Catholic Diocese of Memphis

Parish Accounting Manual

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Section A

1. PROCESSING RECEIPTS

Collection Basket Receipts

- After the collection at a Mass or other service, the offering is to be brought to the front of the church for the remainder of the service or placed in a secure locked area. If the collection is not counted and recorded immediately following the service, the funds are to be secured as follows:

    - Two ushers should place the funds into a lockable or sealable pre-numbered disposable bank deposit bag. **We strongly recommend the use of tamper resistant disposable bags as they are preferred by banks and the elimination of handling keys,**

- The deposit bag should be sealed or locked and the key removed and retained by an individual who does not have access to the secured area in which the deposit bag is placed.

- The locked bank bag should then be put or returned to the secured area, i.e., a safe or locked drawer or closet in the sacristy. (The secured area should be one that cannot be picked up or easily moved by someone). Keys to the locked area should be limited to people with no counting responsibilities.

- The collection is to be counted and recorded by at least three designated, unrelated people. (See section 2 for Count/Deposit Preparation Procedures).

Fundraising

Important Notice on Gaming Events:

The State of Tennessee considers gaming events such as raffles, cake walks, bingo, etc. illegal unless they are conducted after obtaining a valid registration for the event. Given this Diocesan organizations should not engage in gaming events unless they obtain approval from the Secretary of State, Division of Charitable Solicitations and Gaming (See Appendix E for full details)

Important Notice on Sales and Use Tax Exemption:

- Tennessee Law provides that nonprofit exemption certificates may be used to buy, free of sales tax, goods and services that the nonprofit will use, consume, or give away. The exemption does not cover items that the nonprofit will resell except in limited situations outlined here:

  - Tenn Code Ann. Section 67-6-102(2) provides a sales and use tax exemption for organizations that hold no more than two sales events per calendar year for periods of 30 days or less. If the organization holds three or more such sales events, proceeds from all events will be subject to tax, including proceeds from the first two events.

  - Organizations holding more than two events under the provision outlined above must pay sales tax in one of two ways:

    - If the organization sells no more than $400 per month ($4,800 per year) in gross sales of tangible personal property and pays the tax to the supplier at the time of purchase, the organization does not have to register as a dealer for the purpose of sales tax collection and payment.

- Organizations selling more than $400 per month ($4,800 per year) in goods and services are required to register as a dealer for sales and use tax purposes. Registration allows the organization to buy goods for resale, without payment of tax to the supplier, and requires the organization to collect and remit the state and local sales tax to the Department of Revenue. A separate registration application from the one used to apply for exemption is required.

Internal Control of Fundraisers

- For internal control purposes, tickets should always be used.

  - A record of the tickets is to be kept, which identifies the number of tickets distributed to each ticket seller and then reconciles the tickets and cash collected.
  - Discrepancies should be investigated.

- The number of cash collection points should be held to a minimum.

  - Ideally, there should be only one cash collection point.
  - Cash at each collection point should be kept to a minimum.

- Two or more designated people should be assigned responsibility for the funds.

  - These people are to visit the cash collection point(s) throughout the event to collect all cash in excess of an amount needed to make change.

- The funds are then to be placed in a lockable or sealable disposable bank deposit bag.

- The deposit bag should be sealed or locked and the key removed and retained by an individual who does not have access to the secured area in which the deposit bag is placed.

- The locked bank bag should then be put in a secure area, i.e., a safe or locked drawer or closet. (The secure area should be one that cannot be picked up or moved by someone).

- At the end of the day, the funds are to be secured in a safe or taken to the bank for deposit (using the bank night depository if the bank is closed).

- The bank should be instructed not to process any deposit received in an open or unsealed deposit bag. An authorized signor on the account should be notified immediately if an open bag is received.

- No funds are to be left unsecured overnight. A designated person should be responsible for making the bank deposit. This individual should not have access to the key to the locked bag.

- The key to the deposit bag should be held in safekeeping by a designated person other than the person authorized to retrieve the bag.

- At the close of the event, two designated, unrelated people are to count and record the cash. (See section 2 for Count/Deposit Preparation Procedures)

Poor Box/Votive Offerings

- The funds are to be collected at least weekly.

    - At the time collected, the funds are to be counted, and the amount documented, signed, and dated by the person(s) performing the count.

    - They are to be placed in a non-portable secure area until deposited in the bank.

    - Follow the applicable steps outlined under Section 2: Count/Deposit Preparation Procedures.

Receipts Received by Mail

Receipts received by mail or those that are hand delivered should be processed by one of the following procedures:

- Funds received in a parish envelope should be placed in a non-portable secure area until the next regular collection. These receipts should be included when that collection is counted.

    - For funds received with a special designation, the restriction/purpose should be recorded with the deposit. See Section on Restricted Gifts.

- Other funds received in the form of a check (not in a parish envelope) should be endorsed (for deposit only/church name/account number) and placed in a non-portable, secure area until the next collection. These receipts should be included when the collection is counted.

- Funds received in the form of cash should be counted and placed in an envelope, which is to be sealed. The amount is to be recorded on the envelope and signed and dated by the person performing the count. They should be placed in a non-portable, secure area until the next collection. These checks should be included when the next collection is counted.

- If the amount is substantial, funds should be deposited in the bank on the day it's received. Follow the applicable steps outlined under section 2: Count/Deposit Preparation Procedures, including the completion of a signed cash count sheet.

2. COUNT/DEPOSIT PREPARATION PROCEDURES

Volunteer Counters

- After each service, the funds are to be secured in serially numbered, tamper resistant bags and either stored in the safe or counted at the end of the services for the day and taken to the bank for deposit (using the bank night depository if the bank is closed).

    - The bank should be instructed not to process any deposit received in an open or unsealed deposit bag. An authorized signor on the account should be notified immediately if an open bag is received.

    - No funds are to be left unsecured in the church overnight. A designated person should be responsible for making the bank deposit.

- The count is to be performed by at least three designated, unrelated people who rotate at least every other week. If a designated counter is not available, then a substitute counter should be assigned.

- The collection is to be retrieved by at least two of the counters. The sealed deposit bags are to be unsealed in the presence of at least two counters.

The following supplies should be available before the count is started.

1. a count sheet,
2. deposit stamp ("for deposit only/church name/account number"),
3. deposit slip,
4. adding machine, and
5. parishioner listing.

The collection should be separated by the various accounts, as shown on the cash receipts journal. To simplify the count, one counter could do the regular collection and the other counter all the miscellaneous donations and income. The following procedures are to be performed for each account: If applicable, please ensure that payments donated as building fund donations or pledge payments are reviewed, counted and copied separately to ensure they are not recorded as offertory.

- Separate church envelopes from loose checks and loose cash. Organize currency and coins by denomination.

- Count and record the cash, using the following procedures:

    - Count and record the quantity of each denomination received (i.e., $20 bills: 6 $10 bills: 32, etc.). Multiply the denomination by the quantity and total amounts. Record the total.

    - Count the currency and coins in the traditional manner. Record the total.

    - Then compare the totals in (a) and (b) above. Investigate any discrepancies.

    - Record the total amount of currency and coins received on the deposit ticket.

- Checks which are not in an envelope should be kept separate and photocopied.

    - Copies of loose checks should be bundled with open envelopes.

- Open all envelopes and check to see if the amount written on the outside of the envelope agrees with the enclosed amount. Circle the amount if correct. If incorrect, mark and circle.

    - Opened envelopes should be bundled with loose check copies, then entered into the program.

- Endorse all checks, using the deposit stamp.

- Prepare an adding machine tape of all the checks received. (Set the adding machine so that the number of entries is accumulated on the left side of the tape.) Ensure that the totals agree to the count sheet.

- Compare the totals from the last two steps above. Investigate any discrepancies.

- Record the total amount of the checks on the deposit ticket and attach one of the adding machine tapes of the checks. Identify the adding machine tape by stamping with the deposit stamp.

- Record the totals on the count sheet corresponding to each account or type of income/ collection. All counters are to sign and date the cash receipts journal. Keep the deposit slip copy and send the original deposit slip to the bank.

- Place the deposit and the original deposit slip into the bank bag, seal the bag and deposit it in the bank. The bank will process a receiving slip for the deposit. If the parish has more than one mass, seal each offertory in a separate plastic bag and hold in a fireproof safe until the last offertory is counted.

Bookkeeper

- After the count has been concluded, the envelopes and loose check copies should be entered into the PDS software program by the bookkeeper. If the name is not included in the parish database, create a new record for the donor.

- An entry to record the deposit should be made in the Shelby Financial general ledger with reference to the completed count sheet.

- Compare the validated deposit slip issued by the bank with the count sheet and the general ledger. Investigate any changes or differences and resolve them immediately.

3. BOOKKEEPING PROCEDURES

Recording Routine Activity

- After the receipts are counted, the totals of each account for which there is deposit activity are to be recorded in the cash receipts section of Shelby Financials by type of income/ collection. The total deposit in the Shelby Financials general ledger module should equal the total of the count sheets.

    - Each week all deposits should be entered into the Shelby Financials-General Ledger module

    - At the end of each month, the total of all revenue accounts in Shelby Financials should agree to the total of the count sheets for that month.

Deposit Adjustments/Corrections

- Upon notification of an error by the bank, investigate the discrepancy to identify the cause, and perform the following:

    - Make an adjusting entry in Shelby Financials to increase/decrease cash and debit/credit the appropriate account affected by the error.

- Upon receipt of a returned check by the bank (NSF, closed account, etc.), perform the following:

  - Record the returned check in Shelby Financials by crediting the appropriate cash account and crediting the related revenue account.

  - Reverse the entry in PDS.

  - If the check is from a parishioner, given as a contribution, file the check and take no further action.

  - If appropriate, for other checks, contact the party to write the check and seek reimbursement.

4. ACCEPTING & ACKNOWLEDGING CONTRIBUTIONS

Stock Gifts

- If an individual or family contacts the parish about donating stock, please have them contact the Director of Planned Giving in the Diocesan Development Department.

- All contributions of stocks, bonds or mutual funds should immediately be sent to the Diocesan finance office.

  - The finance office will deposit the certificates into a brokerage account to be sold.

  - When the sale of the stock is complete and funds are deposited in the brokerage account, the finance office will mail a check for the proceeds to the respective parish for deposit into their checking account. Any fees incurred from the brokerage firm for the transaction will be deducted from the proceeds (Unless the stock gift was partially or totally for the benefit of the Diocese, i.e. Bishops Appeal).

  - Under no circumstances is a parish permitted to open an account with a brokerage firm for the purpose of selling gifted securities or any other reason.

- Acknowledgments of stock gifts which comply with IRS guidelines will be mailed directly from the finance office to the donor.

  - The parish has no responsibility to acknowledge these gifts but should maintain a file documenting the stock gift.

  - If the stock gift was designated by the donor to be applied to an outstanding pledge, the receivable pledge account should be reduced by the amount of the proceeds from the stock.

Other Non-Cash Gifts

All other non-cash gifts are not to be accepted unless approved by the finance office. These include insurance policies, investment interests, real estate, vehicles, boats, etc.

Acknowledgments-General

The following is a summary of current IRS rules pertaining to tax deductible gifts of cash.

There are two general rules that organizations need to be aware of to meet substantiation and disclosure requirements for federal income tax reporting purposes:

- A donor is responsible for obtaining a **written acknowledgement** from a charity for any single contribution of $250 or more before the donor can claim a charitable contribution on his/her tax return. For donations of less than $250, the donor is responsible for maintaining written documentation such as a cancelled check or bank record of the donation or a written acknowledgement from the charity as mentioned above.

- A charitable organization is required to provide a **written disclosure** to a donor who receives goods and services in exchange for a single payment of more than $75.

Written Acknowledgement-Defined

Requirements:

A donor cannot claim a tax deduction for any single contribution of $250 or more unless the donor obtains a **contemporaneous** (defined below), written acknowledgement of the contribution from the recipient organization. An organization that does not acknowledge a contribution incurs no penalty, but without a written acknowledgement, the donor cannot claim a tax deduction. Although it is a donor's responsibility to obtain a written acknowledgement, an organization can assist a donor by providing a timely, written statement containing the following information:

1. Name of the organization
2 Amount of cash contribution
3. Description (but not the value) of non-cash contribution
4. Statement that no **goods or services** (defined below) were provided by the organization in return for the contribution, if that was the case
5. Description and good faith estimate of the value of **goods and services**, if any, that the organization provided in return for the contribution
6. Statement that **goods and services**, if any, that an organization provided in return for the contribution consisted entirely of **intangible religious benefits** (defined below), if that was the case

It is not necessary to include either the donor's social security number or tax identification number on the acknowledgement. A separate acknowledgement may be provided for each single contribution of $250 or more, or one acknowledgement, such as an annual summary, may be used to substantiate several single contributions of $250 or more.

Contemporaneous Defined

Recipient organizations typically send written acknowledgements to donors no later than January 31 of the year following the donation. For the written acknowledgement to be considered contemporaneous with the contribution, a donor must receive the acknowledgement by the earlier of the date on which the donor actually files his/her individual federal income tax return for the year of the contribution; or the due date (including extensions) of the return.

Goods and Services Defined

The acknowledgement must describe goods or services an organization provides in exchange for a contribution of $250 or more. It must also provide a good faith estimate of the value of such goods or services because a donor must generally reduce the amount of the contribution deduction by the fair market value of the goods and services provided by the organization. Goods or services include cash, property, services, benefits, or privileges.

Examples of Written Acknowledgements

- "Thank you for your cash contribution of $300 that the St. Louis Church received on December 12, 2010. No goods or services were provided in exchange for your contribution."

- "Thank you for your cash contribution of $350 that St. Michael's Church received on May 6, 2010. In exchange for your contribution, we gave you a cookbook with an estimated fair market value of $60."

- "Thank you for your contribution of the used oak baby crib and matching dresser that Incarnation Church received on March 15, 2010. No goods or services were provided in exchange for your contribution."

Written Disclosure Defined

Requirements:
A donor may only take a contribution deduction to the extent that his/her contribution exceeds the fair market value of the goods or services the donor receives in return for the contribution; therefore, donors need to know the value of the goods or services. An organization must provide a written disclosure statement to a donor who makes a

payment exceeding $75 partly as a contribution and partly for goods and services provided by the parish. A contribution made by a donor in exchange for goods or services is known as a *quid pro quo* contribution.

> Example of a *quid pro quo* contribution: A donor gives a parish $100 in exchange for a concert ticket with a fair market value of $40. In this example, the donor's tax deduction may not exceed $60. Because the donor's payment (*quid pro quo* contribution) exceeds $75, the parish must furnish a disclosure statement to the donor, even though the deductible amount does not exceed $75.

A required written disclosure statement must:

- Inform a donor that the amount of the contribution that is deductible for federal income tax purposes is limited to the excess of money (and the fair market value of property other than money) contributed by the donor over the value of goods or services provided by the parish.

- Provide a donor with a good faith estimate of the fair market value of the goods or services.

An organization must furnish a written disclosure statement to the donor in connection with either the solicitation or receipt of the *quid pro quo* contribution.**5.**

RESTRICTED DONATIONS

Restricted Donation Defined

The American Institute of CPAs Statement of Financial Accounting Standards #117 defines a donor-imposed restriction as a donor stipulation that is more specific than broad limits resulting from the nature of the organization, the environment in which it operates, and the purposes specified in its' bylaws.

Accordingly, a gift, received by the parish with a donor stipulation that is more specific than a purpose which is implicit to the nature of the parish, should be handled as a restricted donation.

- Examples of uses which are implicit to the nature of a parish are:

  - evangelization,
  - missionary work,
  - faith formation,
  - education,
  - charity, and
  - facilities improvements.

As such, these gifts would not be classified as restricted. However, a good faith effort would suggest you track these and use the money as stipulated by the donor. The restriction can be temporary or permanent, **BUT IT MUST BE IN WRITING FROM THE DONOR**. Some examples of restricted donations are:

- A contribution received from a donor who has sent a letter restricting its use to the purchase of a particular statue to be placed in the parish sanctuary in memory of a family member.
- A gift received from a donor accompanied by a letter stipulating that the parish invest the gift amount and use only the investment income for Catholic school tuition for local underprivileged children.

If there are any questions about how to classify a gift, the parish should contact the Finance Office for assistance.

Accepting Restricted Donations

By accepting a restricted gift, the parish agrees to abide by the restriction placed on the gift by the donor under the penalty of forfeiture.

Record Keeping

- Careful records should be kept for each individual restricted gift from the time of acceptance to the time the gift has been expended.

- A file should be set up in the parish office for each individual gift, including the original donor letter and copies of all transaction activity concerning the gift.

- If the donor restrictions are received orally, an activity file should still be kept, even though the gift is defined and recorded as an unrestricted donation.

- These records should be kept on file at least five years after the restriction has been met and the gift expended.

Reporting of Restricted Donations

- The parish should report all activity for each restricted donation in a separate account even if the gift and subsequent expenditures occur in multiple years.

- The amount of the donation should remain segregated in a separate account until the restriction has been satisfied, or the gift is fully expended. At this point, the parish should report this fact in writing to the donor.

- If the gift has not been expended, but the restriction has been satisfied, the remaining amount should be reclassified to an unrestricted account.

- **This documentation, whether handwritten or electronic, should be sent to the finance office with the annual year-end submission.**

6. ACCOUNTING FOR PLEDGES

New pledges should be supported with completed pledge cards only. Pledge cards should be kept and filed until the end of the drive. Verbal pledges should never be recorded.

Initial pledges submitted:

- In PDS
  - Set up new pledges in a new fund. Each campaign should have a separate corresponding fund.
  - Each family has a separate ID number.
  - Once all initial pledges are received, run a Pledge Drive Status Report using a period of at least a year longer than the entire pledge drive as the beginning and ending dates. For example, the ending date should be at least one year beyond the ending date of the pledge drive to include pledges received after the original period.
  - Save this Report until the pledge drive is complete.
- In ShelbyNext Financials
  - Post the total for all families under total pledged on the last page of the Pledge Drive Status Report as a debit to Pledges Receivable and a credit to Revenue (Building revenue or the revenue account associated with the pledged drive).

Subsequent pledges received:

- In PDS
  - For each subsequent month in which new pledges are received, run a new copy of the Pledge Drive Status Report. Note the new date and save it until the drive is complete.
- In the Shelby Financials Ledger

  - Find the new total for all families under new pledges and determine the difference between the new amount and the previously saved copy.

  - Post the difference as a debit to Pledge Receivables and a credit to Building Fund revenue.

Payments received on pledges made and previously posted (as noted above):

- In PDS

  - Enter the payments to each donor's record.

  - Run an edit report summarizing your entries.

- In Shelby Financials Ledger

  - Post the totals of the report as a cash receipt with credit **to Pledges Receivable.**

  - The Balance due for all pledges in PDS should **Always** equal the balance in the Pledges Receivable account in the Shelby Financials general ledger.

Payments received from donors that exceed the amount pledged:

- In PDS

  - Prior to posting the cash received, increase the donor's total pledge to the point that it equals the total amount of the donations paid, including the donation just received.

  - Post the payment received and confirm that the amount pledged and amount paid are equal.

  - Run a report summarizing your entries.

- In the Shelby Financials general ledger

  - Post the pledge entries as a debit to Pledge Receivable and a credit to Revenue; the cash received as a debit to cash and a credit to Pledges Receivable.

  - The total Balance due for all pledges in PDS should **Always** equal the balance in the Pledges Receivable account in the Shelby Financials general ledger.

  - **There should never be a negative balance on your Pledge Drive Report in PDS.**

Pledge Drive Management

- Pledge statements should be compiled and sent to parishioners at a minimum of twice a year, preferably as of May and November.

- In May of each year, individual pledges should be reviewed by the bookkeeper, Parish Priest or business manager and any pledges deemed to be uncollectible should be compiled and sent to the finance office with the regular year-end financial submissions.

    - Please indicate on the list how many years the pledge drive has been ongoing.

    - Once these uncollectible pledges are reported to the finance office, the uncollectible portion of the pledge should be posted to the appropriate member/family ID as a non-cash payment type to reduce the pledge amount in PDS records. The following entry should be made in the Shelby Financials general ledger.

    - Debit Bad Debt Expense and credit Pledge Receivables for the remaining amount of the pledge to record this direct write-off of pledges.

- If there are any other amounts which represent families or members no longer active with the Parish, move the entire pledge to a new ID number with a "W" preceding the number, to identify the pledge as unlikely to be collected. Use this procedure only if prior approval has not been obtained. Appropriate documentation should be maintained for this transaction. The following entry should be made in the Shelby Financials general ledger:

    - Debit Bad Debt Expense and Credit Reserve for Uncollectible Pledges.

- After completing this process an entry should be made to set aside funds for future uncollectible pledges. Using a sliding scale of percentages, multiply the appropriate percentage by the remaining balance of pledge receivables after the write-off above.

    - The sliding scale is:

      10% - first year of pledge campaign
      15% - second year of pledge campaign
      25% - third year of pledge campaign
      30% - fourth year of pledge campaign
      40% - fifth year of pledge campaign

    - Locate the balance in the reserve or allowance for uncollectible pledges account (usually just under pledge receivables on the balance sheet).

    - Determine the difference between the amount in this account and the amount you just calculated above.

- Make the following entry to either increase or decrease the reserve account using this difference.
    - To increase the reserve account: debit bad debt expense and credit the reserve for uncollectible pledges account.
    - To decrease the reserve account: debit the reserve for uncollectible pledges account and credit bad debt expense.

Example:

Pledges receivable balance on April 30 = $2,000,000
Reserve for uncollectible pledges = $200,000

Fourth year of the pledge drive= 30% on the sliding scale

During the month of May you review the outstanding pledges and determine that $50,000 of pledges is not collectible because the individual has moved, passed away or other reason. After receiving approval from the pastor or church administrator, immediately post a non-cash payment type for the remaining amount of the pledge in PDS. The pledge balance should now be zero. Send the details of this transaction to the finance office. Next, in Shelby Financials, make a journal entry to debit Bad Debt Expense and credit Pledges Receivable for $50,000.

If during the month of May, you determine that some of the pledges are now unlikely to be collected (Use $25,000 for this example). Use this method if you are unable to get approval for the above method. Do not use this type of write-off unless the individual making the pledge is no longer an active parishioner.

Move the account in PDS to a separate ID number and identify the number by putting a “W” in front of the number. This will help to identify these accounts until approval can be obtained. No approval is necessary for this transaction, but there should be a sound business reason for the transaction. Next, in Shelby Financials, make a journal entry to debit Bad Debt Expense and credit Reserve for Uncollectible Pledges for $25,000.

After completing this process, multiply the remaining balance in pledge receivables, ($2,000,000-$50,000=1,950,000) by the appropriate percentage from the sliding scale above ($1,950,000 x 30% = $585,000). Next locate the balance sheet account reserve for uncollectible pledges (usually just below pledge receivable) and determine the difference between the amount in that account ($200,000) and the amount calculated from the sliding scale ($585,000) or $385,000. Since this will require increasing the reserve account, the journal entry would be to debit bad debt expense and credit the reserve for uncollectible pledges for $385,000.

7. RENTAL OF PARISH PROPERTY

- Parishes may rent their facilities for weddings, anniversaries, and other gatherings of parishioners, and to other nonprofit (501.c.3) organizations.

- Parishes may not rent facilities to for-profit organizations or to individuals who are not parishioners.

  - Rental of the parish facilities in such a manner could result in the loss of your parish Sec 501c3 (tax exempt) status due to the receipt of unrelated business income or loss of property tax exemption.

- Whether parish property is rented, or provided without charge, the person or organization using the facility is required to purchase or provide evidence of insurance. Catholic Mutual writes Special Events Coverage.

EXPENDITURES & RELATED ACTIVITIES

Section B

1. GENERAL PROCEDURES & CONTROLS

- **Checking Accounts**

  - Parishes shall notify the finance office of all banks utilized by the parish for documentation and audit.

  - All disbursements, except for petty cash, should be made by check or ACH.

  - All accounts should include the pastor as a signor and signature cards should be reviewed every two years.

  - The Diocese requires that only Priests, business managers or CFO's (with no cash handling or recording duties) and finance officials be authorized signers.

  - No one other than authorized signers may sign checks.\

  - Facsimile signatures are never to be used unless the parish system of internal controls has been specifically approved by the finance office.

  - Blank checks are never to be signed.

- Checks are to be prenumbered and used consecutively.
- They are to be stored in a locked receptacle with limited access.

Purchasing

- The pastor is responsible for all commitments made on behalf of the parish. He may delegate purchasing responsibilities as he deems appropriate per Diocesan guidelines.

- Purchases should be made within the constraints of the budget.

  - Since the budget represents a guideline for parish spending, purchases more than the budgeted amount require specific authorization from the pastor or department head.
  - Purchases should be made proportionately throughout the year, based upon cash flow.

- **Receiving**

  - Upon acceptance of a delivery of merchandise, the person receiving the goods should verify the delivery, document the receipt thereof, and initial the documentation.

  - The receiving document should be forwarded to the parish office promptly.

- **Processing Invoices**

  - Upon receipt of an invoice, verify that the material was received or service provided.

    - Preferably verify that there is a separate receiving document, initialed and dated to indicate receipt.
    - If there is not a separate receiving document, indicate in writing on the invoice whether the material was received or service provided and initial and date.

  - Schedule the invoice for payment and file accordingly.

  - In the absence of a vendor invoice, a written check request is required before a check can be issued.

  - Vendor's month-end statements should be reconciled to vendor invoices.

  - Disbursements should not be made from statements without supporting documentation.

- **Check Preparation**

  - Periodically, i.e., weekly, bi-weekly, etc., checks should be prepared based on an original vendor invoice (not a photocopy) or other appropriate documentation which has been approved for payment, initialed and dated. The check and/or remittance advice should include the vendor's invoice number(s) or equivalent.

  - The checks and supporting documentation (i.e., invoices, check requests) are to be forwarded to the parish Pastor for approval and authorized signature.

  - Once paid, the invoice or check request is stamped "paid" and the check number is written on the invoice. Paid invoices should be filed in either chronological or alphabetical order and retained for seven years.

  - Voided checks should be defaced and filed.

  - All checks written (and voided checks) should be recorded in the Accounts Payable module of Shelby Financials. The following information is to be recorded:

    - date,
    - Payee,
    - amount, and
    - account number/description.

- **Petty Cash Disbursements**

  - All disbursements from petty cash should be documented by either a petty cash voucher or an invoice.

  - Vouchers should indicate the date, account number, or purpose, to who paid, and the amount.

  - The person receiving the cash should always sign and date the petty cash receipt or the invoice to acknowledge his/her receipt of the cash.

  - Vouchers and/or paid invoices should be kept with petty cash until the account is reconciled.

- The account shall be reconciled when replenished (by someone other than the person authorized to disburse payments, when possible).

- A listing of totals by account number should be entered on a petty cash reimbursement voucher along with the total amount of reimbursement.

- After reconciliation, the petty cash vouchers and supporting invoices are to be attached to the petty cash reimbursement voucher.

- **Expense (Out-Of-Pocket) Reimbursements/Travel and Meal Expenses**

  - An approved expense report is to be submitted to the parish office for reimbursement of out-of-pocket expenses, and for documentation of all travel and meal expenses whether paid by the employee or by parish check or credit card.

    - Mileage reimbursement is not to exceed the diocesan budget rate.
    - All expense reports are to be approved in writing by the individual's supervisor or the pastor.
    - No one may approve his/her own expense report.

  - The following information pertaining to each expense item is to be provided in the expense report:

    - date of the expenditure,
    - amount,
    - purpose of the expenditure,
    - an original receipt from the vendor or provider of services substantiating the date, amount, and nature of the expenditure,
    - names of people other than yourself for whom you paid, and their relationship/role to the parish.

  - Employee expense reimbursements are to be handled in conjunction with accounts payable processing, if the following four rules are met,

    - The reimbursement is not considered wages and, thus, is not subject to withholding or payroll taxes.
    - The individual must have paid or incurred deductible expenses while performing services on behalf of the church.
    - The individual **must provide a receipt for all expenses** for which they wish to receive reimbursement.
    - The individual must submit a written accounting for these expenses (i.e., expense report); and
    - The individual must return any excess reimbursement.

- **Parish Assessment**

    - A certain sum of money shall be contributed annually for the support of the bishop, as a mark of honor and in sign of subjection to the Cathedral Church.

    - The percentage of assessment for each parish will be determined by the total revenue from the previous 6/30 audit.

    - Assessable revenue includes all parish revenue minus approved building fund/ debt reduction revenue and subsidy revenue received from a school, cafeteria, another parish, or the diocese. The following are examples of included revenues:

        - All Sunday and Holy Days of Obligation offertory collections
        - Year End monetary gifts
        - Gifts of stock certificates
        - Offerings for operating expenses and /or equipment repairs
        - Estate bequests
        - Income from rental property

Examples of Exempt Revenue:

- Building Fund/Debt Reduction program revenue – **with the approval of the bishop**
- Special Improvement Revenue – **with the approval of the bishop**
- Subsidy Revenue-revenue from a school, cafeteria, another parish, or the Catholic Center is an in-house transfer and is exempt from Cathedraticum and from High School Assessment. Indemnity from an insurance company for a loss is also exempt.
- National and Diocesan collections for the benefit of others, e.g. Villa Vianney, Seminarians, Rice Bowl, Mission Sunday, etc.
- Education Revenue-school tuition, school fund raisers, parish religious education fees, parent's day out programs, school cafeteria revenue.
- Certain revenue is exempt because it is intended to benefit specific memorials or organizations, such as altar societies, priests, parish and social outreach organizations:

    Flowers for the altar
    Votive Candles
    Stole fees
    Stipends
    Social fund raisers
    St. Vincent de Paul Society

- **Journal Entries**

  - Journal entries should be prepared on a timely basis when it is evident an adjustment is necessary to the general ledger.

  - All journal entries should include adequate documentation supporting the transaction. This documentation should be attached to the journal entry.

  - All journal entries should be approved by the parish Priest or his designee in writing and filed in chronological order.

2. INDEBTEDNESS

The bishop is the only person who may commit a parish or the Diocese to any debt. Therefore, all loans and mortgages must be negotiated by the Diocesan finance office and signed by the bishop.

3. PROPERTY/LIABILITY INSURANCE

All diocesan property is insured through Catholic Mutual. Coverages and forms can be accessed at www.catholicmutual.or; username = 0277mem and password = service. Each parish is billed separately by Catholic Mutual, who allows parishes to pay quarterly, but all premiums must be paid before June 30 of the coverage year.

4. PROPERTY TAXES

Property tax must be paid on all real estate not being directly used for church or school purposes. Additionally, all real and personal property (i.e., automobiles) acquired during the year (having not previously been declared tax exempt) are subject to property tax due at the end of the calendar year in which purchased. Upon receipt of the tax bill, a copy is to be forwarded to the Diocesan Risk Management Office so that tax-exempt status can be obtained prior to the next annual filing date (January 1). All taxable church properties should be filed each January with the tax collector's office in each county and city. All properties are to be listed as follows:

Most Reverend David P. Talley, MSW, JCD
Bishop of the Roman Catholic Diocese of Memphis
c/o (your church name and mailing address)

Note: City/County assessments are not considered property taxes and, thus, must be paid.

5. PARISH AUXILIARY ASSOCIATIONS-PROCEDURES & CONTROLS

- **Definition**

  - These policies apply to all parish auxiliary associations. Parish auxiliary associations are those organizations sponsored by the parish or school that qualify as tax-exempt by virtue of the parish's tax-exempt status and/or use of the parish taxpayer identification number for purposes of establishing a bank account. Examples of these organizations are:

    - The Men's Club
    - The Ladies Club
    - The Altar Society
    - Parent Teacher Association
    - Athletic Club

  - Certain associations are affiliated with other organizations, and their tax status is determined by virtue of that relationship. These associations use their affiliated organization's taxpayer identification number when establishing bank accounts. Examples of these organizations include the Knights of Columbus and the Catholic Daughters. These organizations are not covered by this policy.

  - Each parish auxiliary association should have a clearly defined purpose that is consistent with the mission of the parish/school. All fundraising activities should be consistent with the principal purpose of the association.

    - Appendix F is to be filled out by each organization and submitted to the parish office each month.

- **Specific Internal Control Procedures**

  - In addition to the following rules specific to these associations, they must adhere to all financial policies and civil regulations put forth in this manual.

  - Internal Control Procedures:

    - Each organization may have one checking account at a local bank approved by the pastor. If additional accounts are needed, approval is to be obtained from the Diocesan Finance Office. The organization's bank accounts are to be in the name of the church or school with a second line containing the name of the organization. The address is to be the parish finance office.
    - Authorized signatures should be limited to two officers and the pastor or principal.
    - Only authorized signers may sign checks.
    - Facsimile signatures are never to be used unless the parish system of internal controls has been specifically approved by the finance office.

- One signature is required on checks written for less than $500. Two signatures are required on checks written for over $500. The pastor or principal must be one of the signatories on any check written over $1,000. All future check stock must provide lines for two signatures and must be printed with the following above the signature lines: “two signatures required for amounts $500 and above”.
- Blank checks should not be signed.
- Checks should be pre-numbered and used consecutively.
- The stock of unused checks should be securely stored and regularly inventoried.
- A designated person, preferably the pastor at the church or school, is to open and review the bank statements before they are forwarded to the organization. The review should include a check of signatures on the checks or facsimile copies of the checks for authenticity.
- Bank reconciliations should be prepared monthly, as soon as the bank statement is received. The bank reconciliation should be signed and dated by the person who performed the reconciliation. Once a month, a designated member of the organization who is independent of cash and checking activities should review the bank statements and reconciliations. The officer reviewing the reconciliation should sign and date the bank reconciliation, indicating a satisfactory review of the information. For example, the secretary prepares the bank reconciliation, and the pastor signs off on it.
- A financial statement should be prepared monthly using the Monthly Financial Report of Auxiliary Organization form. (Appendix F). The statement will include all revenues and expenses and reconcile all activity to the beginning and ending cash balances. This report and a copy of the bank statement are to be sent to the pastor/principal for review within 30 days of each month end. The financial statement, bank reconciliation and bank statement should be presented at the organization’s meetings and made available to all constituents.
- Contributions received by the parish on behalf of auxiliary organizations should be counted by parish count teams, following the same internal control procedures used for Mass and other collections.

○ Bookkeeper Responsibility

- If parishioners other than the bookkeeper are responsible for an auxiliary organization’s record keeping, they should be informed of the above internal control procedures and their responsibility to adhere to them.

- Each **month**, the bookkeeper should receive a current copy of the auxiliary organization’s bank statement and Appendix F reports. A bank reconciliation should be completed in Shelby Financials for all auxiliary accounts.

- Auxiliary organizations fall under the IRS regulations concerning payments to individuals for services rendered. Example of such includes payments to referees, child-minders, traffic officers. Payments made to all people and other unincorporated entities to which you have paid $600 or more for services rendered require a 1099 to be issued prior to January 31st and accompanying transmittal form 1096 must be mailed to the IRS by January 31st as well. To facilitate complete and accurate reporting for tax purposes, auxiliary organizations should **NOT** issue checks directly to individuals in payment for services rendered. Instead, the auxiliary organization is to issue a check in the amount of the payment to the church for deposit into the general operating account. The church is to issue a check to the individual for payment of services rendered on behalf of the auxiliary organization. The church is to maintain records on collective payments to individuals from all groups that operate under the umbrella of the church.

EMPLOYEE/INDEPENDENT CONTRACTOR ACTIVITIES

Section C

1. GENERAL

- **Employees or Independent Contractor?**
  - All lay people performing services for compensation are to be classified as either:
    - an employee, or
    - an independent contractor.
  - Financial assistance provided to needy people should never be given under the guise of "working for money," unless the individual is hired as an employee. In that case, financial compensation is considered taxable income.
  - To help you determine whether an individual is an employee or independent contractor, the IRS has identified 20 factors that indicate whether sufficient control is present to establish an employer-employee relationship. It does not matter that the employer allows the employee freedom of action, so long as the employer has the *right* to control both the method and the result of the services.

    The degree of importance of each factor varies depending on the context in which the services are performed. The 20 factors indicating whether an individual is an employee or an independent contractor are:

    1. *Instructions*. An employee must comply with instructions about when, where, and how to work. Even if no instructions are given, the control factor is present if the employer has the right to give instructions.
    2. *Training*. An employee is trained to perform services in a particular manner. Independent contractors ordinarily use their own methods and receive no

training from the purchasers of their services.

3. *Integration*. An employee's services are integrated into business operations because the services are important to the success or continuation of the business. This shows that the employee is subject to direction and control.
4. *Services rendered personally*. An employee renders services personally. This shows that the employer is interested in the methods as well as the results.
5. *Hiring assistants*. An employee works for an employer who hires, supervises, and pays assistants. An independent contractor hires, supervises, and pays assistants under a contract that requires him or her to provide materials and labor and to be responsible only for the result.
6. *Continuing Relationship*. An employee has a continuing relationship with an employer. A continuing relationship may exist where work is performed frequently recurring although irregular intervals.
7. *Set hours of work*. An employee has set hours of work established by an employer. An independent contractor is the master of his or her own time.
8. *Full-time work*. An employee normally works full time for an employer. An independent contractor can work when and for whom he or she chooses.
9. *Work done on premises*. An employee works on the premises of an employer or works on a route or at a location designated by an employer.
10. *Order of sequence set*. An employee must perform services in the order or sequence set by an employer. This shows that the employee is subject to direction and control.
11. *Reports*. An employee submits reports to an employer. This shows that the employee must account to the employer for his or her actions.
12. *Payments*. An employee is paid by the hour, week, or month. An independent contractor is paid by the job or on a straight commission.
13. *Expenses*. An employee's business and travel expenses are paid by an employer. This shows that the employee is subject to regulation and control.
14. *Tools and materials*. An employee is furnished significant tools, materials, and other equipment by an employer.
15. *Investment*. An independent contractor has a significant investment in the facilities he or she uses in performing services for someone else.
16. *Profit or loss*. An independent contractor can make a profit or suffer a loss.
17. *Works for more than one person or firm*. An independent contractor may give his or her services to two or more unrelated people or firms at the same time.
18. *Offers services to the public*. An independent contractor makes his or her services available to the public.
19. *Right to fire*. An employee can be fired by an employer. An independent contractor cannot be fired so long as he or she produces a result that meets the specifications of the contract.
20. *Right to quit*. An employee can quit his or her job at any time without incurring liability. An independent contractor usually agrees to complete a specific job and is responsible for its satisfactory completion or is legally obligated to make good for the failure to complete it.

- **Hiring an Employee/Contracting with an Independent Contractor**

  - The forms required for each employee when hired are as follows:

    - W-4,
    - I-9, and
    - Employee Handbook acknowledgment receipt.
    - Sexual Misconduct Policy Acknowledgement (for employees who work with children and vulnerable adults. Documentation indicating a completed background check (and Virtus training class for employees who work with children or vulnerable adults).

  - These forms must be kept on file in the parish office of your location. In addition to the above, the Diocesan Personnel Policies Manual requires that a personnel file be established and maintained for all employees. This file should contain a completed Job Application, an Employment Interview Form and a signed Payroll/ Status Change Notice. If your payroll is processed through the Diocese, all these forms and the personnel file should be sent to the Diocesan Human Resource Department.

  - The information required of independent contractors is as follows:

    - Business name and address, and
    - Taxpayer identification number (this may be an individual's social security number).
    - Form W-9 **must** be received from all independent contractors before they can be set up as a vendor. The forms provide space for the above information and require certification by the independent contractor as to whether federal backup withholding is needed.
    - Payments to contractors may be withheld if Form W-9 is not completed.
    - Form W-9 is available on the IRS.Gov website.

- **Benefits**

  - Employees who work more than 20 hours per week are eligible for participation in the Diocesan benefit programs. All employee benefit programs are administered by the Diocesan Human Resources Department. These include:

    - Group health insurance,
    - Term life insurance,
    - Long term disability insurance,
    - 403(b) retirement plan,
    - Compensatory time off programs.

  - The parish pays the premium for individual coverage in the group health insurance program (except for a monthly co-payment which the employee pays) and, also, the basic life insurance program. Dependent participation in the group health plan and dependent and supplemental life insurance represent optional coverage, which employees pay via payroll deduction. Each parish is billed directly for these programs.

- The long-term disability program is also funded by the parish. Each parish is also assessed a percentage of its gross lay salaries by the Diocesan office to fund the retirement plan and the 403b plan match. The assessment is computed on the total wages of all lay employees. The retirement plan contribution is processed through the Paylocity system.

2. PAYROLL & RELATED ACTIVITY

- **Payroll Processing**

  - Hourly/non-exempt employees are required to record time worked in Paylocity by punching in and out. The parish administrator will approve timecards when processing payroll. No one may approve of his/her own time report.

  - Hours **worked** more than forty hours per weekly pay period will be paid at 1 1/2 times the hourly rate.

  - Exempt employees' gross pay is computed by dividing the annual salary by the number of pay periods per year. Exempt employees do not receive additional compensation for time worked more than the standard workweek.

  - The Priests' Bi-weekly pay consists of both their salary and professional allowance. The amount of the salary and professional allowance is determined by the Diocese prior to the beginning of each fiscal year.

  - Payroll deductions include the following:

    - payroll taxes,
    - health insurance co-payment,
    - court and government-imposed levies,
    - premiums for employee supplemental life insurance, and
    - premiums for dependent life insurance.
    - TSA (403B)

  - The net amount after deductions is payable to the employee via direct deposit to the employee's bank account. The Diocese requires that all employees utilize the direct deposit service.

  - According to IRS code, religious Priests, brothers, and sisters providing services to Diocesan entities are considered agents of their order, and are not liable individually for federal income or employment taxes on compensation paid by their employer, provided three criteria are met:

- The religious order member must be subject to a vow of poverty.
- The religious order member must be providing services for a Diocesan entity in the direction of his or her ecclesiastical superiors.
- The religious order member must remit compensation to his or her religious order, which must be exempt from federal income tax under IRS code section 501c (3).

- If any of these criteria fails to be met, the religious order member is taxable individually on compensation received.

- Compensation can be paid by check payable to the religious order, or by check payable jointly to the religious order and the individual religious order member. If the payment criteria listed above is satisfied, and compensation is not taxable to the individual religious order member, no reporting on Form W2 or Form 1099 is required.

- **No check should ever be written for any reason, payable to CASH**

- **Payroll Tax Deductions**

  - All compensation paid to employees for services rendered is considered taxable wages (including stipends, bonuses and monetary gifts), and, therefore, is subject to payroll withholding and employer payroll taxes. However, taxable income is reduced by 403b contributions and by cafeteria benefits. The following taxes must be withheld from all lay employee wages:

    - Federal income taxes,
    - Social security, and
    - Medicare

  - Payroll taxes are computed as follows:

    - Federal income tax is computed on gross salary, less health insurance premiums and cafeteria benefit withholdings, 403b deductions, and the portion of premiums paid for life insurance not subject to income tax. Please note that the first $50,000 of life insurance is not subject to income tax or FICA ($10,000 basic life plus the first $40,000 of supplemental life). However, the premium associated with supplemental coverage over $40,000 is subject to tax under the provisions of the IRS Code.

    - Social Security and Medicare are computed on gross salary less health insurance co-payment, and the portion of premiums paid for life insurance not subject to Social Security or Medicare.

- Diocesan Priests are considered parish employees for income tax purposes but are considered self-employed for Social Security purposes. As such, a Priest's wages are not subject to withholding for Social Security or Medicare.

- Diocesan Priests are not required to have income taxes withheld from their pay. They may pay federal taxes quarterly, as estimated payments to the IRS. Alternatively, a Priest may elect to have his parish withhold federal income tax from his pay. He may elect to have enough withheld as federal income tax to cover both federal income taxes and federal self-employment taxes. He would have to complete, sign, and date the appropriate withholding forms (Fed. Form W-4).

- **Payroll Tax Remittances - Electronically**

  The Paylocity HR/Payroll system implemented January 1, 2015, processes payroll tax calculations and deposits the taxes. The parish bank account is debited for the employer deposits.

  - Quarterly:

    - Federal Form 941 must be completed and filed with the IRS quarterly. The Paylocity system completes and files the form 941.

  - Annually:

    - W-2 forms must be completed and mailed to employees by January 31.
    - W-2 forms and accompanying transmittal form W-3 must be mailed to the Social Security Administration by February 28, or March 31 if filed electronically. The Paylocity system processes and files the W-2 and W-3
    - Mark box 13 "Retirement Plan" if the employee was a participant in the Lay Retirement Program or Clergy Retirement Plan.

- **Journal Entries**

To prepare the school monthly financial statements, the payroll activity as recorded in the church payroll module is to be summarized by the general ledger account and posted to the school general ledger each pay period or monthly.

- **Tennessee Privacy Laws**

State law places limits on the use and dissemination of Social Security numbers (SSNs). The law will prohibit the public posting or display of an individual's SSN and prohibits the SSN from being printed on any materials mailed, unless it is required by law, or the document is a form or application. The law will also prohibit requiring a person to transmit an SSN over the Internet, unless the Internet connection is secure, and the SSN is encrypted. It is also prohibited to require consumers to use their SSNs to log onto or access a Web site, unless it is used in combination with a password or other authentication device.

- **Disposal of Records**

To prevent identify theft, the state law restricts how businesses can dispose of records with personal identifying information about individuals. The law requires businesses to destroy, or arrange for the destruction of, a customer's records within its custody or control containing personal information, which is no longer to be retained by the business, by shredding, burning, erasing or otherwise modifying the personal information in the records to make them unreadable. Personal identifying information includes Social Security Number, driver's license number, bank account numbers, complete credit or debit card numbers, PIN numbers or passwords, health insurance numbers or unique biometric data.

For a complete list of Record Retention-see Appendix D

3. REPORTING PAYMENTS FOR SERVICES RENDERED (NON-PAYROLL)

Annually:

- All 1099's will be prepared and sent out by the Diocese

- Forms 1099 must be completed and mailed to all people and other unincorporated entities to which you have paid $600 or more in rent or for services rendered during the calendar year by January 31 of the following year. Corporations, but not all LLC's, are excluded.

- Forms 1099 and accompanying transmittal form 1096 must be mailed to the Internal Revenue Service by January 31st of the following year as well.

- There are IRS penalties ranging from $15 to $50 per return for these returns filed late or filed with incorrect or incomplete data.

- Each form 1099 requires a listing of the person and/or unincorporated entity's Social Security or Taxpayer Identification Number.

Prior to making Payment:

- Form W-9 should be sent to each new vendor when you expect to make payments that exceed $600 in any calendar year.

- Since it's somewhat difficult to ascertain in advance whether an individual or entity will exceed the $600 threshold, it is necessary to acquire a W-9 form from all individuals and unincorporated entities.

4. TAXABLE INCOME TO DIOCESAN PRIESTS

Priests have several sources of income from parishes. Priests are responsible for completing their tax returns.

<u>Taxable Income</u>

- Salary- Pastors are paid a salary which is set by the Diocesan Finance office in an annual letter to Priests.

- Room and board provided in the rectory- The value of these items, housing and food, must be included in your self-employment wages (on Form 1040, Schedule SE) and self-employment taxes must be paid on these amounts. Determining the value of the housing and food can vary depending on the location of the housing, whether it is in a parish rectory, the level of privacy, etc. The IRS suggests that the Priest use a reasonable method to value both the room and meals based on comparable data Please note that this amount is only subject to self-employment tax, not income tax.

- Stipends- Any mass stipends and/or other fees received are taxable income regardless of whether you received them from the parish or from an individual. Amounts paid directly from individuals are not included on Priest's Form W-2. This would include amounts paid for services performed such as masses, weddings, baptisms, etc. These payments should be reported on Schedule C or Schedule C-EZ of the Priest's federal income tax return. The amounts are taxable whether they are given because of established fees or in those cases when there are no set fees.

- Professional Allowance – Any allowance received is non-taxable to the extent it was used to purchase professional materials. These purchases must be supported by valid receipts.

Non-taxable Income

- Gifts not related to services rendered - Gifts given for birthdays, anniversaries, going-away, and get-well-soon presents are not taxable.

The following table summarizes the above tax issues:

	Reported to Priest	Subject to Income Tax	Subject to Self-Employment Tax
Salary (inc. auto allow.) Room	W-2	Yes	Yes
and board	Not reported	No*	Yes
Professional Allowances – must be supported by receipts and deducted on Form 2106	W-2	Yes	Yes
Stipends paid by parish	W-2	Yes	Yes
Stipends rec'd from others	Not reported	Yes	Yes
Gifts (not related to services rendered)	Not reported	No	No

*Provided Priest lives and takes meals at the rectory.

- Please note the following concerning Priest's 403(b) contributions to the Diocesan sponsored 403(b) retirement plan made via payroll deduction: the calculation of a

Priest's income subject to self-employment tax is his personal responsibility. As such, this amount is not reported to Priests by the parish or Diocese on the Priest's Form W-2. For purposes of calculating a Priest's net income subject to self-employment tax, the amount contributed to the Diocesan 403(b) retirement plan via payroll deduction is not to be included. This is an exception to the standard treatment for lay employees who must include contributions to the 403(b)-retirement plan in income subject to Social Security tax.

CASH MANAGEMENT

Section D

1. BANK RECONCILIATION PROCEDURES

- Upon receipt of the monthly bank statement, activity per this statement is to be reconciled to activity per the general ledger.

- **IT IS STRONGLY RECOMMEDED THAT THE BANK RECONCILIATION PROGRAM IN SHELBY FINANCIALS BE USED TO RECONCILE THE BANK STATEMENT.**

- Differences between the booked balance and the bank statement balance should be investigated and resolved.

- General Ledger out of Balance amounts also need investigated and resolved every month.

- There should not be outstanding deposits from one month to the next. If deposits are older than the current month, investigate why and resolve them.

- If there are any checks showing as outstanding after 60 days from the date of issuance, make a reasonable effort to contact the payee to determine why the check has not been deposited. If contact is made, inform the payee that most banks will not accept checks over 90 days old and that it is our practice to stop payment and void outstanding checks at that point. If the check was never received and at the point the check is 90 days old, void the check in Shelby Financials and upload/enter the voided check information at the bank if you have positive pay. Re-issue the check if appropriate.

- The bank reconciliation is to be signed and dated by the person reconciling the account.

- The reconciliation should then be reviewed and signed by the pastor, finance council member or parish business manager with no cash handling or recording responsibilities.

- At a minimum, the review should consist of the following:
  - the book balance on the financial report is to be compared to the bank reconciliation.
  - compare the bank balance on the bank reconciliation to the bank statement.
  - all reconciling items are to be reviewed for reasonableness.
  - the addition and subtraction on the bank reconciliation is to be checked.
  - all unusual or unidentified differences are to be investigated and resolved.
  - the individual reviewing the reconciliation must sign the bank reconciliation and the balance sheet indicating a satisfactory review of the information.
  - A copy of the signed bank reconciliation and bank statement should be sent to the Diocese at finance.shelby@cc.cdom.org

2. PARISH INVESTMENTS WITH THE DIOCESE

Parishes are required to place any excess funds available with the Diocese finance office for investment.

- Funds may be placed on deposit, in which case the parish is paid quarterly a rate equal to the average 5-year Treasury rate during the quarter. As needed by the parish, funds are retrievable from the Catholic Center within one week.
- Or the parish may place longer-term funds in the diocesan investment program. The investment program is professionally managed by an independent consulting firm and oversight is provided by the Diocesan Investment Committee, members of which are appointed by the bishop. Depending upon the liquidity of the investment vehicle, funds will be obtainable at the end of the month.

There are two categories of investment: Moderate and Long-Term Growth.

The pastor should select the investment vehicle based on his projection of when the funds would be needed. The Moderate horizon would be two to four years, and the Long-Term greater than four years. Investing carries risks and as risk increases, a longer investment period helps the investment recover from setbacks.

Each category of investment is composed of a different mix of vehicles: domestic Equity, international equity, bonds, cash, and some alternate investments. Funds are pooled with other investments and result in a greater diversity of investments an d a lower cost of investing.

- When funds are needed, the pastor or church administrator must sign a request form (Appendix G) indicating the desire of the parish to withdraw funds on deposit.
  - Once received, the check will normally be processed within 7 business days.
  - Requests by email are acceptable by the pastor. Verbal requests or telephone calls cannot be accepted.

3. JOURNAL ENTRIES

- Journal entries are to be prepared to record all bank account activity, i.e., interest earned, service charges and returned checks. This can be performed within the Shelby Financials program.
- Journal entries should also be prepared to record savings and investment activity, i.e., interest earned, transfers between accounts, etc.

FINANCIAL REPORTING

Section E

1. OBJECTIVES

- The primary objectives of parish financial reporting are as follows:
  - to accurately report the financial activity of the parish on a timely basis.
  - to summarize financial transactions in a simple, concise and consistent manner; and
  - to provide a "benchmark" in conjunction with the financial statements in the form of a budget or prior year numbers so that readers of the statements have a basis of comparison for assessing financial activity.

2. ACCOUNTING PRINCIPLES

Financial statements are to be prepared on the accrual method, defined as follows:

- Receipts/Revenue

  - All revenue is to be recorded when earned, not based on when it is received.

<u>Example</u>

- Pledges are to be recorded as revenue when the pledge is made.
- Each year a journal entry should be made as follows for a portion of the balance in the Pledges Receivable account to account for pledges that will not be fulfilled. See Sec A-6 Accounting for Pledges.

	DR	CR
Pledges Receivable	XXXX	
Building Fund Revenue		XXXX
To record pledge revenue when earned		
Bad Debt Expense	XXXX	
Allowance for Doubtful Accounts		XXXX
To record an estimated allowance for unfulfilled pledge		
Cash	XXXX	
Pledges Receivable		XXXX
To record receipt of pledge payment		

- Expenses/Liabilities

  - All expenses are to be recorded when incurred and reflected as a liability until paid.

3. CAPITAL ASSETS

- An item should be coded as Furniture, fixtures & equipment-at cost. (Account 1520 on most books) **IF**,

  - The purchase price is more than $5,000 **and**

  - The item has a useful life more than three years **and**

  - The item consists of fixed or movable equipment, furniture or fixtures.

  - A spreadsheet is attached (Appendix B) as an example of the information to be retained as support for additions to this account.

- An item should be coded to one of these accounts (Land, Building

Improvement, Remodeling, Repair or Construction) - at Cost **IF**,

- The item has a purchase price of more than $5,000
- The item has a useful life of more than five years
- The item consists of Land, New Construction, Building Improvement or Repairs.
- A spreadsheet is attached (Appendix B) as an example of the information to be retained as support for additions to this account.

- At the origin of the Diocese of Memphis, to establish a fair basis for the fixed assets of all parishes in the Diocese, the insured value was used and set up in accounts with the suffix, "Ins. Value" when the cost was not known.
  - Currently, many parish ledgers list these accounts with the original balance.
  - If your parish carries these accounts with balances, please continue to carry the originally established amount.
  - **Do not post any amounts to the accounts labeled "Ins. Value".**
- All additions to fixed assets, however, should be added only to accounts with the suffix "At Cost".

4. DEBT

The principal amount of all loans payable is to be recorded as a liability and reported on the balance sheet.

- Each month issue payment, in the Shelby Financials AP module, to the Diocesan finance office coded to liability account, Notes Payable Bank (usually acct. 2922).
- As soon as you receive a statement from the finance office breaking out interest on the loan payments made (usually monthly), record the interest as a journal entry in Shelby Financials.
- The entry would be a debit to Interest – Bank Debt (Usually acct. 6306) and a credit to the liability account, Notes Payable Bank (Usually acct. 2922).

5. FINANCIAL STATEMENTS

The Parish financial reporting consists of the following financial statements:

- Balance Sheet/Statement of Financial Position
    - Reporting the period-end balances for the asset and liability accounts, as shown on the Chart of Accounts; with the prior year balances included for comparison purposes.
    - No Item should **EVER** be posted to the equity accounts (numbers 3001-3999) unless the entry comes from the diocesan finance office.
- Statement of Revenues and Expenditures/Statement of Financial Activity
    - Reporting the current month and year-to-date amounts for the revenue and expense accounts, as shown on the Chart of Accounts, and the annual budgeted amount for each account; with the prior year balances included for comparison purposes.
- Schedule of Accounts Payable Outstanding/Aged Analysis Report
    - Listing and totaling all invoices received and liabilities incurred but not paid at the end of the period (this report is only required of parishes which do not record expenses until paid);

6. BUDGETING

Prior to the beginning of the fiscal year, a financial budget for the upcoming fiscal year is to be prepared. The budget should be reviewed by the finance council (with input from parish commissions and department heads). The budget is the plan of revenues and expenditure for the upcoming year. It is to be prepared in accordance with the chart-of-accounts. In other words, an amount is to be budgeted for each revenue and expenditure account. The Preliminary Budget must be entered into Shelby Financials by the requested date.

7. FINANCE COUNCIL

- Canon Law requires each parish to have a Finance Council. In addition, under Canon Law Section 1280, regional and secondary schools are required to have a Finance Council. The role of the Finance Council is to advise the pastor, pastoral administrator, or school administrator and Parish Council or School Board in matters of finance and in decisions involving the temporal goods of the parish or school. It is separate from the Parish Council.

- Please see Norms for Parish Finance Councils

- The Parish Council is a consultative body to the pastor or pastoral administrator in deciding how to meet the needs of the parish. Both councils are directly accountable to the pastor or pastoral administrator.

- Membership of the Finance Council

  - In addition to the pastor, pastoral administrator, or school administrator, the Finance Council should consist of at least three members who are skilled in financial affairs or civil law.

  - In the event a particular parish does not have qualified persons who are willing to serve on the Finance Council, the pastor, pastoral administrator, or school administrator should consult with the Bishop and Chief Financial Officer of the Diocese for assistance in appointing persons from other parishes to serve as regular members of the council.

  - To minimize the possibility of conflicts of interest, it is recommended that Finance Council members not hold office in parish organizations or serve on the Parish Council, at the same time.

- Meetings

  - Meetings of the Finance Council should be held monthly or as determined by the pastor or pastoral administrator. Meetings, however, should be held at least quarterly.

  - If appropriate, matters discussed should remain confidential.

  - It is recommended that the pastor or pastoral administrator, select a secretary of the Council who is responsible for recording minutes of the meetings.

    - These minutes should be forwarded to the pastor or pastoral administrator for approval and for distribution to the other members.

    - Copies should be maintained in a permanent file in the parish office.

- Duties and Responsibilities

  - Ensure adherence to Diocesan financial policies and procedures.

  - Review parish and parish organizations’ monthly financial reports compared to budget.

- Review six-month and year end reports that are submitted to the Diocesan finance office for the periods ending December 31 and June 30.
- Review fundraising and charitable gaming reports and bank reconciliations.
- Ensure communication of financial information to all parish members on a regular but not less than quarterly basis.
- Prepare annual budget in collaboration with the pastor, pastoral administrator, Parish Pastoral Council, and other appropriate parties.
- Be involved in long-range planning, including making recommendations based upon economic climate and financial trends regarding parish fiscal matters.
- Assist in the ongoing maintenance of all physical plant facilities and all expansion and reconstruction or demolition.
- Review all unbudgeted expenditures over $1,000.
- Ensure that bequests/gifts with restricted purposes received by the parish are administered in accordance with the donor's wishes. Ensure that a permanent file on such gifts is being maintained.
- Ensure that parish tax-exempt status is maintained through compliance with federal, state and local laws, statutes, and regulations.
- Ensure that employment and personnel policies conform to Church and civil law.
- Ensure that all debt payments are made timely and within the agreed payback period.

8. ACCOUNTING SYSTEM

- In order to provide a uniform method of accounting for the resources entrusted to the parishes, the Diocese of Memphis requires the use of ShelbyNext Financials and Paylocity Payroll systems.

  PDS is used to track individual members and family contributions. Parishes should be using the most current version of the software and have a maintenance agreement in effect. The Diocese recommends that parishes use PDS On-Demand to ensure software updates; to ensure a back-up in case of disaster; and to allow the Catholic Center staff to support the parish bookkeeper. Using PDS will:

  - Enable the parish to track donations and provide financial reports of offertory revenue, which can be used to monitor and evaluate the present, review the past, and plan.

- Provide for continuity in the event of a change in the pastor or pastoral administrator.

- PDS assumes that the individual doing the bookkeeping for the parish understands basic accounting principles, including double-entry bookkeeping. That is, all entries consist of debits to some accounts and credits to other accounts, and the total of all debits equals the total of all credits.

- For the Diocese to communicate quickly and easily with parish bookkeepers, it is mandatory that each bookkeeper have a valid e-mail account and regularly update the Diocese finance office if there are changes to the address. The e-mail account should be reviewed each day the bookkeeper normally works.

- PDS System –Data Backups (If not using On-Demand)

  - At a minimum, two copies of your data should be maintained with one of the copies maintained offsite. If no adequate site is available for storage, the backups may be maintained at the Diocese finance office. (Prior notice of this will need to be sent to the finance office.)

  - The backup should be set up so that in the event your computer data is destroyed, a backup will be available that is only a few days old, and recovery of the data will not be excessively time-consuming.

  - In addition, separate backup should be performed monthly and retained until the end of the subsequent fiscal year

9. ANNUAL AUDIT

- See appendix H for a schedule of information needed from each parish and parish school for the annual audit.

10. INTERNAL CONTROLS

Having a strong system of internal controls is critical for protecting parish resources. See Appendix I for the Internal Control Questionnaire used to assess parish controls.