

The Roman Catholic Church

DIOCESE OF TUCSON

Fiscal Services

**PARISH ACCOUNTING
MANUAL**

Version 07.01.2011

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Reference Guide

- A-4..... <http://www.azdor.gov/Forms/Withholding.aspx>
- Annual Budget Guidelines..... <http://www.diocesetucson.org/fiscaladmin.html>
- Annual Report to the Bishop..... <http://www.diocesetucson.org/fiscaladmin.html>
- Application for Priest Salary Subsidy Contact the Chief Financial Officer
- Arizona Revised Statute 23-617.10..... See *Unemployment Tax Guidance*
- Bingo Guidelines See *Gaming Publication for Tax-Exempt Orgs*
- Calendar Year End Procedures Mailed to parishes by Fiscal or may
be posted on Diocesan website under Fiscal
- Capital Budget Format<http://www.diocesetucson.org/corporatematters.html>
- Charitable Contributions, IRS Guide <http://www.irs.gov/pub/irs-pdf/p1771.pdf>
- Circular E <http://www.irs.gov/pub/irs-pdf/p15.pdf>
- Diocese of Tucson website<http://www.diocesetucson.org>
- Donor Acknowledgements..... <http://www.irs.gov/pub/irs-pdf/p1771.pdf>
- Employee Job Descriptions <http://www.diocesetucson.org/hrjobdescriptions.html>
- Employers' Tax Guide, IRS Pub 15..... <http://www.irs.gov/pub/irs-pdf/p15.pdf>
- Employer's Tax Guide to Fringe
Benefits, IRS Pub 15b..... <http://www.irs.gov/pub/irs-pdf/p15b.pdf>
- Employment Eligibility Verification..... <http://www.uscis.gov/> Click on Forms, then
Employment Based Forms
- Federal Tax Withholding Tables See *Employers' Tax Guide IRS Pub 15*
- Financial Report to the Faithful <http://www.diocesetucson.org/fiscaladmin.html>
See Parish Annual Financial Report
- Gaming Publication for Tax-Exempt Orgs..... <http://www.irs.gov/pub/irs-pdf/p3079.pdf>
- Group Tax Exemption <http://www.usccb.org/ogc/group-ruling-2011.pdf>
- I-9.....<http://www.uscis.gov/> Click on Forms, then
Employment Based Forms
- IOI Payroll Manual <http://www.diocesetucson.org/fiscaladmin.html>
- Liquor Licenses & Control..... <http://www.azliquor.gov/>
- Operating Budget Format..... <http://www.diocesetucson.org/corporatematters.html>
- Parish Annual Financial Report <http://www.diocesetucson.org/fiscaladmin.html>
- Priest/Women Religious Salary Schd see *Annual Budget Guidelines*
- Principal/Teacher Salary Schedule see *Annual Budget Guidelines*
- Tax Exempt Ruling..... <http://www.usccb.org/ogc/group-ruling-2011.pdf>
- Tax Guide for Churches & Religious <http://www.irs.gov/pub/irs-pdf/p1828.pdf>
Orgs; IRS Pub 1828
- Unemployment Tax Guidance [http://www.azleg.gov/FormatDocument.asp?
inDoc=/ars/23/00617.htm&Title=23&DocType=ARS](http://www.azleg.gov/FormatDocument.asp?inDoc=/ars/23/00617.htm&Title=23&DocType=ARS)
- Uniform Chart of Accounts <http://www.diocesetucson.org/fiscaladmin.html>
- United States Conference of Catholic
Bishops (USCCB)..... <http://www.usccb.org>
- Record Retention Guidelines <http://www.usccb.org/bishops/dfi/retention.htm>
- W-2G, Certain Gambling Winnings <http://www.irs.gov/pub/irs-pdf/fw2g.pdf>
- W-4, 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>

DIOCESE OF TUCSON

Office of the Bishop

DECREE

In accordance with Canon 1276 of the Code of Canon Law, I hereby direct the publication of the 2011 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, 2011.

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 Authority/Diocesan Norms

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

Following is a brief narrative, explanations and definitions of canonical authority as it pertains to Church administration.

“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.

Ecclesiastical Goods

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 to which these goods were put.

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 Parish Finance Council and seek its advice regarding the proposed action. The action must be reviewed and approved by the Parish Board. The approval of the Bishop must be obtained before any of the above actions can be finalized.

Parish Corporate Board of Directors

The Parish 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.

The Parish Finance Council

Canon 1280 states that “each juridic person is to have its own finance council who, according to norms of the statutes, are to assist the administrator in fulfilling his or her function...” The principle is clear: it is unfair to expect that all canonical administrators have the qualifications necessary to ensure optimum financial governance. Because they are often chosen for their other qualities, parish administrators must seek the expertise of those who are especially competent in this area. The Parish Finance Council, however, is a consultative body and does not substitute for the pastor as the chief administrator and legal representative of the parish’s goods.

Support for the Diocese

The Church, as divinely instituted, has the right to require material support from its participating members and institutions for its ministries and services. The Code provides for this support through the following possible methods:

- Seminary tax (not used in the Diocese of Tucson)
- Free will offerings
- Tax
- Extraordinary tax (not used in the Diocese of Tucson)
- Special collections
- Wills and bequests
- Administrative fees
- Judicial fees

In the Diocese of Tucson, support for the ministerial and administrative functions of the Diocese comes from the parishes in the form of taxation, fees and the Annual Catholic Appeal (free will offerings).

Canon 1263 provides for a moderate ordinary 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. Sustaining contributions include parish, mission and holy day offertories, unrestricted contributions, sacramental stole fees and net bingo revenue.

Fees are assessed to individuals for the services of the Marriage Tribunal. In the event that individual petitioners for annulments default on their obligation, the parish is billed.

The Annual Catholic Appeal is conducted by the Catholic Foundation for Stewardship and Charitable Giving (Catholic Foundation). The parish goals for the Appeal are set at a percentage of a multiple-year average of offertory collections. There are other variables which can be considered; additional details are available from the Director of the Catholic Foundation for Stewardship and Charitable Giving. Monies raised in the Appeal are distributed to various agencies and ministries outlined in the Appeal brochure as approved by the Fund’s Board of Directors.

Annual Financial Report to the Diocesan 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, loans, savings accounts held in the Parish Pooled Investment Trust, property sales and purchases, bank accounts and construction.

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 Diocese of Tucson has established the Parish Annual Financial Report (PAFR) as the format for the annual report. The PAFR is found on the Diocesan website under the Fiscal department. The PAFR is reviewed by the Finance Council and approved by the Parish Board; the PAFR should be forwarded to all members of the Board prior to the approval meeting. The Pastor, Treasurer and Preparer should sign the signature page. The PAFR should be forwarded to Fiscal Services by September 30th.

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.

Financial reports to the faithful can be very simple. 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.

A copy of the Financial Report to the Faithful used by the parish should be attached to the Parish Annual Financial Report to the Bishop.

Budgeting

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 norm 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.*
- *Sample 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.*

Canonical Expectations of the Parish Administrator

“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.

Diocese Support

The Diocese bills parishes for three categories of expenses:

- Billings in support of **chancery** operations
- Billings in support of other diocesan operations
- Billings for parish expenses

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

Billings in Support of Chancery Operations

Bishops are authorized by the 1983 Code of Canon Law to raise funds for the diocese in the following ways:

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

The Bishop in the Diocese of Tucson uses the above **highlighted** methods to raise funds.

Free will offerings

Free will offerings take the form of the **Annual Catholic Appeal** conducted by the Diocese of Tucson 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 total Appeal goal is apportioned to parishes based upon the proportion of each parish's offertory income to total offertory income of all parishes in the Diocese. 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 public juridic persons:

"After the diocesan bishop has heard the finance council and the presbyteral council, he has the right to impose a moderate tax for the needs of the diocese upon public juridic persons subject to his governance; this tax is to be proportionate to their income."

The tax 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%

Sustaining contributions include parish, mission and 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.

Unrestricted contributions are contributions that are neither temporarily or permanently restricted. Unrestricted contributions also include “Unrestricted but designated” 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.

Unrestricted contributions **are** included in the sustaining contribution calculation.

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

Temporarily restricted contributions are **not** included in the sustaining contribution calculation.

Permanently restricted contributions. 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).

Permanently temporarily restricted contributions are **not** included in the sustaining contribution calculation.

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.

Judicial fees

Judicial fees are not assessed to the parishes. Rather, they 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

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

- School assessment
- Priest salary subsidy
- Priest support assessment

The School assessment is billed to parishes in the Tucson metropolitan area in the total amount of \$100,000 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.

The priest salary subsidy is billed to parishes based on a pro rata share of regular collections. It is distributed to parishes that have been determined to have special financial needs. The subsidy is not billed to parishes that receive the subsidy.

Priest support assessments are used to pay for priests' health and retirement plans as well as support unassigned priests. The dues are 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.

**DIOCESE OF TUCSON
EXAMPLE CALCULATION SCENARIO
PRIEST SALARY SUBSIDY AND PRIEST SUPPORT ASSESSMENTS**

1. Bishop approved \$30,010 in priests' salary subsidy requests for fiscal year 2005.
2. The Priests' Assurance Association Board has approved a budget for fiscal year 2005 requiring total parish dues of \$145,100.
3. Calculate projected sustaining contributions by parish for fiscal year 2005
4. Calculate the % of each parish's sustaining contributions to the total sustaining contributions. Parishes receiving the priests' salary subsidy (parish 3 and 8 in the example) are not billed for the salary subsidy assessment and are omitted from the calculation.
5. The % of each parish's sustaining contributions to the total sustaining contributions computed in Step 4 is multiplied by the salary subsidy and PAA budgeted assessments to arrive at each parish's estimated assessments. This results in the estimated annual billing to each parish.
6. The annual estimated billing is divided by 10 to arrive at the monthly billing amount (parishes are billed 10 times a year from September thru June).
7. When all the annual reports for fiscal year 2004 have been submitted and reviewed by the Diocese, the assessments are recalculated based on the actual sustaining contributions reported for that year. The difference between what has already been billed and the actual assessment is distributed over the remaining months of the fiscal year.

	2003-04 ESTIMATED SUSTAINING CONTRIBUTIONS	PRIEST SALARY SUBSIDY ASSESSMENTS					PRIEST SUPPORT ASSESSMENTS		
		ESTIMATED					ESTIMATED		
		Exempt=1	BASE SUSTAINING CONTRIBUTIONS	INCOME %/TOTAL	2004-05 SALARY ASSESSMENT	MONTHLY INVOICE	INCOME % of TOTAL	2004-05 PAA DUES	MONTHLY INVOICE
Parish 1	166,100		166,100	13.63%	4,090	409	12.36%	17,930	1,793
Parish 2	72,600		72,600	5.96%	1,790	179	5.40%	7,840	784
Parish 3	61,600	1	0	0.00%	0	0	4.58%	6,650	665
Parish 4	225,500		225,500	18.50%	5,550	555	16.78%	24,340	2,434
Parish 5	242,000		242,000	19.86%	5,960	596	18.00%	26,120	2,612
Parish 6	71,500		71,500	5.87%	1,760	176	5.32%	7,720	772
Parish 7	148,500		148,500	12.18%	3,660	366	11.05%	16,030	1,603
Parish 8	63,800	1	0	0.00%	0	0	4.75%	6,890	689
Parish 9	127,600		127,600	10.47%	3,140	314	9.49%	13,770	1,377
Parish 10	165,000		165,000	13.54%	4,060	406	12.28%	17,810	1,781
TOTALS	1,344,200		1,218,800	100.00%	30,010	3,001	100.00%	145,100	14,510

Salary Subsidy Budget for 2004-05	30,010	Parish portion of 2004-05 PSA budget	145,100
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Billings for Parish Expenses paid through the Diocese

The Diocese or IOI (the Diocesan payroll system implemented in FY08) bills or debits parish bank accounts for the following expenses related to parish operations.

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 debited amount is found on the RETA Trust billing invoice emailed to parishes on a monthly basis.

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

Property/liability insurance is billed by Fiscal Services to parishes on a quarterly basis through the monthly billing invoice. The amount of the premium is based upon the market value of property owned by the parish.

The following expenses are debited by IOI (the Diocesan payroll system as of August 2011) directly from parish bank accounts on a per-pay-period basis. The debited amounts are found on IOI Report #008-Payroll Reconciliation Summary.

- Employee 403(b) contributions are debited by IOI directly from the parish's checking account by IOI on a per-pay-period basis. The deduction amount is based on the salary reduction agreement amounts authorized by the employee which is entered into IOI.
- Lay employee pension contributions: The amount debited is based on a percentage of each employee's compensation. Rate schedules are published in the yearly Budget Guidelines and Assumptions Memo distributed by Fiscal Services.
- Workers' compensation insurance: The amount debited is based on a percentage of each employee's compensation. Rate schedules are published in the yearly Budget Guidelines and Assumptions Memo distributed by Fiscal Services.

Parish Corporate Board of Directors

The Parish 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.

Parish 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.
- 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

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

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

- The parish is to have at least three (3) months of operating funds in reserve.
- These reserves 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.
- 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 a Parish Finance Council operating in accordance with diocesan norms.
- 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

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

- Negative trends. Negative trends may be ongoing and continued losses, deficiencies in net asset categories, declining financial ratios or adverse cash flows. They also can be loss of support of substantial contributors.
- Other indicators. Other indicators of financial difficulties may be defaults on debt payments, denial of credit from suppliers, restructuring of debt or sale of assets. Changes in demographics can adversely affect the parish.
- Internal matters. Internal matters that may indicate going concern issues are uneconomic long-term commitments, dependence on the success of a particular event or project and the need to revise operations significantly or to seek new sources or methods for funding. Infighting among the pastor and Councilor among staff members may indicate problems.

- External matters. External matters that may indicate financial issues include changes in laws that affect charitable giving, the loss of a major donor or uninsured losses. Adverse publicity regarding other charities or scandals may negatively affect the operations of the parish.

Parish 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 Parish Pastoral Council. (Article IX Section 6).

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

Guidelines for Parish Pastoral Councils have been completed and can be found on the Diocesan website under Pastoral Services.

Coordination of the Parish Corporate 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.

Annual Report to the Diocesan Bishop

The annual report should conform to the format established by the diocesan fiscal office and mandated by diocesan norms. The format for the Diocese of Tucson is the Parish Annual Financial Report which is found on the Diocesan website under Fiscal and includes instructions & procedures.

The report is required 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 report is due to Fiscal Services no later than September 30 of each year. For assistance in preparing this report, please contact Fiscal Services prior to the report deadline.

Annual Report to Parishioners

According to Canon 1287 and 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 parish administrator to be efficient and faithful in his responsibilities for 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 parishioners should be 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.

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.

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 in the Diocese of Tucson is one of the two following 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.

Here is a guide to help properly compensate and report earnings for the clergy.

<u>Type of clergy</u>	<u>How to pay</u>	<u>Year-end Form to use</u>
Order Priests	Pay to priests' order as a regular check	None
Other Priests (Clergy that are not assigned to the parish and are not order priests. Include an order priest if he insists payment go directly to him.)	Regular vendor check (Be sure to get their social security number and address in case their compensation exceeds \$600 for the year and a 1099MISC is necessary.)	1099MISC

Budgeting Principles and Guidelines

The duties of the Parish Finance Council include review of an annual operating budget and a separate capital improvement budget which is then submitted to the Parish Board for approval. Budgets must be in a format consistent with Board policy. Samples of operating and capital budget can be found on the Diocesan website under Corporate Matters.

If the parish is applying for assistance via the priests' salary subsidy, U.S. Missions, Catholic Home Missions or Annual Catholic Appeal grant programs the approved budgets must be submitted with the application.

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.

REMEMBER: TO FAIL TO PLAN IS TO PLAN TO FAIL!

Budget Flows

There are many approaches to annual budgeting.

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 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.

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 this approach the easiest to implement.

Program Budget

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.

If you are a larger parish, this approach is most likely the one that you will want to use.

These are the 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

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 Budget

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.

There is no typical format for the capital budget, only the need for a clear and orderly presentation of the parish's plans for major asset acquisitions including the plan for funding them. A sample capital budget can be found on the Diocesan website under Corporate Matters. A capital budget should cover at least the following points and one or more future annual periods:

- Major asset acquisitions planned: descriptions, acquisition dates, suppliers, whether additions or replacements of existing assets, estimated cost
- Mode of acquisition: lease, purchase, trade-in or sale of current assets
- Source of funds to purchase: savings or investments, cash borrowings or installment payments. If a special fund drive is planned, over what period of time will it occur?
- Schedule of deposits or payments on loans, installments or rentals, showing individual amounts and grand total for each month and year covered in the capital budget.

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.

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

Accounting Issues

Characteristics of the Parish Accounting Environment

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 (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.

The statement of financial position reports the *net assets* of the parish, replacing the previously used term *fund balance*. 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.

Financial Recordkeeping/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 Fiscal/Services to Parishes. Keep this reference handy during the budgeting process. If you are implementing use of QuickBooks, the fiscal office of the diocese has a template containing the parish chart of accounts and formatted reports that will save you time in the transition.

An individual with a proven ability to maintain financial records should perform the parish's bookkeeping responsibilities. The pastor's primary responsibility will be to review and approve financial activity; the pastor should not serve as the bookkeeper.

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, the bookkeeping function is to be performed at the parish and not at an individual's home. All records are the property of the parish.

The United States Conference of Catholic Bishops' website includes a complete retention schedule for all parish records.

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.

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.

- 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.
- 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.
- 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.
- 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.
- 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.
- Look through the Annual Financial Report schedules. They contain a lot of useful line items that might be overlooked and require year-end adjustment.

Bank Accounts

Parishes are authorized to maintain one checking and one savings account for the general use of the parish and one checking account may be maintained 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 the policy.

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

Each bank account and its account number must be listed in the Annual Financial Report to the Bishop indicating the authorized signers on each account. The only authorized signers on the account are the Pastor, Administrator, Associate Pastor(s), Vicar Forane, members of the Board and members of the Parish Finance Council.

Two individuals should sign checks over a specified limit established by the Parish Finance Council based upon the size of the parish. When not in use, all check stock should be kept in a secure location under the control of a person who is not a check signer.

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.

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.

Petty cash funds should be limited to \$250 and should be secured in a locked box with access limited to the custodian of the fund.

When the fund is initially established, the check is coded to the petty cash account, 100190.

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.

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.

On a surprise basis but not less quarterly, another staff member or a member of the Parish Finance Council should audit the petty cash fund.

Investments

Parish accounts at a commercial stock brokerage house or other similar financial organization are prohibited. A parish is not permitted 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. This is an absolute prohibition. Any stock donated to or otherwise owned by a parish must be sent to the diocesan fiscal office. 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 Catholic Foundation for the Diocese of Tucson invests a parish's funds in many types of financial instruments including 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 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 would be reversed if there was a decrease in market value.

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 with PPIT	xxxx

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

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.

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. This is commonly called eScrip.

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 account		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 account		5,000
110100 – Checking account	200	
4x7450 – Scrip income		200

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

110100 – Checking account	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 shortages	xxxxx	
108530 – Scrip inventory		xxxxx

The pastor and Parish Finance Council should carefully review this journal entry and the activity in this account.

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

1101xx – Checking account	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!**

Scrip certificates should be kept under dual control as they have the same value as cash. See internal controls section for specific controls related to scrip.

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 account in the 1090xx – 1098xx range and not to 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 fixed assets, the 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 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.

Deferred Revenue

Deferred revenue occurs when fees for service are received in one fiscal year that relate to services performed in subsequent fiscal years. Diocesan accounting policy allows deferred revenue for school or religious education tuition only. For example, tuition payments received in March 2004 for the school year beginning August 2004 should be recorded as deferred revenue (Acct 2065xx) until the school begins. When the school year begins, a journal entry should 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.

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:

“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 Annual Catholic Appeal contributions or special collections.

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.

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, trusts held by third parties and charitable remainder trusts.

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.

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.

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.

Unrestricted/Temporarily Restricted/Permanently Restricted Net Assets

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

Contributions that are neither temporarily or permanently restricted.

Unrestricted contributions also include "Unrestricted-but-designated" 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.

Parish Appeals:

Contributions to parish appeals for operating expenses are unrestricted-but-designated. 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.

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

Temporarily Restricted Net Assets

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

Permanently restricted contributions 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).

Account 414470 should be credited with any new endowment contributions.

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.

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.

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

Special Collections

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

- Black & Indian Missions (aka U.S. Missions)..... 1st Sunday in Lent
- Catholic Relief Services (aka American Bishops' Overseas Appeal).....4th Sunday in Lent
- Holy LandGood Friday
- Catholic Home Missions.....Last Sunday in April
- Catholic Communications.....Third Sunday in May
- Holy Father (aka Peter's Pence).....Sunday nearest the feast of Ss. Peter & Paul
- Catholic Schools..... 4th Sunday in September
- World Mission Sunday..... Next to last Sunday in October
- Campaign for Human Development..... Sunday before Thanksgiving
- Diocesan Priests' Retirement Fund.....Second Sunday in December

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 Blessed 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 most needy 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.

Receipts and disbursements of special collections should be coded to the following accounts:

- Catholic Relief Services Account 209011
- Holy Land Account 209012
- Black & Indian Missions Account 209013
- Catholic Communications Campaign Account 209014
- Holy Father Account 209015
- Catholic Schools Account 209016
- World Mission Account 209017
- Campaign for Human Development Account 209018
- Diocesan Priests' Retirement Fund Account 209019
- Catholic Home Missions Account 209020

The parish should deposit the collection in the parish checking account, crediting the above accounts. 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:

Diocese of Tucson
Fiscal Services
P.O. Box 31
Tucson, Arizona 85702-0031

Annual Catholic Appeal

Contributions to the Annual Catholic Appeal are *agency* transactions and the beneficiary is the Diocese of Tucson Charity & Ministry Fund, Inc. Amounts collected should be credited to Account 209010 when received from donors and charged to the same account when disbursed to the Fund.

The Fund has recently implemented new procedures whereby the parish sends donations to the Annual Catholic Appeal directly to the Fund's lockbox. As such, the parish should receive only nominal contributions to the Appeal that are deposited to the parish bank account and disbursed to the Fund.

Investment Income

Investment income is composed of dividends, interest and realized and unrealized gains and losses on investments. It arises from amounts earned on PPIT deposits, the parish checking account and on funds held by the Catholic Foundation. 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.

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 at their next meeting.

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.

Mass Offerings/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.

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 the fiscal office of the diocese to arrange for the transfer of ownership and appropriate credit to the accounting records of the parish.

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 4x4470. 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.

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

- Processing through a web-based payroll software system
- Preparation of paychecks
- Collecting, reporting and payment of payroll taxes
- Collecting and distributing lay employee pension contributions, workers' compensation insurance premiums, and 403b contributions
- Collecting employee obligations for medical, dental and vision premiums
- Tracking accrued, used and unused vacation and sick leave by employee

The above information is only as accurate as the data entered into the payroll system. Applicable payroll reports should be reviewed to ensure that changes have been entered correctly; that vacation and sick is accruing accurately, and that employees are compensated correctly.

The obligation of the parish to pay earned but unused vacation is frequently a matter of contention when an employee is terminated. Accurate beginning balances in IOI as well as accurate tracking of accrual and use are a necessity!

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.

To ensure adequate segregation of duties, payroll entries should be reviewed at least quarterly by an individual that does not enter payroll. This can include the Pastor, Business Manager, Treasurer or a PFC member. Hours as well as wages should be reviewed for non-exempt employees; salaries should be reviewed for exempt employees. Hours should be compared to the applicable timesheet and wages/salaries should be compared to the Employee Status Change Form (ESCF) kept in the employee personnel files.

Custodial Funds/Parish Organizations/Ancillary Organizations

Custodial Funds/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.

At most parishes, there are volunteer organizations that conduct fundraising or social activities in the name of the parish. The assets of each and every group or organization sponsored by a parish are assets of the parish and are subject to administrative provisions of both canon and civil law. All these activities should be included in the parish financial accounting records. There are hundreds of such organizations associated with our parishes providing critical services and benefits to the Church.

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 funds should be maintained in a secure location.
- The parish bank account must be used to deposit the income and to pay the expenses of such organizations.
- Receipts should be counted by two people and deposited promptly.
- Reports of the organizations' activities should be incorporated into the financial reports of the parish.
- Reports should be given to the leadership of the organizations delineating activity and unexpended balances of each organization's funds.
- Establish approval procedures with each organization setting dollar limits on how much can be expended without board, pastor or membership approval.

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.

Accounting for Funds Held in the Catholic Foundation

Frequently, parishes have deposited funds with the Catholic Foundation that represent 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 a parish's funds in many types of financial instruments including stocks and bonds that may increase or decrease in market value. The parish should adjust the amounts held by the Foundation to market value at June 30 to reflect the statement amount provided to the parish by the Foundation.

Excess Funds

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

Monthly Closing Procedures

Every month, the parish should prepare financial statements for the review of the pastor and at least quarterly for the review of the Parish Finance Council.

Before financial statements are prepared, the following procedures should be performed:

- The bank statement should be reconciled to the parish general ledger.
- Parish records should be reconciled to PPIT accounts (quarterly).
- Amounts due to the Diocese should be reconciled to the monthly billing statement.
- Significant variances from the budget should be reviewed for mispostings.
- Detail of the general ledger should be reviewed for accuracy.
- Scrip should be inventoried and the scrip account and any inventory shortages should be recorded.
- Parishes using QuickBooks should review “unclassified” and “uncategorized” income and expense accounts and properly adjust such transactions into the proper accounts.
- Tuition receivable should be reconciled to subsidiary records.
- Accounts payable should be accrued.
- Stewardship records should be reconciled to the general ledger.
- Maintenance accounts should be reviewed for amounts that should be capitalized.
- Investments should be reconciled to Catholic Foundation statements (quarterly).

Internal Controls

Philosophy

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 environment.* The 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.
- *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.
- *Control activities.* Control activities are the policies and procedures that help ensure management directives are carried out.
- *Information and communication.* 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.* Monitoring is a process that assesses the quality of the internal control system's performance over time.

The control environment includes the following factors:

- *Integrity and ethical behavior* are the product 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.
- *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.
- *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.
- *The 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.
- *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.
- *Human resource policies, practices and procedures* relate to hiring, orientation, training, evaluating, counseling, promoting, compensating and taking remedial actions.

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.

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.

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.

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

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

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:

The collusive activities of two or more individuals can result in internal control failures. 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:

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:

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:

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.
8. 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 Control Checklist

General Controls

The parish must have a finance council that complies with diocesan norms.

Annual budgets must be reviewed by the Parish Finance Council and approved by the Parish Board of Directors.

Monthly financial statements should be prepared on a timely basis so that significant variances from the budget can be investigated.

All employees must be screened prior to hiring according to diocesan guidelines.

All employees are required to take annual vacations.

Staff (including volunteers) must have the necessary skills and qualifications to perform their responsibilities.

Staff should have formal job descriptions that clearly set out their duties and responsibilities.

Job performance should be annually evaluated and reviewed with employees.

Physical barriers, locked rooms, locked/fireproof file cabinets, should protect accounting records and other assets.

Financial statements should be reviewed by the Parish Finance Council on at least a quarterly basis.

Bank statements and reconciliations should be reviewed by the Parish Finance Council on at least a quarterly basis.

Clear and thorough explanations and documentation must be retained for all journal entries.

Books and records are the property of the parish and should remain on the premises at all times. Parish employees or volunteers should not be permitted to remove parish records or computer data from the parish at any time for any reason.

An annual financial report must be filed with the diocese.

An annual financial report must be provided to parishioners.

Debt obligations must be reviewed by the Parish Finance Council, approved by the Parish Board of Directors, and approved by the Ordinary.

Internal Control Checklist Computer Controls

All computer files must be backed up on a regular basis, at a minimum weekly, as determined by the volume of transactions.

Computer backups should be stored in a fire-proof location or off-site.

Access to computer programs and files must be restricted through use of password or physical access.

Passwords are never to be shared.

Passwords should be changed on a regular basis; the Diocesan recommendation is to change passwords at least quarterly.

Backups should be performed as needed depending on the volume of activity and kept in a fireproof or offsite location. The Diocesan recommendation is to perform backups at least weekly.

Computers that are connected to the Internet should have adequate protection from unauthorized access. They should also include antivirus software; an adequate firewall to prevent hacking; and spam blockers.

Internal Control Checklist

Bank Accounts

The Pastor, Administrator, Associate Pastor(s), Vicar Forane, members of the Parish Board of Directors and members of the Parish Finance Council should be the only authorized check signers on all accounts.

All bank accounts should be opened only in the name of the parish, never in the name of an individual.

Parish organizations may not have separate bank accounts.

Bank accounts should be reconciled on a timely basis each month by an individual other than the check signer or those preparing, issuing or mailing checks.

Bank statements should be received unopened by the pastor and reviewed prior to reconciliation.

The parish should process all payments through one general operating account; other authorized accounts are for bingo and school lunch programs.

The bookkeeper should NEVER be an authorized signer on the parish checking account.

Bank reconciliation procedures should include:

- Accounting for the sequence of all check numbers
- Examining the paid checks for date, name, endorsement and comparing them to the cash disbursements journal
- Comparing the detail of bank deposits to cash receipts records
- Comparing the detail of 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 Scrip Certificates

Scrip certificates are the same as cash: it is fully negotiable with the store that issued it. Scrip certificates, like cash, can be picked up and used by anyone. Extraordinary care must be taken to protect scrip certificates.

Controls:

Scrip certificates should be under dual control when not available for sale.

Scrip certificates should be kept in a secure, locked place (such as a safe) when not out for sale and in a locked cash box accessible only to authorized personnel when available for sale.

Scrip certificates should be handled like a cashier's drawer: counted when taken out and counted when put back in the safe.

The inventory of scrip certificates should be reconciled with sales and purchases at the end of the month by two individuals.

The pastor should review shortages in scrip certificate inventory.

Internal Control Checklist Property and Equipment

Property and equipment should be purchased only with the proper authorization of the Ordinary.

Detailed records should be maintained including description of the asset, cost, acquisition date and maintenance performed on the asset.

The sale or disposal of property requires the review of the Parish Finance Council and the approval of the Ordinary.

Physical safeguards should be adequate to protect property (alarms, locks etc.).

Competitive bids and quotes should be obtained for major purchases and should be retained in the files.

Internal Control Checklist Offertory Collection and Count

There should be at least 2 people with the offering at all times until it is deposited at the bank. Having 2 people 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, the device should not be easily removed from the premises such as is the case with a locked cash box.

It is best if the pastor never touches any of the cash that belongs to the parish. 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.

Controls

Cash count procedures should be in writing and furnished to each member of the count team.

Parish employees and their families should not be involved in any way with the offertory collection.

No fewer than two individuals who are unrelated to each other should count collections. Husbands and wives, mothers and daughters, etc. should not be on the same count team.

Count team members should be registered parishioners in good standing.

Count team members should be approved by the Pastor.

Members of count teams should be rotated.

Count team members should take “vacations” for at least a month every year.

The parish bookkeeper, pastor, associate pastor, administrator and members of the Parish Board of Directors and Parish Finance Council should not count the offertory collection.

If adequate numbers of volunteers are not available to count the collection, consider having your bank count the funds.

Individuals who participate in counting the collection should have a criminal background history check and a credit check in accordance with diocesan policy.

Internal Control Checklist Offertory Collection and Count (continued)

The offertory collection should immediately be placed into tamper proof or locked bags prior to being taken to the altar.

Immediately after the mass is concluded, the offertory should be deposited in a safe under the control of at least 2 individuals who are not related to each other.

The safe should preferably have two locks requiring two individuals to access. If this is not possible, the collection should be in locked bags with the keys inaccessible to the individual with the combination to the safe. Alternatively, the safe could be located in a locked closet or room with access to the room not available to the individual with the combination to the safe.

Two individuals should transport funds to the bank.

The bank should be instructed to report variances between the deposit and the deposit slip to the pastor.

The offertory should be counted in a secure location.

The count team should immediately restrictively endorse all checks.

The amount of offering should be written on the outside of the envelope for subsequent posting to parishioners' accounts. Loose checks should be listed for subsequent posting to donors' records.

The count should be entered on a summary sheet and signed by all count team members.

The count sheet should be prepared in ink.

The count team should prepare the deposit slip in duplicate. One copy of the deposit slip goes with the deposit into a tamper proof bag; the other deposit slip goes to the bookkeeper for recording the deposit.

The offertory envelopes and listing of checks should be given to the individual responsible for maintaining the parish census.

A member of the Parish Finance Council should compare the bank statement to the weekly count sheets.

An annual statement should be sent to parishioners and donors. Statements should be pre-printed with the following confirmation request: *"This statement is for your records. Please examine it carefully. If it does not agree with your records, please communicate directly to the Pastor."*

Internal Control Checklist Offertory Collection and Count (concluded)

Offertory receipts should be deposited INTACT; employee paychecks or personal checks should not be cashed with offertory monies.

If plastic bank bags are used to secure the collection, the numerical sequence of the bags should be monitored. The bags should also be accessible only to ushers (if bags are used to secure the collection before it is taken to the altar) and to the count team (if bags are used to transport the bank deposit).

Someone other than the bookkeeper should post donor and parishioner records, if possible.

Donor records should be reconciled to the general ledger posting of offertory.

The pastor and Parish Finance Council should review the trend in offertory income on a regular basis.

The offertory collection should be deposited separately from other receipts.

Internal Control Checklist Other Cash Receipts

The procedure established over the control and processing of cash receipts is very important. Since a substantial part of the receipts are in the form of cash, it is incumbent on the parish to implement the best procedures possible to safeguard these funds. All receipts must be deposited to the bank as soon as possible. A list of receipts should be made when opening the mail.

Controls

If possible, two persons should open the mail.

The person opening the mail should be independent of the accounting records.

The parish should issue a pre-numbered receipt to individuals who bring money to the parish office for fees/donations etc.

Receipts should include date, name, amount and purpose of funds. The receipt should be signed by the parish employee/volunteer.

Receipts should be issued in numerical order and the sequence of receipts accounted for.

Cash receipts received via mail or in person should not be mingled with petty cash or offertory funds.

An individual other than the one opening the mail or preparing the accounting records should compare the list of cash receipts to the deposit.

Cash receipts should be deposited INTACT.

Checks should be restrictively endorsed immediately upon opening the mail.

All mid-week receipts should be recorded in a daily log, held in a safe and deposited at the bank weekly (generally Friday).

Weekday receipts should be deposited separately from the offertory collection.

All donation boxes should be sealed, placed in conspicuous places and counted by two individuals.

The Parish Finance Council and pastor should carefully review budget vs. actual and trends in CCD fees and other income amounts for unusual fluctuations.

Refunds should require the approval of the pastor.

Internal Control Checklist

Cash Disbursements/Accounts Payable

The basic objective in establishing internal controls over disbursements is to ensure that all disbursements are for bona fide expenses, they are recorded promptly and accurately and that only authorized persons are in a position to withdraw funds. The risk of an unauthorized use of parish funds can be significantly reduced if procedures are established to determine what documentation is required to substantiate an expense and who is authorized to approve it.

Controls

All cash disbursements should be made by prenumbered checks, with the exception of those paid by petty cash.

Signature stamps should not be used.

The pastor should approve all vendor bills to be paid.

Checks should not be signed “in blank”.

The parish should file paid bills separately by vendor by fiscal year.

The pastor should never sign a check made payable to himself. Another check signer should sign such checks after reviewing supporting documentation.

When a mistake is made in preparing a check, the check should be altered to prevent its reuse. **DO NOT DISCARD VOIDED CHECKS; MAINTAIN THEM IN A PERMANENT FILE.**

The pastor and Parish Finance Council should review a listing of unpaid bills.

Check stock should be kept in a locked cabinet and regularly inventoried on at least a monthly basis.

Check signers should never have access to the accounting records.

Checks should have adequate supporting documentation. Proper documentation includes an ORIGINAL invoice, evidence that the goods or services were received or performed and evidence that the transaction was authorized.

All supporting documents should be defaced or cancelled once a disbursement is made.

Internal Control Checklist Cash Disbursements/Accounts Payable (concluded)

If possible, the person mailing the checks should be independent of the persons requesting, preparing or signing checks.

The parish should obtain W-9 forms from all vendors indicating tax identification numbers. An annual 1099 should be issued to all vendors where applicable.

Capital expenditures in excess of \$25,000 must be reviewed by the Parish Finance Council and have the approval of the Bishop.

A check request must be used in instances where no invoice/receipt is available (mass stipends, loan payments etc.). The pastor should approve the request.

All original supporting invoices should be given to the check signer along with the checks. The signer should review the invoices to ensure they agree with the amount and vendor being paid.

Old outstanding checks should be investigated and resolved.

Checks over a certain dollar amount (such as those exceeding \$1,000) should require two signatures.

Items should be purchased after obtaining competitive bids or quotes.

Payments should not be made on statements or “balance due” billings unless underlying invoices are included.

Bank reconciliation procedures should include:

- Accounting for the sequence of all check numbers
- Examining the paid checks for date, name, endorsement and comparing them to the cash disbursements journal
- Comparing the detail of bank deposits to cash receipts records
- Reviewing electronic transactions for reasonableness and appropriateness
- Investigating other reconciling items (e.g., checks returned for insufficient funds)
- Following up on old outstanding checks

Internal Control Checklist

Petty Cash

The parish should maintain an appropriate, but not excessive, level of petty cash for the parish's needs and limit authorization for withdrawals to insignificant purchases that are ordinary, necessary and reasonable for daily operations.

All petty cash disbursements should be properly documented with ORIGINAL vouchers, receipts and other documentation.

The parish should not lend money out of the petty cash fund.

The parish should not cash personal checks out of the petty cash fund.

The petty cash fund should be secured in one location and under the control of one individual.

A member of the Parish Financial Council should perform surprise counts of petty cash and investigate and resolve any differences.

Internal Control Checklist Payroll

NOTE: The processing of payroll checks and payment of payroll-related taxes was outsourced to Interlogic Outsourcing Inc (IOI) as of FY2008.

Payroll information is strictly confidential and should be maintained in a limited-access, fireproof safe or file that is locked when unattended.

Payroll periods should follow the Diocesan biweekly schedule to allow efficient and effective processing of payroll and other associated programs such as benefit software.

It is strongly recommended that employees utilize direct deposit for receipt of paychecks.

Federal and state payroll obligations are calculated and paid through IOI.

Mass intention stipends and stole fees paid to parish priests through the parish should be paid through payroll, not through accounts payable.

Non-exempt employees should complete and sign timesheets documenting the number of hours worked and hours paid for vacation and sick leave.

Exempt employees should complete and sign a form documenting the number of hours taken in a pay-period for vacation and sick leave.

The employee's supervisor should review and sign timesheets as well as vacation and sick leave forms.

To ensure adequate segregation of duties, payroll entries should be reviewed at least quarterly by an individual that does not enter payroll. This can include the Pastor, Business Manager, Treasurer or a PFC member. Hours as well as wages should be reviewed for non-exempt employees; salaries should be reviewed for exempt employees. Hours should be compared to the applicable timesheet and wages/salaries should be compared to the Employee Status Change Form (ESCF) kept in the employee personnel files.

Personnel files should include those forms listed on the New Hire Form in the Personnel Manual. Forms needed for input purposes to IOI include: employment application, memorandum of employment, employee status change forms, authorization for special deductions, payroll withholding forms (W-4, A-4).

Employment Eligibility Verifications (aka I9s) for active employees should be kept together in one file and not placed in employee personnel files. I9s for employees no longer with the parish should be placed in their closed personnel file.

Parish funds cannot be used for employee loans or payroll advances.

Internal Control Checklist

Payroll

(concluded)

Employee Status Change Forms (ESCFs) should be completed for all status changes and signed by the Pastor. The ESCFs should be forwarded to Human Resources within one week of the change.

All eligible employees should be offered participation in the diocesan benefit programs.

The parish should track vacation and sick leave accrual and use through IOI. The IOI accrual report should be reviewed periodically to ensure accruals are calculated appropriately.

No employees (except teachers and principals) should be offered contracts as a term of employment.

The parish must adhere to Fair Labor Standards Act requirements for overtime compensation. Overtime pay is 1.5 times the employee wages for all hours worked over 40 per week.

Employees should never be paid in cash.

Overtime should be approved in advance but must be paid even if worked without approval.

If an employee continues to work overtime without approval, disciplinary measures may be needed. Diocesan disciplinary policies are found in the Human Resources Manual.

Authorization for special deductions should be signed by the employee.

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.

Tax Exempt Ruling

On August 17, 1983, the Internal Revenue Service (IRS) 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:

- The exemption of such organizations from
 - Federal income tax
 - Federal unemployment tax
 - The obligation to file annual information returns
- Deductibility for federal income, gift and estate tax purposes of contributions to such organizations
- Certain protection from IRS examination

Parishes are often requested to provide a copy of their exempt ruling. That document can be downloaded from the United States Conference of Catholic Bishops (USCCB) website.

Disclosure Requirements (Forms 990 and 1023)

Since 1987, the IRS has required tax-exempt organizations to allow public inspection of their three most recent Form 990s, as well as their applications for recognition of tax exemption, Form 1023, during normal business hours at their main offices.

The United States Conference of Catholic Bishops (USCCB) did not file an application for exemption (Form 1023) so parishes will not have an application for recognition of tax exemption for inspection or copying. In addition, parishes are generally exempt from filing Form 990 so that information will also be unavailable.

Each parish covered under the Group Ruling is required to provide for inspection or copying only the page(s) 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.

Other Exemptions

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.

State Unemployment Tax

Neither clergy nor lay employees’ wages are subject to federal or state unemployment tax. See the **Unemployment Tax Guidance in the Source Reference** section of this manual. Cite this reference in the event that you are contacted by the Arizona Department of Labor for an audit of your payroll records or in the event that a claim is filed against the parish. That statute should be submitted to the taxing authority and the parish should not be required to undergo an audit and will not be charged for the claim.

Sales Taxes

State of Arizona: 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. That 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).

School lunch programs do not qualify for the exemption.

City of Tucson (City): The City provides an exemption from the transaction privilege tax on items sold by the parish in the same manner as the State of Arizona. The City, 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.

Lobbying/Political Activity

Lobbying

According to Internal Revenue Service 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".

Lobbying is defined as attempts to influence legislation.

Political Activity

The Guide 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.

Additional details can be found in the IRS Publication 1828: *Tax Guide for Churches & Religious Organizations*.

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.

Charitable Contribution Substantiation & Disclosure Requirements/Donor Acknowledgement Letters

To be considered a charitable contribution, a gift must be given without something of value received in return and must no longer be in the control of the donor.

The IRS has stepped up its efforts to ensure that payments made by taxpayers in connection with charities are truly deductible contributions and that charities are not incorrectly assuring that donations are fully deductible when something of value is given for the "contribution" such as scrip, books or meals.

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 a written statement 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.

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

It does apply when the 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.

Section 170(f)(8) of the Internal Revenue Code requires that a parish provide donors making gifts of \$250 or more with a letter confirming their charitable contributions. Individuals making multiple payments of \$250 or more should have the payments and dates of each contribution listed on the same letter.

It is recommended that the letter be sent to donors no later than January 31st of each year to assist the donor in tax preparation.

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.

The following information should be included in the letter:

- Donor's name;
- The amount of cash and a description (but not value) of any non-cash property contributed;
- Whether the parish provided any goods or services in consideration for the contribution;
- A description and good faith estimate of the value of any goods or services provided by the parish, or, if such goods or services consist entirely of intangible religious benefits, a statement to that effect;
- Date of donation; and
- Date the receipt was issued.

An annual statement should be sent to parishioners and donors. Statements should also be pre-printed with the following confirmation request: *“This statement is for your records. Please examine it carefully. If it does not agree with your records, please communicate directly to the Pastor.”*

Parishes should track all offertory donations that are received by a known donor, regardless of whether the donor used a parish envelope or not.

Donor acknowledgement letters are addressed in IRS Publication 1771: *Charitable Contributions – Substantiation and Disclosure Requirements.*

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 Director of the Diocese of Tucson Catholic Foundation for guidance before accepting a gift of real property.

Contributions to Needy Individuals & Benevolence Funds

The Internal Revenue Service 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 (using the parish as an intermediary in order to obtain a tax deduction for an otherwise nondeductible gift)?

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 transfers:

- 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.

Raffle/Fiesta Prizes

Parishes may need to report prizes (cash or non-cash) for bingo, keno, raffles, sweepstakes and drawings using Form W-2G 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 Form 1096.

Also, 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.

Additional guidance can be found in IRS Publication 3079, Gaming Publication for Tax-Exempt Organizations..

Contribution of 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 received 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.

Tuition Payments

Many parishes maintain parochial schools and most of the parochial schools charge tuition to parents whose children attend the schools. The law 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.

If this situation occurs in your parish, please contact the diocesan fiscal office for more guidance.

Priest and Deacon Compensation

The following narrative relates to priests' compensation. Deacons are also ordained clergy, however, and if they are working in a ministerial or administrative position for a Catholic parish, school or agency, they enjoy (or suffer!) the same tax treatment as Catholic priests.

There are priests and brothers who are members of religious communities who have taken the vow of poverty and receive only sustenance. These priests, under certain circumstances, do not file income tax returns.

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.

1. Priests are self-employed for Social Security 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.

2. Priests may receive tax-free housing. Tax-free housing usually takes the form of a rectory provided for a priest; however, it 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 may include the value of housing on a priest's Form W-2 in Box 14. The value of housing is included by priests in computing their Social Security tax liability.

3. 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.

4. 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.

5. 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.

6. Priests' compensation plans typically include a variety of non-salary payments including allowances for Social Security payments, travel, car insurance etc.

Which allowances should be included on Form W-2 as taxable? The Diocese provides an allowance for 50% of the Social Security taxes paid on Schedule SE. The Diocese also pays auto insurance for the first personal car owned by each priest. Those amounts should be included on Form W-2.

The easiest way to do this is to have the priest pay the premium directly and issue a payroll check to the priest for the amount of the premium. In that way, the amount of the premium will be included in Box 1 of Form W-2.

7. The Internal Revenue Service classifies most priests as “dual status taxpayers”.

The Internal Revenue Service and the Social Security Administration agree that all priests are self-employed for Social Security purposes.

The Internal Revenue Service does not say that priests are employees but has devised a 20-point test and a 3-category approach to determine the manner in which an individual priest should report his income. Using either test, the Diocese classifies all diocesan priests as employees and requires that a priest’s earnings be 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 diocesan fiscal office if there are any questions as to whether an individual priest is an employee or an independent contractor for further guidance.

What is included in the income of a Catholic priest?

Income subject to both Federal income and Social Security taxes:

- Salary
- Allowances (paid under nonaccountable plans)
- Stole fees and honoraria
- Mass stipends and fees
- Professional fees
- Non-ministry related earnings
- Personal use of parish-owned vehicles

Income subject to Social Security but NOT federal income tax:

- Value of room and board

Income taxable for federal income tax purposes but not subject to Social Security tax:

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

Tax-free income:

- Gifts (narrowly defined by the IRS)
- Reimbursements (supported by proper documentation)
- Housing portion of pension plan benefits

The IRS issued *Audit Guidelines for Ministers* (Guidelines) in 1995. 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... ”

Payroll for Lay Employees

The Internal Revenue Service requires the parish to maintain, for at least 4 years, the following payroll records:

- 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.

Federal Income Tax Withholdings

All employers having employees subject to federal income tax or Social Security withholding must have an employer's federal identification number. Application is made on Federal Form SS-4.

An employer is obligated to withhold and remit federal income tax whenever wages are paid, actually or constructively.

An employer must ask each employee to file Form W-4, Employee's Withholding Allowance Certificate, indicating marital status and number of exemption allowances. That form should be retained in each employee's personnel file.

Withholding tables are available from the IRS in Publication 15, Circular E.

The remittance of federal taxes withheld is made to the IRS through IOI.

Social Security (FICA) Tax

The Federal Insurance Contributions Act (FICA) imposes a tax on both employer and employee.

The parishes' duty for the FICA tax is twofold. First the employer must 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 guidelines for remitting FICA taxes to the IRS are similar to those used for federal income tax withholding described above.

FICA taxes are remitted to the IRS through IOI.

Unemployment Tax

Neither clergy nor lay employees' wages are subject to federal or state unemployment tax under Arizona Revised Statute 23-617.10. That statute should be submitted to the taxing authority and the parish should not be required to undergo an audit.

State Income Tax Withholding

Parishes are required to withhold Arizona State income tax under the provisions of the Arizona Department of Revenue (ADOR).

An employer must ask each employee to file Form A-4, Employee's Arizona Withholding Percentage Election, indicating the percentage of federal withholding to be withheld for state purposes. That form should be retained in the employee's personnel file.

Every employer required to withhold state income tax must file returns and make payment to the Arizona Department of Revenue either semi-weekly, monthly, quarterly, or annually depending upon the amount of taxes withheld.

State tax payments are remitted to ADOR through IOI.

Form W-2

Each year, an employer must furnish a Form W-2 to each employee from whose wages federal and state income tax has been withheld. The forms must be provided by January 31 of the year following the year to which the form relates. If an employee is terminated before the end of the year, the employer is still obligated to furnish the employee with a W-2.

Copies of Form W-2 must be submitted to the Social Security Administration (SSA) with a W3 transmittal form by February 28 of the year following the year to which the form relates.

IOI prepares a Form W-2 for each employee and forwards the form to the parish for distribution. IOI also prepares and submits Form W3 to SSA and form A1-R to ADOR.

Independent Contractor/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.

Since 1987, the Internal Revenue Service has relied on 20 common law rules to determine whether workers are employees or independent contractors. Those factors are included in Appendix O.

In recent years, however, the IRS has decreased reliance on the twenty factors and instead increased emphasis on the three-category approach.

The following is excerpted from the IRS website (www.irs.gov):

“...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:

- 1) The individual generally prefers Form W-2. Usually unsophisticated in tax matters, workers do not want to file the extra forms required of an independent contractor, nor pay self-employment tax and have no withholding throughout the year.
- 2) The IRS prefers Form W-2 because historically they have much greater compliance in tax payments with Form W-2 versus Form 1099-MISC. This results in greater scrutiny of tax returns for filers who receive Form 1099-MISC than those who receive Form W-2.

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, the human resources office of the Diocese should be contacted for further guidance before classifying an individual as an independent contractor.

Life Insurance

The value of life insurance in excess of \$50,000 must be included in an employee's income on their Form W-2 using the Internal Service Premium Table (Table). The value is also subject to Social Security and Medicare taxes.

The Table is located in IRS Publication 15-B, *Employer's Tax Guide to Fringe Benefits*.

Contact the fiscal office of the diocese for clarification of federal reporting requirements, if necessary.

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 the fiscal office of the diocese for guidance.

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 not to exceed guidelines issued by the Diocese. 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.

Employee Expenses

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.

Travel Policies

Reimbursement for Travel Expenses

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 of \$5 or more. All expenses should be listed separately and fully described, including the business purpose.

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 reasonable expenses are presented for reimbursement and all necessary documentation is attached.

Travel by Auto

Auto travel should be by Parish or Diocesan-owned vehicle 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 as if an employee has an accident in their personal vehicle, it is their personal insurance that is liable, not Diocesan insurance even if the employee is traveling for business 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 or Diocesan 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 or Diocese.

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.

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 entities 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.

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

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*.

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.

Tuition Billing & Collection

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.

Accounts may not be written off without the approval of the pastor and principal.

Deferral of Tuition & Fees

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.

Allocation of Parish Expenses

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.

Budget

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.

Insurance

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

School Cafeteria

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.

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 Catholic schools to verify that scholarships have been awarded to individual students and used for tuition purposes. If compliance with this procedure cannot be proven by a school, 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--Cash	160,000	
2099xx--CTSO Scholarships		160,000

Aug 1, 2009:

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

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.

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.

A separate checking account is required for bingo.

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 maintain and operate a parochial school must record revenues from Bingo as school fundraising income.

Separate cash receipts and disbursements must be maintained to record the transactions of the bingo account.

Expenditures, which may be paid from the bingo checking account, are:

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

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.**

No check shall be drawn to "cash" or a fictitious payee.

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

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.

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.

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.

Applications for the Priests' Salary Subsidy may be requested from the Diocesan CFO.

Parish Census and Stewardship

An effective Parish Census System allows you to maintain records of:

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

A software package enables the parish staff to better understand who their parishioners are to 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.

Although, for smaller parishes, this data can be maintained manually, 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.

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

- ParishSOFT <http://parishsoft.com/>
- Parish Data System, Inc. www.parishdata.com
- TLC Census & Contribution System www.tlccommunications.com
- Acolyte Church Management System www.acolytesoftware.net
- Parish Census Church Management Software www.sds.org.au

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.

Credit Cards

Many parish employees travel on parish business or otherwise incur expenses that must be paid at a location other than the parish. In many instances, the employee cannot take a parish check as the amount of the expense is not known or checks may not be acceptable.

In those cases, the preferred method of handling such expenses is for the employee to use a personal credit card, maintain receipts for the expenditure and complete an expense report requesting reimbursement from the parish. The parish should be able to reimburse the employee before the 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.

Charges on credit cards or at retail stores must be adequately supported by vendor or other documentation, clearly state the business purpose of the expenditure and be approved by the pastor.

Debit Cards

The use of debit cards is discouraged because of several risks including: risk of bypassing internal controls; the liability to the parish if an unauthorized transaction is made; and the ease of using the card that makes it easy to over-spend.

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

- Use of the debit card should be restricted to select staffmembers;
- **ALL** receipts from **all** personnel must be turned into the bookkeeper on a timely basis for reconciliation to the bank statement;
- Transactions should be reviewed by the Parish Finance Council on at least a quarterly basis.

Electronic Check Processing (ECP)

Electronic Check Processing (ECP) 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.

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

As of February 2011, Chase Bank has offered this service, called *Quick Deposit*, to parishes at \$50/month for an unlimited number of checks. The scanner is provided at no cost (value of \$885). Parishes are encouraged to consider this service after comparing it to their current bank services and fees.

The following procedures should be implemented when using ECP:

Dual Control

- ECP should be processed through “Dual Control”. 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.
- A Dual Control count team should consist of one staffmember and one volunteer; the volunteer may change from week to week.
- Separate batches should be run for the following: free-floating checks, check-only envelopes; and envelopes with checks and cash.

Preparing Batches for ECP

The following may be done by the count team or the Dual Control team depending on the number and availability of volunteers and staff.

- Separate cash, envelopes and free-floating checks.
- Endorse checks as soon as possible.
- Match the amount written on the envelope to its contents. If the amount on the envelope is incorrect, cross it out and write in the correct amount
- Give free-floating checks, check-only envelopes and envelopes with checks and cash to the Dual Control team to process through ECP.

Totaling and Reconciling Batches

- Free-floating checks: Checks should be totaled by each Dual Control member with discrepancies between totals reconciled. This total is used during ECP as a reconciliation figure.
- Check-only envelopes: Envelopes and checks should be totaled separately with discrepancies between the envelope total and the check total reconciled. This total is used during ECP as a reconciliation figure.

- Envelopes with checks and cash: Envelopes and checks/cash should be totaled separately with discrepancies reconciled. Cash should be deposited manually; checks should be electronically deposited in the same manner as check-only envelopes.

Processing the ECP

- Follow the procedures provided by your bank for ECP processing.
- Once a check batch is complete and the deposit is confirmed, a detailed checklist which includes at least the check number and amount should be printed.
- After the checklist has been printed, stamp “Void” or “Cleared” across the account number on the check to prevent re-use of the check.

Document Retention

- The checks can be destroyed after 90 days.
- The detailed checklists should be kept for seven years.

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. Policies and procedures for personnel management can be found in the Personnel Policy Guidelines and Procedures Manual (Human Resources Manual) available from the Diocesan Human Resources department.

Numerous personnel and payroll forms should be completed and retained in each employee's personnel file. These forms 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.

A personnel file should be maintained for each employee and should contain the above forms as well as payroll tax withholding information (W-4 for federal taxes and A-4 for state purposes), authorized wage rates, job application and resumes, evaluation forms and vacation and sick leave requests.

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.

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

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.

All lay individuals who are considered employees of the parish and meet the eligibility requirements are to be enrolled in the diocesan benefits programs. See the Human Resources Manual for further guidance.

Addendum

Primary Changes in Version 07.01.2011

<u>Page</u>	<u>Content</u>
iv	Added: Reference Guide.
1	Added: Bishop's Decree .
4	Added: Parish Corporate Board of Directors (short version).
6, Par 7	Added: Parish Annual Financial Report (PAFR) has been established as the format for the annual report.
10	Clarification: Diocese of Tucson accounting standards for Unrestricted/Temporarily Restricted/Permanently Restricted contributions and net assets and the inclusion/exclusion of these contributions in the calculation of the Chancery Tax.
13	Updated: Billings for Parish Expense Paid Through the Diocese.
14	Added: Detail of the Parish Corporate Board of Directors.
19	Added: Parish Pastoral Council.
20	Updated: Coordination of the Parish Corporate Board of Directors, Finance Council and Pastoral Council.
34	Added: Authorization for parishes to have one bank savings account and a separate checking account for the school.
36	Added: Parish Pooled Investment Trust (PPIT).
39, Par 2	Clarification: School or religious education <u>tuition</u> is booked to deferred revenue. School or religious education <u>registration and fees</u> are recognized in the year received.
41-44	Clarification: Diocese of Tucson accounting standards for Unrestricted/Temporarily Restricted/Permanently Restricted contributions and net assets.
49, Par 7	Added: Lay employee compensation should be in accordance with suggested Diocesan pay scales.
49, Par 9	Added: Basic services provided by Interlogic Outsourcing Inc (IOI).
50, Par 5	Added: Review of payroll entries by someone other than payroll processor.
51	Retitle: Section titled "Surplus Funds" now titled "Excess Funds".
69, Par 7	Added: Count-team members should be registered parishioners of the parish in good standing.
69, Par 8	Added: Count-team members should be approved by the Pastor.
76-77	Revised: Internal Control Checklist for Payroll
79, Par 3	Clarification: Property not part of physical church grounds is not exempt from property taxes.
87, Par 3	Added: Retention of payroll records is responsibility of parish, not IOI.
97	Added: Catholic Tuition Support Organization (CTSO).
104	Added: Debit Cards.
105-106	Added: Electronic Check Processing.
107	Added: Personnel Management.