Fair Labor Standards Act and eligibility under the diocesan employee benefit plans. Misclassification can lead to significant penalties.

Generally, individuals who are "*subject to the will and control of the employer both as to what shall be done and how it shall be done*" and receive remuneration for such services will be considered employees.

Independent contractors pay their own self-employment taxes and are not eligible for diocesan benefits. Independent contractors normally set the order and sequence of work, set their hours of work, work for others at the same time, are paid by the job, offer their services to the public, furnish their own equipment and frequently work off-premises.

The following is excerpted from the IRS website "*...A worker's status under the common law test is determined by applying relevant facts that fall into three main categories: behavioral control, financial control and the type of relationship itself. In each case, it is very important to consider all the facts – no single fact provides the answer...*"

There are many myths surrounding classification of a worker as an employee or independent contractor:

- *Myth:* A written contract will characterize a person as an independent contractor.
Fact: The substance of the relationship governs the classification.
- *Myth:* Casual or seasonal workers are independent contractors or their classification is a matter of choice.
Fact: Classification is never a choice. The substance of the relationship determines classification."

Frequently, questions arise as to how to treat part-time parish workers such as custodians, housekeepers and musicians. As a general rule, when in doubt, consider the worker an employee and issue Form W-2 for two reasons:

- Workers generally prefer Form W-2 as they do not want to file the extra forms required of an self-employed independent contractor.
- The IRS prefers Form W-2 because historically there is greater compliance with Form W-2 versus Form 1099-MISC. Taxpayers who receive Form 1099-MISC usually receive greater scrutiny of their tax returns than those who receive W-2s.

Payments to independent contractors of \$600 or more in a calendar year must be reported using Form 1099-MISC on or before January 31 of the subsequent year. Copies of the forms must be sent to the Internal Revenue Service by February 28 of the subsequent year using transmittal Form 1096, *Annual Summary and Transmittal of U.S. Information Returns.*

Due to the complexities involved, Human Resources should be contacted for further guidance before classifying an individual as an independent contractor.

Life Insurance

The cost of up to \$50,000 of Diocesan-provided life insurance coverage is not reported as income to the employee. Diocesan-provided life insurance in excess of \$50,000 is reported as income, subject to income, Social Security and Medicare taxes.

The contracted Diocesan payroll processor, IOI, determines and reports the cost of life insurance in excess of \$50,000 as income on the W2.

Lobbying and Political Activity

Lobbying is defined as attempts to influence legislation. According to *IRS Publication 1828, Tax Guide for Churches and Religious Organizations* a parish may engage in some lobbying, but too much lobbying activity risks loss of exempt status". The Guide is not clear on what constitutes "too much lobbying".

Political Activity: The Guide also clearly states that parishes "...are absolutely prohibited from directly or indirectly participating in, or intervening in, any political campaign on behalf of (or in opposition to) any candidate for elective public office..."

To avoid violating the political campaign prohibition:

- Do not use a rating program to evaluate candidates.
- Do not endorse a candidate, or a slate of candidates, directly or indirectly through a sermon, speech, newsletter or sample ballot.
- Do not publish a candidate's statement.
- Do not publish the names of candidates who agree to adhere to certain practices.
- Do not publish a candidate's response to a questionnaire that evidences a bias on certain issues. Classifying candidates as too liberal or too conservative is an improper rating system.
- Do not raise funds for a candidate or provide support to a political party.
- Do not provide volunteers, mailing lists, publicity, or free use of facilities unless all parties and candidates in the community receive the same services.
- Do not pay campaign expenses for a candidate.
- Do not publish or distribute printed or oral statements about candidates.
- Do not display campaign literature on the parish premises.

Forums or debates may be conducted to educate voters at which all candidates are treated equally.

Payroll for Lay Employees

Income Tax Withholdings

An employer is obligated to withhold and income tax whenever wages are paid.

The parishes are to have each employee complete Federal Form W-4, Employee's Withholding Allowance Certificate, and Form A-4, Employee's Arizona Withholding Percentage Election. Copies of the forms are forwarded with the new hire packet to Human Resources with the originals filed in the employees personnel folder at the parish.

The contracted Diocesan payroll processor, IOI, is responsible for the remittance of income taxes withheld to the IRS and the AZ Dept of Revenue.

Payroll Records

The Internal Revenue Service (IRS) requires the parish to maintain the following payroll records for a minimum of 4 years:

- Name, address and social security number of each current and former employee;
- The period of employment;
- Total amount and date of each paycheck and the period of service covered by the paycheck;
- Amount of tax collected with respect to each payment and the date collected;
- Withholding exemption certificates (Form W-4) filed by each employee;
- Total amount paid to the employee during the calendar year; and
- Copies of the payroll tax returns filed with the Federal and state authorities as well as the dates and amounts of the deposits made with the tax depositories.

It is the responsibility of the parish, not a payroll company such as IOI, to retain the above records. Parishes can select whether to keep hardcopies of the records or store the reports electronically. If stored electronically, efforts should be made to ensure that a computer is retained that can read the electronic device used, or that the reports be re-copied onto technology which can be read by current computers.

Social Security (FICA) Tax

The Federal Insurance Contributions Act (FICA) imposes a tax on both employer and employee. Employers are to first withhold the employee portion from each payment of wages based on a flat percentage of taxable wages. Employees who earn compensation of \$100 or more in a calendar year are subject to Social Security taxes. Second, the employer must pay the employer portion of the tax.

The contracted Diocesan payroll processor, IOI, is responsible for submitting FICA to the Social Security Administration.

Unemployment Taxes:

Religious organizations may choose not to participate in either the Federal or state unemployment insurance programs. The Diocese has chosen not to participate in either program so neither clergy or lay employee wages are subject to these taxes. Note: Since unemployment insurance tax is not paid, employees do not receive unemployment compensation when no longer employed by the parish. New employees are informed of this non-participation in the Memorandum of Employment (**MoE**) and this is one reason why the MoE must be completed at date of hire

Year-End Tax Reporting (W2)

Each year employees, from whose wages income taxes have been withheld, are to receive Form W-2s which reports information related to those wages. The forms are to be provided by January 31 of the year following the year to which the form relates. If the employee is terminated before the end of the year, they still receive the W2.

The contracted Diocesan payroll processor, IOI, is responsible for preparing Forms W-2 for all employees. The W-2s are forwarded by IOI to the parish for distribution.

Personal Use of Parish Vehicles

The Internal Revenue Service treats most types of personal use of parish vehicles as a noncash fringe benefit and generally requires the fair market value of such use to be included in the employee's gross income if the employee does not reimburse the employer for the value of the personal use.

If parish vehicles are used by employees for personal use, please contact Fiscal Services for guidance.

Priest and Deacon Compensation

The following relates to priests as well as deacons. Deacons are also ordained clergy and if they are working in a ministerial or administrative position for a Catholic parish, school or agency, they receive the same tax treatment as Catholic priests.

Recent IRS regulations have led the Diocese to require all diocesan priests to be paid through payroll with earnings reported on Form W-2. Only under very rare circumstances would a priest be classified as an independent contractor and receive Form 1099-MISC. Contact the Human Resources to determine if an individual priest can be an independent contractor.

There are priests and brothers who are members of religious communities (***Order priests***) who have taken the vow of poverty and receive only sustenance. These priests, under certain circumstances, do not file income tax returns. However, as of January 2015, Diocesan policy is for Order priests to be paid through IOI, the Diocesan contracted payroll processing company.

There are 7 primary differences between “clergy as taxpayers” compared to lay employees. But it is important to mention one similarity: Clergy are taxpayers! A brief explanation of the 7 differences follows. The term “priests” also refers to deacons employed in ministerial positions in the Church.

Dual Status Taxpayers: The Internal Revenue Service classifies most priests as “dual status taxpayers”. The IRS and the Social Security Administration agree that all priests are self-employed for Social Security purposes.

Housing: Priests may receive income tax-free housing which usually takes the form of a rectory but may also be in the form of a cash allowance. Although the value of housing is not subject to income tax, it is subject to Social Security taxes.

The parish should include the value of housing on a priest’s Form W-2 in Box 14 so that housing can be included in computing the Social Security tax liability.

Payroll Tax Withholding: Priests are exempt from payroll withholding. Although priests are exempt from payroll tax withholding, Congress did not exempt clergy from the pay-as-you-go system of paying income taxes. In general, if a taxpayer owes more than \$1,000 in taxes for a year, that taxpayer must make quarterly estimated tax payments at specified times during the year. Failure to do so results in interest and penalty assessments.

The parish is not exempt from payroll tax withholding. If a parish has lay employees the parish must comply with payroll tax withholding requirements.

Payroll Tax Withholding Participation: Priests who receive Form W-2 may, at their option, request payroll tax withholding. When properly computed, withholding relieves a priest of making quarterly estimated tax payments. It is usually not sufficient to use the standard withholding tables designed for lay employees when withholding Federal taxes for priests. Because priests cannot have Social Security tax withheld, they should request additional Federal income tax withheld to offset their self-employment Social Security tax liability.

Salary Supplements and Allowances: Priests receive various salary supplements and allowances. In the Diocese of Tucson, a salary supplement is provided for 50% of the Social Security taxes paid on Schedule SE. A second supplement is provided for auto insurance on the first personal car owned by each priest.

Federal income tax and Social Security tax are paid on salary supplements. The easiest way to report this is to have the priest pay the Social Security tax and auto insurance premium then issue a payroll check for these payments. In that way, IOI (the current company used for payroll processing) will report the supplement amounts in Box 1 of Form W-2.

Federal income tax and Social Security tax may be required on food, clothing, education or car allowances. The IRS states that if the parish pays an allowance, documentation is required to prove that the allowance was spent as intended. The documentation is to show: 1) there is a business (ministry) connection; and 2) there is proper substantiation (receipts, etc) provided to the parish for the total amount of the allowance. .

If there is no documentation to prove the allowance was spent as intended, the allowance becomes taxable earnings to the priest. If only a portion of the allowance is substantiated, the non-substantiated amount is reported as earnings to the priest

Self-Employment: Priests are self-employed for Social Security (FICA) tax purposes. A priest receives Form W-2 to report his earnings but he is self-employed for purposes of paying Social Security tax on his ministerial earnings. Self-employed status is not necessarily a benefit for priests. It means that the parish will not withhold and match Social Security FICA tax as it does for a lay employee. The self-employed priest must pay the equivalent of both sides of the FICA tax himself. Social Security taxes should not be withheld from a priest's pay.

In order to achieve some parity, the Diocese reimburses a priest 50% of the self-employment tax as calculated on Schedule SE of his individual tax return. The payment is included as income on Form W-2 in the year paid.

Social Security: Priests may opt out of Social Security for a certain period of time after ordination. A priest considering opting out of the Social Security system should contact the fiscal office of the diocese for guidance

Private Inurement

In order to qualify as tax-exempt under the Internal Revenue Code, the parish must adhere to certain limitations imposed by law. One of those limitations on the operations of the parish is a prohibition against private inurement. This means that no part of the parish's earnings can benefit any individual. This does not preclude the parish from earning more revenue than it expends. The excess, however, cannot benefit an individual or group of individuals.

Raffle/Fiesta Prizes

Parishes may need to report prizes (cash or non-cash) for bingo, keno, raffles, sweepstakes and drawings) to the recipient using Form W-2G on or before January 31 of the subsequent year. Copies of the forms must be sent to the IRS by February 28 of the subsequent year using Form 1096.

Reporting requirements are based on the source and amount of gambling winnings. The most common among the parishes are raffle drawings or fiesta prizes. A W-2G and a 1096 are to be provided for all amounts \$600 or more received from these sources. The minimum amount for reporting requirements for other types of gaming are found in *IRS Instructions for W2G*.

Purchases of raffle tickets are **not** tax-deductible contributions. If a raffle ticket is included with the purchase of a special event ticket (for a dinner, for example) the entire purchase is deemed not deductible; thus, raffle sales should be separate transactions from other fundraising revenue.

Tax Consequences for Income Received by Priests

The IRS has issued *Audit Guidelines for Ministers*. The Guidelines dismiss any notion that stole fees or mass stipends are tax-free gifts:

“...In addition (to salary), the minister may receive fees paid directly from parishioners for performing wedding, funerals, baptisms and masses. All are includible in gross income, along with expense allowances for travel, transportation, or other business expenses received under a non-accountable plan. If the church pays amounts in addition to salary to cover the minister’s self-employment tax or income tax, those are also includible in gross income...”

The income of a priest can be subject to Federal income tax, Social Security tax, both or neither as discussed below.

Income subject to both Federal income tax and Social Security tax:

- Allowances when not substantiated
- Mass stipends and fees
- Non-ministry related earnings
- Personal use of parish-owned vehicles
- Professional fees
- Salary
- Stole fees and honoraria

Income taxable for Federal income tax purposes but NOT Social Security tax:

- Investment and passive income
- Pension benefits (exclusive of housing portion)

Income subject to Social Security tax but NOT Federal income tax:

- Value of room and board

Tax-free income (not subject to either Federal income tax or Social Security tax):

- Gifts as defined by the IRS “*motivated by love and affect without regard to past, present or future services rendered*”. Gifts can be birthday, anniversary, going-away, and get well presents.
- Housing portion of pension plan benefits
- Reimbursements (supported by proper documentation)

Tax Exemptions

Parishes are exempt from the following taxes:

Excise Tax: Non-profit schools and educational organizations are exempt from Federal excise taxes on the purchases of school buses and other vehicles, gasoline, motor oil and telephone charges. Such products must be for the exclusive use of the qualifying school or educational organization.

Lieu Tax or Vehicle License Tax: All vehicles owned or titled in the name of the diocese and the parish or school are exempt from the “lieu tax” that is included on the registration form sent annually

with the license plate renewal. An individual from the parish must appear in person at the County Assessor's Office with the vehicle registration form to request the exemption.

Property Taxes: Parish property on which the church is physically located is exempt from property tax. Property that is not part of the physical church grounds is **not** exempt from property taxes. This includes parish rectories that are not on church grounds as well as homes personally owned by priests.

Sales Taxes: Although commonly referred to as a "sales tax", the State of Arizona has instead adopted a transaction privilege tax, under which a tax is levied on the privilege of doing business in the State. A.R.S. Section 42-5061(A)(4) deals with sales of tangible personal property by a non-profit organization. The statute provides that sales of tangible personal property by a non-profit organization organized and operated exclusively for charitable purposes and recognized by the Internal Revenue Service as a Section 501 (c) (3) organization are excluded from the transaction privilege tax.

As such, parishes do not have to charge or remit transaction privilege taxes on items sold in gift shops, such as rosaries, books and other religious articles. In addition, the parish is not required to pay sales tax when purchasing items to be resold by the parish (such as religious articles).

Although parishes are not required to pay or collect the transaction privilege tax on the items it sells or purchases for resale, there is no similar exemption available for the sale of tangible personal property to be used or consumed by the parish in its operations, with one exception noted below. Retailers who sell such property to the parish for consumption (not for resale) should collect the tax from the parish.

The one exception to the obligation to pay transaction privilege tax on items purchased is for parishes that regularly serve meals to the needy and indigent on a continuing basis at no cost. That exemption is outlined in Arizona Revised Statutes Section 42-5061(A)(25)(e).

Tucson provides an exemption from the transaction privilege tax on items sold by the parish in the same manner as the State of Arizona. Tucson, however, requires parishes to pay business privilege tax on purchases of tangible personal property, regardless of whether purchased for consumption or resale.

Other Municipalities: For guidance on other municipalities, please contact the relevant taxing authority
NOTE: School lunch programs do not qualify for the exemption.

Tax Exempt Ruling and Related Disclosures

The Internal Revenue Service (IRS) has issued a group ruling with respect to the Federal tax status of organizations listed in the Official Catholic Directory (OCD).

Classification as a religious organization is important in establishing:

- Exemption from:
 1. Federal income tax
 2. Federal unemployment tax
 3. The obligation to file annual information returns
- Deductibility of contributions to religious organizations for Federal income tax, gift and estate tax purposes.
- Certain protection from IRS examinations.

Parishes are often requested to provide a copy of their exempt ruling. A copy of the ruling can be accessed on the web address provided in the *Reference Guide-Tax Exempt Ruling* section found after the index section of this manual.

The IRS requires tax-exempt organizations to allow public inspection of Form 990, an annual information return filed by organizations exempt from income tax, and Form 1023, the organization's application for recognition of tax exemption. Parishes will not have these forms available for inspection because they are exempt from filing Form 990 and Form 1023 was not filed by the USCCB.

However, parishes covered under the Group Ruling are required to provide for inspection and/or copying the page on which it appears in the current Official Catholic Directory (OCD). If a parish does not have a current copy of the OCD, the Chancellor's office at the Diocese should be contacted to obtain a copy of the relevant pages.

Travel Policies

Employees are reimbursed for all related, reasonable and actual expenses in connection with legitimate and authorized business. Employees are expected to exercise prudent business judgment; obtaining the lowest reasonable cost should prevail over personal preferences.

An expense report must be submitted to the employee's supervisor with documentation provided for all expenditures. All expenditures should be listed separately with description of the purpose on the expense report.

Reimbursable expenses include, but are not limited to, the following and are dependent upon the type of travel: meals, lodging, mileage, fuel, car rental, and air travel.

Non-reimbursable expenses include, but are not limited to: traffic violations, alcoholic beverages in excess of one per meal, in-room movie rentals, purchase of clothing or other personal items and expenses for family members traveling with the employee.

The supervisor should review the expense report to ensure only appropriate and reasonable expenses are presented for reimbursement and all necessary documentation is attached.

Air Travel

Air travel should be via the most direct and economical means. Travel arrangement for a single destination should be made by the employee; a travel agency may be used for more complex itineraries.

The Diocese allows not more than five (5) employees or company or two (2) executives from the same entity to fly on the same flight.

Employees may retain all benefits from frequent flyer club memberships. It is the responsibility of the employee to pay all dues for such clubs.

Auto Travel

Auto travel should be by parish-owned vehicles whenever possible. If such vehicles are not available or suitable for the travel purpose, a car may be rented or the employee may use their personal vehicle. It is preferred that a car be rented instead of the employee using their personal vehicle. When an accident occurs in the employee's personal vehicle, the employee's personal insurance is liable if there is an accident even if the employee is traveling for parish purposes.

When renting a vehicle, an intermediate-size car with unlimited mileage should be selected. The Diocesan insurance package covers employees while traveling so the optional insurance coverage

should be declined. An upgrade to a full-size car may be made if there are four persons that will be traveling together in the vehicle.

When a personal vehicle is used for parish business, employees will be reimbursed at the rate determined by the entity. This rate is not to exceed the prevailing IRS rate and can be set at a lesser rate by the parish.

Fly/Drive Itineraries

Public transportation such as taxis, shuttles or group limo services should be used whenever possible when flying to another city. A car may be rented if trips outside the city are necessary. The Diocesan insurance package covers employees while traveling so the optional insurance coverage should be declined.

Lodging

The Diocese approves accommodations to meet the safety, needs and preferences of the employee along with industry-accepted business travel standards with reference to comfort, convenience and cost.

Lodging is approved for trips of greater than two-hours one-way from the employee's usual place of employment. Employees should commute to locations that are less than two hours away.

Meals and Entertainment

The Diocese reimburses actual, reasonable and necessary cost for meals and gratuities. One meal is reimbursed for day trips greater than 4 hours but less than 9 hours. Entertainment expenses are reimbursable only with manager approval

Tuition Payments

Many parishes maintain parochial schools and most of the parochial schools charge tuition to parents whose children attend the schools. The IRS is clear that contributions to a parish or school are tax-deductible, but payments for tuition are not.

This issue becomes less clear when parishes do not charge tuition, but require a certain level of giving for a family with a child in the parish school or give tuition discounts to parents who achieve certain required levels of giving.

Contribution substantiation should not be given for tuition payments unless a tithing program is properly structured. Improper substantiation could result in IRS penalties, fines and other legal action directed at the parish and parents.

Reference Guide

- A-4 AZ Withholding Election <http://www.azdor.gov/Forms/Withholding.aspx>
- Annual Budget Guidelines <http://www.diocesetucson.org/fiscal-and-administration>
- Application for Priest Salary Subsidy
Contact the Diocesan Chief Financial Officer
- Bingo/Gaming Guidelines <http://www.irs.gov/pub/irs-pdf/p3079.pdf>
- Capital Budget Format
- Charitable Contributions <http://www.irs.gov/pub/irs-pdf/p1771.pdf>
- Donor Acknowledgement Letters <http://www.irs.gov/pub/irs-pdf/p1771.pdf>
- Employee Expense Reimbursement
See Employer's Tax Guide to Fringe Benefits
- Employee Job Descriptions <https://diocesetucson.org/human-resources/job-description.html>
- Employers' Tax Guide <http://www.irs.gov/pub/irs-pdf/p15.pdf>
- Employer's Tax Guide to Fringe Benefits <http://www.irs.gov/pub/irs-pdf/p15b.pdf>
- Financial Report to the Faithful (in PAFR) <http://www.diocesetucson.org/fiscal-and-administration>
- I-9 Employment Eligibility Verification <http://www.uscis.gov/i-9>
- Independent Contractors vs Employees <http://www.irs.gov/pub/irs-pdf/p1779.pdf>
- Investment Guidelines <http://www.diocesetucson.org/fiscal-and-administration>
- Liquor Licenses & Control <http://www.azliquor.gov/>
- Operating Budget Format
- Parish Accounting Manual <http://www.diocesetucson.org/fiscal-and-administration>
- Parish Annual Financial Report (PAFR) <http://www.diocesetucson.org/fiscal-and-administration>
- Parish Chart of Accounts <http://www.diocesetucson.org/fiscal-and-administration>
- Priest/Women Religious Salary Schedule <http://www.diocesetucson.org/fiscal-and-administration>
- Principal/Teacher Salary Schedule
Contact the Diocesan Catholic Schools Department
- Record Retention Guidelines <http://www.usccb.org/>
Search for "Diocesan Financial Issues" then "Records Retention" in the table of contents
- Tax Exempt Ruling <http://www.usccb.org/about/general-counsel/group-ruling.cfm>
- Tax Guide for Churches & Religious Orgs <http://www.irs.gov/> then search for Pub 1828
- US Conference of Catholic Bishops (USCCB) <http://www.usccb.org>
- W-2G, Certain Gambling Winnings <http://www.irs.gov/pub/irs-pdf/fw2g.pdf>
- W-4 Federal Withholding Allowance Certificate <http://www.irs.gov/pub/irs-pdf/fw4.pdf?portlet=3>
- W-9 Request for Taxpayer ID Number <http://www.irs.gov/pub/irs-pdf/fw9.pdf?portlet=3>
- Whistleblower Policy <http://www.diocesetucson.org/fiscal-and-administration>
- Worker's Compensation Classification Rates <http://www.diocesetucson.org/fiscal-and-administration>

NOTE: Web addresses were current as of October 2015.