Financial Policies and Procedures Manual

DIOCESE OF WINONA-ROCHESTER

REV. MAY 2024

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SECTION 1 – **INTRODUCTION**

1.1 Welcome

This Financial Policies and Procedures Manual has been prepared to provide diocesan parishes one comprehensive document containing the financial policies and procedures of the Diocese of Winona-Rochester which provide guidance to the Pastors and Parish Bookkeepers of the diocese. It is also intended to serve as a reference guide to all who are involved in parish finances.

In this manual the user will find a collection of all policies, procedures, internal controls, chart of accounts and informational topics as they relate to parish financial administration.

Please read the manual and become familiar with the topics covered within. The diocese currently is performing Agreed Upon Procedure (AUP) reviews on a rotating basis for the parishes, schools and cemeteries within our diocese. The policies, procedures and internal controls within this manual are incorporated into the scope of the AUP reviews. Most policies, procedures, government regulations and Church policies covered within this manual have been in existence for varying periods of time. It is essential that parishes implement, if necessary, new processes to achieve the desired goal of transparent parish accountability, appropriate internal controls, and adherence to generally accepted accounting principles, Church policies and governmental regulations.

We continue to offer this revised manual to the memory of Sr. Helen Marie Fenney, PBVM (1920-2002). Sr. Helen served as the first Diocesan Director of Finance from 1977-1984. Through Sr. Helen's leadership, the foundation for solid financial administration was laid in our local church, the Diocese of Winona-Rochester.

I also want to express my utmost appreciation to our Parish Support Coordinator, Cindy Olson. She was the driving force in bringing this project to completion through her vast knowledge, personal experience, perseverance, and dedication in updating this manual. She continues to be a valued resource to the Diocese, to me, and to all who rely on the guidance contained in this manual.

Andrew D. Brannon, CDFM

Chief Operating Officer / Chief Financial Officer

1.2 Use of Manual

The Diocesan Financial Policies and Procedures Manual has been designed for ease of use and in a manner that allows for updates and additional material. The following is a reference for the use of your manual.

- **Table of Contents** provides a quick reference to key topics and location in the manual.

- **Updates** will be communicated as changes are made. Instructional guidance will accompany the publication of changes, updates and new sections as needed.

- **Copies of this manual** may be made for use within a parish, school, or cemetery.

SECTION 2 – **FINANCE OFFICE PROGRAMS AND SERVICES**

The Office of Finance oversees the accounting, budgeting, and financial administration for the diocesan administrative offices, as well as parishes, schools, and cemeteries within the diocese. It also provides financial services for the Pension Plan for Priests of the Diocese of Winona-Rochester, the Immaculate Heart of Mary Seminary, the Catholic Foundation of Southern Minnesota, and Catholic Charities of Southern Minnesota.

Services, policies, procedures, and other guidance provided to these entities include:

- **Accounting**
  - Accounts receivable
  - Accounts payable
  - Payroll
  - General ledger

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- **Parish Financial Services**
  - Implementation and training on standard parish accounting software.
  - Guidance on accounting issues
  - Guidance for policies and procedures
  - Guidance for internal accounting controls
  - Oversight of the Agreed Upon Procedures (Internal Audit) engagements

- **Diocesan Self-insurance (Administered through Catholic Mutual Group – See DOW-R webpage: Offices/Finance/Self Insurance Program)**
  - Property & casualty insurance
  - Auto insurance
  - Workers' compensation insurance

- **Office of Human Resources (Administered through DOW-R Human Resources Dept. - See DOW-R webpage: Offices/Human Resources)**
  - Administration of human resource policies, procedures, and programs.
  - Employment onboarding
  - Conflict resolution,
  - Discipline and termination issues
  - Compliance with state and federal regulations and employment law.
  - Administration of benefit programs, primarily including health/dental insurance and other employee benefits.

SECTION 3 – FINANCE POLICY AND PROCEDURE MANUAL OBJECTIVES

3.1 Purpose

The purpose of this manual is to provide accounting standards and guidelines that will:

1. Enable the institution to classify financial transactions consistently, which will, in turn, provide the institution with meaningful comparative financial statements that can be used to review the past and plan for the future.

2. Provide a uniform method of accounting and reporting throughout the Diocese of Winona -Rochester.

3. Provide continuity when there is a change in pastor, business administrator, principal or other administrative staff.

3.2 Financial Objectives

The parish must establish a financial system that will accomplish the following objectives:

1. Identify, record and report all transactions of the parish and maintain a uniform system of accounting.

2. Safeguard to the highest degree possible the temporal goods of the parish including all funds raised through the various parish activities and any related organizations.

3. Provide adequate and timely information regarding the cash flow needs of the parish to ensure the satisfaction of all parish obligations and Diocesan assessments as they become due.

4. Enable the completion of required reports in a timely manner.

   - Reports to the Pastor and Finance Council (Monthly):
     - Statement of Financial Position,
     - Statement of Activities with budget.
   - Reports to the Diocese (Annually):
     - Annual Statement of Financial Position,
     - Annual Statement of Activities,
     - Internal Control Questionnaire,
     - Statement of Parish Property and Historical Data.

3.3 Important Concepts

To provide an understanding of the structure, intent, and maximum utilization of the accounting system, several important concepts are discussed in this section:

1. Double entry method of bookkeeping
2. Cash and accrual basis of accounting
3. Fund accounting

3.3.1 Double Entry Method of Bookkeeping

The fundamental accounting equation applicable to any entity, from the smallest parish to the largest corporation, is Assets = Liabilities + Net Assets.

Account Type	Typical Account	Typical Balance	Debit Effect	Credit Effect
Asset	Checking Account	Debit	+ Increase	- Decrease
Liability	Employment Liability	Credit	- Decrease	+ Increase
Net Asssets	UR-Net Asset	Credit	- Decrease	+ Increase
Income	Adult Support	Credit	- Decrease	+ Increase
Expense	Office Supplies	Debit	+ Increase	- Decrease

3.3.2 Accrual Basis of Accounting

There are two methods for recording transactions. One is the cash basis, the other the accrual basis. The Diocese of Winona-Rochester requires that all of its entities use the accrual basis of accounting.

Accrual Basis: Accrual basis accounting recognizes business revenue and matching expenses when they are generated—not when money actually changes hands. This means entities record revenue when it is earned, not when the entity collects the money. It also means recognizing expenses when the entity incurs liability for them, not when it pays them.

3.3.3 Fund Accounting

A fund is a self-balancing set of accounts established to record the financial activities associated with a specific purpose or objective. Each fund includes assets, liabilities, and a fund balance.

The funds most commonly used by not-for-profit organizations are the unrestricted fund, designated funds, and donor restricted funds. The same donor restricted funds are not used by all entities.

3.4 Financial Statements

Accounting systems, such as ParishSOFT, are designed for the collection and documentation of financial data to produce monthly financial information. As an example, the bookkeeper or other administrative staff should prepare monthly financial statements for the pastor or administrator to review. These important reports show members of leadership at the entity – the pastor, the Parish Finance Council, school principal, Cemetery Board, etc. – where the entity stands financially and how closely the institution has adhered to its budget.

If a parish operates a school, the pastor, trustees, and school principal should review monthly financial statements to monitor the performance of the school.

3.5 Fiscal Year

The fiscal year adopted by the Diocese of Winona-Rochester begins July 1 and ends June 30. All transactions are recorded and reported for this annual period from July 1 to June 30.

Each month-end represents a reporting period, at which time the accounting records should be reconciled, summarized for the entity's internal reporting purposes, and closed.

See the Appendix Section 3 for a suggested listing of Accounting Duties and Functions, organized by Weekly, Monthly, Quarterly and Annual timeframes.

3.6 Business Conduct and Management

3.6.1 Pastor Responsibilities Regarding Parish Finances

The responsibility for the finances of the parish is entrusted to the pastor, who is the chief administrative and financial officer of the parish and is directly accountable to the Diocesan Bishop, who acts as the President of the Parish Civil Corporation.

Most civil documents and instruments are to be signed by the pastor. This includes his being an authorized signer for all parish/school/cemetery bank accounts and those of any societies and organizations. In instances where the Pastor delegates signature authority to another individual, such as the Parish Administrator, Finance Council Member or Civil Corporation Trustee, a Corporate Resolution granting that authority must be completed. That document template can be found in Appendix 3.

At a minimum, the pastor should review, or appropriately delegate to review, all incoming mail including unopened bank statements, approve and sign all checks, establish an active Pastoral Council and a Finance Council, meet with them at least quarterly, and periodically supervise or review all parish activities, societies and organizations.

3.6.2 Parish Accountant Responsibilities Regarding Parish Finances

The financial records should be maintained in an accurate and timely manner. The parish accountant is expected to perform their duties in a competent manner and should exhibit strong ethical values at all times.

A duty exists for the parish accountant to inform the Pastor, parish Finance Council and the Diocese (i.e., Vicar General, Chief Financial Officer) of incidents of misappropriation of assets or fraudulent reporting. A high degree of integrity and confidentiality should be maintained at all times.

3.6.3 Parish Responsibilities to the Diocese

All reports required by the Diocese are to be filed on a timely basis. If a parish cannot meet the filing due date, or has questions regarding the completion of the report, the Finance Office or other appropriate office should be notified.

Each parish is expected to pay its assessments on a timely basis. If a parish falls behind on its assessments or other obligations, the following actions may be in order:

> The pastor should discuss the situation with the Finance Council immediately. The Vicar General and Diocesan Chief Financial Officer should be notified of actions taken or planned to correct the situation.
>
> If the situation does not improve or becomes severe, the Vicar General, pastor, or Diocesan Chief Financial Officer, may request that the parish be financially evaluated. If appropriate, a meeting may be held at the Diocese with the pastor and members of the Finance Council and the Parish Council Chairperson.

It is expected policy that all parishes will classify income and expenses using the definitions found in this manual and that all financial transactions of the parish, including activity from other parish organizations, will be reported on the annual report.

The Diocese must be informed of all lawsuits and other legal problems involving the parish. The parish should retain its own attorney for routine matters. If the Diocesan law firm is used for parish matters, the parish will generally be expected to pay the fees.

SECTION 4 - **THOU SHALT … (TEN COMMANDMENTS FOR BOOKKEEPERS)**

4.1 Purpose

In our work serving the church, the Ten Commandments certainly guide our daily lives. Bookkeeping also has immutable laws that govern what we do. The following "Ten Commandments of Bookkeeping," in addition to *debits to the left and credits to the right*, also provide daily guidance that will help keep parish accounting in line with Diocesan guidance as well as state and federal laws.

4.2 The Bookkeepers' Commandments

I. **Thou shalt** always retain written documentation of a donor's restriction that governs a contribution.

II. **Thou shalt** understand the distinction between the terms designated funds and restricted funds and shall not refer to them interchangeably.

III. **Thou shalt** acknowledge all monetary contributions by parish members in both Family Suite and an income statement revenue account.

IV. **Thou shalt** correctly and accurately account for youth group funds.

V. **Thou shalt** accurately segregate and account for Parish Auxiliary Group financial activity. (i.e. CCW, Men's Group, Choir Groups, etc.)

VI. **Thou shalt** properly follow the guidance of the MN Gambling Control Board for festival and gambling activity.

VII. **Thou shalt** remember that the IRS requires taxation of volunteer and staff member appreciation gifts of money or gift cards.

VIII. **Thou shalt** follow the guidance of the IRS and Dept. of Labor regarding the distinction of employee versus independent contractor.

IX. **Thou shalt** always use great care in setting up the employee profile within ParishSOFT Accounting.

X. **Thou shalt** keep your inter-parish receivables and payables in balance at all times.

I. Thou shalt always retain written documentation of a donor's restriction that governs a contribution.

It is important to get this restriction in writing at the time of the donation. For an estate, the will documents any restrictions on the bequest and should be kept in the parish files.

Only statements contained within a will can cause a bequest to be a restricted contribution, not verbal statements or separate instructions received from a relative after the death of the donor.

II. Thou shalt understand the distinction between the terms *designated funds* and *restricted funds* and shall not refer to them interchangeably.

Please remember these facts:

Designated Funds

1. Pastors, in consultation with parish leadership and other decision makers, have the authority to **designate** funds.
2. Designated funds can be undesignated at any time by the pastor, after consultation with members of the Finance Council.
3. The funds of Parish Auxiliary Groups, such as CCW, Men's Group, Choir Groups, etc., are funds of the parish.
    a. Those funds should be treated as designated funds related to the particular group whose efforts resulted in accumulating those funds.
    b. Designated funds of Parish Auxiliary Groups, such as CCW, Men's Group, Choir Groups, etc. should not be **undesignated** by the pastor without the consultation of that particular group's leadership.
4. For bequests received by the parish, school or cemetery, the family of the deceased may make suggestions to the Pastor regarding a preferred designation, but they cannot restrict bequeathed funds. Only statements contained within a will can cause a bequest to be a restricted contribution.
5. For **unrestricted** bequests received by the parish, school or cemetery, the entity may choose to create an endowed fund to permanently spin off income for a specific purpose. In those cases, a designated quasi-endowment should be established separate from other donor restricted endowments.

Restricted Funds

1. Only the donor is able to restrict funds from contributions/donations.
2. Once the restricted purpose/project is completed, or the time restriction has passed, the remaining funds are unrestricted and available for use by the parish for operations.

III. Thou shalt acknowledge all monetary contributions by donors / parish members both in Family Suite and an income statement revenue account.

The determining factor for whether donations received are recorded in an income account or a liability account is whether the parish is responsible for issuing the contribution acknowledgement statement or donation letter to the donor. Some examples:

Issue	Guidance
The parish received a CMA donation which is forwarded to the Catholic Foundation of Southern MN for processing.	The foundation will issue the contribution receipt. The parish records the funds in Account #2325 to be sent to the foundation.
The parish collects funds for a local 501(c)(3) charity and that charity will not receive a list of donors from the parish.	The parish is issuing the contribution statement. This is non-assessable income (Acct # 4550) to the parish when received and a parish charitable expense (Acct # 5098) when the contribution is made by the parish to that local charity.
The parish has a cemetery envelope in their parish envelope packet and receives donations for the cemetery. Since the cemetery does not have access to PS Family Suite, the parish records the donation in the system for the contribution statement.	This is an exception to the rule. Since the cemetery is an entity of the parish organized under the parish Federal ID #, the parish records the income in Acct # 2325 but the cemetery entity records the donation as income. (Acct # 4205)
A donor asks the parish to forward funds from the parish to a non-501(c)(3) entity.	The parish is unable to accept the donation. Charitable organizations (such as a parish) are not allowed to accept and record a charitable contribution and then pass through the contribution to a non-501(c)(3) entity.

IV. Thou shalt correctly and accurately account for youth group funds.

Proper handling of youth accounts is extremely important and the records must be accurate.

1. Youth Account money, from fundraising and youth general donations, does not belong to the individual families. Checks should not be issued to youth for remaining funds in youth accounts or for spending money on trips.

2. Be fair with distributions from fundraising events. If all youth are not able to attend the event, make sure there are other options for them to raise money (for instance, contributing baked goods for a bake sale even if they are unable to attend the bake sale to work).

3. When applying shares to the youth from fundraising, do not reduce the amount of the share to match their balance due for the trip. There is nothing wrong with youth having balances in their accounts for upcoming trips. When they leave the youth group, their remaining funds can be moved to the general, scholarship or chaperone account to carry forward.

4. Do not give contribution receipts for any donations that the donor specifically earmarks for an individual youth group member.

5. Develop a fair system for scholarships from donated funds. For example, each youth member gets a scholarship of $150 for two trips/events during the fiscal year.

6. Consider utilizing ParishSOFT Accounting to track youth family accounts using project groups (12-Youth Accounts) and project codes (family name, or type of income to be distributed to families later). This will have all the information in one place and eliminate the need for supplementary spreadsheets. (Contact the Parish Support Coordinator for assistance in implementing this system.)

Any Parish
Project Summary
30-Apr-23

	Fiscal Year Beginning Balance	**Month Revenue**	**Month Costs**	**YTD Revenue**	**YTD Costs**	**Ending Balance**
Youth Accounts						
A Family	-	192.00	-	192.00	-	192.00
B Family	33.88	-	-	-	-	33.88
C Family	49.26	-	-	-	49.26	-
D Family	-	-	-	-	-	-
E Family	-	-	-	-	-	-
Fundraising	2,496.69	-	-	-	-	2,496.69
General Account	357.08	-	-	-	-	357.08
Chaperone Account	1,000.00	-	-	-	-	1,000.00
Scholarship Account	3,000.00	-	-	-	1,200.00	1,800.00
Donation Account	400.00	300.00	-	300.00	-	700.00
Youth Accounts Totals:	**7,336.91**	**492.00**	**-**	**492.00**	**1,249.26**	**6,579.65**

V. Thou shalt accurately segregate and account for Parish Auxiliary Group financial activity. (i.e. CCW, Men's Group, Choir Groups, etc.)

Auxiliary groups are the foundation in many parishes. This creates a partnership between the parish staff and the organization.

1. Auxiliary groups should not have their own checking accounts. Many have their own savings accounts but this also adds extra work to make sure that funds are transferred when their expenses are paid out of the parish bank account.

2. Auxiliary group activity should run through funding source 10 or 11 and the use of project groups and project codes should be used to make reporting to the group easier.

3. The group must not give gifts of money or gift cards to the parish staff without that payment going through payroll to be included in the taxable wages of the staff member.

4. If the group is supporting a student through a scholarship or some support of a mission trip; the check must be written to the final destination for the funds (for example, a scholarship check must be made out to the educational institution where the student will be attending in their name). **Writing a check out to an individual does not meet internal control requirements.**

5. Start up cash for any Parish Auxiliary Group fundraisers must be handled according to fundraising internal controls and, when redeposited after the fundraiser, must be deposited as one deposit indicating that it is the return of the start-up cash.

VI. Thou shalt properly follow the guidance of the MN Gambling Control Board for festival and gambling activity.

The Minnesota Gambling Control Board has a lot of information on their website to assist in fundraising events involving gambling. Use this link for further guidance: https://mn.gov/gcb/

1. Review the requirements each year to make sure nothing has changed from the previous year.

2. Make sure you verify which games are considered gambling and which ones are not.
   a. There are many events that are considered raffles that require a license.
   b. Some examples are: Duck Pond Raffle, Flower Raffle, Golf Ball Drop Raffle, Ping-Pong ball raffle.
   c. Prizes awarded which are based exclusively on skill are not considered gambling. For example: prizes in a golf tournament for lowest score.

3. Obtain the gambling license well in advance of your event and make sure you understand all the requirements.
   a. Double check age restrictions for the participants and winners
   b. Make sure you are accepting allowed forms of payments for raffles or other gambling events.
   c. Do not use the words "suggested donation" on your raffle tickets or advertising. Raffle payments are not charitable contributions; they are payments to gamble.
   d. Persons under age 18 may not win a raffle prize. Do not allow a person 18 or older to put down the name of someone under 18 on the raffle stub.
   e. Persons under age 18 may sell raffle tickets.

4. Make sure you are using the proper equipment for paddlewheels, bingo, and other gambling events. In some cases, you are required to obtain equipment/supplies from a licensed distributor.

VII. Thou shalt remember that the IRS requires taxation of volunteer and staff member appreciation gifts of money or gift cards.

Complying with the IRS guidance for taxation of monetary gifts of appreciation and/or gift cards given to volunteers and staff members is required.

1. The methods we use to show appreciation to volunteers and staff members should not involve large gifts of money or gift cards. This looks more like a wage payment than an expression of appreciation.

2. Volunteer or staff appreciation dinners are a wonderful way to say thank you to a dedicated group of people.

3. If gifts are to be given, they should not be cash or gift cards unless the recipient is set up in the payroll system for the purpose of recording employment taxes.
   a. The gift of an item (nominal gifts such as plants, flowers, fruit basket, etc.) is not considered taxable income by the IRS and does not need to be recorded through payroll.
   b. Gifts to volunteers/staff should be approved by the pastor/finance council before they are purchased to make sure the budget has the funds to cover them and to comply with internal controls.

4. Check with IRS guidelines (Publication 525) for more information

VIII. Thou shalt follow the guidance of the IRS and Dept. of Labor regarding the distinction between employees and independent contractors.

There is guidance to help in the determination of whether a worker is an employee or subcontractor. Please use the appropriate resources to make this decision.

1. See IRS guidance to assist in making this determination. If in doubt after consulting the IRS guidance, please contact the diocesan Director of Human Resources for assistance.

2. Liability insurance considerations are extremely important. If the worker is considered a subcontractor, they must have adequate liability insurance to protect them and the parish.

3. Even if a person does not meet the $600 limit for a 1099 NEC, **the worker is still required by the IRS to report the income on their own**. Not wanting to pay taxes on the income is not a factor in this decision.

IX. Thou shalt always use great care in setting up the employee profile within ParishSOFT Accounting.

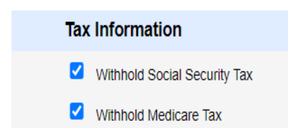
In ParishSOFT Accounting payroll, the set-up of the employee profile is critical to correct reporting to the state and federal government.

Thou shalt:

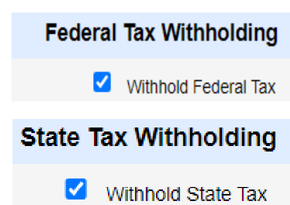
1. Always use the employee's full legal name in the employee record

2. Fill in all available information on the employee record.
   a. Having birthdate information, phone numbers, emergency contacts can be important in case of an injury or medical emergency.
   b. Employment dates are important for documenting employment records with your organization
   c. Job titles and categories can help in the preparation of the annual Workers' Compensation report.
   d. Accruing and tracking personal time (sick leave, vacation, PTO) in the system helps fulfill worker attendance tracking.
   e. Using attachments to upload pertinent forms and documentation can be helpful in administering the employees.

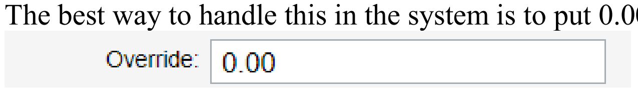
3. Never uncheck the Withhold Social Security Tax or Withhold Medicare Tax boxes for non-clergy employees.
   a. If these two boxes are unchecked, the system will not accumulate wages for reporting on the W-2.
   b. If these two boxes are unchecked, the system will not withhold social security and Medicare taxes.



4. Never uncheck the Withhold Federal Tax or Withhold State Tax box for any employee.
   a. If an employee chooses not to have State or Federal taxes withheld, there must be proper documentation on the Federal W-4 and State W-4MN forms.



   b. The best way to handle this in the system is to put 0.00 in the override field.



X. Thou shalt keep your inter-parish receivables and payables in balance at all times.

Receivables and liabilities owed between clustered churches and/or parish entities can be difficult to control. Here is some guidance:

1. Verify that the same amount that is in the receivable account is what is billed to the other entity on a monthly basis.

2. It is easier to bill once a month to make sure that no transactions are missed.

3. Verify balances every month to make sure the activity has been posted accurately.

4. Work from the ledger report. Export the *Account Balance Report* to a spreadsheet. Use the exported spreadsheet as support for your bill.

5. Do not rely on spreadsheets with formulas in them to calculate amounts. This can lead to rounding issues and make reconciliations more difficult.

6. Watch the accounts from month to month to make sure that the payments coming in are matching what was billed and zero's out the prior balance.

7. If adjustments need to be made, make sure they are made on both sides - the billing entity and the entity receiving the bill.

SECTION 5 - FINANCIAL MANAGEMENT AND INTERNAL CONTROLS

Internal control is a process, established by a pastor, parish Finance Council, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations.

Fundamentally, internal control deals with the safeguarding of assets, both physical and monetary. There are four basic concepts underlying the definition of internal controls:

1. Internal control is a process. It is a means to an end, not an end in itself.
2. Internal control is affected by people. It is not merely policy manuals and forms, but people at every level of an organization.
3. Internal control can be expected to provide only reasonable assurance, not absolute assurance, to an entity's management and board.
4. Internal control is geared to the achievement of objectives in separate but over-lapping categories.

5.1 Control Environment

The control environment represents the collective effect of various factors in establishing, enhancing and mitigating the effectiveness of specific policies and procedures.

An environment of strong internal controls is essential for the pastor, or his delegate (Parish Administrator), trustees, Parish Finance Council, School Board, and/or Cemetery Board members who rely on the presence of internal controls and strong, accurate accounting practices. These two important environment factors enable them to conduct and complete the responsibilities assigned to them for their respective roles.

In a parish setting, the following factors serve to strengthen the internal control structure of a parish:

- A clear parish organizational structure
- A pastor who actively directs the financial management of the parish
- A management philosophy and style that emphasizes:
    - clear lines of authority
    - strict accountability for ministerial program activities
    - the importance of internal controls
- Active engagement of the parish Finance Council and Civil Corporation trustees
- A Parish Finance Council that meets regularly to monitor parish finances, comparison to a formal budget and prompt variance analysis
- A documented code of conduct/ethical standards.
- A current personnel handbook
- A plan to attract and retain competent personnel.

- Personnel policies which lead to accurate recording and timely payroll reporting
- External influences, such as annual parish reporting requirements, a parish financial audit, accounting review or internal control review (Agreed-Upon Procedure Engagement)

The pastor is the most significant factor in establishing an environment that promotes a strong internal control structure.

The purpose of an internal control structure is to support the institution's ability to record, process, summarize, and report financial data accurately through appropriate financial management. In addition, a successful internal control structure will help safeguard assets by discouraging self-interest that may result in conflict of interest situations, deterring direct loss and misappropriation and help ensure the accounting records governing the assets are accurate.

An internal control structure encompasses:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

<u>Control Environment</u>: The core of any entity is its people, their individual attributes, including integrity, ethical values, competence and the environment in which they operate.

<u>Risk Assessment</u>: The entity must be aware of and deal with the risks it faces. It must set objectives, integrated with the ministries, programs, fundraising activities, financial and other activities so that the parish is operating in concert. It also must establish mechanisms to identify, analyze, and manage the related risks.

<u>Control Activities</u>: Control policies and procedures must be established to ensure that management's responses to risks are effectively carried out.

<u>Information and Communication</u>: Information and communication systems surround all of these activities. They enable people to capture and share the information needed to conduct, manage, and control operations.

<u>Monitoring</u>: The entire process must be monitored, and modifications must be made as necessary. In this way, the system can react dynamically, changing as conditions warrant.

This next sub-section will concentrate on the control environment. It outlines certain sound business practices and management controls that pastors and administrators of the Diocese of Winona-Rochester should implement in their day-to-day operations.

Other sub-sections of this manual discuss in detail the assessment. control activities, information and communication, and monitoring necessary pertinent to various aspects of accounting and the proper operation of the accounting system.

5.2 Basic Elements of Internal Controls

5.2.1 Honest and Capable Employees

Recent frauds perpetrated on dioceses have been committed by employees having a great deal of trust. Certainly, any system is critically dependent on the people who use it. If the people are dishonest or incompetent, even the finest system will not perform properly. Honest and capable employees can and do function effectively even in situations where other elements of internal control are lacking.

The following suggestions may help in deterring employee dishonesty and apply to volunteers as well as paid employees:

- Require annual vacations of employees to help ensure that any fraud requiring their constant attention would be discovered during their absence. This requires cross-training to ensure work continues during such absences.
- Bond or secure fidelity insurance on employees in positions of trust. A fidelity bond is insurance protecting the organization from losses resulting from employee dishonesty.
- Establish and educate personnel on the conflict-of-interest policy to prevent potential abuse.
- Know your personnel. Watch for signs that an employee is spending more than his/her salary would seem to allow.
- Investigate all employees adequately before their employment as part of the hiring process.

5.2.2 Segregation of Duties

Segregating the control over assets from the responsibilities of accounting for them is an important element of internal control. Therefore, in the day-to-day operation of an institution, the person who maintains the accounting records should not have control over the actual assets he or she is recording. Some institutions in the Diocese of Winona Rochester have staffs so small that an absolute segregation of duties may be difficult. Many of the accounting procedures we recommend in this manual provide mitigating controls to counteract the internal control weaknesses inherent in parish accounting systems. Pastors should keep in mind the segregation of recording and custody functions as they assign duties to employees.

A comprehensive system of internal controls may reduce the efficiency of the accounting processes. For example, it may be efficient for one person to perform all accounting functions; however, this process has little, if any, internal controls. The pastor, responsible for financial administration of the parish, must make informed decisions about which accounting procedures to implement based upon tolerated weaknesses and ways in which the accounting application can compensate through permissions. The pastor should seek the assistance of the Parish Finance Council and his delegates in order to identify areas where internal controls may be lacking, or proper procedures have not been applied. Pastors should also feel free to contact the Diocese of Winona-Rochester Finance Office for guidance in these matters.

5.2.3 Procedures for the Processing of Transactions

In general, a basic element of internal control is proper authorization. It is imperative that the day-to-day operating authority be delegated to the appropriate manager(s) with specific guidelines to follow (for example, the maximum amount of a disbursement to be approved).

5.2.4 Suitable Documents and Accounting Records

Accounting records and documents should be maintained to provide an audit trail. One major objective of an internal accounting control system is to provide reasonable assurance that the financial records reflect all financial transactions that have occurred. The recording of all transactions must be correct as to quantity and dollar amount, and must be made in the proper accounting period. The supporting documentation should be:

- simple and easy to use to help reduce error
- numbered to help keep physical control over the documents
- as few in number as possible to minimize confusion
- designed to ensure that they will be properly completed

5.3 Audits, Internal Audits and Agreed-upon Procedure (AUP) Policy

Audits, Reviews, and Agreed-upon Procedures (AUPs) within the Diocese, provide the Pastor, Trustees and Parish Finance Council some assurances that the finances of the Parish are being handled appropriately. The Diocese of Winona-Rochester currently has each parish undergo an Agreed Upon Procedures Engagement every three years.

First, a definition of terms – *Audit*, *Internal Audit* and *Agreed-upon Procedures Engagement*.

Audit - An Audit is the examination of an entity's accounting records, as well as the physical inspection of its assets. It is performed by a certified public accountant (CPA). The CPA performs work sufficient to express an opinion on the fairness of the entity's financial statements. Essentially, the CPA is attesting to the fact that the financial statements are fairly stated in all material respects. It is considered the highest level of attestation work. Often an audit is performed because a third party is relying on the organization's financial statements.

Internal Audit – An Internal Audit examines an organization's internal control processes, risk management and governance to test to see if they are operating effectively. An internal audit focuses on the controls and processes in place and adherence to those controls and processes. It usually does not express any assurance on the financial statements. As the name implies, an internal audit is performed by auditors within an organization, rather than by an external CPA firm.

Agreed-upon Procedures Engagement – An Agreed-upon Procedures Engagement is one in which a CPA is engaged by a client to issue a report of findings based on their performance of specific agreed-upon procedures. Usually, the CPA will then make recommendations for corrective action based on their findings. The recipients of the report form their own conclusions from the Agreed-upon Procedures report. Generally, the procedures carried out in this type of engagement are designed to test internal controls, such as segregation of duties, authorization of transactions, or reconciliation of accounts, to safeguard its assets and reduce the chances of fraud or error.

Several years ago, the diocese switched from an Internal Audit to an Agreed-upon Procedures Engagement. Several reasons were considered, the main reason being that an Agreed-upon Procedures Engagement combines the best of audits and internal audits. An Agreed-upon Procedures Engagement provides several benefits:

- *Independence by an Outside Party* – AUPs provide an independent person performing the work, a CPA who is trained in the study, design and testing of internal controls.
- *A Targeted Approach to Testing* – AUPs create specific testing targeted toward assessing specific internal controls deemed most important. Upon learning of certain weaknesses in a specific control, additional procedures can be agreed upon to address the higher risk in that area.
- *Cost* – AUPs enable your parish to only pay for the costs associated with that engagement.

Together, the parish Agreed-Upon Procedures process protects the integrity of the pastor, the bookkeeper, parish staff and volunteers and provides security over the temporal goods entrusted to a parish you its parish members.

Specifics related to Agreed-upon Procedures Engagements include:

- The Diocese of Winona-Rochester Finance Office will schedule financial and procedural Agreed Upon Procedures (AUP) reviews on a three-year cycle.
- AUP engagements are based on the most recent completed fiscal year.
- AUP engagements will be paid by the parish/institution to the CPA firm conducting the work.
- Travel costs incurred by the CPA firm will be paid by the Diocese of Winona-Rochester.
- Parishes will receive a findings letter listing any non-compliance with Diocesan policies.
- Parishes will make all noted corrections and implement any required changes in order to be in compliance with Diocesan policies and procedures. These corrections or required changes must be made within three months after completion of the Agreed-upon Procedures Engagements.
- The Diocesan Finance Office will follow-up on AUP engagement recommendations.

5.4 Fraud Identification and Practical Measures

Fraud can occur at any organization but parishes are extremely susceptible due to their trusting nature. Parish leaders are responsible to their congregation to safeguard the parish's assets. To do so, there are a few things every pastor, Parish Administrator, and Parish Bookkeeper should understand about fraud.

Fraud Triangle:
Three elements are often needed for fraud to occur. This is called the fraud triangle.

Pressure - personal financial trouble such as medical bills, addiction problems, greed, excessive debt, and lavish lifestyles.

Rationalization - excuses to commit fraud. The money is really "owed" to them, or the money is just a "loan" that will be paid back.

Opportunity – poor internal controls, too much trust. This is the one area parishes can control.

Common Red Flags of Fraud:

- Shortages of cash or other assets
- Complaints from employees, members, or donors about financial issues
- Inaccurate financial reporting
- Untimely or non-existent financial statements (audited or un-audited)
- Altered or missing documents
- Unusual transactions
- Employees who appear to be living beyond their means
- Employee refuses to take a vacation, has excessive control issues, or an unwillingness to share duties
- Insufficient vendor information (missing address, no web presence) or payments to Cash
- Questionable invoices
- Check numbers out of sequence
- High number of journal entries

What to do if you suspect theft or fraud at your parish?

1. Contact the Diocesan Chief Financial Officer.
2. Review the concerns with the Parish Trustees.
3. Review the concerns with the Finance Committee.
4. Contact and consult with Catholic Mutual Group.
5. Consult with the Diocesan Director of Human Resources.
6. Report to the local law enforcement if there appears to be a credible claim of theft.
   Per your certificate of coverage, you must consult the Diocesan Director of Human Resources prior to dismissing, terminating or discharging an employee. Review the situation with the Diocesan Chief Financial Officer and our Claims Risk Manager from Catholic Mutual Group prior to engaging a forensic auditor, as a full forensic audit may not be needed. Without consultation with Catholic Mutual Group about the type and cost of an audit; the audit expense may be the responsibility of the parish.

5.5 Parish Operating Manual

As noted, a system of internal controls consists of both general and specific policies. The system should be documented so that all personnel will know what is expected of them and will be properly trained to carry out their responsibilities. The policies should become part of a permanent corporate record along with other supplementary policies. Of course, such documents are useful only if they are periodically updated.

5.6 Parish Finance Council

The Parish Finance Council is not a decision-making body but is advisory to the pastor, who should attend council meetings in a consultative, non-voting capacity. The Parish Administrator and Parish Bookkeeper should attend Finance Council meetings when necessary, either in person or virtually.

The appointment process of the Parish Finance Council should emphasize demonstrable skills or expertise in financial management or internal controls. Members should be able to attend the majority of the meetings, be committed to the faith and mission of the Catholic Church and the parish's particular mission, be concerned for the spiritual and financial growth of the parish, and actively participate with their own particular perspective, gifts and talents.

Employees of the parish, or members of their immediate family, are not eligible for appointment to the Parish Finance Council. No relative of the pastor may serve on the Parish Finance Council. The parish must retain meeting minutes for future reference by internal or external parties. This should be in accord with the record retention policy. Do not disclose to others any materials designated as confidential.

Pastors and Parish Administrators should work with parish staff to propose an overall budget to the Parish Finance Council for review and recommendations. The final recommended budget is then submitted to the pastor for his approval. When the pastor, after consultation with the trustees and Finance Council, has approved the budget, the budget should be communicated to the parish.

The Parish Finance Council monitors the budget by reviewing monthly and quarterly financial statements for the parish to determine if the parish is operating within established targets. Likewise, the School Board would review the school finances, and the Cemetery Board would review the cemetery finances. The pastor and trustees should consult the Parish Finance Council regarding changes to the budget, including any major purchases or expenditures not included in the budget. The pastor, Parish Finance Council and trustees review the Parish Annual Report, which has been prepared by the pastor's delegates. Upon acceptance, the Annual Report is signed by the pastor, trustees, Parish Finance Council chair and Parish Bookkeeper before it is submitted to the Diocese.

SECTION 6 – **BANKING INTERNAL CONTROLS**

A major asset of parishes is its cash and cash equivalents, including marketable securities and other highly liquid assets readily convertible into cash. Cash is highly susceptible to loss or misappropriation due to its liquidity. This risk of misappropriation is only heightened by the fact that many individuals handle the funds and that much of the money is collected on non-banking days or after banking hours. Therefore, it is very important for the pastor, trustees and the Finance Council to establish and enforce a strong system of internal controls for handling cash, conducting banking transactions and monitoring the controls. This chapter will discuss procedures for receiving, recording, and accounting of cash. It will describe a cash receipts system designed to meet the minimum requirements of good internal controls that are not unnecessarily burdensome to parish staff. Parishes should modify these best practice procedures only after careful consideration of all aspects of the cash receipts cycle.

6.1 Banking

The number of banks and bank accounts should be kept to the minimum necessary to accomplish the business of the parish. The fewer the accounts, the greater the control and the smaller the opportunity for errors or wrongdoing. Multiple banks and bank accounts needlessly complicate the accounting process. Transactions are more likely to be recorded incorrectly, bank transfers become more frequent and finally, the financial activity of the parish becomes more difficult to monitor.

All accounts should be opened in the name of an entity, never an individual. The mailing address should not be a private residence. Only officials designated by board resolution should be permitted to open and close bank accounts. Those permitted should be specifically named in writing to job title or office in the organization procedures manual.

Each parish entity (parish, school, and cemeteries) should have one general checking account to handle the operations. If you wish to know exact balances of cash for related parish entities, ParishSOFT provides for secondary bank accounts underneath as part of the primary operations bank account. Please see the Appendix Section for ParishSOFT guidance on setting up secondary bank accounts.

The pastor shall be the primary check signer on all accounts. This policy ensures that the pastor is aware of and has final approval over all the financial activity in the parish, school and cemeteries. Parish programs (such as religious education or social ministry), school programs (such as parent-teacher groups or athletic boosters) should not have their own checking accounts. Through the use of departments and/or funding sources, their activity is able to be tracked in accounting.

Bank statements will be first delivered and opened by an authorized signer or their delegate who is not related to the accounting function. On a monthly basis, an authorized signer or delegate will review the bank statement along with the completed reconciliation.

6.1.1 Bank Account Signatures

In a good control environment, the pastor maintains control over the cash and investment assets of the parish. Only pastors, parochial administrators or their designees may sign checks on parish accounts and, whenever possible, the pastor should sign the checks himself.

Allowing a designee to sign checks on the pastor's behalf does not relinquish the pastor of his fiduciary duty. Proper internal controls must be in place if allowing a designee to sign checks. The Parish/Institution accountant/bookkeeper may <u>not</u> be an authorized signer on any checking or savings accounts, or anyone else who has regular access to the accounting records of the parish or school.

Segregating access to cash from access to the accounting records is an important required element in the internal control structure of the parish. The Canonical Administrator is a signer on all accounts. Additional authorized signers are to be chosen from the Trustees, Parish Council Chair, and Finance Council members. Other non-administrative paid staff may not be authorized signers on any checking or savings accounts. Authorized check signers should be very limited.

The same protocol for bank access and signing authority should be applied for parish savings and investment accounts. In cases where another signature is required for expenditures above $5,000, a trustee is a good alternate signatory on the bank accounts. Checks in excess of a certain dollar amount (e.g., $5,000) should require the signature of two responsible individuals. It is a good idea, after consultation with the finance council, for the pastor to determine an acceptable limit for a dual signature requirement.

A documented process should be put into place when a signer needs to be added or deleted from the bank accounts. This process should be designed after consultation with the bank representative to determine the bank's own requirements for this action.

6.1.2 Endorsement Stamps

It is recommended that an endorsement stamp be used for depositing checks. Utilization of the endorsement stamp will mitigate the risk of account number errors and improper or unauthorized deposit transactions. Additionally, to further secure that the check is deposited into the proper account, it is recommended that the endorsement stamp always include the following language:

"FOR DEPOSIT ONLY
CHURCH OF XYZ"

The endorsement stamp should be stored in a fireproof drop-safe or vault. Additionally, any endorsement stamp that does not include this language should be immediately destroyed.

6.1.3 Cemetery Bank Accounts

There should be two separate Cemetery accounts: The Permanent Care account and the general maintenance account. Both the Permanent Care account and the general maintenance account are to be accounts separate from each other and separate from all other church accounts.

Cemetery funds must not be commingled with other Parish funds. Cemetery funds may not, under any circumstances, be transferred, loaned or used for any purpose unrelated to the Cemetery. All cemetery transactions must be documented and receipted, including the sale of burial rights, and the acceptance of funds for any related cemetery service. The financial activities of the Cemetery must be recorded separately in the parish accounting records under the Cemetery Entity Code.

6.1.4 Electronic Financial Process

All forms of electronic payments are appropriate only with strict adherence to internal control policies. Such payments are difficult to initiate while maintaining appropriate segregation of duties.

Electronic payments are permissible only as follows:

- Vendor and utility payments for bills reviewed and approved and accompanied by an EFT pre-authorization form signed by the Pastor/Administrator or Principal authorizing the Business Manager/Accountant to make the payment electronically.

- Credit Card payments (particularly when necessary to avoid fees for late payment) with a reviewed and coded statement attached to appropriate preapproved support documentation that shows charges to be reasonable and necessary

6.1.4.1 Wire Transfer

Wire transfer, bank transfer or credit transfer is a method of electronic funds transfer from one person or entity to another. A wire transfer can be made from one bank account to another bank account. A bank wire transfer is affected as follows:

- The entity (Parish) wishing to do a transfer approaches a bank and gives the bank the order to transfer a certain amount of money.

- The sending bank transmits a message, via a secure system to the receiving bank, requesting that it effect payment according to the instructions given.

- The message also includes settlement instructions. The actual transfer is not instantaneous: funds may take several hours or even days to move from the sender's account to the receiver's account.

- Either the banks involved must hold a reciprocal account with each other, or the payment must be sent to a bank with such an account, a correspondent bank, for further benefit to the ultimate recipient.

Banks collect payment for the service from the sender as well as from the recipient. Please check with your bank regarding fees charged.

6.1.4.2 Other Types of Electronic Transfers

ACH/EFT transfers: An ACH transfer is an electronic, bank-to-bank transfer processed through the Automated Clearing House. ACH payments are created when a parish/school creates an ACH payment to send or receive money from a savings or checking account. ACH transfers are processed two ways, which vary in delivery speed and cost:

- ACH debit: This involves having money pulled from an account. For example, when setting up a recurring bill payment, the recipient can pull what is owed from the sender's bank account each month.

- ACH credit: Allowing funds to be pushed to an account at a different bank.

The transfer cost is set by the network participants (financial institution). Each file includes its own effective entry date, and the ACH operator determines the settlement date. ParishSOFT Giving, Vanco Services, OSV Online Giving, and participating banks are common examples of providers offering ACH debits services for parishes/schools. Payroll payments processed through ACH is a good example of ACH credit services. ParishSOFT also offers the ability to make electronic vendor payments similar to the processing of payroll ACH payments.

6.1.5 Petty Cash

Many parishes maintain a petty cash fund to pay for small parish and school incidental expenses. The amount designated for the petty cash drawer should be established in consultation with the finance committee and approved by the pastor. The number of petty cash requests should be limited. If used appropriately the petty cash drawer should need replenishment no more than once a month. The petty cash fund shall not be used for expenses that should be reimbursed on a personal expense report such as lunches, mileage, etc. The following controls should be in place for petty cash management:

- Set a reasonable amount for Petty Cash. Estimate how much the Parish would need to cover small office expenses for about a month. You want the amount to be as small as possible, without having to replenish too often. A typical small-medium parish may choose \$100, a medium-large size parish may choose \$250.

- Have a set of rules on how petty cash can be spent. Put the policy in writing and give some good examples of what petty cash can be used for – making change, small office supplies, postage, etc. It is recommended the parish establish a ceiling on the amount of a receipt that can be reimbursed from petty cash, such as \$25, so that employees know ahead of time what will be allowed.

- Designate one employee to have responsibility for the petty cash fund. If every employee has access and funds are missing, it will be hard to know who might be responsible for the lack of documentation or even theft. The Pastor or his designee is responsible for overseeing this employee.

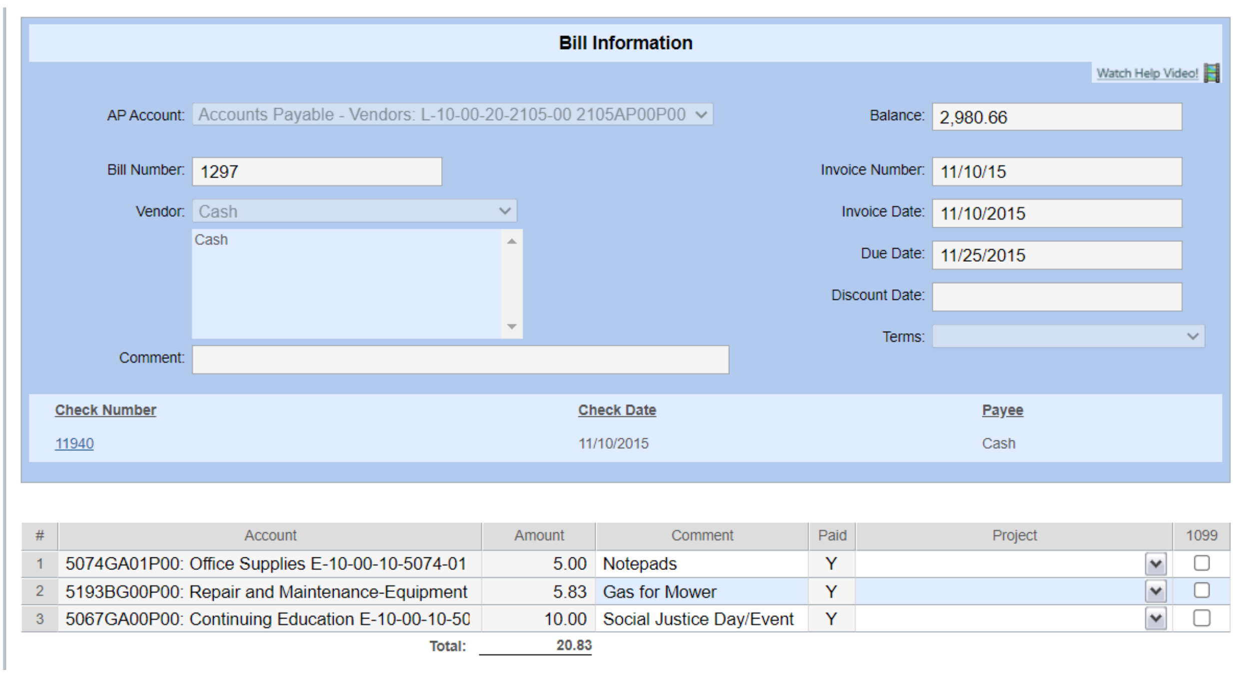
- Require everyone to provide receipts. The designated employee should require employees to fill out a voucher or provide a receipt for the expenses paid from petty cash. A running log should be kept.

- The petty cash drawer/box should be locked in the parish's fireproof drop-safe. Paid vouchers are kept in the petty cash drawer/box to support reimbursement. Access to the parish's fireproof drop-safe should align with the overall best practices and internal controls.

Balance and replenish petty cash. When petty cash is replenished, the actual cash should be counted. Adding the cash total to the total expense receipts in petty cash should total to the original amount put into petty cash. Once petty cash is "balanced", write a company check to the Parish (as follows) for the amount of the receipts contained in petty cash. Each submitted receipt should be stamped "paid'.

6.1.5.1 Example Petty Cash Replenishment

Here is an example of a bill to replenish petty cash from the current balance of $29.17 up to the set value of $50.00. This check would be cashed and the funds would go back into the petty cash box.



Bill Information

Watch Help Video!

AP Account: Accounts Payable - Vendors: L-10-00-20-2105-00 2105AP00P00

Balance: 2,980.66

Bill Number: 1297

Invoice Number: 11/10/15

Vendor: Cash

Cash

Invoice Date: 11/10/2015

Due Date: 11/25/2015

Discount Date:

Terms:

Comment:

Check Number	Check Date	Payee
11940	11/10/2015	Cash

#	Account	Amount	Comment	Paid	Project	1099
1	5074GA01P00: Office Supplies E-10-00-10-5074-01	5.00	Notepads	Y		
2	5193BG00P00: Repair and Maintenance-Equipment	5.83	Gas for Mower	Y		
3	5067GA00P00: Continuing Education E-10-00-10-50	10.00	Social Justice Day/Event	Y		
	Total:	20.83				

6.1.6 Start Up Cash/Cash Box

Fundraising events are often held by parishes and schools to promote the mission of the organization and raise funds to support the organization and its programs. Such events can often generate a significant amount of revenue for the organization. Revenue generated may include donations, ticket sales, table sponsorships, auction revenue, and concession sales. While many donations and event sales are made using credit cards and checks, cash remains a popular form of payment at these events.

To facilitate festival day activities most festivals obtain start up cash to give to each event location the ability to make change for ticket sales or product purchases. Please refer to the Fundraising Financial Procedures for details to ensure proper controls are in place for the event.

6.1.6.1 Festival Money Recommendations

If your parish festival is successful, large amounts of cash will accumulate throughout the day and evening. The parish should have a predetermined plan to deal with cash as it flows through the festival. A good plan should accomplish the following:

- A credit and background check should be conducted on all individuals handling money of $250 or more.
- Cash should be collected from festival stands at regular intervals.
- Pre-numbered tamper-proof bags should be used.
- Groups of three or more individuals should be responsible for the transfer of cash from festival stands to a centralized location.
- Cash should always be counted by multiple teams consisting of at least two people who trade off.
- Cash should not be allowed to accumulate in the safe until completion of the festival but should be counted and deposited in the bank at least daily.
- Accumulated cash should be safeguarded when not in use and maintained in the parish's fireproof drop-safe or a secure location at the organization which is guarded by security until a bank deposit can be made. Bank deposits should be run at intervals during the festival. Both the times and routes of the collections or deposits should be varied to eliminate a pattern from developing.
- It is highly recommended to use a "ticket system" at parish festivals. A ticket system allows festival participants to purchase tickets at ticket booths that can be exchanged for rides, food, beverages, or other items for sale at the parish festival. The purpose of the ticket system is to reduce the amount of cash flowing through the parish festival at various booths. Instead of having each individual booth handle cash, monies are handled at centrally located ticket booths. The use of a ticket system will reduce the risk of loss associated with theft or the mysterious disappearance of festival revenues. In addition to reducing the possibility of theft, the ticket system provides an excellent internal control to monitor cash flows at parish festivals.

6.2 Recording and Reporting

6.2.1 Bank Reconciliation

Bank statements should be reconciled to the accounting records each month in a timely manner. This is essential to determine if any unauthorized checks were issued or receipts stolen. The statement should be reconciled by someone other than the check signers and those controlling the checking account. The individual responsible for reconciling the account should receive the bank statement unopened. The actual reconciliation should be compared with the financial statements by a separate responsible individual (e.g., internal auditor, finance council member) at least annually

6.2.2 Credit Card Reconciliation

All parish merchant credit card accounts should be reconciled to the general ledger on a monthly basis. The reconciliation process helps identify errors and omissions in the accounting records, making the financial reports more accurate. ParishSOFT has a built-in credit card reconciliation function that automatically produces a report of outstanding charges and payments based on the information entered into the general ledger

Credit Card Statements: Due to staff size limitations at many parishes, the parish accountants and bookkeepers often make deposits, record cash receipts, record cash disbursements, open the credit card statements, reconcile accounts, prepare and mail checks, etc. However, when accounting personnel perform any combination of the above tasks, the internal control structure of the parish may be impaired. To counteract this weakness, the pastor or his designee should have online access to the credit card accounts for all parish accounts. If statements are downloaded by the accounting personnel, they should be printed along with the credit card reconciliation. Online payment confirmation should also be printed and attached to the statement, reconciliation and copies of the credit card receipts for review and signature by the pastor or his designee.

SECTION 7 – **CHART OF ACCOUNTS**

A chart of accounts (COA) is a financial organizational tool that provides a complete listing of every general ledger account in an accounting system. An account is a unique record for each type of asset, liability, net asset, income and expense.

To adequately maintain the financial records of a parish or other entity, it is necessary to track financial information and classify this information in meaningful categories. The Chart of Accounts is the method used to accomplish this objective. **Parishes are required to use the Chart of Accounts as written.**

The Chart of Accounts of the Diocese consists of a formal, long-form account number as well as a simplified shortcut account number. The shortcut account number is used more often in entering transactions due to its simplicity. The shortcut begins with the Natural Account Number which provides for easier memorization and ease of entry.

Components of the Chart of Accounts consists of:

Long form:
A-10-00-11-1105-00

- Account Type
- Entity
- Funding Source
- Class
- Natural Account
- Sub-Account

Shortcut Form:
1105CS00P00

- Natural Account
- Class
- Sub-Account
- Entity
- Funding Source

7.1 Purpose

The chart of accounts was established for consistency purposes so all parishes had a single set of accounts. The information below provides parishes with established statement of financial position (balance sheet) and statement of activities (income/expense) account numbers. The Standardized Use of Accounts column relates to the intention and use of the accounts for typical parish income or expenses.

7.2 Accounting Policy

To facilitate uniform accounting practices in the parishes of the Diocese, a Chart of Accounts was established in 2003 and substantially revised in 2013. These charts look not only to an accounting system for the parish but also to the Annual Parish Financial Report, which is required by the Pastoral Center. While the chart will allow for certain adaptations to fit the local parish situations, we ask that it be followed in keeping the financial accounts and preparing reports.

7.3 Scope

This Chart of Accounts can be used by parishes with smaller operations that prefer a limited number of accounts, and by larger parishes that may need more accounts for their requirements. It is designed to provide as much or as little detail as is desired by each parish, school or cemetery.

The key factor is that whatever level of detail is used by a parish or school, in order to maintain consistency, the account numbers used to describe those accounts must be the account numbers established in this Chart of Accounts.

7.3.1 Parish Chart of Accounts Structure – Longform

DOW-R Chart of Acounts
Account Structure

Balance Sheet Account Number (Longform)
Account Type - Entity - Funding Source - Class - Natural Account - Sub Account
Example: A-10-00-11-1105-00 Petty Cash (Parish)

Income Statement Account Number (Longform)
Account Type - Entity - Funding Source - Department -Natural Account - Sub Acct
Example: I-10-00-10-4000-01 Adult Church Support

Balance Sheet Account Number (Longform)	
Account Type	**Code for Account #**
Assets (What the Entity owns)	A
Liabilities (What the Entity owes)	L
Net Assets (Assets minus Liabilities)	N
Entity	
Parish (10)	10
School (20)	20
Cemetery C (30)	30
Cemetery D (31)	31
Cemetery E (32)	32
Cemetery F (33)	33
Cemetery G (34)	34

Funding Sources	
Unrestricted	00
Plant Fund (Fixed Assets)	01
Designated	10
CCW	11
Youth Activities	12
Building/Maintenance	13
Charity	14
Choir/Liturgy	15
Faith Formation	16
Parent/Teacher Group	18
Athletic Boosters	19
Music Boosters	20
Designated (Local Parish Options)	30-39
Merged Parish	40-42
Restricted (by Donor)	50
Seeds of Faith	51
Rooted in Faith	52
Building Fund	60
Charity (restricted donations)	62
Memorials/Beq. (Restricted)	63
Restricted Scholarships	64
Restricted Grants	65
Restricted (Local Parish Options)	70 through 79
Endowment	90
Permanent care	91

Class	
Cash and Investments	11
Accounts Receivable	12
Prepaid Expenses	13
Fixed Assets	18
Capitalized Assets under Lease	19
Accounts Pay & Accrued Exp	20
Notes Pay & Other L-T Liabilities	25
Net Assets	30

Natural Account	1000 - 3500

Sub-Account	0-99

Income Statement Account Number (Longform)	
Account Type	**Code for Account #**
Income/Revenue	I
Expense	E
Entity	
Parish (10)	10
School (20)	20
Cemetery C (30)	30
Cemetery D (31)	31
Cemetery E (32)	32
Cemetery F (33)	33
Cemetery G (34)	34

Funding Sources	
Unrestricted	00
Plant Fund (Fixed Assets)	01
Designated	10
CCW	11
Youth Activities	12
Building/Maintenance	13
Charity	14
Choir/Liturgy	15
Faith Formation	16
Parent/Teacher Group	18
Athletic Boosters	19
Music Boosters	20
Designated (Local Parish Options)	30-39
Merged Parish	40-42
Restricted (by Donor)	50
Seeds of Faith	51
Rooted in Faith	52
Building Fund	60
Charity (restricted donations)	62
Memorials/Beq. (Restricted)	63
Restricted Scholarships	64
Restricted Grants	65
Restricted (Local Parish Options)	70 through 79
Endowment	90
Permanent care	91

Department	
Parish (10)	
General & Administrative	10
Buildings and Grounds	15
Liturgy and Worship	20
Faith Formation-Adult	25
Faith Formation-Youth	30
Youth Ministry	33
Pastoral Ministry	35
Evangelization	38
School (20)	
General & Administrative	50
Buildings and Grounds	51
Childcare	53
Pre-school	55
Elementary	57
Middle School/Jr High	60
Advancement	65
Cafeteria/Hot Lunch	67
Cemeteries (30-34)	
General & Administrative	40
Natural Account	4000 - 5199
Sub-Account	0-99

7.3.2 Parish Chart of Accounts Structure – Shortcut

DOW-R Chart of Accounts
Account Structure

Balance Sheet Account Number (Shortcut)
Natural Account - Class - Sub Account - Entity - Funding Source
Example: 1105CS00P00 Petty Cash (Parish)

Income Statement Account Number (Shortcut)
Natural Account - Department - Sub Account - Entity - Funding Source
Example: 5044BG00P00 Building and Maintenance Wages (Parish)

Balance Sheet Account Number (Shortcut)	
	Code for Shortcut
Natural Account	1000-3500

Class	
Cash and Investments	CS
Accounts Receivable	AR
Prepaid Expenses	PP
Fixed Assets	FA
Capitalized Assets under Lease	LA
Accounts Pay & Accrued Exp	AP
Notes Pay & Other L-T Liabilities	NP
Net Assets	NA

Sub-Account	0-99

Entity	
Parish (10)	P
School (20)	S
Cemetery C (30)	C
Cemetery D (31)	D
Cemetery E (32)	E
Cemetery F (33)	F
Cemetery G (34)	G

Funding Sources	
Unrestricted	00
Plant Fund (Fixed Assets)	01
Designated	10
CCW	11
Youth Activities	12
Building/Maintenance	13
Charity	14
Choir/Liturgy	15
Faith Formation	16
Parent/Teacher Group	18
Athletic Boosters	19
Music Boosters	20
Designated (Local Parish Options)	30-39
Merged Parish	40-42
Restricted (by Donor)	50
Seeds of Faith	51
Rooted in Faith	52
Building Fund	60
Charity (restricted donations)	62
Memorials/Beq. (Restricted)	63
Restricted Scholarships	64
Restricted Grants	65
Restricted (Local Parish Options)	70 through 79
Endowment	90
Permanent care	91

Income Statement Account Number (Shortcut)	
	Code for Shortcut
Natural Account	4000-5199

Department	
Parish (10)	
General & Administrative	GA
Buildings and Grounds	BG
Liturgy and Worship	LW
Faith Formation-Adult	FA
Faith Formation-Youth	FY
Youth Ministry	YM
Pastoral Ministry	PM
Evangelization	EV
School (20)	
General & Administrative	GA
Buildings and Grounds	BG
Childcare	CD
Pre-school	PR
Elementary	EL
Middle School/Jr High	MD
Advancement	AD
Cafeteria/Hot Lunch	HL
Cemeteries (30-34)	
General & Administrative	GA

Sub-Account	0-99

Entity	
Parish (10)	P
School (20)	S
Cemetery C (30)	C
Cemetery D (31)	D
Cemetery E (32)	E
Cemetery F (33)	F
Cemetery G (34)	G

Funding Sources	
Unrestricted	00
Plant Fund (Fixed Assets)	01
Designated	10
CCW	11
Youth Activities	12
Building/Maintenance	13
Charity	14
Choir/Liturgy	15
Faith Formation	16
Parent/Teacher Group	18
Athletic Boosters	19
Music Boosters	20
Designated (Local Parish Options)	30-39
Merged Parish	40-42
Restricted (by Donor)	50
Seeds of Faith	51
Rooted in Faith	52
Building Fund	60
Charity (restricted donations)	62
Memorials/Beq. (Restricted)	63
Restricted Scholarships	64
Restricted Grants	65
Restricted (Local Parish Options)	70 through 79
Endowment	90
Permanent care	91

7.3.3 Natural Account Descriptions and Additional Notes

In the prior section, the structure of the account numbers, both long and short form were explained to assist in seeing the overall framework of the accounts. The general categories of the accounts are: Assets, Liabilities, Net Assets, Income and Expenses. Within these categories are accounts that provide more detail.

The following pages list the current accounts in the Diocese of Winona-Rochester Chart of Accounts. An explanation of the standard usage for the account is included along with any additional information that will help in the proper use of the account and the proper classification of entries in the accounting system. There is also a column titled "Assessment Impact" for the income and expense accounts that indicates whether the account is subject to assessment. Please note that expenses are not to be netted against income accounts and income is not to be netted against expense accounts.

Diocese of Winona-Rochester

Parish Assets

Account Shortcut and Name	Standardized Use of Account	Additional Notes
1105 Petty Cash	Cash maintained by the parish office for small reimbursements	Replenishment of petty cash should be done by entering a bill (usually with the vendor "Petty Cash") debiting the appropriate expense accounts.
1110 Checking	Main operating checking account.	If there are multiple checking accounts, sub accounts will need to be used to set up the other accounts. There is also a primary/secondary account function that could be used to track multiple funds within one checking account. Each checking account must be reconciled through the bank reconciliation process monthly.
1115 Savings/Money Market	A bank account earning interest. This account number could also be used for Certificates of Deposit (CDs).	If there are multiple savings, sub accounts should be used to set up each one individually. If multiple funds are held in one account, the primary/secondary function could be used to help track them. All savings accounts must be reconciled regularly through the bank reconciliation process.
1160 Investments	Investments not placed with the Catholic Foundation of S. MN	Investments need to be updated for dividends/interest, realized gains/losses and unrealized gains/losses at least annually.
1170 Investments Held in Trust CFSMN	Investments made through the Catholic Foundation of S. MN	The Catholic Foundation of Southern MN (CFSMN) invests money for the organizations of the Diocese and sends out monthly statements to update on the fund balances.
1190 Inventory	00: Fundraising 01: Scrip 02: Merchandise	Inventory is recorded at cost. Regular (at least quarterly) inventories should be made and the account adjusted to match the inventory value.
1205 Accounts Receivable	00: General 10: Tuition 11: Child Care Program 12: Lunch Program 13: Preschool Tuition	Used to record funds due to the organization. Additional sub accounts may be added for clustered parishes.
1215 Interest/Dividends Receivable	Interest or Dividends earned but not yet received.	
1305 Prepaid or Deferred Expenses	Expenses that have been prepaid or are being deferred to another month or fiscal year.	Bills are entered when received and if the expense is to be in a later period, it is held here until the appropriate time. For example: Diocesan payments billed once a year for the entire year.
1800 Fixed Assets	1805: Building 1820: Furniture & Equipment 1830: Capital Improvements 1850:Accumulated Depreciation 1860: Land (not used for church purposes)	Usually recorded at insured value but can be recorded at cost if that information is available. If valued at cost, depreciation may be expensed each year to show the reduction in value for the item.
1900 Capitalized Assets under Lease	Asset Value tied to Capitailized Lease	

Diocese of Winona-Rochester
Parish Liabilities

Account Shortcut and Name	Description	Additional Notes
2105 Accounts Payable - Vendors	Amounts owed to others for goods or services received which are due to be paid in the next 12 months. In addition to using this account as the main accounts payable account (linked to the Accounts Payable aging), subsidiary accounts may be set up for accrued expenses, accrued payroll or sales tax payable for taxable retail sales made by the organization.	If this account is checked off as an Accounts Payable account, it is linked to the aging. Entries should only be made through the bill and check functions. Rarely, there may be a need for a JE but this account should always match the aging at the end of each month.
2150 Deferred Income	00: Deferred Income 01: Deferred Mass Intention Income 10: Tuition Deferred Income 11: Lunch Program Deferred Income 12: Deferred Income-Child Care 13: Deferred Income-Preschool/Early Childhood	Income received in one period that isn't earned or recognized until a later period. An example is sponsorships received in one fiscal year for the next fiscal year's festival or tuition paid ahead of time for the next school year.
2300 Funds Held for Others	Receipts received and deposited that are held for others and not considered income or expense for the parish.	
2325 Funds held as an Agent for Others	00: General 01: Catholic Ministries Appeal	Donations received by the parish to be remitted to another Catholic 501(c)3 organization. The receiving organization issues the contribution receipt to the donor.
2330 Participant Fees Collected for Trips	Payments made by the participants in a church sponsored trip.	This account is for direct payments received from the families and not any other assessable income such as donations or fundraising.
2350 Due To / Due From Parish	Internal account that self-balances the system when accounting entries are between entities	This account should be checked monthly and the errors corrected.
2400 Employee Withholding	01: Federal Withholding 02: FICA/Medicare Withholding 03: Minnesota Withholding 04:Other State's Withholding 05: 403(b) Pension Withholding 06: Flex Plan Dependent Care Withholding 07: Flex Plan Medical Withholding 08: Health & Dental Insurance 09: Roth IRA Withholdings 10: Life Insurance Payable 11: Supplemental Life Insurance Withholdings 20: Other Withholdings	Federal/State Withholdings: Deposited according to each parishes schedule as determined by the IRS. Benefit Withholdings: Remitted to the Diocese of Winona Rochester (or other vendor if applicable) by the 10th of the next month. Other Withholdings: May include child support payments, wage garnishments, United Way donations withheld from pay, etc.
2510 Line of Credit		
2515 Other Bank Loans		
2515 Mortgage Loans		

Diocese of Winona-Rochester
Parish Net Assets

Account Shortcut and Name	Description	Additional Notes
3100 UR-Unrestricted Funds	Tracks the balances of all unrestricted income and expenses.	4000-4599 Income minus 5000-5199 Expense accounts (ALL funding sources) close out to 3100 UR-Unrestricted Funds-Parish at EOY. During the fiscal year, the amounts are shown on the Current Period Changes to Net Assets line on the Statement of Financial Position. At the end of the month, this account is used as the offset for the net asset entries for the funds below.
3150 UR-Plant Fund	Tracks the value of the Fixed Assets.	Updated once a year when the asset values are updated.
3200 UR-Designated Funds	10, 30-39: Designated 11: CCW 12: Youth 13: Building / Maintenance 14: Charity 15: Choir 16: Faith Formation 18: Parent Teacher Organization 19: Athletic Boosters 20: Music Boosters	Update with Net Asset entry monthly if there was activity in this funding source (credit for net income/debit for net loss)
3200 UR-Merging Parish	40-42: Merging Parish	Merging parish data is entered under these funding sources and maintained until net assets are zero. Update with Net Asset entry monthly if there was activity in this funding source (credit for net income/debit for net loss)
3300 TR-Restricted Funds	50, 70-79: Donor Restricted 51: Seeds of Faith 52:Rooted in Faith 60: Building Fund 62:Charity-Restricted 63: Restricted Memorials/Bequests 64: Tuition Assistance Donations 65: Grants	Update with Net Asset entry monthly if there was activity in this funding source (credit for net income/debit for net loss)
3350 TR-Permanent Care	Cemetery permanent care funds	Update with Net Asset entry monthly if there was activity in this funding source (credit for net income/debit for net loss)
3500 PR-Endowment Funds	Tracks value of permanently restricted Endowment funds.	Update with Net Asset entry monthly if there was activity in this funding source (credit for net income/debit for net loss)

Diocese of Winona-Rochester
Parish Income

Account Shortcut and Name	Description	Additional Notes (All income to be recorded at gross)	Assessment Impact
4000 Church Support	01: Adult Envelopes 02: Children's Offertory 05: Offertory 10: Holy Days/Holidays		6%
4070 Scholarships/Grants	Grants received	May be unrestricted or restricted. If restricted, use funding source 65. It is a good idea to use project codes to track the income and expense.	6%
4110 Interest/Dividends	Interest/dividends received from bank accounts and investments	Unrestricted earnings from Endowments or restricted funds would be put under funding source 00 in this account	6%
4120 Realized Gain/Loss on Investments	Gains or losses realized when investments are actually sold. Capital gain distributions on investments	Any related fees would be expensed.	6%
4170 Realized Gain/Loss on Endowments	Gains or losses realized when endowment investments are actually sold. Capital gain distributions on investments	Unrestricted earnings from Endowments or restricted funds would be put under funding source 00 in this account	6%
4205 Donations	00: Contributions other than Adult Support 01: Bequests 02: Memorials	If restricted, use appropriate funding source designation.	6%
4220 Special Collections	Special collections for a specific ministry.		6%
4250 Building/Maintenance Fund	Funds donated to help with building/maintenance projects	Use this account for projects under $120,000. May be unrestricted (for general building use-utilities, wages, etc.) or restricted using funding source 60	6%
4260 Organization Income	Income for organizations of the parish such as CCW, Youth, Men's Group		6%
4255 Evangelization Income	Income for Evangelization activities		6%
4265 Faith Formation Income	Income for faith formation activities other than the tuition for public school students to attend Faith Formation classes.	Examples include: sacrament fees for 1st Communion, 1st Reconciliation and Confirmation, vacation bible school, other summer or school year programs.	6%

Diocese of Winona-Rochester
Parish Income

Account Shortcut and Name	Description	Additional Notes (All income to be recorded at gross)	Assessment Impact
4270 Fundraising Income	Gross receipts from fundraising events. This would include any monetary donations toward prizes, ticket sales and other event related receipts.	Expenses are recorded in 5087 and offset against income for assessment purposes. Any start up cash for the event may be debited to this account and then the redeposit of the startup funds will be credited to this account.	6%
4276 Vigil Lights Income	Funds received as offerings left in receptacles at votive shrines, usually within the church building or on church property.	Expenses are recorded in 5110. Income is reduced by expense in the assessment calculation.	6%
4278 Sacramental/Stole Fees	Funds received for ceremonial services or the celebration of a sacrament	Examples include: Baptism Weddings Funerals	6%
4280 Rent of Facilities	Funds received for intermittent use of property owned by the parish.		6%
4282 Sale of Books and Other Religious Items	Funds received from the sale of books and other religious items.	Assessable income is net of expense account 5083	6%
4284 Sale of Property or Equipment	Funds received from the sale of donated property or equipment.		6%
4290 Hospitality	Funds received as free will offerings for hospitality.	Coffee and Donuts Parish Meals not included in fundraising event	6%
4294 Designated Fund Income			6%
4295 Restricted Fund Income			6%
4299 Miscellaneous			6%

Diocese of Winona-Rochester
Parish Income

Account Shortcut and Name	Description	Additional Notes (All income to be recorded at gross)	Assessment Impact
4505 PPP Loans Forgiven			Not Assessed
4506 COVID-19 Relief Grants			Not Assessed
4507 Employee Retention Revenue/Credit			Not Assessed
4510 Gain on Sale of Property or Equipment	Sales of purchased property or equipment		Not Assessed
4515 Contributions to Approved Major Building Projects	Projects over $120,000 where parish has a proxy.		Not Assessed
4517 CFSM Capital Campaign Distributions	Distributions to the parish to be used for their case statement items in a Diocesan Capital Campaign	Copies of the case statement should be kept on file at the parish.	Not Assessed
4525 Rebate from Cath. Min. Appeal	Money refunded for the CMA appeal in excess of the parish goals	Should be used according to the parish information supplied to CFSM at the beginning of the campaign	Not Assessed
4530 Insurance Settlements			Not Assessed
4535 Refunds/Rebates			Not Assessed
4540 Faith Formation Tuition	Fees charged for public school student faith formation programs		Not Assessed
4550 Special Collections to be Forwarded	00 General Collections for other organizations 01 USCCB Collection Income 02 Charitable Contributions-Local Catholic	Income from special collections where the parish will issue the contribution receipt/statement and forward the funds to the organization	Not Assessed
4560 Mass Stipends Income	Income from Mass Intentions after they are said.	Expenses for saying the masses is recorded in 5042	Not Assessed
4570 Unrealized Gain/Loss on Investments	Market value change in investment		Not Assessed
4575 Unrealized Gain/Loss on Endowments	Market value change in an endowment		Not Assessed
4597 Trans. from other Funding Sour	Transfers between funding sources	Used with 5197	Not Assessed

Diocese of Winona-Rochester
Parish Expenses

Account Shortcut and Name	Description	Additional Notes (Expenses are not to be netted against income accounts and income is not to be netted against expense accounts)	Assessment Impact (If blank there is no impact on the assessment)
5041 Priest Wages	Regular salary for resident priest(s). This entire amount is taxable income and is reported on IRS form W-2.	Salaries of priests within a cluster will be prorated among their assignments.	
5042 Mass Stipends	Mass stipend wages paid by masses said during the month or by a flat monthly amount of $150.00.	This income is taxable income to the priest and is reported on IRS form W-2.	
5044 Wages	Total compensation paid to non-clergy employees	It is helpful to split the wages by department to give an accurate accounting of each department/program area	
5049 Contracted Services	00: Contracted Services 01: Legal Fees	Professional fees paid for purchased professional services	
5051 FICA & Medicare Taxes	Parish portion of FICA and Medicare taxes. Priests are considered self-employed and will not have FICA/Medicare taxes withheld or paid by parish.	It is helpful to split the expenses by department to give an accurate accounting of each department/program area	
5055 Workers' Compensation	Workers' Compensation insurance expense billed along with the property insurance annually.	Each year a Workers' Compensation Audit is completed and forwarded to our Catholic Mutual Risk Manager	
5056 Unemployment	Parishes are not obligated to participate in unemployment but they can choose to voluntarily participate.	Parishes can choose to be reimbursing employers and only pay taxes when there is an unemployment claim against the parish.	
5057 Priest-Health/Dental Insurance	Priest Health/Dental Insurance is billed to the parish by the Diocese.		
5059 Health/Dental/Life/LTD Insurance	Employee Health/Dental/Life/LTD insurance is billed by the Diocese monthly.	It is helpful to split the expenses by department to give an accurate accounting of each department/program area	
5060 Other Employee Benefits			

Diocese of Winona-Rochester
Parish Expenses

Account Shortcut and Name	Description	Additional Notes (Expenses are not to be netted against income accounts and income is not to be netted against expense accounts)	Assessment Impact (If blank there is no impact on the assessment)
5061 Priest-Pension	Priest Pension is assessed by the Diocese.		
5062 Retirement-Non-Incardinated Foreign Priest	Non-Incardinated Foreign Priest Pension is assessed annually by the Diocese		
5063 Pension	Employer pension expense (both discretionary and matching)	It is helpful to split the expenses by department to give an accurate accounting of each department/program area	
5065 Priest-Continuing Education	Priest continuing education is billed annually by the Diocese.		
5067 Conferences and Continuing Ed.	Expense for employee continuing education classes, workshops, retreats, conferences based on the parish policy	The employee handbook should specify what the parish's obligation is for continuing education expenses.	
5068 Employee/Volunteer Background Check	Safe environment required background checks for staff and volunteers.		
5071 Priest Mileage	00-Priest mileage reimbursement 01 Priest Mileage Allowance Expense	Updated to IRS rate each year in January.	
5072 Travel/Mileage Reimbursement	00-Employee/Volunteer Mileage Reimbursement 01-Employee/Volunteer Travel Expenses		
5073 Employee/Volunteer Appreciation	Employee/volunteer appreciation that is not considered wages per IRS regulations.	Gift cards, bonuses, stipends or other cash type payments must go through payroll.	
5074 Office Expense	01: Office Supplies 02: Printing 03: Copier 10: Bank Fees		
5075 Audit	Fees charged for Agreed Upon Procedures review	Every 3 years	
5076 Telephone	Telephone and cell phone expenses		
5077 Technology	Software, hardware expenses		
5078 Postage	Expenses for outside mailings and distribution.	US Post Office Fed Ex UPS	
5079 Buildings and Grounds Supplies	Cost of any supplies purchased to carry out normal operations for building and grounds.	Examples include: Cleaning Supplies Tools Furnace Filters	

Diocese of Winona-Rochester
Parish Expenses

Account Shortcut and Name	Description	Additional Notes (Expenses are not to be netted against income accounts and income is not to be netted against expense accounts)	Assessment Impact (If blank there is no impact on the assessment)
5083 Cost of books and other religious items	Cost of goods sold at a parish gift shop or book kiosk.		Subtracted from 4282 for assessment purposes. Negatives do not offer credit against assessment.
5086 Rectory	Expenses for the rectory	Groceries for the pastor Household supplies Cleaning supplies Repair and maintenance Utility Expenses	
5087 Fundraising	Expenses directly related to a fundraiser. Does not include the use of the profits from the fundraiser.	It is helpful to use project codes to track the different fundraisers.	Subtracted from 4270 for assessment purposes. Negatives do not offer credit against assessment.
5089 Public Relations/Marketing & Advert	Expenses associated with promoting and furthering the mission of the Parish/School/Cemetery		
5090 Subsidy	Funds provided to supplement and support the parish's (or regional) Catholic school(s).	Does not apply to parish faith formation program	Subtracted from Parish Assessable income (up to 50% of income) and assessed at 2%
5091 Diocesan Assessment	Parish assessment to afford monetary support the Diocese of Winona-Rochester's bishop and his staff for essential works.		
5092 Insurance	Property insurance billed through the Diocese of Winona-Rochester.		
5093 Catholic Ministries Appeal Payments	Payments made by the parish after the appeal is closed for the year to reach the goal set for the parish.		
5095 Support of Cemetery Association	Subsidy or other payments of expenses relating to the cemetery for which the parish will not be reimbursed.		
5097 Interest Expense on Loans			
5098 Charitable Outreach	00: General Outreach 01: Individuals/Families 02: Outside Agencies	Charitable gifts to individuals or organizations	
5100 Hospitality	Cost to provide food, beverages for activities or events for the purpose of promoting and furthering the mission of the parish/school.		
5103 Stewardship	Expenses for parish stewardship activities or programs.		

Diocese of Winona-Rochester
Parish Expenses

Account Shortcut and Name	Description	Additional Notes (Expenses are not to be netted against income accounts and income is not to be netted against expense accounts)	Assessment Impact (If blank there is no impact on the assessment)
5105 Music	Music or music licenses purchased for parish use.		
5110 Vigil Lights Expense	Expenses for Vigil Light candles		Subtracted from 4276 for assessment purposes. Negatives do not offer credit against assessment.
5120 Liturgical Arts & Environment	Flowers, banners, other parish decorations used to enhance the worship space.		
5125 Liturgical Supplies			
5130 Curriculum	Curriculum used in teaching for various programs		
5150 Program Materials/Supplies	Materials and supplies used to support the curriculum for parish programs (RCIA, Faith Formation, Bible Studies, Pastoral Ministries)		
5156 Retreats, Missions, Events	00 Retreat Expense 01 Mission Trip Expense 02 Events		
5170 Organization Expense	Expenses for organizations such as CCW, Men's Groups, Parent-Teacher groups, etc.)		
5180 Utilities	01: Electricity 02: Gas 03:Water/Sewer 04: Garbage/Waste Collection 05: Cable/Internet		
5181 Ground Maintenance	Mowing, Snow Removal and other grounds maintenance expenses		
5182 Non-Capital Equipment Purchases	Purchases of equipment under $1,000		
5189 Depreciation Expense	Periodic write off of Asset value due to loss of value, use and wear.	If the entity assets are stated at cost, they may be depreciated. If they are stated at insured value, they should not be depreciated.	
5190 Capital Improvements	Large value improvements to buildings and parish facilities		

Diocese of Winona-Rochester
Parish Expenses

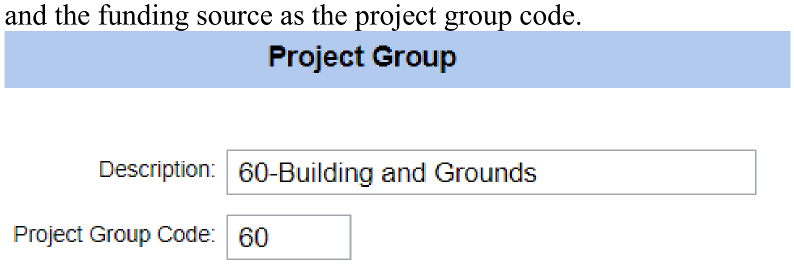
Account Shortcut and Name	Description	Additional Notes (Expenses are not to be netted against income accounts and income is not to be netted against expense accounts)	Assessment Impact (If blank there is no impact on the assessment)
5192 Repair and Maintenance-Building and			
5193 Repair and Maintenance-Equipment			
5194 Designated Fund - Expense	Expenses relating to designated funds	Use of project codes and project groups is encouraged	
5195 Restricted Fund Expense	Expenses relating to restricted funds	Use of project codes and project groups is encouraged	
5195 Grant Expenses	Expenses relating to grants	Use of project codes and project groups is encouraged	
5196 Investment Management Fees	Fees charged by investment company for management of investments		
5197 Transfers to other Funding Sources	Transfers between funding sources	Used with 4597	
5199 Miscellaneous			

7.3.4 Project Groups and Project Codes

Parishes should limit the overall number of accounts selected from the full Chart of Accounts to only those accounts that are necessary for their parish. However, there may be instances where additional information is required for a small set of accounts. In these cases, the use of Project Groups and Project Codes are used to track this detail.

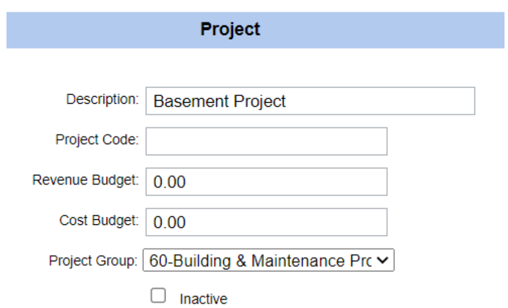
Project codes can be used to support the balances in the net asset accounts to provide supplemental detail. For example: Parish A has a restricted building fund that they use to track all restricted building donations and expenses. They often have multiple projects going at the same time and need a way to keep track of each project. These steps will help them track the projects and be able to report on each project balance quickly and easily. This can be done for each funding source in your list of net assets to provide details for the net asset account on one project report summary at the end of the month.

1. Set up a project group using the funding source and general category as the description and the funding source as the project group code.



    a. 60-Building and Grounds (description) 60 (project group code)

2. Create projects and link them to that project group
    a. Basement Project



    b. Continue to add projects as needed.

3. When finished make sure that all revenue and expense entries related to the specific projects have a project listed in the entry in ParishSOFT.
    a. A deposit would look like this:

#	Account	Amount	Comment	Project
	Subsidiary Bank Account			
1	4250BG00P60: Building/Maintenance Fund I-10-60-15-	35000.00	Deposit for Offering Batch: 124331	60:Basement Project

    b. An expense would look like this:

#	Account	Amount	Comment	Paid	Project	1099
	Subsidiary Bank Account				Subsidiary AP Account	
1	5192BG00P60: Repair and Maintenance-Building an	19275.30	1/3 downpayment	Y	60:Basement Project	☐

    c. At the end of the month, a project summary report will show the balances of each project within the funding source.

	Fiscal Year Beginning Balance	Month Revenue	Month Costs	YTD Revenue	YTD Costs	Ending Balance
60-Building & Maintenance Projects						
Basement Project	0.00	1,500.00	29,975.70	59,800.00	49,756.96	10,043.04
Door Repair	216.00	0.00	0.00	0.00	0.00	216.00
General Building/Maintenance	0.00	0.00	0.00	0.00	(41,629.21)	41,629.21
60-Building & Maintenance Projects Totals:	216.00	1,500.00	29,975.70	59,800.00	8,127.75	51,888.25
Total for Selected Projects:	216.00	1,500.00	29,975.70	59,800.00	8,127.75	51,888.25

    d. This, in turn will match the net asset account on the balance sheet.

	Balance Last Month	This Month Change	Year to Date Balance
Net Assets			
3300NA00P60 TR-Restricted Funds	80,363.95	(28,475.70)	51,888.25

When a project is completed, it can be archived. This same process may also be used to track youth accounts by family for larger trips such as NCYC or World Youth Day. The key to success is to make sure there is always a project code in the revenue and expense entries. Project codes can be added even after a month or year is closed if needed.

SECTION 8 – BUDGETING

8.1 Purpose

All organizations or entities, whether they are individuals, households, large corporations or nonprofit organizations, must become involved in financial management. Solid financial management begins with financial planning. The most basic tool in financial planning is the budget.

A budget is an educated estimate of the dollar amounts of parish income and expenses for the upcoming fiscal year. This budget or financial plan, is essential for the proper management of a parish's temporal goods. It prompts a parish to consider what it can and cannot achieve during the fiscal year. The budget should reflect the parish goals and ministry priorities. This complements the long-term planning necessary to accomplish parish objectives. A well-planned budget will provide financial control, allows the parish to focus on their mission and goals, and displays accountability and transparency to your donors. The guidelines presented in this chapter are intended to describe the important elements of the budgeting process and to provide guidance on implementation.

8.2 Accounting Policy

The Diocese of Winona-Rochester has adopted the accrual method of accounting and has defined a standardized chart of accounts (COA) for use by all parishes and schools. See Section 5 Chart of Accounts for the accounts listing and descriptive COA. It is expected that every entity utilizes this chart of accounts in compiling an annual budget.

8.3 Scope

8.3.1 Leadership Involvement and Responsibility

In order to better estimate the income and expenses, financial reports should be made available to the Finance Council at each meeting. The Finance Council should not rely entirely upon the verbal reports of the pastor, business manager, or bookkeeper, as the sole sources of financial information.

Parish-affiliated organizations that contribute to the income of the parish, whether for elementary school or other uses, should submit an income and expense budget to the Finance Council. If any assessments or other obligations are past due, a plan for their payment must be incorporated into the budget. Income should be budgeted conservatively, and expenses should be budgeted realistically. Surplus funds on deposit can be considered in balancing the budget when the parish is facing a one-time special operational expenditure or an extraordinary repair/capital expenditure.

If the parish has a school, the Finance Council should have a copy of the school's entire budget to determine the amount of parish subsidy needed and the amount of financial support that can be obtained from sources other than the offertory collection.

8.3.2 Balanced Budget

The Finance Council, having reviewed income projections and budgets received from the various departments and affiliated organizations, should strive to develop a balanced budget without eliminating any programs. If this is not possible, the Council should develop alternatives that would bring the budget into balance. In conjunction with the Pastoral Council, the budget should be brought into balance, keeping the parish goals and ministry priorities.

The fiscal year operating budget (July 1 to June 30) is to be prepared and recommended by the Parish Finance Council to the Pastor. The final budget should also be published for the parish at large. This may be communicated in summary format. If the budget is not a balanced budget, a footnote is required to be included which explains what existing reserves will be utilized to fund the budget deficit.

8.3.3 Operating Reserves

Annual parish and school budgets should be prepared so that planned expenditures do not exceed expected revenues. Over the years, some parishes have been able to accumulate reserves from generating surpluses through revenues that exceed expenditures. Conversely, some parishes have found themselves in a deficit situation and have had to use their reserves or borrow to meet their obligations. Deficit spending, if prolonged, will clearly lead to great financial difficulty for the parish/school. Through the meetings of the Finance Council, parish leadership should be informed if deficit spending occurs.

A rule of thumb for non-profit entities is to have an operating reserve on hand equal to 3-6 months of budgeted operating expenses.

8.4 Budgeting Process

It is important to begin the annual budgeting process early in order to have the necessary involvement from staff and leadership. The following should be gathered before the process begins:

- Past year(s) financial results, including trends and previous year's budget
- Current year to date activity
- Strategic plans, including any proposed new initiatives
- Suggested changes resulting from consultation with staff and ministry leaders
- Demographic or enrollment changes

Directors responsible for the programs operated in the parish should prepare their own budgets. For example, the director of the religious education should develop a budget for their own program. The religious education program budget is then incorporated into the total parish budget before the consolidated budget can be approved.

The parish administrator or bookkeeper aggregates the administrative and facilities components along with the individual program budgets to create one consolidated budget. This is reviewed by the pastor and the Finance Council. After review, changes to the program or administrative budgets may be needed in order to balance and align the consolidated budget.

Once the budget is final and approved by the pastor, these changes are communicated back to the respective program directors.

8.4.1 Methods of Budgeting

The budget is prepared by calculating estimates for both revenue and expense on a line-by-line basis. This method provides for scrutiny over all projected activities. This includes parish, school and cemetery activity on an operating and non-operating basis.

It is also prudent to be conservative, yet realistic, in estimating both revenue and expense. This includes slightly leaning toward underestimating revenues and overestimating expenses. This produces a slight buffer for unexpected events. Budgeting in this manner often requires several iterations of budgeting and review.

In order to budget toward a balanced budget, the following process is recommended:

- Generate the budgeted expenses first, budgeting for known expenses and adding newly proposed ministries or initiatives.
- Once the first draft of budgeted expenses is complete, budget realistic known sources of revenue needed to support the mission and work of the parish.
- After this process is followed, determine whether the parish/school's budget is balanced or in a deficit position.

If in a deficit position, then the following steps will assist in moving your budget to a balanced budget:

- Can new sources of revenue be generated to cover the budget deficit through the following alternatives? Such alternatives could include:
    - Additional sacrificial offertory giving,
    - Additional fundraising events, (i.e. Silent auction, parish dinner with freewill offering, calendar raffle, etc.)
    - External grants for specified programs. (Catholic United Financial grants, Catholic Foundation of Southern MN Seeds of Faith grants)
- Review budgeted expenses looking for budget savings within specific line items.
    - Consider any opportunities to share ministries, staff and expenses with clustered parishes or other parishes nearby,
    - Re-evaluating the need for new equipment.

8.4.2 Capital Campaign Activity

Capital campaign activity is budgeted to 4515 Contributions to Approved Major Building Projects (income) and 5190 Capital Improvements Expense. Donor restricted contributions shall be budgeted and tracked using the appropriate funding source.

8.4.3 Cemetery Operations Activity

The income and expense from cemetery activity shall be budgeted in the appropriate cemetery entity (C, D, E, F, G). The budgeted income and expense should be estimated from previous activity in consideration with any known projects or other activity.

Budgeted income for cemeteries must allow for at least 25% of sales of burial lots and 25% of columbarium niches to be allocated to a Permanent Care Fund.

8.4.4 Budget Timing and Approval

All parishes, schools, and cemeteries report on a June 30 fiscal year. For those parishes with a school, it is vital that the budget process begins in December or January of each year.

School registration usually begins in the first or second quarter of the calendar year. Because the registration process begins so early, it is essential that the budget is started early enough so that the tuition charges will be known at registration time. A detailed budget, including grants and credits, is necessary to determine the stated tuition rate.

For those parishes that do not have a school, the budget process should begin no later than mid-March. This schedule will allow ample time for completion, review and approval by the end of June.

After the budget has been recommended for approval by the Finance Council, and approved by the Pastor, the accountant/bookkeeper finalizes the budget figures in the accounting software. The final approved budget should be implemented from the first day of the new fiscal year. Each program director should be given a copy of the budget so that they can monitor their own activity.

8.5 Budgeting for Non-Operating Activity

In addition to budgeting operating activity, the budget may also include non-operating activity such as Investment activity and Permanently Restricted Endowment activity.

8.6 Budgeting for Donor Restricted Activity

The budget may also include donor restricted activity if known. Due to the uncertain nature of this activity, donor restricted contributions shall be budgeted and tracked using the appropriate funding source and should utilize Project Codes for fund balance information.

8.7 ParishSOFT Assistance with Budgeting

8.7.1 Budget Report Templates

Under the Standard Reports option, ParishSOFT accounting has two reports related to budgeting. Click on the Budget/History dropdown to access those reports. First is a Budget Worksheet report that pulls in the following data:

- the past two years of actual data,
- the current year's actual data
- the current year's budget
- next year's budget
- a column for revisions to the next year budget.

Additionally, there is a Monthly Budget/History report in a different format for seeing each month's activity. While this report presents much detail and is lengthy, the detail assists you in seeing history and trends by month for each general ledger account that may allow you to make more informed budgeting decisions.

8.7.2 ParishSOFT Budget Training Resources

For more training information on the use of ParishSOFT to assist with the budgeting process, please click on the following link:

- https://support.parishsoft.com/hc/en-us/sections/14629933645339-Budgets

8.7.3 Budget Summary

The process of preparing a budget can be time consuming. In order to maximize the effectiveness of the budget, the actual financial results should be compared to the budget on a timely basis throughout the year.

Each program director should be provided with reports that detail the activity associated with their programs. These reports should include the Statement of Activities, selecting the appropriate department code, as well as a Project Summary which may highlight donor restricted fund balances.

These reports should provide information concerning year to date revenues and expenses, compared to the corresponding budget for these revenues and expenses. Spending should not exceed the limits of the approved budget, without prior approval of the pastor. Spending should not be incurred for programs which have no approved budget.

A properly implemented budget plan is essential for the financial well-being of the parish, school and cemetery.

SECTION 9 – **RECEIVABLES AND REVENUE RECOGNITION**

9.1 Purpose

The purpose of this policy is to promote a consistent methodology for categorizing, recording, and reporting parish and school receivables and revenues on financial statements.

Accounts receivables represent money owed to a parish or school by individuals or corporations for goods or services that have been delivered or used but not paid. School tuition revenue and rental operations income are two types of transactions that often result in receivables.

If amounts to be received are due within 12 months, they are considered accounts receivable and are a current asset. If amounts to be collected are due more than 12 months into the future, such as a multi-year pledge, they are known as pledges receivable. Pledges receivable must be supported by a pledge document or form that contains payment terms.

Parishes and schools also receive many types of revenue including parishioner contributions, rental and usage fees, capital campaign contributions, registration fees and program fees that will not require the use of a receivable account and may simply recognize the revenue as it is earned.

9.2 Accounting Policy

When amounts become due to a parish or school, accounts or pledges receivable should be recorded in the accounting records. They are reflected as assets on the Statement of Financial Position. Corresponding revenues are recorded on the Statement of Activities at the time goods or services were earned.

9.2.1 Implementation Guidance

Sources of revenue types should be identified for the parish/school and the policy for recording various types of revenue during the year should be documented. Parishes/schools should also document and perform year-end procedures for proper revenue recognition and end of year reporting. Year-end review procedures should include but not be limited to:

1. Review all accounts receivable balances for collectability. Determine necessary allowances and record write-offs.
2. Reconcile the accounts receivable subsidiary ledger to the general ledger on a monthly and yearly basis.
3. At a minimum on an annual basis, review Donor Restricted balances and determine if the restriction has been met. If so, and if the amount spent to meet the restricted nature of the contribution is less than the total contribution received, the remaining amount of the contribution can be reclassified to Unrestricted Net Assets. This is done via the 4597 and 5197 accounts (Transfers to/from Other Funding Sources.)
4. Review tuition and fee receipts during the last quarter of the fiscal year to ensure revenue is recorded in the proper fiscal year. Ensure proper cut-off by making necessary entries to defer unearned revenue until the next fiscal period.

9.2.2 Inter-fund Transactions

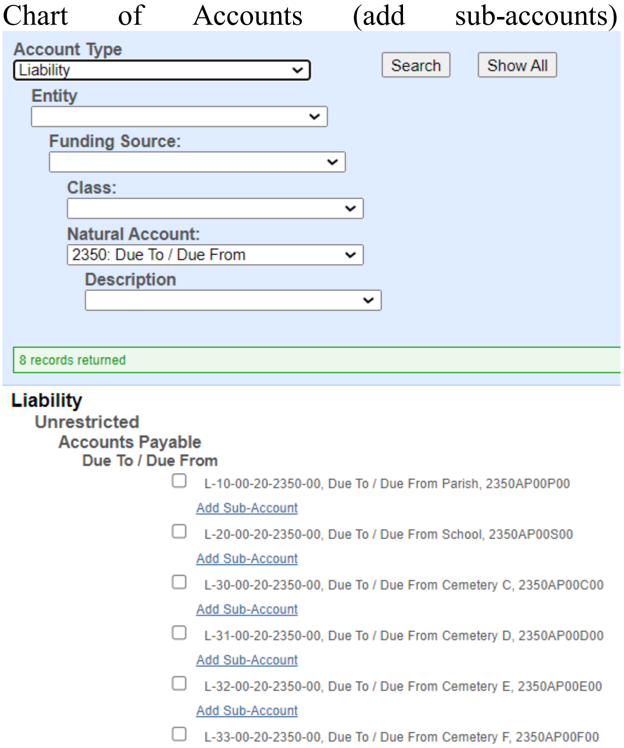
Some parishes may be using more than one entity to track different aspects of its operations. The current Chart of Accounts (COA) delineates entity "P" for Parish Operations, entity "C-G" for Cemetery Operations and entity "S" for Schools.

Occasionally, a parish may use one entity to pay for something that is an expense of a different entity. For example, a parish may pay for a cemetery expense out of its operating entity. Alternatively, money may be deposited in one entity that belongs to another entity. A check may be deposited in the parish operating bank account rather than the school's bank account. These types of transactions cause an imbalance between entities that are referred to as 'Due To (From)' transactions. In a consolidated financial report, there is no imbalance, but individual entity financial reports will reflect the "Due To (From)" balance.

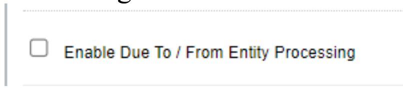
These imbalances are reversed when the entities 'settle up' these differences by paying back balances due. To resolve the imbalance explained in the first example above, the cemetery account would reimburse the parish operating account for the expense the parish paid for the cemetery. In the second example, preparation of a check or funds transfer from the parish operating account to the school's operating account would resolve the 'Due To (From)' imbalance.

A review should be made monthly to make sure that each entity is in balance on its own. The ParishSOFT Accounting System provides an automated Due To (From) balancing feature. To turn on the Due To/Due From feature you need to do the following:

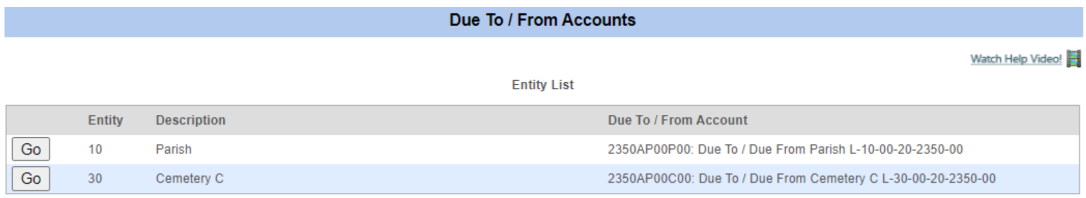
- Enable the 2350AP Due to / Due from general ledger accounts by checking the box next to the accounts you need to add for your entities. You will find them under Accounts, Chart of Accounts (add sub-accounts) with the search below.



- Go to Church Manager (you must have admin rights in accounting to access the church manager), click on Options and check the box next to Enable Due to/From Entity Processing



- Under Setup, Due To/From Accounts, link the accounts to the different entities.



Due To / From Accounts

Watch Help Video!

Entity List

	Entity	Description	Due To / From Account
Go	10	Parish	2350AP00P00: Due To / Due From Parish L-10-00-20-2350-00
Go	30	Cemetery C	2350AP00C00: Due To / Due From Cemetery C L-30-00-20-2350-00

9.2.3 Corrections

If data entry errors are found in prior or current fiscal months, journal entries must be created in the current fiscal month to correct.

9.2.4 Cut Off Considerations

A term that refers to recording transactions within a proper fiscal period is called *cut off*. This period is a length of time that the parish/school keeps its accounting records open to record revenue and expenditures that relate to that open period.

At the end of each month during the fiscal year, accounting staff should be sure all material transactions are recorded in the appropriate accounting period. Adjustments may be required to reflect large receipts received in one month that relate to either the previous or next month's earnings. Entries posting to a prior closed period should be kept to a minimum as it may require the prior month financial reports to be restated. Proper accounting cut off is particularly important at the end of each fiscal year.

At fiscal year-end, it is recommended to leave accounting records open for three or four weeks to capture as much of the prior year's financial activity as possible. In accrual accounting it is important to record transactions in the period that they are incurred (for expenses) or earned (for revenue).

When information becomes known after an accounting period is closed, it is prudent to consider whether an unrecorded transaction is material enough to warrant reopening an accounting period. Information is material if its omission or misstatement could influence the economic decisions made by parish or school leadership based on the financial statements. If financial statements have already been distributed to parish leadership or any external parties, revised financial statements must be re-issued along with documentation explaining the changes made.

In an internal or external audit, cut off procedures are usually tested to make sure that financial transactions are recognized in the proper accounting periods.

9.2.5 Contributions - Designated or Restricted?

9.2.5.1 Contributions Without Donor Restrictions – (Board Designated)

In some instances, the pastor or finance council may want to set aside unrestricted funds for a specific purpose. **This would not be a donor restriction but instead, a board designation.**

An example of this would be taking a percentage of the unrestricted income and setting it aside for future major maintenance or building projects. This decision would be documented in the finance council minutes and communicated to the parish.

- The parish would use the 5197 Transfer to other funding sources account to record the "expense" in the unrestricted fund and the 4597 Transfer from other funding source to record the "income" in the designated fund.
- This amount, in turn would be shown on the Statement of Financial Position under the 3200 UR-Designated Fund Net Asset accounts.

Unlike donor restricted funds, the pastor/finance council has the ability to un-designate the funds, if desired.

9.2.5.2 Contributions With Donor Restrictions

Some contributions made by a donor come with specific donor restrictions. In those instances, the restriction should be **obtained in writing** and kept until the restriction is fulfilled or the parish's internal audit is complete, whichever is later. For bequests, the will defines and documents the bequest and should be kept in perpetuity. Contributions with donor restrictions must be recognized as revenue within the period of receipt. Funds are released from restriction when qualifying expenses are incurred or by the passage of time.

A passage of time restriction for example, may be where a donor contributes money with the restriction of "for Faith Formation (FY) expenses or the passage of five years." If the total amount of contribution is not expended for FY expenses by the end of five years, the remaining funds can be released from their restriction at that point. A passage of time restriction must be documented in writing before the contribution is released from its restriction.

Parishes are required to release net assets with donor restrictions first. Parishes do not have the discretion to not release restricted net assets if there are qualifying expenses or if the required time period has passed.

With regard to the Statement of Financial Position, contributions will be classified as Net Assets with Donor Restrictions. Examples include capital campaign contributions and school scholarship fund contributions given in one year but to be used in a following fiscal year.

Any unfulfilled restrictions should be reviewed by the pastor, trustees and finance council on a regular basis, at a minimum on an annual basis.

9.3 Classifications of Income

There are three basic classifications of income in any parish. It is important to understand these various classifications to properly record income

- Contributions
- Agency Transactions
- Exchange Transactions

9.4 Contributions

Contributions are voluntary, nonreciprocal transfers of money from the donor to the parish/school. Contributions received shall be recognized as revenue in the period received.

A contribution is generally given to increase a parish/school's ability to carry out its mission, and differs significantly from a payment for services. While a donor may restrict their contribution to be used for a specific program, even one that may occur in a subsequent fiscal year, it is not the equivalent of an advance payment in exchange for services rendered. Charitable contributions are still attributed to the donor even when intangible religious benefits are provided to the donor.

Contributions may or may not have Donor Restrictions on the funds. Acceptance of a restricted contribution should only take place if the parish/school is prepared to fulfill that restriction. A donor's restriction imposes special responsibilities on the entity to ensure that the donated assets are used as stipulated. When the Parish accepts restricted contributions, they also accept a fiduciary responsibility to meet the donor's restrictions and to use the gift for the purpose(s) for which it was given. As such, the Parish must track restricted contributions.

If there is a failure to meet donor-imposed restrictions, there is a reasonable possibility of litigation which may result in incurring a contingent liability. Non-compliance may require the return of the resources to the donor, particularly in grant situations. If you find there is a failure to meet the donor-imposed restrictions, consult with the Diocesan Finance Department for guidance.

9.4.1 Sunday Offertory Giving

In general, Contributions are received via weekly collections, envelope system and/or electronic giving. These are recognized as revenue to the parish/school when received.

9.4.2 Donations to Fundraising Activities

There are multiple ways a parish may receive contributions during a parish/school fundraiser. The proper treatment of the various types of fundraisers are listed below:

- Cash Contributions –Contributions made at a fundraising event where no benefit was received by the donor are considered cash contributions

- Items purchased FOR a Parish/School Auction – Items donated to the parish/school for the purpose of auctioning at a fundraiser are considered non-cash contributions.

- Items Purchased AT a Parish/School Auction- Auction purchases are deductible only to the extent that the payment made exceeds the value of the benefit received. If the donor's payment exceeds $75, written documentation regarding the payment amount and value of the item purchased may be given to the donor at the time of auction or at a later date. If the donor's payment is less than $75, or if the goods or services given to a donor have insubstantial value, no disclosure statement is required.

- Tickets purchased for Dinner/Gala/Concert/Event - Are deductible only to the extent that the payment made exceeds the value of the benefit received.

- Raffle Tickets– Are NOT tax-deductible contributions.

- Car Wash, Candy Sales or Tag Sales – Typically, the goods or services given to a donor are considered of insubstantial value, and/or donor's payment typically does not exceed $75. No disclosure statement is required.

9.4.3 Pledges: Intentions to Pay versus Promises to Pay

A pledge receivable must be recorded if there is sufficient written evidence of a donor's promise to pay.

9.4.3.1 Pledges/Intent to Pay

Many parishes ask parishioners for an indication of their proposed giving for an upcoming year. If the request states that the pledge is for budget purposes only and/or that the pledge is not binding, this indicates intent to pay and is not binding. There are many different formats for this type of pledge form.

9.4.3.2 Pledges/<u>Promise to Pay</u>

In certain cases, a pledge may be recorded before receipt of pledged money. In order for a pledge to be recorded as revenue and a contribution/pledge receivable established, there must be sufficient evidence in the form of verifiable documentation.

This type of pledge must be supported by a donor's written promise to pay. In those instances, contributions are recorded as a pledge receivable and the contribution revenue is recorded for the total amount of the pledge. The Pledge Receivable balance is reduced when pledge payments are received over the pledge period. This pledge receivable will be disclosed until money is received to fulfill the pledge.

If the Pledge/Promise to Pay is over multiple years, the reporting process is much more complex. A reserve for uncollectible pledges should be recorded. The parish or school should review all outstanding pledge receivables on a regular basis, at least monthly, to determine if balances due are still collectible. Any outstanding amounts that are deemed unlikely to be collected must be properly adjusted in the financial statements.

9.4.4 Tax Implications of Donor Contributions

According to IRS tax regulations, a donor must have a bank record or written communication from a charity for any monetary contribution before the donor can claim a charitable contribution deduction on his/her federal income tax return. In order to deduct a single contribution of $250 or more, the donor is required to obtain:

- a written acknowledgement that recognizes the receipt of the contribution,
- the amount or description of the property contributed and
- a statement whether the donor received any goods or services in exchange for the contribution.

In order to assist the donors in meeting this requirement, parishes/schools are advised to acknowledge any individual gifts over $250. An annual contribution statement that includes all donor contributions for the year satisfies the minimum IRS requirement. Please refer to IRS Publication 1771 – Charitable Contributions (Substantiation and Disclosure Requirements).

9.4.4.1 Contribution Timing and Donor Statements

Donations need to be postmarked or physically received by December 31st in order to be recorded as a contribution for any particular calendar year. For donations received close to the calendar year-end cutoff date, parishes/schools are advised to retain postmarked envelopes for a period of three years for audit purposes.

As a good business practice, parishes and schools should provide written acknowledgement of donor contributions. It is recommended to send all parishioners and donors contribution statements that disclose stewardship, capital contributions and other similar gifts donated throughout the calendar year. Other forms and letters should be used throughout the year for donations such as stock gifts and auction activity. As a courtesy to the donors, written acknowledgements of all donations for a particular calendar year should be postmarked no later than January 31st of the year following the donation.

9.4.4.2 Bunching of Contributions

With the Tax Cuts and Jobs Act of 2017, some parishes have noticed an uptick of donors "bunching" their contributions.

Typically, when parishioners contribute, the Parish should acknowledge that with a tax receipt in the same period, and recognize the revenue in the fiscal month/year that it was received. However, in some situations, there may be a donor who provides a letter with their accompanying check outlining a donor restriction that may be resolved by time, so the Church knows how and when to recognize the contribution for generally accepted accounting purposes (GAAP) reporting purposes.

For example, the donor may provide a letter indicating a time restriction that allows the funds to be recognized as donor restricted revenue in the year given, but these funds don't become "released from restriction" until the following fiscal year. For tax reporting purposes though, this would be acknowledged as a tax-deductible contribution in the year received.

9.4.4.3 Deductible Items

According to IRS Publication 526 - Charitable Contributions, the following items are tax deductible and should be acknowledged in writing:

9.4.4.3.1 Cash Contributions

Cash contributions are donations of cash, coin, checks, credit cards, or other methods such as EFT/ACH. Cash contributions may be made during a weekend Mass celebration, received in the mail, or from the donor's utilization of the parish's online giving application.

The written acknowledgment required to substantiate a single charitable contribution of $250 or more must contain the following information:

- Name of the organization;
- Amount of cash contribution;
- Statement that no goods or services were provided by the organization, if that is the case;
- Description and good faith estimate of the value of goods or services, if any, that organization provided in return for the contribution; and
- Statement that goods or services, if any, that the organization provided in return for the contribution consisted entirely of intangible religious benefits, if that was the case.

In addition, a donor may claim a deduction for contributions of cash, check, or other monetary gifts only if the donor maintains certain written records.

A donor may not claim a deduction for any contribution of cash, a check, or other monetary gift, unless the donor maintains a record of the contribution in the form of either a bank record (such as a cancelled check) or a written communication from the parish/school (such as a receipt or a letter) showing the name of the parish/school, the date of the contribution, and the amount of the contribution.

Include in contribution records and print year-end Donor Statements.

- Sunday/Holy Day Donations - Include this type of giving on the donor statement.
- Capital Campaign Donations - Include this type of giving on the donor statement.

- Mass Intentions - The Diocese of Winona-Rochester states that the Mass intentions are the property of the parish where the priest ministers. Although the Mass intentions may not be part of the unrestricted fund per se, the Mass intention income accrues to the Church and is used in furtherance of the Church's mission. Mass Intentions received by the parish and subsequently paid to the Mass celebrant through the Mass stipend expense or Mass allowance procedures as outlined in the Compensation Policy for Priests, are tax deductible by the donor.
- Payroll Deduction – Parish members or other individuals may choose to make certain charitable contributions by payroll deduction through their employer.
  - The employer then acts as a fiscal agent, and forwards the donor's contribution to the parish entity. The contribution statement should be issued to the original donor, and not the donor's employer.
  - If a donor makes a single contribution of $250 or more by payroll deduction, each payroll deduction amount of $250 or more is treated as a separate contribution for purposes of the $250 threshold requirement for written acknowledgments. Include this type of giving on the donor contribution statement.
- Catholic Ministries Appeal/Catholic Foundation of Southern MN - CMA contributions are deductible. Note that the Catholic Foundation of Southern MN sends out their own donor acknowledgements. CFSMN donations should NOT be included on the donor contribution statement.

9.4.4.3.2 Non-Cash Contributions

Non-Cash Contributions are donated property, including vehicles, and publicly traded securities (stocks).

The written acknowledgment required to substantiate a non-cash contribution must contain the following information:

- Name of the organization;
- Description (but not value) of non-cash contribution;
- Statement that no goods or services were provided by the organization, if that is the case;
- Statement that goods or services, if any, that the organization provided in return for the contribution consisted entirely of intangible religious benefits, if that was the case.

The parish/school should acknowledge the item received, but ***should not assign a value to the item***. Per IRS guidance, DO NOT include non-cash contributions in contribution records or on year-end Contributor Statements. Non-cash contributions have already been acknowledged throughout the year with an alternate letter describing the type of non-cash gift.

Items Donated - Any property, other than money or publicly traded securities, donated to the parish/school may be deductible by the donor.

The following items fall into this category:

- Books, Household Items etc. donated for Auction or Tag Sale
- Donated Food for Food Shelf
- Furniture, Art, Antiques
- Land, Buildings

Stock Donations - Parishes/Schools should recognize receipt of stock donations by issuing a written acknowledgement to the donor. This document should include the:

- Donor Name
- Donor Address
- Date of Donation
- Number of Shares Donated
- Description of the Stock

DO NOT include in contribution records or on year-end Contribution Statements. It is also a good practice to include a disclaimer on the receipt that directs the donor to seek professional tax guidance for market value determination.

Stock donations being applied against an outstanding pledge may be handled in a variety of ways depending on the software being used. ParishSOFT Offering users see ParishSOFT Family suite Offering module - Pledges: How to adjust a pledge.

Vehicle Donations - A qualified vehicle is any motor vehicle manufactured primarily for use on public streets, roads, and highways; a boat; or an airplane.

Donors may claim a deduction of the vehicle's fair market value under the following circumstances:

- The charity makes a significant intervening use of the vehicle, such as using it to deliver meals on wheels.
- The charity makes a material improvement to the vehicle, i.e., major repairs that significantly increase its value and not mere painting or cleaning.
- The charity donates or sells the vehicle to a needy individual at a significantly below-market price, if the transfer furthers the charitable purpose of helping a poor person in need of a means of transportation.

Per IRS guidance, DO NOT include in contribution records or on year-end Contribution Statements.

The Parish/School must acknowledge the gift of a vehicle by utilizing Form 1098-C Contributions of Motor Vehicles, Boats, and Airplanes. It is also a good practice to include a disclaimer on the communication that accompanies Form 1098-C that directs the donor to seek professional tax guidance.

The following rules apply for the **disposition of donated property:**

- If a parish/school receives charitable deduction property and within 3 years sells, exchanges, or disposes of the property, the parish/school must file Form 8282, Donee Information Return.
- However, an organization is NOT required to file Form 8282 if the property is valued at $500 or less, or the property is distributed for charitable purposes.
- Form 8282 must be filed within 125 days after the disposition. A copy of Form 8282 must be given to the previous donor. If the organization fails to file the required information return, penalties may apply.

9.4.4.3.3 Quid Pro Quo Contributions

Donors may only take a contribution deduction to the extent that their contributions exceed the fair market value of the goods or services the donors receive in return for the contributions; therefore, donors need to know the value of the goods or services received. A parish/school 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 organization. A contribution made by a donor in exchange for goods or services is known as a quid pro quo contribution.

An example would be 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 doesn't exceed $75.

Penalty for Failure to Disclose -A penalty is imposed on a charity that does not make the required disclosure of a quid pro quo contribution of more than $75. The penalty is $10 per contribution, not to exceed $5,000 per fundraising event or mailing. The charity can avoid the penalty if it can show that the failure was due to reasonable cause.

9.4.4.4 Non-Deductible Items

According to IRS Publication 526 Charitable Contributions, the following are NOT deductible and if shown on the contribution statement or providing a written acknowledgement to the donor, should be noted as non-deductible for tax purposes:

9.4.4.4.1 Contributions to Individuals

Donors can deduct contributions to a parish/school for flood relief, hurricane relief, or other disaster relief. However, donors cannot deduct contributions earmarked for relief of a particular individual or family.

9.4.4.4.2 Qualified Charitable Distributions (QCD)

A qualified charitable distribution (QCD) is a nontaxable distribution made directly by the trustee of an IRA to an organization that is eligible to receive tax-deductible contributions.

In 2015 year-end legislation, Congress made this provision permanent. A distribution from an IRA is deemed non-taxable to the donor if certain conditions are met:

- The donor is age 70 ½ at the time of the request of a qualified charitable distribution.
- Funds must be transferred directly from the donor's IRA custodian to the qualified charity.
- The maximum annual distribution amount is $100,000.

There is no charitable deduction for the QDC contribution. DO NOT record the qualified charitable distribution as a tax-deductible contribution to the donor in your offering database.

The parish/school must give the donor a timely written acknowledgment of the payment, specifically stipulating that it was an IRA distribution received directly from the IRA custodian or trustee and that no goods or services were given in connection with the IRA distribution. This acknowledgement serves to substantiate the donor's claim that the distribution is excludable from income.

See IRS Pub 590-B Distributions from IRAs for additional information

9.4.4.4.3 Value of Time or Services (Volunteer Time) –

Volunteers often offer their time, knowledge, skills and expertise to parishes / schools for no charge. Although the IRS may allow some donors to deduct certain expenses related to providing volunteer services, the volunteer services themselves are not typically tax deductible.

Parishes/schools who want to record the value of volunteer time must refer all questions to your parish/school tax accountant.

9.4.4.4.4 Other Non-deductible Items

- Stole Fees - Including Baptism, Wedding, Funeral and Confessional Stole Fees.
- Games of Chance - Including raffles, bingo, lottery, etc.
- Tuition or amounts paid instead of tuition.

9.5 Second Collections as an Agency Transaction

9.5.1 Guidance According to GAAP

Agency transactions occur when one not-for-profit (the parish or "agent") raises contributions for another NFP (the recipient). Under Generally Accepted Accounting Principles (GAAP), contributions received through agency transactions are accounted for under FASB136 and are not recorded as revenue or support on the books of the agent. The primary factor in determining if a transaction should be considered an agency transaction is "variance power". If a donor stipulates the final recipient of the contribution then the agent does not have variance power and typically would not recognize the contribution as revenue.

When a nonprofit entity acts in such a capacity, the nonprofit does not recognize a donation in its own general ledger It must instead record the asset, such as cash, and a corresponding liability, such as a payable. Below are some examples of agency transactions:

- A donor selects the beneficiary either by including the named beneficiary in a letter or other agreement or by selecting from a list of potential beneficiaries that have been identified by the recipient entity. This is an agency transaction because the nonprofit did not have the final determination of who the contribution went to. Instead the resource provider had the final say of the actual beneficiary.
- Again, since the donor responding to the campaign is making the final say as to who the funds are going to, the transaction would be considered an agency transaction.

9.5.2 Scope

Second collections are the most common instance in which a parish encounters an agency transaction.

How do you identify if a nonprofit (i.e. the parish) is acting as an agent or merely receiving and making a corresponding external donation based on the ministerial activity of the parish? The simple answer is **variance power**.

According to GAAP, variance power is the unilateral power to redirect the use of the transferred assets to another beneficiary. If the parish has no variance power the contributions are considered agency transactions. So, you simply need to determine if:

1. The parish conducts a second collection and the specified recipient of that collection is a 501(c)(3) non-profit. In this case, the parish has no variance power and the contribution income is non-assessable and treated as an agency transaction.
2. The parish is directed to pass on contributions received, to an entity specified by the USCCB, the Diocese or the donor, the parish has no variance power and the contribution is non-assessable and treated as an agency transaction.
3. The parish has the power to make decisions as to how the contributions it receives will be used? In this case the parish has variance power and the contribution is assessable and is treated as a normal contribution of the parish.

Prior to this edition of the parish policy manual, parishes received contributions related to second collections and recorded a liability to the entity directed by the USCCB, Diocese, or donor. They also recorded the parish member's contribution within ParishSOFT Family Suite and provided to that parish member a charitable contribution through their year-end contribution statement, even though contribution revenue was not recorded on the books of the parish for the second collection. This results in a variance between contribution revenue per the parish's general ledger and the total contributions entered into Family Suite. Also, this greatly understates the charitable generosity of that parish in giving to the greater Church as a whole.

9.5.3 Diocesan Deviations Regarding Agency Transactions

In order to account for agency transactions through the liability accounts yet more accurately account for the charitable generosity of your parish members, the following deviation from GAAP is recommended for all diocesan entities. Following this guidance also continues to protect the non-assessable nature of contributions received from second collections.

1. Continue to take up second collections as specified by the National Collections Office of the USCCB. A list of these collections and collection dates is provided annually to the parishes by the Diocese.
2. After the collections are taken, the funds should be accounted for within the normal offertory cash counting procedures.
3. Contributions from second collections should be entered as a charitable contribution in the family records within the ParishSOFT Family Suite software.
4. The revenue from the second collection should be entered into a **non-assessable** contribution revenue account within ParishSOFT Accounting. General ledger account 4550GA01P00 has been set up for the USCCB collections. Use a project group of USCCB Special Collections and Projects for each special collection to track the collections credited to the account.

Project Group

Watch Help Video!

Description: USCCB Special Collections

Project Group Code: 4550

Projects

Description	Project Code	Status
Aid Church Eastern/Central Europe		Active
Archdiocese for Military		Active
Black/Native American		Active
Campaign for Human Development		Active
Catholic Charities		Active
Catholic Communications 50%		Active
Catholic Home Mission		Active
Catholic Relief Services		Active
Catholic University		Active
Holy Land		Active
Latin America 50%		Active
Missionary Co-op		Active
Natural Disaster		Active
Peter's Pence		Active
Retirement Fund for Religious		Active
Rice Bowl		Active
World Mission Sunday (Propagaton of		Active

5. Monthly, an analysis of the Second Collection revenue account should be made with a summary of the funds to be transmitted to the National Collections Office of the USCCB **(through submittal to DOW-R)** or the entity that they specify.
6. The bill to record the transmittal to the Diocese is:
    a. Debit – 5098GA05P00 USCCB Collection Expense using the specific project code for each collection being transmitted.
    b. Credit – Accounts Payable Liability (automatically done when the bill is submitted.)
    c. The net result of the month-end entry will be
        i. Non-assessable second collection revenue that equals contribution expense from second collections.
        ii. Cash collected from the second collection will equal the liability recorded to Accounts Payable.
    d. The parish's financial Statement of Activities will show:
        i. Second Collections contribution revenue (non-assessable) from the charitable generosity of the parish members.
        ii. The parish's generosity for Contribution Expense from second collection funds transferred to DOW-R for their transmittal to the National Collections Office of the USCCB. This expense account represents assistance provided by the parish to people in need within the greater Church and across the world.

The above guidance provides the basic steps of accounting for Agency Transactions. More detailed guidance is given in Section 18 titled Special Collections and Funds Held for Others.

The income for these collections will be reported in non-assessable income. The related expense would be entered under 5098 Charitable Outreach for all of the collections.

There is always the option to have the donors make the checks payable to the receiving organization and the parish merely forwards those checks to the organization without depositing them. The recipient organization is then responsible for the contribution statements to the donors.

The use of project codes would be extremely beneficial in this process since a report could easily be generated to show the monthly income categorized by named collection for purposes of entering the bill to pay the organization(s).

A project group would be established for *Special Pass-Through Collections* and each collection assigned a project code. At the end of each month, a project summary report would be generated and the related bill(s) entered into the system to transfer the funds to each recipient organization.

The only exceptions to this would be collections where the parish is providing donor information to the recipient entity so that they, in turn, are able to issue contribution statements. An example of this would be the CMA campaign where the foundation issues all tax related statements.

9.6 Exchange Transactions

Exchange Transactions occur when the Parish provides something of more than a nominal value to the donor. The obligation is to provide what you agreed to provide. This is not dependent on the cost of the item, nor whether or not the parish makes money in the transaction. Examples of Exchange Transactions are School Tuition, Raffle Tickets, Bible Study materials/tuition, Youth Group Fees.

A receivable account may be needed for some types of Exchange Transactions.

9.6.1 Accounts Receivable in Exchange Transactions

Whenever a parish or school receives revenue from any program or ministry, consideration should be given as to whether accounts/notes receivable accounting is warranted. It is important to recognize the relationship between accounts receivable balances and revenue recognition. In an accrual-based accounting system, revenue is recognized as it is earned, not necessarily when cash is collected.

- Accounts receivable track what is owed to the entity (i.e. invoices sent less payments received)
- Revenue accounts track the income that has already been earned by the entity. (i.e. services rendered or products already supplied)
- Deferred revenue (a liability account) holds income that has been billed but not yet earned. (i.e. billing a full year of tuition in September.)

9.6.1.1 Parish and School Policies Regarding Receivables

Parishes are required to maintain policies and procedures including but not limited to:

- Allowable types, dollar limits and authorization process related to parish or school receivable transactions.
- School policies and procedures related to school tuition transactions including student attendance procedures if tuition is not paid on time.
- Determination of timing and staff roles within the school or parish when following up on delinquent accounts.
- Collection efforts and procedures for sending an outstanding account to a collection agency or small claims court.
- Method of tracking receivables (subsidiary ledger or accounting software).
- When and how often to invoice.

9.6.2 School Tuition (Exchange Transaction)

Tuition is an amount received for various parish/school programs that are ongoing rather than onetime events. Examples include payments for school and preschool.

9.6.2.1 Accounting for School Tuition

Annual school tuition revenue shall be calculated and recorded as deferred revenue as of September 1st of each fiscal year. The offset for the deferred revenue liability balance is the tuition accounts receivable asset.

Monthly Tuition Revenue shall be recognized throughout the school year in increments of 1/9 per month from September through May by debiting Deferred Revenue and crediting Tuition Revenue.

Schools shall use contra accounts to track and disclose decreases to tuition revenue. Examples of contra tuition revenue accounts include tuition discounts such as multiple child, early payment and employee discounts. Financial aid is recorded as contra revenue accounts. Scrip credits would also be a contra account, reducing net tuition received.

Tuition received during one fiscal year for the following fiscal year's school activity shall be recorded as deferred revenue on the parish/school books and recognized as income during the fiscal year to which it applies.

Schools should maintain a subsidiary ledger using an internal accounting system, or outside tuition management company. Outside tuition management firms such as TADS, FACTS and SMART Tuition, invoice school families, collect tuition payments and manage follow up on past due balances as needed.

The subsidiary tuition receivable records must be reconciled to the general ledger on at least a monthly basis. The total tuition receivable balance in the general ledger must match the sum of subsidiary tuition receivable records. Investigation and resolution of differences is required whenever these amounts are not in agreement.

9.6.2.2 School Year-End Considerations

At the end of each fiscal year, all outstanding accounts receivable should be reviewed to determine whether balances are fully collectible.

If there are outstanding amounts that are considered doubtful as to collection, an allowance for doubtful accounts should be established. To determine the allowance amount, the parish or school must first quantify what may not be collected by evaluating each item within the accounts receivable balances.

A journal entry is then recorded to reflect an increase or decrease to the Allowance for Doubtful Accounts as appropriate. In an effort to be transparent, the pastor and Finance Council should be aware of the total outstanding accounts receivable balances, amounts of any past due items and disclosure as to collection efforts.

9.6.3 Preschool Tuition and Daycare Fees (Exchange Transactions)

Other common sources of tuition or program fee revenue are for preschool, daycare and other programs known as extended day, after school, or before school care.

Depending on the timing, nature of payments, duration of programs, and the contract terms, preschool tuition income may be recorded as revenue as received or on the accrual method. Before/After School and Daycare programs with installment fee billings would generally require receivable tracking, while Before/After School and Daycare programs with pay-as-you-go billings would not require receivable tracking. Once accounting processes are determined for a particular program, consistency from year to year is recommended.

At year-end, unpaid preschool tuition should be recorded as a tuition/accounts receivable asset. If applicable, an appropriate amount should be recorded as an allowance for uncollectible tuition.

9.6.4 Religious Education Tuition and Fees (Exchange Transaction)

In situations where program fees are received in a lump sum, such as for Religious Education, receivable balances do not require tracking.

SECTION 10 – CASH RECEIPTS BEST PRACTICES

A major asset of parishes is its cash and cash equivalents, including marketable securities and other highly liquid assets readily convertible into cash. Cash is highly susceptible to loss or misappropriation due to its liquidity. This risk of fraud is only heightened by the fact that many individuals handle the funds and that much of the money is collected on non-banking days or after banking hours. Therefore, it is very important for the pastor, trustees and the finance council to establish and enforce a strong system of internal controls for handling cash, conducting banking transactions and monitoring the controls.

This chapter, along with Section 6 Banking Internal Controls, discusses procedures for receiving, recording, and accounting of cash. It will describe a cash receipts system designed to meet the minimum requirements of good internal controls that are not unnecessarily burdensome to parish staff. Parishes should modify these best practice procedures only after careful consideration of all aspects of the cash receipts cycle.

10.1 Offertory

The largest single source of cash and coin in parishes is through offertory giving. The following sections will discuss at length the safeguarding and recording of the offertory collection.

10.1.1 Cash Collection and Deposit-Offertory

In addition to being the largest source of cash and coin, the offertory is often the most difficult to safeguard effectively. Until the offertory is secured in a fireproof drop-safe, it is highly susceptible to loss or theft. Until the offertory is counted and the amount recorded on a cash count sheet, losses would very likely remain undetected. However, the role offertory plays in the Mass and the manner in which it is collected may make imposing more stringent controls undesirable.

Pastors should consider the following guidelines in handling an offertory from the time it is collected until it is locked in a safe:

- No one person should be left alone with money, especially in an out-of-the-way location, such as an ushers' room or sacristy. A thief, who has been studying the normal method for handling offertory, may decide to "surprise" a lone usher who has left the main church with a basket or bag full of money. A thief may be reluctant to confront two or more people.

- The number of people who handle the offertory should be minimal. Ushers should place the offertory in a tamper evident bag in full view of others before carrying it to the altar, and then place the bag in the parish's fireproof drop-safe under an established, controlled process.

- Numbered tamper evident bags should be used to secure the offertory after it is collected and also after the offertory is counted and ready to be taken to the bank. A log of the bags should be maintained by someone not involved with the counting process.

- The person maintaining the log will record the bag numbers to be used by Mass on the count sheets and place them with the counter supplies. They will also label the bags for each Mass with the time and date. The bags to be used after the offertory is taken should be placed with the usher supplies.

- Ushers that are related should not be the tandem pair to place the offertory cash into the tamper-proof bag. If there are only two ushers and they are related, (spouses, siblings, or parent-child) at a minimum, ask a member of the congregation to witness the transfer of loose offertory cash into the tamper-proof bag.

10.1.2 Procedures for Counting and Recording Offertory

1. As soon as possible after the Mass has ended, the offertory should be locked in a fireproof drop-safe. Access to the parish's fireproof drop-safe should be limited to authorized personnel.

2. Money should always be counted on the parish premises. In most cases, the weekend offertory should be counted no later than Monday following collection. Persons related should be scheduled for alternative counting days for this process.

3. If feasible, the parish should have at least four (4) teams that are made up of at least four (4) unrelated counters who count on a rotating basis. One member of each team should be designated as a lead counter who has the responsibility to prepare the deposit slip after all the money has been sorted, counted and recorded on the worksheet. It is also a good idea to replace or rotate cash counters every few years. Additionally, all related counters should be scheduled on alternating counting times, days or weeks. As a note: The parish business administrators, accountants and bookkeepers should never participate in counting cash.

4. The counters should restrictively endorse all checks immediately. Additionally, to further secure that the check is deposited into the proper account, it is strongly recommended that the endorsement stamp always include the following language:

    a. "FOR DEPOSIT ONLY - CHURCH OF XYZ"

5. The counters should prepare a cash count sheet that shows the amount received for each collection. This count sheet should be prepared in ink, dated and signed by each of the counters. An example Count Sheet is in the Appendix Section.

6. The Lead Counter should prepare the bank deposit. All money should be deposited intact, that is, the entire amount collected should be deposited at the same time. The total deposit should equal the total on the count sheet.

7. Money should be deposited as soon as possible after it has been counted. Best practice directs that two unrelated pastor's designee or trustees will take the deposit to the bank. If a collection must be kept for a limited amount of time in the church, it should be locked in a safe, not in a mail slot, file cabinet, employee's desk drawer or any open area.

    a. Separation of duties dictates that someone not involved in recording cash receipts should take the deposit to the bank. Therefore, the accountant or bookkeeper should not make the deposit. It is recognized that parish staffing does not always allow for separation of processes. In these instances, there should always be two unrelated individuals taking the deposit to the bank.

8. The bookkeeper or accountant should receive the count sheet and the validated bank deposit slip. He or she should compare the amounts on the count sheet and deposit slip to make sure they are the same. Any significant differences should be investigated and reported immediately.
9. The accountant or bookkeeper enters cash receipts in the accounting records from the information on the cash count sheets. The total of each cash receipts entry should equal the deposit amount and the total on the corresponding cash count sheet.

    a. Alternatively, the entire deposit can be entered into ParishSOFT Family Suite Offering and linked to ParishSOFT Accounting so that the deposit is generated by the system. In this instance the funds in Family Suite are linked to general ledger accounts.

    b. If this method is used, the Batch Posting List Export total should match the counter sheet, deposit slip and the deposit entry made in the general ledger.

    c. Online giving batches may be imported into Family Suite (or directly linked and automatically brought over from ParishSOFT Giving) and, if the system is linked to accounting, Family Suite will make those deposit entries as well.

10. To conform to generally accepted accounting principles, adhere to the following standards when entering deposits into the general ledger:

    a. Utilize only Income Accounts (4000-4599) to recognize revenue.

    b. Liability Accounts (2300-2330) to record funds raised to be remitted in full to an outside 501(c)(3) not for profit organization where the parish is not providing the contribution statement, or where the parish is functioning as an agent.

    c. Expense Accounts (5000-5199) to be used only to record refunds received in check form from a vendor.

11. Cash count sheets and bank deposit records should be kept on file according to the Diocesan Records Retention schedule after which they may be destroyed.

10.2 Cash Collection and Deposit – Other Receipts

Parishes may receive other miscellaneous cash during the week, such as bingo, fund raising income, pledge payments, and donations. The basic controls described above also apply to other cash the parish receives. The safeguards begin with a controlled mail opening process. If possible, there should be two persons sorting and identifying cash and checks. The accountant or bookkeeping staff should not be involved in this process. The procedures to handle mail may vary, depending on parish staffing and volume of mail.

When mail has been sorted into cash or checks, the cash should be recorded on a cash count worksheet (preferably an Excel spreadsheet). The worksheet can be then used as the source document from which to enter cash receipt information onto the deposit slip and into the accounting records. The same process should be enlisted for the miscellaneous checks.

If amounts collected are small, the parish may choose to include them in the weekend cash count. The counters should add these amounts to the count sheets and include them in the bank deposit. Cash held during the week must be locked in the parish's fireproof drop-safe to protect it from theft or destruction. Cash and checks should never be kept in a mail slot, file cabinet, employee's desk drawer or any open area. It is always best to deposit all funds as soon as possible after collection. This provides the best protection against loss.

These other receipts could also be deposited weekly using the controls outlined above for counting and bank deposits. Once again, if the parish has ParishSOFT Family Suite linked to ParishSOFT Accounting, the staff deposit may also be entered into offering and directly posted to accounting by the system.

10.3 Cash Collection and Deposit – School and Preschool

Tuition is the major source of income for parish schools. It is important that tuition and accounting records give accurate and timely information about tuition income in order to facilitate informed decision-making.

Schools and Preschools are encouraged to establish a policy of not accepting payments directly to the school, and to set up online access to allow parents to make payments through the third-party tuition applications (TADS, Smart Tuition, etc.). Payments made directly to the third-party tuition application streamline the tuition tracking and collection process, as well as reduces the instances of error or misappropriation of cash.

For schools and preschools who have not/cannot establish such a policy and must accept tuition and fees in house, the following rules should be applied:

- A person who is not involved in billing or recording tuition should collect tuition payments and record them on a daily receipts list/Excel spreadsheet. The employee who collects tuition will restrictively endorse checks as soon as they are received then give one copy of the receipts list to the school administrator, and one copy to the parish bookkeeper.

- Other school income, such as fees and fund-raising income, is collected and recorded in the same way. The daily receipts list should show how much and what type of income was collected by family name.

- For internal control purposes, another person who is not involved in billing and recording securely delivers the checks to a fireproof drop-safe (or other locked fireproof environment). Cash and checks should never be kept in a mail slot, file cabinet, employee's desk drawer or any open area.

- A counting team will process the miscellaneous cash receipts on a daily or weekly basis depending on the volume. A deposit slip is created and each check is endorsed restrictively. The processed deposit is delivered to the bank by two persons that have not been involved in the collection, counting or recording processes. A copy of the deposit slip, along with bank receipt and supporting materials are delivered to the bookkeeper.

- The bookkeeper compares the deposit slip and bank deposit receipt, to ensure the total collected and the total deposited match. Any differences must be investigated and reported immediately.

- If all totals agree, the bookkeeper records and posts the payments to the accounting system based

  on the supporting materials. Additionally, the school administrator posts the payments to the appropriate family and updates the student tuition or fee account.

- At the end of each month, the school administrator and the parish bookkeeper should reconcile the

- general ledger and the tuition summary account. Comparing the two accounts will help identify recording errors and ensure the amounts in the general ledger and financial reports are accurate.

In summary, the following minimum requirements should be met:

- To provide adequate internal control over school receipts, different people should collect, record, and deposit school tuition and other receipts.

- A daily or weekly deposit list should be prepared and should be used to post to family tuition records, tuition summary accounts, and parish accounting records.

- All school receipts should be deposited into the parish operating account. It is a diocesan recommendation that schools use the general operating account for all regular school transactions. (Note: Schools may have a separate checking account for government milk programs because these programs have outside audit and reporting requirements.)

- The tuition receipts, receivables and general ledger should be reconciled on a monthly basis

10.4 Cash Collection and Deposit – Childcare

- To prevent losses and errors in recording childcare income, it is better to collect fees during regular school hours or along with school tuition. If at all possible, use online payment portals for these payments such as ParishSOFT Giving or a software providers payment system.

- Establish a Registrar who is responsible for collection of fees from parents only during scheduled times and utilize pre-numbered receipts.

- The number of people who have access to cash must be limited. If a number of different caregivers work in the program, they should not all be authorized to collect fees. Establish policies and practices that instruct students and parents to visit the registrar and obtain a receipt.

- Many parents will need a statement of Childcare payments when they file their individual income tax returns. Childcare records should be available to give calendar year totals by family name. Using childcare billing/tracking software can simplify this process.

- Parents that participate in employer reimbursement programs will require a contemporaneous receipt. Childcare programs should make provision to comply with these requirements.

When Childcare fees are not part of the regular tuition records, the program's financial activity, i.e. attendance, billing and collections should be tracked through the parish accounting or tuition system utilizing the appropriate Ministry Code. The parish shall incorporate the Childcare records into the parish accounting system, and the program activity should be reconciled monthly to the parish accounting records.

It is recommended that the Parish utilize a third-party tuition and billing application for all childcare activity, including billing, collection and receipts. Establish a policy that discourages cash payments made directly at the Parish location. Provide parents with envelopes addressed to the third-party tuition location, and/or provide a kiosk for electronic payments made through the third-party tuition application at the parish location.

In order to track daily cash receipts for Childcare, a process should be put into place to record and summarize the receipt of fees and tuition. When the school is not tracking Childcare as a part of school tuition, separate Cash Count Worksheets should be prepared to record, summarize daily receipts, and reconcile against the deposit of monies. In the instances where daily receipts are recorded as part of school tuition then school tuition procedures apply.

Parishes are encouraged to issue multi-part, pre-numbered receipt forms for Childcare collections. The copies of the receipts can be used as a cash receipts book. The total of all cash receipts received each day should be recorded. This amount should match the corresponding bank deposit.

10.5 Federal Income, Estate and Gift Tax

The United States Conference of Catholic Bishops ("USCCB") is the central organization holding a group exemption letter for Catholic religious, charitable, and educational organizations in the United States. The group ruling's IRS Group Exemption Number, or GEN, is 0928. The USCCB group ruling establishes that Catholic organizations in the U.S. that are listed in the current edition of the Official Catholic Directory are recognized as public charities and exempt from federal income tax and described in section 501(c)(3) of the Internal Revenue Code.

Contributions to organizations included in the USCCB group ruling are deductible as charitable contributions for federal income, estate, and gift tax purposes.

It is also possible to get the organization listed on the IRS Tax Exempt Organizations Business Master File Extract. The process to accomplish this is:

1. Fill out Form 0928 REQUEST FOR INCLUSION IN USCCB GROUP RULING (see appendix for fillable form).

2. Send the completed form to the Diocesan Finance Office.

3. The form is then submitted to the diocesan attorneys for signature.

4. The form is then sent to the USCCB for processing and transmission to the IRS to be included in the Exempt Organization Business Master File List.

SECTION 11 - INVESTMENTS

11.1 Purpose

The purpose of this policy is to

1. Maximize (within an acceptable level of risk) the investment income earned on excess unrestricted net assets, designated net assets, temporarily restricted net assets and permanently restricted net assets.
2. Provide a consistent methodology for categorizing, recording and reporting investment activity within the appropriate financial statements of parishes, schools, cemeteries and other Catholic entities.

Investments are financial products purchased by a parish with the expectation of providing income in the future through interest and dividends and/or market appreciation, allowing for the eventual sale at a higher price than when purchased. Typical categories of investments include certificates of deposit, money market funds, mutual funds, stocks, and bonds. For purposes of this policy, savings accounts are also included within the scope of investments.

Any time money is invested, there is a risk, whether large or small, that the parish may not get all of its money back. As a result, the parish expects a return which compensates for bearing investment risk. In theory the higher the risk, the more the parish should receive for holding an investment and the lower the risk, the less the parish should receive. Parishes, schools and cemeteries within the Diocese of Winona-Rochester are urged to engage a professional investment advisor to assist in selecting investments with a net asset allocation that matches the risk tolerance determined by the Pastor and Parish Finance Council. The determination of the appropriate level of risk should be determined with the guidance of the professional investment advisor.

Parishes must invest in "safe and proper investments" as outlined in the USCCB Socially Responsible Investment Guidelines for the United States Conference of Catholic Bishops. The determination of socially responsible investments should also be determined with the guidance of your professional investment advisor.

11.2 Accounting Policy

The Diocese of Winona-Rochester has adopted the accrual method of accounting as well as investment accounting guidelines contained in Generally Accepted Accounting Principles (GAAP). GAAP requires investments to be recorded at fair value. Investments should be recorded at initial cost or donation value and updated during ownership for both realized and unrealized gains and losses. Appropriate realized gains and losses should be recognized when investments are sold.

11.3 Ownership

Only investments legally owned by the parish should be included on the Statement of Financial Position. When considering endowment accounts or other donor-restricted accounts, parishes should review appropriate documentation to be sure of ownership before disclosing balance(s) on the Statement of Financial Position.

GAAP requires an exception to this rule (FASB ASU 2016-14 Reporting Endowment Funds). **If the parish/school establishes an endowment fund to which the same parish/school is the sole beneficiary, then that parish/school is required to retain the value of that asset on its own Statement of Financial Position even though legal right to this fund has been transferred.**

Statement of Activities – The following types of transactions should be disclosed on the Statement of Activities:

- Contribution income from receipt of a donated investments
- Investment income and expenses related to investments on hand
- Changes in the fair market values of invested assets on hand (both realized and unrealized gains/losses)
- Realized gains or losses upon sale of investments

Please note that transactions recorded on the Statement of Activities should be categorized as Without Donor Restrictions and With Donor Restrictions based on the classification of related investment balances and/or instructions from investment governing documents.

Supplemental Disclosures/Notes to the Financial Statements – Parishes need to provide supplemental investment information in periodic financial communications with the Finance Council and other key stakeholders. This information may be part of the periodic statements provided by your investment advisory firm.

The following items should be considered when preparing supplemental investment disclosures:

- Listing of investment types/risk categories
- Investment dollar value by category
- Time horizon for investment maturities (long/short-term)
- Investment policy

11.4 Scope

All parish investing activities should be made within Diocesan and parish policy guidelines. Parish financial statements should contain balances of all parish-owned investments as well as activities from investment income, fees, gains and losses.

11.4.1 Distinction of Gifts to the Parish Versus Gifts to a Foundation

11.4.1.1 Gifts to the Parish

Direct gifts to the entity of stocks, bonds or other investments are recorded as contribution revenue of the parish and are to be accounted for as assets of the parish. If the parish places those investments with an investment advisory company, the funds are still considered assets of the parish and the investment income earned is to be recorded on the parish's Statement of Activities.

11.4.1.2 Gifts to the Catholic Foundation of Southern MN. for The Benefit of The Parish

In some instances, donors will choose to contribute stocks, bonds or other investments to the Catholic Foundation of Southern MN (CFSM) for the benefit of the parish. These gifts are recorded as contribution revenue of CFSM and are to be accounted for as assets of the foundation. The income earned on these investments is for the benefit of the parish and will be granted by the Foundation to the parish on a quarterly or annual basis as determined by the donor and the foundation.

11.4.2 Parish Investment Policy

It is recommended that any parish that invests assets should follow a written parish investment policy. The purpose of a parish-level investment policy is to outline a parish's overall strategy for investing, define short and long-term investment goals and outline the process by which investment decisions are made. The policy should also include procedures for acceptance of donated investments, asset allocation (diversification) and spending guidelines.

11.4.3 Investment Categories

Below are some common types of investments that parishes may utilize. It is beyond the scope of this manual to evaluate the attributes, risk levels or propriety of any given type of investment. Before making any investment decisions, the pastor should consult with Parish Finance Council members, trustees and the parish's investment advisor.

11.4.3.1 Cash or Near Cash Equivalent Investments

Cash or near-cash equivalent investments are instruments such as checking accounts, money market savings accounts or certificates of deposit, which can be easily converted to cash. Deposits held in FDIC member financial institutions provide deposit insurance. This insurance coverage is limited to $250,000 per bank per parish. The parish investment policy should address balances that exceed this limitation.

11.4.3.2 Debt Securities

Debt securities are a creditor relationship with another entity. They include bonds, commercial paper, and US Treasury Bonds.

11.4.3.3 Equity Securities

Equity securities are an ownership interest in another entity. They include mutual funds, common stock, and preferred stock. Typically, these types of investments cannot be converted into cash without the aid of a broker or without the process of selling the investments on the open market.

11.5 Accounting for Investments

Accounting for investments affects both:

- Balance sheet accounts (the Investment Account)
- Income statement accounts
    - Investment revenue such as interest, dividends, realized gains and losses, and unrealized gains and losses.
    - Investment expenses related to the fees charged by investment managers and advisors.

The elements needed to adjust investment related accounts through a monthly journal entry will be reported to you through your monthly investment statement. The following information provides guidance on how to record the initial purchase or other acquisition of various investments.

11.5.1 Purchased Investments

Investments are recorded at fair value. The initial fair value is the purchase price. Once an investment's value is initially established and recorded, this figure becomes known as the investment's cost basis. The cost basis is used in subsequent gain and loss calculations.

On occasion, a parish may learn of its ownership of an unrecorded investment. When this occurs, parish personnel should make every effort to locate original purchase or donation documentation. If documentation is not available, the parish may recalculate the investment's fair value or appraised value with as much accuracy as possible. This can be accomplished by consulting your investment advisor or investment company.

11.5.2 Donated Investments

If a parish receives a stock donation, this donation is recorded at fair market value at the date it was donated. In order to honor the donor's intent, it is recommended that parishes dispose of stock donations as soon as possible in order to avoid market fluctuations of a single stock or bond. Procedures regarding receipt of donated investments should be included in parish investment policies.

11.5.3 Life Insurance

Donors may decide that gifting life insurance to the parish/school is a good way for them to meet their charitable objectives.

11.5.3.1 Parish is Policy Owner

A donor may choose to gift an existing whole life insurance policy to a parish/school. The donor can change the ownership and beneficiary to the parish/school. The parish/school can:

- elect to continue to make monthly premiums. If premiums are needed to continue the policy until the death benefit is received, the parish/school is responsible for the payment of the premiums.
  - NOTE: The donor may choose to contribute to the parish/school the amount of the monthly premiums. These contributions could be eligible for a tax deduction for the current year. The donor and parish should consult with their tax professional.
  - If the donor contributes the amount of the monthly premium, the donor is simply making an unrestricted contribution to the parish. This must be recorded as income to the parish. Also, the Contribution Statement issued to the donor at the end of the calendar year should include the premium contributions.
- place the policy on reduced paid up status;
- surrender the policy immediately;
- take a loan against its cash values.

Accounting Policy

Cash Value of Policy: The cash value of the life insurance policy must be recorded as an asset to the parish. Use a sub-account under 1160 Investments called "Life Insurance Policy XXXX8".

Payment to Life Insurance Company: The parish issues the check to the life insurance company using an expense account. Use a sub-account under 5199 Other Exp under General Operations called "Life Insurance Premium Expense".

Annual Statement from Life Insurance Company: Upon receipt of the annual statement from the life insurance company regarding this policy, the parish must enter any changes to the policy, which is typically an increase to the cash value of the policy.

11.5.3.2 Parish is Beneficiary

A donor may designate a parish/school as the beneficiary of a whole life or term insurance policy.

When the donor makes the parish/school a **beneficiary** of an insurance policy, the donor retains ownership of the policy and, therefore, retains continued access to the policy's cash value (in the case of a whole life policy.) In the instance where the parish/school is a revocable beneficiary, the designation can be changed should the policyowner's charitable goals or financial priorities change.

Accounting Policy

Because of these beneficiary terms, the parish/school does not record the life insurance policy in their accounting records until the death benefit has been paid.

11.6 Financial Planning Accounts Used by Parishes

Bookkeepers must not intermingle or confuse actual investments with the financial vehicle (or account) that holds investments on behalf of a parish.

Endowments, brokerage accounts and other agency funds are not "investments" in the same sense as debt or equity securities. They are the types of accounts that can be setup by parishes/schools to facilitate the holding of investments.

An agency fund is similar to a long-term savings account. The fiduciary institution does not legally own these funds, rather the fiduciary institution manages and invests these funds as an agent for parishes, schools, and other Catholic entities. An example of this would be investments with the Catholic Foundation of Southern Minnesota.

11.7 Interest and Dividend Income

Investment income, such as interest and dividends from cash and savings accounts should be recognized as it is earned and should generally be reported as operating income on the Statement of Activities. The effect of income on the Statement of Financial Position is generally an increase in UR (unrestricted) Net Assets.

If donors have placed restrictions upon the use of investment income, income should correspondingly be reported as restricted income on the Statement of Activities. The effect on the Statement of Financial Position is an increase in Net Assets with Donor Restrictions.

For donor restricted endowment contributions, the donor instructions should be explicit and in writing about whether the investment income is restricted or not. Investment income includes dividends, interest income, realized and unrealized gains. Some donors allow all investment income to be spent without restriction, some want it specifically restricted and some even want part of the investment income to go back into the original corpus of the contribution with only excess returns spent.

11.8 Realized Gains and Losses

A realized gain or loss is calculated and reported upon when an investment is sold. A realized gain occurs when the value of an investment on its sale date is higher than the original purchase price or donation value. A realized loss occurs when the value of an investment on its sale date is lower than the original purchase price or donation value. The parish may not need to actually sell an investment to have "realized" gains and losses. There may be realized gains and losses within mutual funds or other pooled investments.

If the investment is not restricted by the donor, realized gains and losses should be recorded in operating accounts on the Statement of Activities. The corresponding effect on the Statement of Financial Position is an increase or decrease in UR Net Assets.

If restrictions have been placed upon the investment, realized investment gains and losses are reported on the Statement of Activities as restricted investment gains or losses. The corresponding effect on the Statement of Financial Position is an increase or decrease in Net Assets with Donor Restrictions.

11.9 Unrealized Gains and Losses

Investments should be disclosed on the Statement of Financial Position at their fair market values (FMV). This FMV includes effects of unrealized gains and losses. Investment values should be updated on a regular basis – preferably monthly or quarterly – depending on the nature and materiality of parish investments. Investment income/loss attributable solely to changes in market value should be recorded in a separate subaccount so the parish can easily distinguish actual realized gains/losses verses unrealized gains/losses associated with changes in investment market value.

11.9.1 What is an Unrealized Gain?

An unrealized gain is a profit that exists on paper, resulting from an investment. It is a profitable position that has yet to be sold in return for cash. A gain becomes realized once the particular underlying stock or bond is sold at a price above its original cost.

11.9.2 What is an Unrealized Loss?

An unrealized loss is a loss that results from holding onto an asset after it has decreased in price, rather than selling it and realizing the loss. An investor may prefer to let a loss go unrealized in the hope that the asset will eventually recover in price, thereby at least breaking even or posting a marginal profit.

11.10 Investment Expense

Investment expenses consist of custodial fees, transaction fees, advisory costs and other similar charges. Investment expenses should be reflected on the Statement of Activities as they occur using natural account 5196. Parishes should pay close attention to investment fees and expenses because they reduce overall investment revenue.

11.11 Recordkeeping

Proper record keeping is essential for parishes to accurately record, disclose and manage investments. Donor intentions and other terms and conditions affect how investments are recorded and used.

It is important to keep complete records in a permanent file of investment account activity including purchase acknowledgments or other receipts which show the investment original cost basis.

When a parish liquidates all or a portion of an investment, the parish must also keep a record of what was sold, when the sale took place, and any realized gains or losses related to the sale.

Each savings/money market, CD, and short-term investment account should be reported as separate line items in the asset section of the Statement of Financial Position. Sub-Accounts should be created/edited to include bank/investment company name and account numbers or investment name of each:

- 1115 Savings/Money Market Investment,
- 1160 Investments and
- 1170 Investments with CFSMN.

Certificate of deposit account numbers, rates of interest, authorized signers, and renewal date information should be maintained for each certificate of deposit. Updates to signatures on each CD, or master CD contract, must be completed upon new pastor assignment or other authorized signatory termination and/or installation.

Investment records such as broker or foundation statements should be reconciled to corresponding general ledger account balances on a timely basis, preferably monthly but at least on a quarterly basis. The purpose of this reconciliation is to ensure parish financial statements accurately reflect the value of investments held by the parish.

11.11.1 Recording Investment Activity

There are typically three different categories of investment accounts. Review the various investment accounts to determine which category is appropriate for each account. These accounts may be held at Catholic Foundation of Southern Minnesota (CFSMN) or other financial advisory institutions.

11.11.1.1 Agency Fund

This is an investment account where funds can be deposited and withdrawn by the parish at any time, and functions much like a standard savings account. This account may be used as parish reserves. The parish has complete control of these funds, including the corpus/principle. Parish leadership may have designated the funds, which are recorded and reported as Without Donor Restrictions (Unrestricted).

11.11.1.2 Permanently Restricted Endowment

Permanently Restricted Endowment funds have donor-imposed restrictions that prohibit the parish from accessing the corpus/principle of the fund. Donor's wishes and/or Parish Policy determines if, when and how the parish can spend the fund's earnings.

In general, endowments are comprised of donor restricted funds that are permanent in nature. **Depending on the donor's restriction**, earnings, such as Realized Gains/Losses, Unrealized Gains/Losses, and Dividends/Interest, may be recorded as With Donor Restrictions (Temporarily Restricted) or Without Donor Restrictions (Unrestricted).

11.11.1.3 Board Designated (Quasi) Endowment Fund

Parish Leadership may earmark a portion of its unrestricted net assets as a board-designated endowment to be invested to provide income for a long but unspecified period. Since there is no gift instrument, these funds are classified as Without Donor Restrictions.

Quasi-endowments, which are also known as "board designated net assets" are established by the parish/school itself, not by specific donor intent. Under a quasi-endowment, principal and income may be utilized at the discretion of the parish/school.

Unlike permanent endowments, parish leadership can end its designation for any reason and remove funds from the quasi-endowment at any time it chooses. Quasi-endowments are typically established using either

- unrestricted parish funds, typically excess net surplus or
- unrestricted bequests.

11.11.1.4 Cemetery Permanent Care Fund

Permanent care is a portion of income derived from the sales of all cemetery lots and burial space in a crypt or columbarium. Additional income or funds of the cemetery, in excess of liabilities, may be added to the fund by the members of its board of trustees.

The purpose of the Permanent Care Fund is perpetually maintaining the individual lots and graves, and the maintenance, repair and future renewal of the borders, drives, water and sewer systems, enclosures, and necessary buildings.

- All parish cemeteries must maintain a permanent care fund.
- Cemetery funds must not be comingled with other Parish Funds.
- Cemetery funds may not under any circumstances be used or borrowed by the Parish for any purpose unrelated to the Cemetery.

In cooperation with Catholic Cemeteries regarding the permanent care fund contributions, the recommended amounts should be at least 25% of lot sales, crypt sales, and columbarium sales.

However, if a Parish establishes that they are underfunded for this important aspect of cemetery management, a Parish should catch up by applying a percentage in excess of 25% of all sales until the cemetery permanent care fund is fully funded.

11.11.1.5 Donor Advised Account

A donor-advised fund is a charitable giving vehicle administered by a public charity created to manage charitable donations on behalf of organizations, families, or individuals.

However, distributions may be made to the parish from a Donor Advised Fund. When the distribution(s) are received by the parish, the funds are recognized as income:

- The funds may be considered Donor Restricted if restrictions are imposed by the donor on the distribution. In this case, use a restricted Funding Source and utilize a Project Code to track fund balances.

- If no restrictions are imposed by the donor on the distribution, the distribution should be recorded to funding source 00 as an unrestricted contribution

SECTION 12 – SCRIP PROGRAMS

Scrip programs require a high level of internal controls to minimize the risk of fraud. This section discusses best practices for a parish or school scrip program.

To reduce risk of loss or theft of gift cards, parishes should keep inventory levels as low as possible. Gift cards should be treated with the same security levels as cash. Gift card inventory should be reconciled monthly by someone not involved in buying/selling the cards. Parishes should ensure that the people who handle Scrip have background checks on file.

12.1 Scrip Handling Guidelines

SCRIP can be an excellent fundraiser if it is properly handled and safeguarded. Since SCRIP is an alternative form of currency, it should be treated as cash. Accordingly, parishes should practice safe procedures in the handling of SCRIP. The following procedures should be followed:

- For further information on the recommended procedures for administrating a Scrip program, please see the Appendix Section.
- Volunteers should not take SCRIP home for delivery. Parishioners participating in the program should pick up SCRIP at the parish in a centralized location. SCRIP can be sent home from school with a person's son or daughter if the person signs a waiver providing the parish permission to do this.
- SCRIP should be stored in a safe, which is locked at all times. The safe should be kept in a non-obvious, secure area on parish premises.
- A large inventory of SCRIP should not be maintained. SCRIP can be received from Great Lakes Scrip in one day. Parishes should only order the amount of SCRIP that has been requested by program participants and only keep a small inventory based on day to day sales. It is also possible for purchasers to order directly from Great Lakes Scrip online and receive the cards digitally. This is an excellent method of sales/purchases requiring no on-hand inventory at all.
- Adequate bookkeeping that tracks the purchase and distribution of SCRIP is required. At least two people should have dual responsibility for the maintenance of SCRIP records. Great Lakes Scrip provides a scrip management portal for a nominal fee which will track scrip purchases by the organization, scrip sales by customers and scrip credit by families or organizations. Customer purchases of scrip must be clearly documented indicating the date purchased, method of payment and items purchased. The daily sales should be reconciled to the deposits made to the bank.
- SCRIP records should be reviewed by the parish finance council on a quarterly basis. Additionally, the SCRIP records should be stored in a separate area from the SCRIP. For assistance in the review procedures to be followed, please see the guidance provided in the Appendix Section.

12.2 Unrelated Business Income Tax Implications

The IRS considers SCRIP fundraising activities as a trade or business. The profits made from the activity are exempt from income tax when the number of volunteer hours is 85% or greater of the total number of hours it takes to run the program. In a letter dated December 3, 1998, the IRS states, "It is the responsibility of each participating parish or school to maintain any records necessary to show that this is in fact the case."

All SCRIP programs must maintain a record of the hours compiled for each volunteer and paid employee. At the end of the fiscal year, a calculation must be made to see if the program meets the "85% test." If the paid hours exceed 15% of the total hours, a federal form 990T must be prepared and tax paid on the profits. Filing this tax return is a significant burden, but can be avoided with proper planning.

To access form 990-T Exempt Organization Business Income Tax Return, click the following link: Form 990-T

SECTION 13 – **FIXED ASSETS**

Fixed Assets is a term used in accounting for assets and property that cannot easily be converted into cash. These assets are items of value that a parish or school has bought and will use for an extended period of time, generally more than one year. Fixed assets include land, land improvements, buildings, building improvements, fixtures, vehicles, furniture, maintenance equipment, and office equipment. Excluded from fixed assets are operating expenses and routine repairs and maintenance. The purpose of this policy is three-fold:

- To promote a consistent methodology for categorizing, recording and reporting parish and school fixed assets on parish and school financial statements.
- To provide parishes and schools with tools and templates for maximizing asset use.
- To identify and prioritize upcoming capital projects, and responsibly fund asset repairs, replacements and new capital purchases.

13.1 Accounting Policy

The Diocese of Winona-Rochester has adopted a policy of recording fixed assets at **Insured Replacement Value** rather than cost. This value is reported to the parishes once a year when the Property & Casualty Self Insurance bills are sent out by the Diocese to all locations. With this policy of recording assets, depreciation is not calculated and expensed. Purchases and disposition of assets are to be noted once a year in the *Statement of Parish Property & Historical Data*. The link to this form can be found under the Parish Annual Report tab of the Finance Department webpage.

13.2 Scope

Fixed assets are the equipment, furnishings and infrastructure integral to a well running parish or school. A starting point in good financial management of fixed assets is to develop a detailed listing of assets currently in use.

13.3 Acquisition and Recording of Fixed Assets

13.3.1 Real Estate Transactions

All real estate transactions involving either the acquisition, disposal or leasing of parish property are to be approved by the Bishop. As the legal owner of record, the Bishop is required to sign the Deed in the event that a parish property is to be sold. His signature may also be required on other property documents, e.g., those granting easements or right-of-way. The parish is expected to retain its own attorney for legal services as may be required in the processing of real estate transactions. In addition, each real estate transaction needs to have a proxy issued for the transaction unless the Bishop and Vicar General are involved in and vote at the Civil Corporation meeting where deliberations of the real estate transaction take place.

13.3.2 Asset Valuation

Since the fixed assets are recorded at insured value, any costs of acquisition are recorded in one or more of the following accounts:

- 5182 – Non-Capital Equipment Purchases
- 5190 – Capital Improvements Expense (Assets purchased in excess of $3,000)
- 5192 – Repair and Maintenance – Building and Grounds
- 5193 – Repair and Maintenance – Equipment

13.4 Disposal of Assets

Since the assets are valued at insured replacement cost, the disposal of an asset is not recorded in ParishSOFT Accounting. The Asset Listing should be updated showing the removal of the asset.

If an entire building is sold, the Asset values should be adjusted by the insured value of that building. An example of the sale of a parish building is below:

Sale of Parish Building valued at $1,100,000 for $198,851.35

	Debit	Credit	Comment/Project
1110CS00P00 Checking	198,851.35		Proceeds Received
4510BG00P00 Gain on Sale of Property or Equip	901,148.65		Loss on Sale
1805FA21P01 Buildings		1,100,000.00	Insured Value
3100NA00P00 UR-Unrestricted Funds-Parish		1,100,000.00	Net Asset Adjustment
3150NA21P01 UR-Plant Fund	1,100,000.00		Net Asset Adjustment

13.5 Recordkeeping

Each parish or school should have a detailed list of all fixed assets. Best practices suggest that a physical inventory observation of all fixed assets be performed on an annual basis, noting the location of all assets, including assets used remotely.

If not already in place, a detailed Asset Listing should be developed by every parish and school. Asset records should be maintained on an ongoing basis. All asset acquisitions should be added to the Asset Listing (noting dates acquired) at original cost at the time of acquisition.

ParishSOFT Accounting has a Fixed Asset Module that could be purchased for tracking the fixed assets of the parish and school.

13.6 Capital Improvement Plan

A capital improvement plan is a comprehensive long-range schedule (greater than 3 years) which identifies capital projects and equipment purchases as well as funding sources for these projects.

There are many potential benefits to maintaining a capital improvement plan that include the following:

- Provides a process to evaluate all potential projects at the same time.
- Prioritizes projects to correspond to the mission of the parish.
- Offers a proactive approach to funding projects, major repairs and asset

replacements.
- Acts as a tool to communicate implementation of pastoral/strategic plan with parishioners, staff and parents.
- Stabilizes funding and enables consolidation of projects in order to reduce borrowing costs.
- Stabilizes parish operations by projecting and prioritizing projects and the corresponding funding.

A Capital Improvement Plan contains the following information:

- A listing of the capital projects to be completed and assets requiring replacement
- Location of the project (by building)
- Type of Project
- A timeframe for project completion (with the ability to filter by quarter and year)
- An estimated cost (or best guess)

The first step is to use the Asset Listing as a tool to identify when assets on the list will require maintenance services, repairs and replacement. When possible, financial estimates for repair and replacement should be tabulated and attached to realistic timeframes. This schedule is called the Deferred Maintenance Budget.

Once existing assets have been inventoried and valued, this Deferred Maintenance Budget can be used as a schedule to combine maintenance requirements and replacement time-frames for existing assets as well as plans for new asset purchases and/or building projects.

This Deferred Maintenance Budget Template (See the Appendix for a link to this document) gives visibility to funding needs related to existing assets and planned asset purchases. The template assists in providing the dollar value of unfunded future fixed asset maintenance and possible replacement.

SECTION 14 – **PAYABLES AND EXPENSE RECOGNITION**

14.1 Purpose

Accounts payable represent short-term obligations to be paid to the vendors/creditors of a parish, cemetery, and school for goods purchased or services provided. Generally, receipt of an invoice for goods or services provided would prompt recording an accounts payable item. An accrued liability would be recorded if an expense has been incurred but an invoice has not been received. Properly recording these obligations when incurred allows the parish/school to make a cash flow plan to ensure these obligations are paid in a timely manner.

Accounts Payable and other liabilities must be disclosed on the Statement of Financial Position in the Liabilities section. The purpose of this policy is to provide guidelines for categorizing, recording and reporting parish, cemetery, and school accounts payable and accrued liabilities and properly disclose the parish's financial obligations on the parish financial statements.

14.2 Scope

Generally, accounts payable obligations are expensed in the period incurred and not when invoices are received or paid. **In accrual accounting the payable must be recorded as of the date on which the service has been provided or goods purchased. This date may or may not match the invoice date.**

14.2.1 Entry of Transactions

Invoices and credit/debit card purchases should be entered within the week of receipt. Some vendors only issue account statements and do not bill by invoice. **When possible, accounts payable transactions should be recorded from original invoices and credit/debit card receipts, and not from vendor statements, packing slips or credit card statements.** This is especially important with debit card purchases, since these purchases affect your bank balance and general ledger balance immediately.

14.2.2 Terms and Due Dates

It is important to pay attention to the terms stated on the invoices. Some vendors will charge a penalty, late fee and/or interest if accounts are overdue. Be sure to note these vendors and make timely payments to avoid such charges.

ParishSOFT has the ability to store payment terms in each vendor record to automatically set due dates and discount dates on the bills when they are entered. In order to maximize cash flow, the early payment option should be utilized if possible.

Certain types of accounts payable transactions such as payroll taxes, employee share of medical and other benefits, and 403(b) employer and employee contributions must be paid when due in order to satisfy legal obligations.

As a matter of best practice and internal controls, it is not advisable to prepare checks the parish does not intend to mail immediately. If checks are not mailed as soon as they are prepared, they are more likely to be lost or stolen.

It is also more difficult for the parish to track expenses and control payments. For cash flow purposes, best practice suggests periodic review of outstanding invoices using the accounts payable aging report along with current bank balances. ParishSOFT also has the ability to pull up all invoices due by a specific date to assist with this process.

Electronic Transactions

Electronic invoicing is becoming increasingly popular. The invoices are then able to be uploaded and stored in ParishSOFT Accounting, as a supporting document, and should also be forwarded to the pastor/parish administrator for approval.

14.3 Liability Recognition

Liabilities represent financial obligations related to a variety of items. Some examples are listed below.

- Vendor payables for goods/services received and for which invoices have also been received.
- Wages for work performed in current fiscal year but not paid until the following fiscal year
- Vacation, Paid Time Off and or Sick Time accrued at year end for any unused amount which may be carried over to the next fiscal year
- Special collections taken up to be remitted at a later time to a third-party non-profit
- Other payments that are due over a period of time
- Lines of credit and/or balances of long-term debt

14.3.1 Deferred Revenue

A liability can be an obligation of the parish, cemetery, or school for future performance for cash received currently. An example includes prepaid school or faith formation tuition. Another example includes festival raffle money received in one fiscal year for a festival in the next fiscal year. The revenue is then recorded as deferred revenue and is recognized when the service is performed. Deferred revenues represent liabilities to the parish, cemetery, or school since monies would be returned to the payer(s) if the event did not occur.

14.3.2 Cut-Off Considerations

Cut off is a term that refers to recording transactions in the proper fiscal period. Cut-off period is a length of time that the parish/school continues to keep its accounting records open to record invoices or other expenses or revenue that relate to the open period.

Generally, many invoices for a given month are received in the first two weeks of the following month. As such, in order to accurately reflect the month's activity, it is recommended to keep the accounting records open for a 14-day period after month end.

However, at fiscal year end, it is recommended to leave the records open for three to four weeks to capture as much of prior year financial activity as possible. In accrual accounting it is important to record transactions in the period that they are incurred (for expenses) or received (for revenue--although it may be deferred revenue if it relates to activity of the next fiscal year).

When information comes to light after an accounting period is closed, it is prudent to consider whether an unrecorded transaction would be material enough to warrant reopening an accounting period. If you are unsure regarding the materiality of month end/year end transactions, please consult with the Diocesan Parish Support Coordinator. Information is material if its omission or misstatement could influence the economic decisions of the parish, cemetery, or school leadership taken on the basis of the financial statements. In an external agreed upon procedures engagement or an internal audit, cut-off procedures are usually tested to make sure that the financial data is recognized in the proper accounting period.

Parishes and schools should document cut-off procedures for month end and year end accounting periods. Year-end review should include but not be limited to:

- Review all invoices received during the determined cut off period and record as appropriate.
- Reconcile the Aged Accounts Payable listing to the general ledger AP balance on a monthly and yearly basis.
- Review wages, vacation time, sick time, paid time off, and other liabilities that do not necessarily have an invoice and make sure to accrue any amounts due at month end and year-end as needed. Some liabilities will be recorded monthly while others are reviewed and adjusted at year-end.

14.3.3 Expense Recognition

Parishes, and schools incur many types of expenses including payroll, administration, instructional, program and facility. The purpose of this policy is to promote a consistent methodology for categorizing, recording and reporting parish and school expenses on parish financial statements.

14.3.4 Accounts Payable

Accounts Payable is money owed by a parish or school to its suppliers or vendors. It is shown as a liability on a Statement of Financial Position. At the end of the month or year, it is important to record all invoices in accounts payable for items received or services rendered through that accounting period.

14.3.5 Accrued Expense

An accrued expense is recorded when an item has been received or a service rendered during a given accounting period but no invoice has yet been received. A common example of accrued expense relates to teachers who elect twelve-month payment plans for their salary and benefit expenses.

In cases of school staff or other parish\school personnel working a portion of the year, payroll and benefit expenses shall be recognized only when the employees are providing the services as outlined in their work agreement. **Recognition of expense does not always correspond with payment of wages and benefits.** For example, salaries and benefit expenses for a teacher working during a nine-month school year would be recognized only during the months of that school year. Expenses would not be recognized during summer months regardless of whether the teacher receives salary payments or not. Accrual accounting practices require that no matter when they are paid, teacher salaries and benefit expenses are to be recognized only during the months of the school year. For teachers who elect twelve-month payment plans, expenses should be accrued before salary payments are actually made.

Another example to illustrate accrued expenses is to consider parish\school purchases made for a festival at the end of one fiscal year. It is especially important to accrue expenses before the fiscal year end, even if the parish\school does not receive invoices until the start of the next fiscal year.

14.3.6 Prepaid Expense

Expenses are recognized in the year an event takes place, when a service is performed or when a product is received. Timing of expense recognition does not necessarily correspond to when invoices are paid. For example, supplies may be purchased in anticipation of an annual parish or school festival. In this case, expenses should be deferred until the event takes place

Another example of prepaid expense involves an annual maintenance contract where a parish/school must pay the total contract price up front. The parish/school will pay for the annual contract in one accounting period but will receive maintenance services for a full year. The parish/school should record the contract as a prepaid expense when payment is made. The parish/school should then recognize 1/12 of the total contract value as expense and reduce the prepaid expense account by the same amount during each month of the contract term.

In the cases of many utility or municipal billings, a parish/school may receive invoices pertaining to semi-annual time frames, quarterly periods or mid-month to mid-month periods. The parish/school should make reasonable efforts to record expenses within the proper month or quarter. At year-end, a parish/school should verify that appropriate levels of annual expenses have been recorded and ensure recognition of expense is consistent from year to year.

14.4 Recording Payments

The program director should indicate on the check request which general ledger account should be charged for the disbursement. Those administering the program know best the purpose of the expenditure. The pastor and the accountant or bookkeeper should review the general ledger account coding for reasonableness, consistency and budget alignment. If a question arises on the account coding, the program director needs to be consulted.

14.4.1 Allocation of Costs Between Clustered Parishes

When parishes are clustered together and share resources, costs of these shared resources must be properly allocated between the parishes. Allocating costs between clustered parishes can be achieved by various methods. The parishes must choose a method that fairly represents the cost relationships. The parish may choose another method that applies to their situation if more appropriate. The method of allocation may be based on one of the methods described below.

- Proportion of time the priest dedicates to each parish.
- The number of families in each parish

Using a percentage based on one of the methods above, actual costs incurred by the parish paying the bills can be allocated properly. The actual allocation can be determined on a monthly basis.

Example:

	Dedicated Time	Number of Families
Parish 1	60%	250 or 71%
Parish 2	40%	100 or 29%

Shared Monthly Expenses Paid by Parish 1 - $5,690
Allocation Based on Time
Parish 1$5,690 x 60% = $3,414
Parish 2$5,690 x 40% = $2,276

Allocation Based on Number of Families
Parish 1$5,690 x 71% = $4,040
Parish 2$5,690 x 29% = $1,650

As can be seen, the allocation can be very different based on the method used. As a result, it is important to thoughtfully choose which method more accurately reflects the benefit that each parish receives and its share of the cost.

14.4.2 Credit Card, Debit Card and EFT Payments

At times, parishes find it useful to have credit or debit cards in the parish name. Some pastors find it convenient to charge purchases for the parish on personal credit cards. This section addresses both uses of credit and debit cards.

Parish credit cards and debit cards must be closely controlled to prevent misuse and misappropriation. Only those staff members who will regularly use the card should have authorization to charge. Cards should be destroyed upon an employee's or volunteer's departure. Removal of the card authorization and other access should be identified on a termination of employment checklist and a designated person should ensure all vulnerable access points have been addressed.

Most Credit/debit cards are issued in the name of a specific person. Those cards should be maintained and secured by those persons at all times. Common credit/debit cards only in the name of the parish entity should be stored in a locked safe. After utilization, receipts must accompany the return of the card.

The pastor and bookkeeper shall examine credit card statements carefully to verify that only appropriate expenses have been charged. Those using the card should be required to provide original charge slips and receipts for all purchases. After charge slips and receipts have been entered into the credit card feature of ParishSOFT, the bookkeeper should attach those receipts to the statement, when received, and subsequently be filed in the paid invoice files.

If any inappropriate use is detected, the pastor should be immediately alerted to possible misuse of the parish credit card. In the case of extreme circumstances, the individual's ability to charge would be suspended and include potential termination of the employee. Misuse and misappropriation of credit cards and the consequences of these actions should be outlined in the Parish Operations Manual.

14.4.3 Reimbursements

Expense reimbursement fraud schemes are among the most common types of fraud. Staff and volunteer reimbursements should be discouraged, and the parish should pay all vendors directly. Reimbursements from cash payments should be highly scrutinized.

However, in the normal course of business, the parish may find employees or volunteers that make purchases for the parish and request reimbursement. Anyone requesting reimbursement should be required to provide an expense payment authorization request detailing the purpose of the expenditure and attach the corresponding original receipt for the entire amount requested. The parish should retain the check request, check stub and all original (not copies) submitted receipts in the invoice file. Retaining original receipts reduces potential of an individual returning the purchased goods and keeping the reimbursed funds. Staff or volunteers requesting reimbursement must obtain authorization by the business administrator or program director prior to making the purchase, to ensure sufficient funds remain in the budget to cover the purchase. If the parish detects a pattern of frequently used vendors, it is recommended that the parish obtain a charge account with the vendor.

Contracts

Since each parish is separately incorporated, in order for the parish to enter into contracts and other agreements in excess of $25,000, it is necessary to secure the consent of all members of the parish corporation, including the Archbishop and the Vicar General. The necessary permission is generally received by requesting a proxy.

For a complete list of financial transactions that require corporate action, please see the Articles of Incorporation for the parish. In addition to these provisions, leases for rental of parish property must be approved by the Bishop when the lease is one year or longer or when the value of the property to be leased (not the value of the lease) is $120,000 or more (Canon 1297 – Leasing of Church Property).

Pastors contemplating major construction or renovation projects should consult with the Chief Financial Officer (CFO) of the Diocese before initiating any project. For further information on proxies and limits on financial transactions, please refer to the *Proxy Guidelines* section of the Finance Department website.

Catholic Mutual Group requires as part of your Self-Insured General Insurance Program, that the parish forward for review any contracts (prior to signing) and certificates of insurance received. As a service to their client, Catholic Mutual Group reviews contracts for insurance concerns that may put your Self-Insured General Insurance Program at risk. Contractors and independent contractors must provide a Certificate of Insurance, reflecting no less than $1 million in general liability insurance. Even if you continue to use the same contractor, the Certificate of Insurance must be approved by Catholic Mutual Group each year, as the contractor's and independent contractor's insurance renews annually. Contracts and certificates can be e-mailed to rchristianson@catholicmutual.org.

14.5 Liability Account Activity

Occasionally, a parish may collect funds on behalf of a program which would not be considered income to the parish. These types of transactions are considered "Agency Transactions". The purpose of an Agency Transaction is generally to help donors contribute to another specific third-party non-profit organization. A parish may collect funds on behalf of a third-party non-profit such as the Catholic Ministry Appeal. The parish deposits the payments into the parish checking account and one check is written to the third-party non-profit. In this example, the parish has collected the funds as a "pass through," thus recorded in a Liability account and not recorded as income since the Catholic Foundation of Southern MN will issue the contribution receipt.

The criteria for determining whether this is income to the parish is whether the parish is issuing the contribution statement to the donor. If the parish is issuing the contribution statement, the parish records the donation as non-assessable income and records charity expense when the payment is made to the organization.

14.6 Sales Tax

Parishes in the Diocese of Winona-Rochester are religious corporations, and are therefore exempt from paying sales tax on most purchases in the state of Minnesota. Parishes should provide vendors with their sales tax exemption number prior to making purchases and should be alert to sales tax charged improperly on purchases.

Sales tax exemption is granted by the individual states, so out-of-state purchases may not be tax-exempt. As a note, employees or volunteers purchasing personal materials utilizing the exemption number of the parish are not tax exempt and these transactions should not occur. Only the parish qualifies for this exemption.

For further information, please access MN Department of Revenue regarding sales tax guidelines. https://www.revenue.state.mn.us/guide/nonprofit-organizations-industry-guide

For a copy of the current form ST-3 click on this link:
Form ST3 - Certificate of Exemption

14.7 Signatures

In a good control environment, the pastor maintains control over the cash and investment assets of the parish. Only pastors, parochial administrators or their designees may sign checks on parish accounts and, whenever possible, the pastor should sign the checks himself. Allowing a designee to sign checks on the pastor's behalf does not relinquish the pastor of his fiduciary duty. Proper internal controls must be in place if allowing a designee to sign checks.

The same protocol for bank access and signing authority should be applied for parish savings and investment accounts. In cases where another signature is required for expenditures above $5,000, a trustee is a good alternate signatory on the bank accounts. As a note, after consultation with the finance council, the pastor may determine a lower limit is acceptable for a dual signature limit.

Under no circumstances should the bookkeeper, accountant, or anyone else who has regular access to the accounting records of the parish or school, be an authorized signer on a bank account. Segregating access to cash from access to the accounting records is an important required element in the internal control structure of the parish.

Make sure that you keep your check signers current. Banks have a documented process when a signer needs to be added or deleted from the bank accounts, although this can only be implemented if you notify the bank promptly when signers change. Pastors should not use signature stamps to sign checks. This provides opportunities for error, theft and possible misuse of authority.

Outsourcing the parish payroll and payables where an electronic signature is necessary can be beneficial; however, it can also be an area of great risk as identity theft is a significant concern. Many parishes are engaged in electronic applications for online banking, merchant services, payments of bills, payroll direct deposit, etc. Before supplying a signature of a signer on the parish bank accounts, thoroughly investigate the provider's security policies and protections to ensure that the provider has the appropriate safeguards and destruction policy in place.

14.8 Corrections

If data entry errors are found in prior or current fiscal months, journal entries must be created in the current fiscal month to correct.

SECTION 15 – **CASH DISBURSEMENTS BEST PRACTICES**

A major asset of parishes is its cash and cash equivalents, including marketable securities and other highly liquid assets readily convertible into cash. Cash is highly susceptible to loss or misappropriation due to its liquidity. Therefore, it is very important for the pastor, in consultation with the Parish Finance Council, to establish and enforce a strong system of internal control over cash and the disbursement of it. Prudent management of parish expenses and cash outflows is a part of the fiduciary responsibility of the pastor. The pastor and the Parish Finance Council are accountable to the parish community for their stewardship of their parish finances. Good control over cash disbursements will help ensure resources are used as effectively as possible to meet the needs of the parish and community.

Three basic functions make up a cash disbursements system:

1. Requesting Disbursement
2. Authorizing Payment
3. Recording Expenses

In a good system of internal control, each of these functions will be performed by separate individuals. In addition, the system for making purchases and contracting for services will be separate from the cash disbursement system. An effective control environment will have segregation of the three main cash disbursement functions as well as purchasing and disbursement. Some parishes may not have staff adequate to separate the purchasing and disbursing functions. This chapter will discuss the cash disbursement system and make suggestions to strengthen internal control over cash disbursements.

15.1 **Requesting Disbursement**

15.1.1 Budget Control

General disbursements should be made in accordance with the parish budget. Following an approved budget is an important aspect of parish financial planning. It is also an important tool in the day-to-day management of parish expenses. The pastor and the parish finance council should make every effort to prepare a budget that realistically projects income and expenses for the year, and it is expected that the parish work within the approved budget. The budgeting process is discussed in greater detail in Section 8 - Budgeting.

The pastor and the finance council should monitor the expenditures of each office, program, or cost center to ensure that spending is in line with expectations. Major purchases should be planned during the budget process. Offices should be required to justify in writing all expenditures significantly beyond their approved budgets.

Directors and supervisors have the responsibility to monitor their specific program expenditures and approve purchases that will be charged to their budgets. Additionally, directors and supervisors should be consulted in the budgeting process and conduct their programs within budgeted amounts.

15.2 **Recommended Cash Disbursement Procedures**

Purchasing Cycle - There are typically four primary functions in the purchasing or acquisition cycle. They are:

- Ordering goods and services.
- Receiving goods and services.
- Recording the liability
- Processing and recording cash disbursements.

15.2.1 Ordering Goods and Services:

Ordering goods or services is the starting point for the cycle. Proper authorization for acquisitions is an essential part of the function because it ensures that the goods or services purchased are for an authorized purpose, and within the budget for the fiscal year. It is essential, therefore, that purchasing authority be established. For capital or other major expenditures, a competitive bidding process should be established.

1. Before placing an order for goods or services, the Parish administrator or bookkeeper should review the budget, to ensure sufficient funds remain in the budget to cover the purchase.

    a. Parishes with various ministries shall have the program director review the program budget, to ensure sufficient funds remain in the budget to cover the purchase. We have used the term "program director" to identify whoever oversees or supervises a program or activity.

    b. When the anticipated cost is significantly higher than the approved budget (as established by the Pastor/Finance Council), advanced approval from the Pastor and/or Finance Council must be obtained.

    c. A purchase order form should be filled out and approved before making the purchase. This can be as simple as providing the online order confirmation or an Excel or Word document that summarizes what has been ordered.

        i. This should indicate the person ordering the items, the quantity and amount of the items, the vendor to be used, the general ledger account number to be charged, and approval signature and date, for the purchase.

        ii. Coding for invoices must utilize the appropriate Expense account (5000-5199) or Liability Account (2000-2399) to reflect the items purchased. Income accounts are not to be used on bill entry in accordance with generally accepted accounting principles.

15.2.2 Receiving Goods and Services:

The receipt of goods or services from the vendor is a critical point in the cycle, because it is the point when the associated liability is usually first recognized. When goods are received, adequate control requires an examination of the packing slip. for descriptions, quality, and condition. The individual responsible for the examination should verify that all goods have been received by checking off or making a tick mark by each item on the packing slip.

1. When goods are received, the items should be matched up with the packing slip or invoice and if there are discrepancies, the vendor should be notified by the purchaser.
2. The packing slip and invoice (if applicable) should be placed with the purchase order and forwarded to the bookkeeper for processing.

15.2.3 Recognizing the Liability:

The proper recognition of the liability for the receipt of goods and services requires accurate and prompt recording. When the vendor's invoice is received, the descriptions, price, quantities, terms and freight on the invoice should be compared with the information on the purchase order and, where applicable, the packing slip. The bookkeeper should enter coding to distribute the expense to the appropriate general ledger account.

1. An important internal control for the payment of expenses is to only pay from original invoices. In order to prevent duplicate payments. The invoice number and date provided by the vendor should be used when entering the transactions into the parish accounting system.
2. The original invoice or check request is then processed and moved forward for payment.
3. Original invoices, E-invoices and, in some cases, statements are acceptable to be processed for payment depending on the vendor.

15.2.4 Processing and Recording Cash Disbursements:

As previously discussed, the most important controls in the cash disbursement function include the signing of checks by an individual with proper authority, separation of responsibilities for signing the checks and performing the accounts payable function, and careful examination of the supporting documentation by the check signer. The checks should be prenumbered and care

should be taken to physically control blank, voided, and signed checks before they are mailed.

The following system for cash disbursements will provide adequate separation of duties to ensure the integrity of the internal control system.

1. The bookkeeper or accountant enters the invoice as an accounts payable transaction in the accounting system. The bookkeeper must ensure that all of the approvals are indicated on the invoice before preparing the check in order to prevent payments made in error and to reduce the number of voided checks.

2. The check is prepared and the bookkeeper or accountant forwards the check, invoice, and check request to the pastor for signature.
3. If all is in order, the pastor signs the check. In the pastor's absence, another authorized person may sign the check, according to the location's bank signature cards.

15.3 Check Payments

All cash disbursements should be made with prenumbered checks, with the exception of petty cash. Using checks for all major cash payments ensures that the disbursement is authorized and there is a permanent receipt. The check should be prenumbered so that it is accounted for properly. This procedure helps to prevent the issuance of a check that is not recorded in the accounting system.

Additionally, pre-signed checks should not be allowed.

If a mistake is made when preparing a check, the check should be voided before preparing a new one. The voided check should then be altered to prevent its use, retained to make sure all prenumbered checks are accounted for, and filed with other voided checks for a permanent record.

The stock of unused checks should be safeguarded and regularly inventoried.

Check signing should be the responsibility of individuals having no access to the accounting records.

Checks should be drawn according to procedures prescribing adequate supporting documentation. To ensure that disbursements are supported by invoices that have been properly authorized, this documentation should include at least

1. a proper original invoice;
2. evidence that the goods or services were received; and
3. evidence that the purchase transaction was properly authorized. •

All supporting documents should be canceled or marked "paid" once a disbursement is made to avoid double payments. Payments should not be made on statements or balance-due billings unless underlying invoices are included.

All checks should be mailed promptly and directly to the payee. The person mailing the check should be independent of those requesting, writing, and signing it.

15.4 Online Bill Payment
(taken from: https://hwllp.cpa/best-practices-for-electronic-payment-controls/)

Many banks offer online bill payment services in addition to third party vendors, such as Bill.com. Prior to contracting with a provider, ensure the bill payment service offers the necessary controls that allow your organization to meet its internal control objectives.

One of the key internal control objectives is the ability to obtain the desired level of segregation of duties. Specifically, bill payment services should provide a platform to ensure that two individuals are involved in the processing of the payment: one individual would process the payment, and the other

individual would approve the payment. The individual approving the payment should not have the ability to make changes to the amount or recipient.

The following table provides a simple illustration of the bill payment process when using a check or an electronic payment.

Individual	Physical Checks	Electronic Payments
Supervisor/Department Head	Approve invoices for payment	Approve invoices for payment
Accountant/Bookkeeper	Enter invoices in accounts payable system	Enter invoices in accounts payable system and make sure the vendor's bank information and the organization bank information has been set up in the system.
Accountant/Bookkeeper	Print checks for signature	Select invoices for payment and print the selected bills list.
Authorized check signer	Review supporting documentation and sign check	Reveiw supporting documentation and approve payment by initialing/signing and dating the selected bills list.
Accountant/Bookkeeper		Export payment file and upload at bank site per the bank's procedure.
Accountant/Bookkeeper	Perform bank reconciliation	Perform bank reconciliation

In addition to controls regarding the segregation of duties, the organization should also consider the following when evaluating the use of online bill payment services:

- Ensure that each individual has a unique log-in and password.
- Determine if the bill payment service offers two-factor authentication as a security measure to protect against the risk of cyber fraud. Two-factor authentication typically requires the user to enter a security code that is received by text message, email, or by a token.
- Ensure that the appropriate supervisor continues to document their approval on the face of the invoice.
- Determine how the invoice will be transmitted to the payment approver. For instance, will the invoice be stored electronically or continue to be stored on paper? Some services, such as Bill.com, allow for electronic storage of the invoice.

15.5 **ACH Payments**

The most popular method of transferring money is through an Automated Clearing House (ACH), which is an electronic network used by financial institutions to process transactions in batches. The typical ACH transfer takes a couple of days to process and to clear the receiving financial institution.

Examples of ACH transfers include payroll direct deposit, automatic loan payment withdrawals, and online bill pay (see above). ACH payments can be setup as one-time or reoccurring transactions.

The following items should be considered when assessing controls surrounding ACH Payments:

- Work closely with your bank to determine what parameters currently exist around ACH payments for a particular account. Determine who can establish an ACH payment and if management approval is required. Determine if dollar thresholds have been established for ACH payments.

- Review online bank account activity frequently and ensure that any ACH payments are expected and approved.

- Consider using an ACH payment voucher form that is created internally. This form would allow the authorized check signer to document their approval. However, be aware that if ACH fraud was to occur, the initiator would most likely not submit a request to management for approval. Therefore, management should ensure that ACH payments on the bank statement are reviewed for validity.

Additionally, an organization's typical check run cycle may include the processing of multiple ACH payments to various vendors. Therefore, consider establishing controls that allow the ACH preparer to initiate the transfer but require automated approval by the ACH approver before the bank processes the payment.

- For example, the ACH initiator may process vendor ACH payments in the amount of $8,374. The authorized approver would then receive an email or call from the bank, which requires the authorized approver to enter the transaction amount of $8,374 in order to obtain dual approval and ensure all ACH payments have been reviewed.
- The approver should also ensure that supporting documentation regarding the ACH payments is reviewed prior to approving through the bank. An alternative to this process would be utilizing an online bill payment provider (see online bill payment section above).

SECTION 16 – **MINNESOTA UNCLAIMED PROPERTY**

16.1 What is Unclaimed Property?

Each year, MN Commerce receives millions of dollars in unclaimed property from businesses and organizations that have lost contact with the owners. The Department is responsible for safeguarding the funds or property until claimed by the rightful owners or heirs.

Property is considered unclaimed if it is being held by a business or organization that has not had contact with the owner for a specific number of years. Common types of unclaimed property can include:

- Dormant bank accounts
- Uncashed checks
- Unclaimed wages
- Pension benefits
- Insurance claim payments or benefits
- Stocks or bonds
- Safe deposit boxes

Businesses and organizations are required by law to review their records and attempt to contact the owner of the property when it appears to be abandoned. If the owner doesn't respond, the property is considered abandoned. The property is then sent to Commerce so the Department can safeguard and continuously attempt to return it to the rightful owner of heirs.

For more information, go to:
https://mn.gov/commerce-stat/pdfs/2022-holder-reporting-guide-kaps.pdf

SECTION 17 – **PAYROLL**

Compensation is usually the largest single expense of a parish or school. Proper employee payment processing along with recording and maintaining of payroll records is essential in determining the financial results of parish and school operations. It is also important to accurately calculate and record payroll expenses to comply with federal and state tax payroll regulations.

The Internal Revenue Service (IRS) and local taxing authorities require employers to maintain records of the compensation paid to each employee performing services for the parish/school. They also require various payroll reports to be prepared and submitted according to specific filing schedules. For all these reasons, parishes must exercise an especially high level of care in payroll accounting.

Take note that the tax rates and/or tax laws referenced in this chapter are subject to change. Refer to www.IRS.gov for the latest developments as they occur.

17.1 Scope

17.1.1 Proper Identification of Workers

See the following link for guidance on the appropriate classification of workers:
Independent Contractor (Self Employed) or Employee

17.1.1.1 Employee

Many factors must be weighed in determining whether a worker is an employee or an independent contractor. The IRS provides general guidance through three categories: Behavioral, Financial and Type of Relationship. For more information, see IRS information titled *Independent Contractor (Self-Employed) or Employee?* via the link in the preceding paragraph.

17.1.1.2 Independent Contractor

Parishes/Schools may sometimes enlist the services of workers who are not employees and who are not working in affiliation with another business entity. These workers are called independent contractors. Parishes/Schools must use great care in classifying workers as independent contractors. If there is any doubt about the status of a worker, he or she should be treated as an employee.

The general rule is that an individual is an independent contractor if the payer has the right to control or direct only the result of the work and not what will be done and how it will be done.

The earnings of a person who is working as an independent contractor are subject to Self-Employment Tax.

The parish/school should require independent contractors to submit invoices for their services. Checks must be prepared through the general ledger accounting system as part of the regular cash disbursements cycle. The invoices should be kept in the parish/school invoice files.

Contractors and Independent contractors must provide a Certificate of Insurance, reflecting no less than $1 million in general liability insurance.

IRS Form W-9 "Request for Employee Identification Number" forms are completed by the independent contractors **prior to any payment to the individual.** No taxes should be withheld from payments to independent contractors who provide a valid Form W-9, and the parish/school should not pay social security and Medicare taxes for them. In the event that a Form W-9 was not completed, the parish or school must withhold and remit taxes to the IRS at a 28% rate. If the independent contractor continues to refuse to provide a completed W-9 form, the Parishes/Schools shall immediately terminate the relationship.

IRS Form 1099-NEC is issued to any non-incorporated, independent contractor to whom it pays more than $600 in services, rents, prizes or awards and other income payments, in one calendar year. Payments to an attorney for legal settlements are reported on a 1099-MISC. Generally, payments to a corporation (including a limited liability company LLC that is treated as a C or S Corporation) are excluded and are not issued a 1099.

17.1.1.3 Consequences of Treating an Employee as an Independent Contractor

If you classify an employee as an independent contractor and you have no reasonable basis for doing so, you may be held liable for employment taxes for that worker including penalties and interest for late payment. See **IRS Publication 4341** for frequently asked questions about the reclassification of workers as employees.

An individual's employment status remains the same at the parish or school even if the individual is performing more than one duty at the parish or school. This means an employee should not normally be considered an independent contractor when performing a secondary or additional function for the same parish. All compensation paid by the parish/school to an employee must be reported on that person's Form W-2 and the proper taxes withheld.

17.1.1.4 Full-time versus Part-time Employment

Full-time employment in the Diocese of Winona-Rochester is defined as those employees who are regularly scheduled to work a minimum of 40 hours per week. Benefit eligible part-time employment is defined as those workers regularly scheduled to work 20 or more hours per week but less than 40 hours per week. Benefits are available to regular part-time employees on a pro-rata basis. It is important for the parish/school to correctly determine the employment status of workers. Payroll withholding, reporting requirements and benefit eligibility are determined by part-time, full-time and independent contractor status.

Exempt Employee: An employee that is in a position that can be documented as meeting one of the exempt classification tests, as defined by the Fair Labor Standards Act, would normally be individuals in jobs that meet both the duties and salary tests for executive, professional, or administrative positions.

Section 13(a)(1) of the FLSA provides an exemption from both minimum wage and overtime pay for employees employed as bona fide executive, administrative, professional and outside sales employees. Refer to the US Department of Labor Fair Labor Standards Act Advisor for additional guidance on determining whether certain employees qualify for exemption from the FLSA.

Link: Compliance Assistance - Wages and the Fair Labor Standards Act (FLSA)
Wages and the Fair Labor Standards Act.

Non-Exempt Employee: The FLSA requires that most employees in the United States be paid at least the federal minimum wage for all hours worked and overtime pay at time and one-half the regular rate of pay for all hours worked over 40 hours in a workweek. The MN state minimum wage is higher than the federal minimum wage, so employees who are covered by both laws must be paid the higher state minimum wage. Hours must be tracked and submitted for all non-exempt employees.

Religious Workers: Priests, Deacons, Religious Sisters and Brothers are religious workers. Please see section "Religious Employees and Payroll Taxes" below for payroll tax implications.

17.2 Proper Payment of Compensation

Compensation is the money paid to an individual as salary or wages in exchange for work performed by an individual. Compensation includes regular earnings, overtime pay, bonuses, and gifts of cash or cash equivalents, such as gift certificates and gift cards regardless of the amount, and pay for additional services performed for the same employer.

Parishes/Schools must ensure that all compensation is reported appropriately through ParishSOFT Accounting's payroll module or a similar program.

17.2.1 Types of Compensation

Regular Earnings: Regular earnings are payments made for services provided by an employee. For hourly (non-exempt) employees, regular earnings are calculated based on the number of hours worked multiplied by the hourly rate. For salaried (exempt) employees, the annual salary is divided by the number of pay periods. This includes payment for any paid leave time including vacation, sick, funeral and personal days.

Overtime: Overtime is defined by the Minnesota Department of Labor and Industry as one and one-half times the regular rate of pay for all hours worked in excess of 48 hours in a seven-day workweek, under state law. However, most locations will fall under the Federal Fair Labor Standards Act that requires overtime after 40 hours in a seven-day workweek.

Overtime should be calculated on a week by week basis which is based on a predefined work week, generally Sunday to Saturday. The overtime policy should be clearly outlined in the employee handbook and consistently applied within the organization. Any leave time including holiday, vacation, sick, funeral, jury duty and personal days does not count as hours worked in determining overtime hours.

Supplemental Wages: Supplemental wages are wage payments to an employee that are not regular wages. They include, but are not limited to; bonuses, commissions, overtime pay, payment for accumulated sick leave, severance pay, awards, prizes, back pay, retroactive pay increases, and payment for nondeductible moving expenses. Other payments subject to the supplemental wage rules include taxable fringe benefits and expense allowances paid under a non-accountable plan. How one withholds on supplemental wages depends on whether the supplemental payment is identified as a separate payment from regular wages.

- Severance Pay: Severance pay is paid to a terminated employee based upon the terms of the severance agreement. The payment is taxable wages and should be treated as a supplemental wage for tax withholding purposes and included on the employee's Form W-2.

- Bonuses and Gifts (cash and cash equivalents): Federal and state tax authorities consider bonuses to be part of an employee's compensation. Therefore, they're subject to Federal, State and FICA taxes. The same rule applies to cash given to employees. To make calculating taxes easier, the IRS allows employers to use a flat withholding rate of 22% for supplemental wages, whether the person is single or married, no matter how many exemptions he or she claims.

- If you intend to process a year end cash gift or bonus to employees, this must be included in a payroll processing as this is taxable income to employees. **Bonus payments are includable compensation for the 403(b).** What this means is that if you pay a cash bonus or gift, and your employee has a percent elected for their 403(b) deduction, you need to take an employee's 403(b) percent deduction into account when calculating the net pay. Ideally, the bonus payments are processed alongside a normal check date. If an employee has a percentage election it applies to all eligible compensation which includes the bonuses.

17.2.1.1 Business Expense Reimbursement

Reimbursements for qualifying business expenses, including mileage reimbursement, are not compensation. Proper documentation from employees, including religious, must be submitted to the parish/school in order to receive reimbursement from the parish/school.

17.2.1.2 Fringe Benefit Exclusion Rules

Any fringe benefit you provide is taxable and must be included in the recipient's pay unless the law specifically excludes it.

This section discusses the exclusion rules that apply to fringe benefits. These rules **exclude** all or part of the value of certain benefits from the recipient's pay. In most cases, the excluded benefits aren't subject to federal income tax withholding, social security, Medicare, or federal unemployment (FUTA) tax and aren't reported on Form W-2. See IRS Publication 15-B *Employer's Tax Guide to Fringe Benefits* for more information.

- Accident and health benefits
- Achievement awards
- Adoption assistance
- Athletic facilities
- De minimis (minimal) benefits – non-cash
- Dependent care assistance
- Educational assistance
- Employee discounts
- Employee stock options
- Employer-provided cell phones
- Group-term life insurance coverage ($50,000 or less)
- Health savings accounts (HSAs)
- Lodging on your business premises
- Meals
- No-additional-cost services

17.2.1.3 Other Compensation

Non-cash benefits including cash equivalents may be provided to employees and should be recognized as compensation to the employees. In those instances, the value of the benefit is added to taxable wages on the Form W-2 and the appropriate taxes are withheld. Examples of this include personal use of parish or school vehicles, gift cards given as a form of bonus, and housing that is provided rent free or below market value to an employee other than a priest.

17.3 Minnesota Wage Theft Law

The 2019 Minnesota Wage Theft Law amends existing state labor laws and provides for new wage and hour requirements, protections and sanctions. Provisions of the new law require employers to review their current policies and practices and take necessary steps to bring those policies and practices into compliance.

17.3.1 Written Notice Requirements –Employee Start Day of Work

The Wage Theft Law requires all employers to provide each employee with a written notice at the start of their employment. The notice must contain the following specific information about an employee's employment status and terms of employment. Below are the specific informational items employers must provide in the written notice to employees when they start employment:

- Employee's employment status and whether an employee is exempt from minimum wage, overtime and other state wage and hour laws, and on what basis.
- Number of days in the employee's pay period and the regularly scheduled payday.
- Date the employee will receive the first payment of wages earned.
- Employee's rate or rates of pay and the basis thereof, including whether the employee is paid by the hour, shift, day, week, salary, piece, commission or other method and the specific application of any additional rates.
- Allowances, if any, that may be claimed for permitted meals and lodging.
- Provision of paid vacation, sick time or other paid time off (PTO), how the paid time off will accrue and terms for its use.
- A list of deductions that may be made from the employee's pay.
- Employer's legal name and the operating name, if different.
- Physical address of employer's main office or principal place of business and a mailing address, if different.
- Employer's telephone number.

Employers are required to keep a copy of the notice signed by each employee. All employers must provide the notice to employees in English. The notice must include a statement, in multiple languages, that informs employees they may request the notice be provided to them in another language. The employer must provide the notice in another language if requested by the employee. The Department of Labor and Industry (DLI) is preparing and will make available to employers the statement in multiple languages that must be included with the notice. **Employers are also required to provide employees in writing any changes to the information in the notice before the date the changes take effect.**

A link to the sample MN form:
https://www.dli.mn.gov/sites/default/files/doc/employee_notice_form.docx

Employers may use the example notice or create their own. It is recommended that you use the form provided by the MN Department of Labor and Industry to ensure that all required elements of the notice are included.

17.3.2 Earnings Statement (Paystub) Requirements

Earnings statements (or paystubs) are important payroll records for employers and employees that document information about wages paid, hours worked, deductions made and benefits accrued by an employee. Existing state law requires earning statements be provided to employees in writing or by electronic means at the end of each pay period and specific information be included on the earnings statement. The new law requires the following additional information be included on the earnings statements provided to employees each pay period:

- Name of the employee.
- Total hours worked by the employee in the pay period.

- Employee's rate or rates of pay and basis thereof, including whether the employee is paid by the hour, shift, day, week, salary, piece, commission or other method.
- Allowances claimed for permitted meals and lodging (New).
- Total amount of gross pay earned by employee in the pay period.
- Net amount of pay after all deductions are made.
- List of deductions made from the employee's pay.
- Date pay period ended.
- Employer's legal and operating name.
- Employer's telephone contact.
- Physical address of employer's main office or principal place of business and a mailing address, if different.

Please note that ParishSOFT Accounting's payroll module has an option to comply with this requirement of the MN Wage Theft Law.

17.4 Payroll Tax Compliance

As an employer, there are many rules and regulations that require attention. Employers must withhold certain amounts from employee pay and remit those amounts to the appropriate authorities. The taxes are typically remitted on-line through EFTPS (Federal, Social Security and Medicare) and the MN Department of Revenue website for the state withholding. Please see Publication 15 and the MN Department of Revenue website for rules for the timing of tax deposits.

There are many types of withholdings, but the following are the most common.

17.4.1 Social Security and Medicare

FICA and Medicare Withholding: Employers, in most cases, are required to withhold the employee's portion of social security and Medicare tax. The employee amounts are 6.2% social security taxes and 1.45% for Medicare taxes. In addition to employee withholdings for social security and Medicare tax, the employer is subject to equal amounts. The employer amounts are 6.2% for social security taxes and 1.45% for Medicare taxes.

Diocesan priest salaries are not subject to the employee or employer portions of social security or Medicare taxes. See the Diocesan Priests" section of "Religious Employees and Payroll Taxes" below.

17.4.2 Income Tax

Federal and State Withholding: Employers are required to withhold federal and state income taxes. The level of withholding is based upon the withholding status declared by the employee on IRS Form W-4 or the corresponding state form.

17.4.2.1 Federal and State Forms

Employers are subject to quarterly and annual filing requirements. Quarterly filings include the Federal Form 941: Employer's Quarterly Federal Tax Return and the corresponding state forms. Annual filings include Form 944 (if applicable), Federal Form W-3 and Form W-2 along with the corresponding state forms.

17.4.2.2 Informational Returns

An informational return is a mandatory form that parishes/schools use to notify government agencies about taxable payments. These returns show how much someone was paid during the calendar year by your parish. Submitting these forms makes it possible for agencies like the IRS and Social Security Administration to track an individual's liability.

Examples of the most common informational return a parish/school must file are:

- Form W-2 – Employee Wages and Withheld Taxes
- Form 1099-NEC – Independent Contractor Wages

17.4.3 Religious Employees and Payroll Taxes

17.4.3.1 Diocesan Priests

Diocesan priests are dual status employees.

- For social security purposes, priests are self-employed and are subject to self-employment tax, which is reported on Schedule SE as a part of the priest's federal tax return. Schedule SE computes self-employment tax. A priest may not have the parish deduct social security and Medicare taxes from his wages at the employee's rate and pay the matching share, as the parish does for regular employees. However, the priest may elect to complete form W-4 and have additional federal tax withheld to ease the burden of making estimated tax payments

- For federal and state income tax purposes, priests are considered employees. Their wages are paid through payroll and reported on Form W-2. They pay state, local, and federal income taxes. Parishes are not required to withhold for federal and state taxes but a priest may request a parish to withhold federal and state taxes by completing IRS Form W-4 and the corresponding state withholding form. If a priest does not have taxes withheld from his pay, he should make quarterly estimated tax payments to the IRS.

Parishes should update the priest's pay and benefits profile each year by the first payroll period in July so priests' compensation can be modified as appropriate to match the Compensation for Priests Policy issued in June each year for the following fiscal year beginning on July 1st.

17.4.3.2 Religious Communities

Members of religious communities are not subject to income tax on payments made to their community for services provided to your entity. Checks for payments must be made payable directly to the religious order. **The IRS will consider payments made to an individual taxable income even if he or she is a member of a religious community.** Payments to visiting priests who are members of religious orders should be made to the order, not the priest.

For these members, it is unnecessary to prepare Form W-2 or Form 1099, withhold taxes, and include payments on Form 941. Parishes should have a written service agreement with the religious order for each individual which outlines work responsibilities and amounts to be paid. Best practice is: payments are recorded and maintained in accounts payable records and not included as part of the payroll reporting process

17.4.3.3 Deacons

The assignment of a deacon does not, in and of itself, constitute employment. A deacon may or may not be a parish employee and should be evaluated as every other individual. As an employee, they are given special tax treatment similar to priestly taxation. For further guidance please refer to the *Tax Manual for Deacons*, available from Shepherds Advisor Publishing.

Parishes may reimburse deacons for expenses they incur in their duties as deacons. These amounts are not taxable to the deacons. Deacons should submit receipts to the parish. The parish should charge reimbursements to the appropriate expense account, e.g., mileage and car expense to an account such as Mileage Reimbursement expense.

17.4.3.4 Retired Priests

The Compensation for Priests Policy spells out the compensation for retired priests. Compensation for weekday or weekend Mass substitution and other services are subject to self-employment tax and are reported on a Form 1099 NEC. Retired priests should also be reimbursed for mileage for their roundtrip travel to the parish that they are serving. Mileage reimbursements are not subject to self-employment taxes and are thus not included on Form 1099 NEC.

17.4.4 Unemployment Tax

Parishes and religious organizations are exempt from federal and state unemployment taxes in most cases. **The Diocese of Winona-Rochester strongly recommends that parishes participate in the Unemployment Compensation program and consider using the *reimbursement method.***

Double check with the MN Unemployment Insurance website to determine covered and non-covered employment. https://www.uimn.org/employers/help-and-support/emp-hbook/covered-employment.jsp#non-covered

Parishes and religious organizations under 501(c)(3) tax exempt laws may voluntarily participate and have the option to opt for one of the following two state unemployment tax methods:

1. An organization may either choose to pay regular state unemployment tax or
2. Reimburse the State of MN for unemployment benefits paid to former employees.

Registration for an account may be done on-line through the unemployment website. https://www.uimn.org/employers/index.jsp If you have questions about registering for an account, contact the Diocesan Parish Support Coordinator.

17.5 Payroll Processing

17.5.1 Gross to Net Pay

Processing employee payroll starts with calculating gross wages and continues with adjusting for withholding and other deductions to arrive at net pay. Employers are required to withhold payroll taxes and may withhold additional items from employee salaries and wages. Taxes become a current liability to the employer. The failure to remit payroll taxes accurately and timely results in interest and penalties being levied on the employer.

- FICA, Medicare: Employers, in most cases, are required to withhold the employee's portion of social security and Medicare tax. Diocesan priests and deacons are not subject to social security and Medicare taxes. For additional detail, see "Religious Employees and Payroll Taxes" section above.

- Federal and State Withholding: Employers are also required to withhold federal and state income taxes based upon the employee's salary and wages with the exception of Diocesan priests and deacons. The level of withholding is based upon the withholding status declared by the employee on Form W-4 or the corresponding state form. Federal withholding tables are available in IRS Publication 15 (Circular E) and the corresponding state withholding tables can be found at MN Department of Revenue. Diocesan priests and deacons may elect through Form W-4 to have additional withholding deducted from their earnings. If a priest or deacon does not have taxes withheld from his pay, he should make quarterly estimated tax payments to the IRS. For additional detail, see "Religious Employees and Payroll Taxes" section above.

- Medical, 403(b): Depending upon benefits provided by an employer, employee contributions to medical plans, 403(b) plans and other benefit plans may be withheld from employee gross wages. Depending upon the benefit and related regulations and plan documents, these withholdings may be excluded from social security and Medicare as well as federal and/or state withholding. Parishes should work with their payroll provider or contact the Diocese Office of Human Resources and Benefits with specific questions related to determining the tax treatment of these payroll deductions.

Note: Payroll taxes and the employee share of medical and other benefits, and 403(b) employer and employee contributions need to be paid when due to avoid penalties and avoid legal implications if not paid on a timely basis.

17.5.2 Rental, Donations, Garnishments, Supplemental Deductions

These withholdings are "post tax" deductions from net pay, meaning that they do not reduce social security, Medicare, federal or state withholding taxes. These withholdings are remitted to third parties on behalf of the employee.

17.5.3 Recording Time Worked

For employees' subject to minimum wage or overtime, the Federal Fair Labor Standards Act requires employers to maintain a record of hours worked each workday and total hours worked each workweek.

The parish/school should establish a system to record the work of employees. This record may take the form of timecards, payroll sheets, or a time book. This record is prepared by the employee and includes the hours and dates worked by the employee. Each record corresponds to the pay period and the manager of the employee verifies and approves the record before the employee is paid.

Non-exempt employees report the hours worked in the pay period along with any holiday, sick or vacation time. At a minimum, exempt employees report holiday, sick or vacation time used in the pay period. Additional time reporting may be required by the parish or school for management purposes.

17.5.4 Recording Time Off

Time off generally refers to sick leave, vacation time and/or personal time off (PTO). Typically, benefit level employees earn time off based on their full time equivalent (FTE) according to the schedule defined by the location they serve. This time is accrued by the pay period and should be tracked in ParishSOFT accounting's payroll module or similar software.

17.5.4.1 Sick Leave

Sick leave should be defined in the employee handbook. This definition should include the number of hours accrued by pay period and a list of the circumstances under which it will be used. Unused sick leave is not typically paid out when the employee leaves their position.

17.5.4.2 Vacation Leave

Vacation leave is typically accrued based on a years of service basis. An example is:

Years of Service	Accrual Rate
0-5 years	3 weeks (accrued by hour each pay period)
5 years of more	4 weeks (accrued by hour each pay period)

Typically, there is a written policy about carrying over unused vacation and also whether unused vacation would be paid out when the employee leaves employment with the location. These policies are determined by the Pastor after consultation and advice of the Parish Finance Council.

17.5.4.3 Personal Time Off (PTO)

Some locations use PTO instead of using sick and vacation leave. PTO can include paid sick time, vacation time and personal time. PTO can be accrued the same way as sick leave or vacation time. The difference is, you do not have to specify whether you are using the PTO for vacation or sick leave.

The location should track PTO through the ParishSOFT accounting payroll system (or similar program) and have a set policy in the employee handbook explaining the accrual, use and carryover of PTO as well as a policy about the payout if an employee leaves employment.

17.5.4.4 Earned Sick and Safe Time (MN)

Beginning January 1, 2024, Minnesota enacted the Earned Sick and Safe Time law. Sick and safe time is paid leave that employers must provide to their employees. It can be used:

- When an employee is sick
- To care for a sick family member
- To seek assistance if an employee or their family member has experienced domestic abuse, sexual assault or stalking.

An employee is eligible for sick and safe time if they:

- Work at least 80 hours in a year for an employer in MN; and
- Are not an independent contractor.

Temporary and part-time employees are eligible for sick and safe time. An employee earns one hour of sick and safe time for every 30 hours worked and can earn a maximum of 48 hours per year unless the employer agrees to a higher amount.

Sick and safe time would need to be manually entered into ParishSOFT Accounting's payroll module on each employee's record. It is best to do this before processing the payroll so that the correct time will appear on the paystub.

For more information, go to the MN Department of Labor's website:
https://dli.mn.gov/business/employment-practices/faqs-earned-sick-and-safe-time-esst

17.5.5 Recording Accrued Wages

Accrued wages refer to the amount of liability remaining at the end of a reporting period for wages that have been earned by employees but not yet paid to them. This liability is included in the current liabilities section of the Statement of Financial Position of a parish. Accrued wages are recorded to recognize the entire wage expense that a parish has incurred during a reporting period, not just the amount actually paid.

The accrued wages entry is a debit to the wages expense account, and a credit to the accrued wages account. Typically, recording accrued wages is done at the end of the fiscal year. The entry should be reversed at the beginning of the following fiscal year.

17.5.5.1 Example of Parish Accrued Wages

Jane Smith is paid $20 per hour. She is paid through the 25th day of the month, and has worked an additional 32 hours during the 26th through 30th days of the final month of the fiscal year. This unpaid amount is $640, which the Parish should record as accrued wages, including related payroll taxes and retirement benefits, as of the fiscal year-end.

17.5.5.2 Recording Accrued Wages in a School

In some Parishes/Schools, teachers work for a specific number of contract days but prefer to receive payment for a different length of time. For example, a teacher works for 9 months, but prefers to be paid over a 12-month period.

Teachers at a Parish School work in the 10-month school year, September –June, but are paid over the course of 12 months of the year. If, for example, annual total cumulative wages for teachers are $240,000, and FICA/Medicare Expense is 18,360 per year, then the School accrues two months of wages and payroll taxes as of June 30th to cover payroll and payroll tax expenses for July and August.

17.5.6 Pay Period Options

The pay period options for submitting and calculating salaries and wages include monthly, bi-weekly (26 pay periods), semi-monthly (24 pay periods) or weekly (52 or 53 pay periods). It is up to the employer to determine the frequency of processing payroll. Best practices suggest that employees should be paid either bi-weekly or semi-monthly and after the work is performed.

17.5.7 Reconciliation of Withholding Accounts

Gross payroll should be expensed to the salary expense account and withholdings are booked to a liability account. In this way, the balances in the withholding accounts will be zero when all withholding and taxes have been paid. Any unpaid amounts will appear as liabilities on the balance sheet.

Remember, the withholding accounts are only holding accounts for amounts the parish/school must remit to the state and federal taxing authorities or to appropriate insurance/pension/garnishment vendors. The balances in them should reflect only those amounts the parish/school has not yet paid. Before the parish/school closes a month and at the end of the fiscal year the accountant or bookkeeper should check that the balances in the withholding accounts are accurate. The account balances should equal the unpaid liabilities for that month.

17.5.8 Workers' Compensation Reporting

An annual report is due to the Workers' Compensation Reinsurance Association using prior calendar year wage data. The report requires categorizing wages according to the type of work performed in order to determine the next year's premium for workers' compensation insurance. Ryan Christianson with Catholic Mutual Insurance Group coordinates this reporting process with covered parishes, schools and other participating entities with a target completion date of February 15 each year.

17.6 References and Resources

Refer to the following for more information:

- Federal tax developments: https://www.irs.gov/
- State Tax Developments: https://www.revenue.state.mn.us/
- MN Unemployment Insurance: https://www.uimn.org/
- Diocese of Winona-Rochester Human Resources and Benefits: https://www.dowr.org/offices/human-resources/index.html

SECTION 18 - FUNDS HELD FOR OTHERS

18.1 Purpose and Scope

In some instances, funds are accounted for in liability accounts set up for the sole use when the entity (parish) acts as an agent for others.

18.2 Accounting Guidance

18.2.1 2325 – Funds Held as an Agent for Others

This account has been set up to be used for collections where the requesting organization will be issuing the charitable contribution receipt/statement.

18.2.2 2330 – Participant Fees Collected for Trips/Events

This account is solely for the fees collected toward trips that will be remitted to the organizing entity. For example, Camp Summit, Steubenville, World Youth Day, Mission Trips, etc. **Only the fees collected from individuals in payment of trip fees for participants would go into this account**. Any fundraising, donations or other sources of funds must go through an appropriate income account. When the fee is remitted, the bill will be coded first to this account to zero out any fees collected, and the rest will go to the appropriate expense account.

Answering the following question help determine whether funds held for others flows through liability accounts (Balance Sheet) or revenue accounts (Statement of Activities):

1. How should the three types of receipts related to *Participant Fees Collected for Trips/Events* be accounted for? These three types of receipts are:
    a. Deposits collected from trip participants for the cost of their trip.
    b. Payments made to the parish by someone for the specific benefit of a particular trip participant. (child, grandchild, relative, friend).
    c. Payment made to the parish for the general benefit of anyone participating in the trip (i.e. donor does not have any say in which trip participant is benefited.)

18.2.2.1 2330 - Criteria for Recording of Liabilities, Income and Expense

2330 – Participant Fees Collected for Trips/Events Three Types of Receipts:	Is the payment a charitable contribution?	Doe the payment run through an income account of the parish?	Is the payment received assessable income?
Type 1 - Deposits collected from trip participants for the cost of their trip/event for an outside organization	No- Participant receives value for the payment made.	No - the payment runs through Acct 2330	No
Type 2- Payments made to the parish by someone for the specific benefit of a particular trip participant. (child, grandchild, relative, friend).	No- Participant receives value for the payment made.	No - the payment runs through Acct 2330	No - No income is recorded. The payment directly benefits a specific person identified by the payor.
Type 3 - Payment made to the parish for the general benefit of anyone participating in the trip (i.e. donor does not have any say in which trip participant is benefited.)	Yes - the donnor has no say in the determination of who benefits from his/her contribution.	Yes - the payment does not directly benefit a specific person identified by the donor. Contrib runs through Rev Acct # 4205	Yes - the contribution received relates to a mission-based activity of the parish.

SECTION 19 – DISASTER RELIEF AND EMERGENCY HARDSHIP FUNDRAISING

19.1 Purpose

Fundraising to provide relief to victims of a disaster or other emergency hardship situations are charitable activities because they aim to relieve human suffering - charity in its most basic form. To further this purpose, an organization must benefit a charitable class. The organization must apply a needs-based test and maintain appropriate documentation.

19.2 Accounting Guidance

Many parishes have a benevolence fund, a Good Samaritan fund or a "Front Door Ministry" fund. Contributions to these funds are frequently special donations or perhaps the result of small fundraising activities such as parish/school dinners or breakfasts and silent auctions, for example.

A good system for disbursement of funds is through an application process. This application and any attachments would be given to a committee of lay people with some experience in social ministry. This committee would review the applications and determine the level of aid to recommend to the pastor or program director in the given situation. They might also suggest other community resources for the individuals to receive additional help and services. Checks would be issued to specific vendors, such as utility companies or rental agents, and not directly to the applicant.

Parishes/Schools may provide short-term (emergency) assistance and longer-term aid to ensure that victims have the basic necessities, such as food, clothing, housing, transportation, and medical assistance. Assistance may also be provided in the form of cash grants or vouchers for goods or services. The type of aid that is appropriate depends on the individual's needs and available resources.

19.3 Recordkeeping

A Parish/School must maintain adequate records that show the amounts paid, the purpose of the payments, and information to establish that distributions were made to meet charitable purposes and victims' needs. Documentation should include:

- a complete description of the assistance
- cost of the assistance
- the charity's objective criteria for disbursing assistance under each program
- how the recipients were selected
- the name, address, and amount distributed to each recipient (but see below regarding short-term emergency assistance)
- any relationship between the recipient and officers, directors, key employees or substantial contributors to the organization.
- the composition of the selection committee approving assistance

Parishes/Schools that are distributing short-term emergency assistance, such as blankets, hot meals, crisis shelter, electric fans, coats, hats, and gloves, should maintain the documentation noted above but describe the date, place, and estimated number of victims assisted instead of the name, address, and amount distributed to each recipient.

For more information, see IRS Publication 3833, Disaster Relief, Providing Assistance Through Charitable Organizations.

SECTION 20 – **MASS INTENTIONS**

The uniform Mass offering is $10.00 (c. 952.1). Mass offerings are the personal property of the priest, subject to regulations. Intentions and offerings are not to be accepted if they cannot be fulfilled within one year (c. 953). Excess offerings and Mass obligations which have not been satisfied within one year are to be given to one or both locations (c956):

The Society for the Propagation of the Faith
The Diocese of Winona-Rochester Pastoral Center
PO Box 588
Winona, MN 5598

IHM Seminary
Attn: Mass Intentions
750 Terrace Heights
Winona, MN 55987

20.1 Purpose

Mass Intention income is an offering to the parish to be used to apply the Mass for a specific intention. Examples of a Mass Intention would be to offer a mass for:

- A deceased love one.
- A living person who is sick or suffering.
- A living person who is celebrating a birthday, anniversary, or other special moment in their life.
- The repose of the soul of a deceased relative or friend.

This section is intended to clarify and simplify the procedures to be used to properly record and account for Mass Intention income and Mass Stipend expense.

20.2 Receipt of Mass Intentions

All mass intentions should be deposited into the parish bank account with the next staff deposit. It is suggested that:

- All Mass Intention requests are in writing.

- A moving calendar is used to schedule Mass intentions no more than one year in advance. For example, on January 1st, Mass intentions may be scheduled through December 31st. Each first day of the month, the following month would become available. (February 1st, the following month of January becomes available).

- Mass intention requests be honored in the order which the Mass intention request was received, with payment, in the office (or through on-line giving).

- Pastors are obliged to celebrate Mass for their parishioners on Sundays and Holy Days (pro populo). Technically, there is no offering for this Mass since it is the responsibility of the pastor. Pastors, however may avail themselves of a $10 offering for a second Mass they may say on these days.

- Canon Law (Canon 953) does not permit a priest to keep Mass Intentions beyond those scheduled in one calendar year. There are several options available for unfulfilled Mass intentions including:
  - Society for the Propagation of the Faith
  - IHM Seminary
  - Retired Priests
  - Priests who are assigned to a parish that does not have Mass offerings or to an institution that does not accept Mass offerings.

- Mass intentions received are considered a charitable contribution and should be recorded in ParishSOFT Family Suite. Nothing is provided to the donor except an intangible religious benefit.

20.3 Accounting for Mass Intention Income

Mass Intention receipts are to be credited to 2150AP01P00 Deferred Mass Intention Income.

As Masses are celebrated, at the end of each month a Journal Entry will be created to recognize as income the Mass Intention receipt by debiting Account # 2150AP01P00 Deferred Mass Intention income and crediting Account # 4560GA00P00 Mass Stipends income account. This amount will be calculated by counting up the mass intentions for the month and multiply by the mass intention rate of $10.

The 2150AP01P00 Deferred Mass Intention Income account should be monitored regularly and excess mass intentions should be forwarded to others as indicated above so that all intentions received are able to be said within one year.

20.4 Accounting for Mass Stipend Expense

The mass stipend expense will be coded to 5042GA00P00 whether the priest opts for the allowance option or the priest receives the mass offerings as the mass intentions are offered. Substitute priest mass stipends are also expensed to this account.

Offerings paid to priests are considered taxable income and are recorded on their W-2s. Offerings paid to priest substitutes are included on their 1099-NEC if applicable.

SECTION 21 – **DEBT**

Parishes and schools are strongly discouraged from borrowing funds from banks or other institutions in order to pay for capital improvements, finance building projects and/or to accomplish operational goals. Instead, through fundraising in advance, locations are strongly encouraged to meet the project funding requirements of a minimum of 75% of the total estimate with cash on hand and the remaining 25% supported by documented pledges. Exceptions to the funding requirements must have the expressed written approval, via the proxy process, of the Bishop of the Diocese of Winona-Rochester.

21.1 Proxy Request/Approval Process

A proxy is a written document executed by the Bishop and Vicar General, as members of the parish corporation, to be used at a meeting which they are unable to attend, giving authority to the Pastor, a member of the corporation, to cast their votes in favor or against a specific corporate resolution stated in the proxy.

Proxies are currently required for purchases over $25,000. In the following situations, specifically as related to debt, proxies are also required for:

- Lines of credit from lending institutions
- Loans or mortgages from lending institutions
- Consolidation of loans or refinancing
- Revision of mortgages, loans, lines of credit
- Leases and agreements for the use of any parish/school property for a term beyond one year

Diocesan proxy policies are outlined in the following link to the Proxy Guidelines section of the Finance Dept. Website: https://www.dowr.org/offices/finance/proxy.html

21.2 Operating Line of Credit

A parish/school may arrange for a line of credit with a lender to ensure availability of operating cash, if a need arises. Typically, a bank will commit to make loans to a parish/school up to a specified maximum for a specified period, typically renewable every year. Proper use and transparent reporting of a line of credit is essential to prevent financial dependency on this type of debt.

Advances against the line of credit should be taken to address the issue of cash management, such as the timing of revenue receipts, and not revenue shortfalls. For example, use of a line of credit during summer months for school payroll would be appropriate if Fall receipts allow for repayment of the loan balance. It is best practice that any line of credit should be paid in full at least once during each fiscal year.

21.3 Loan Affordability Analysis

Financial analysis and adequate planning should be performed prior to entering into any debt arrangements or making a proxy request to the Diocese of Winona-Rochester for a debt transaction.

The level of financial analysis and investigation required will vary depending on the size and nature of debt being considered.

Typical items to include in the loan affordability analysis are as follows:

- Amount of the debt transaction
- Interest rate & timing of estimated debt payments
- Types of debt available to parish/school
- Repayment time horizon
- Source of funds to be used for debt repayment
- Contingency/reserve funds available
- Effects of debt on general parish/school financial health
- Attitudes of the parish/school community regarding borrowing (i.e. campaign fatigue)

21.4 Repayment Considerations

A critical part of debt planning is to determine how a potential loan would be repaid. Repayment plans play an important role in the ability to successfully manage a new debt obligation. There are several typical options for repayment. One or more of these may be factored into the parish/school financial plans.

If a parish/school plans to repay the loan or make capitalized lease payments from operating funds, the interest portion of the debt payment should be factored into the parish/school annual operating budget. In addition, and most importantly, cash management projections or forecasts need to include the amount attributable to the repayment of the principal portion of the amount borrowed. This analysis must be shared with the Pastor, Finance Council, and Civil Corporation Trustees.

21.5 Accounting for Loans

All loan transactions must be properly recorded and tracked within the accounting system.

Loan payments generally consist of two components –principal and interest. Interest expense appears on the Statement of Activities as an expense. Principal repayments reduce the loan balance disclosed on the Statement of Financial Position.

In addition to financial statement information, notes accompanying the financial statements provided to the pastor and Finance Council should include explanations of debt arrangements including amounts borrowed, interest rates, repayment periods and reasons for borrowing. Transparency and open communication with the parish community is important when debt is involved.

Regarding principal and interest payments made, it is good accounting and best practices to reconcile parish/school accounting records against loan amortization schedules and /or lender records on a monthly basis.

21.6 Leases – Recording of

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing transactions.

Entities currently are required to adopt the new lease standard using a modified retrospective transition method. While there is little impact for lessors, lessees will see significant changes. Under the previous (pre FY2022-2023) approach to lease accounting, leases were classified as either operating leases or capital leases.

With an operating lease, such as those for office space and vehicles, the entity was only paying a fee for temporary use of an item. Thus, they were not recorded on the Statement of Financial Position. With a capital lease, such as those for office equipment, the entity is in effect purchasing a fixed/capital asset. This type of lease is recorded on the Statement of Financial Position as debt and a related lease asset.

Previously, operating leases were considered to be off-balance-sheet, and nonprofits were only required to disclose them in the footnotes of their financial statements. Now, entities will need to recognize operating leases on the Statement of Financial Position.

The new lease accounting rules still require classifications of either capital lease or operating lease. The key difference is that lease assets and liabilities from operating leases will now be reflected on the Statement of Financial Position. This means recognizing both an asset (representing the right to use the leased asset) and a liability (representing the obligation to pay the rent, calculated at the present value of the expected lease payments).

There is no grandfathering of existing leases. now all existing leases must be recorded and reported under the new guidance, not just those leases entered into after the effective date. Entities are not required to recognize assets and liabilities for leases of 12 months or less.

Under the new standard, a lease is a capital lease if any of the following conditions are met at inception:

- The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
- The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.
- The lease term is for the major part of the remaining economic life of the underlying asset, unless the commencement date of the lease falls at or near the end of the economic life of the underlying asset.
- The present value of the sum of lease payments and any residual value guaranteed by the lessee not already reflected in lease payments equals or exceeds substantially all of the fair value of the underlying asset.
- The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

21.7 Leases - Accounting for Finance and Operating Leases by Lessee

Accounting for **finance leases** is generally consistent with the current guidance for capital leases. The lessee's Statement of Financial Position must show a right-of-use asset and a lease liability initially recorded at the present value of the lease payments (plus other payments, including variable lease payments and "amounts probable of being owed by the lessee under residual value guarantees"). The discount rate is the lessor's implicit rate or, if not determinable, the lessee's incremental borrowing rate for a similar collateralized loan in a similar economic environment.

On its Statement of Activities, the lessee must recognize interest expense on the lease liability calculated using the effective interest method. The interest expense should be reported separately from the amortization of the right-of-use asset.

For **operating leases** with a term greater than 12 months, lessees must show a right-of-use asset and a lease liability on their Statement of Financial Position, initially recorded at the present value of the lease payments calculated the same way as required for finance leases. On its Statement of Activities, the lessee does not record interest expense and amortization expense for the right-of-use asset separately. Rather, the lessee must recognize a single lease expense (which includes both interest and amortization) allocated over the lease term on a straight-line basis (or other rational and systematic basis if more representative of benefits received from the leased asset). All cash payments must appear in the operations section of the lessee's statement of cash flows (if one is presented).

If your parish, school or cemetery leases any equipment (i.e. copier, printer, phone system, etc.) or buildings, please contact the Diocese for guidance on recording the effects of your particular lease.

SECTION 22 – **NET ASSETS/EQUITY**

The net assets of a parish represent its financial worth. These values are calculated as the excess or deficiency of assets over liabilities. Net assets are found on the Statement of Financial Position (Balance Sheet), along with Assets and Liabilities. The purpose of this policy is to provide guidance in categorizing, recording and reporting parish and school net assets on parish financial statements or, in the case of a system school, the school financial statements.

Guidance regarding the Net Asset section of the Statement of Financial Position (Balance Sheet) follows the accounting formula:

Assets = Liabilities + Net Assets

22.1 Scope

When a parish or school receives a donor contribution or special gift, it must be classified into one of the following net asset categories:

- Without Donor Restrictions
  - UR-Unrestricted Funds (funding source 00)
  - UR-Plant Fund (funding sources 01)
  - UR-Designated Funds (includes funding sources 10 to 49)
- With Donor Restrictions
  - TR-Temporarily Restricted Funds (includes funding sources 50 to 79)
  - PR-Permanently Restricted Funds (includes funding sources 90 to 91)

The reasons for classification are to establish proper accounting treatment for the gift and determine appropriate financial statement disclosure.

22.2 Classifying Donation Receipts

In order to choose the proper category for a donation, staff must know the distinction between the categories labeled **designated** and **restricted**.

Classifying Donation Receipts

Is the receipt restricted by the donor in any way?				
Yes			No	
Are restrictions on receipts permanent in nature? **			Does the Board wish to designate the receipt for a specific purpose? *	
Yes	No		Yes	No
Recognize receipts as income, establish a PR-Endowment Funds account to track balances, if needed, and track permanent nature of account	Will restrictions be fulfilled by fiscal year end?		Recognize receipt as income, establish UR-Designated Fund account (if needed) to track and use project codes to track the detail of the project.	Recognize receipt as income, no other entries are necessary
	Yes	No		
	Recognize receipts as income no other entries are necessary	Recognize receipts as income, establish TR-Restricted Net Assets account (if needed) and track using project codes.		

* This process may occur at any time, not just with the initial receipt.
** Net Assets with Donor Restrictions to be held in perpetuity are those where the donor has limited the gift so only the investment earnings of these gifts are available for use, such as endowments.

22.2.1 Designated Gifts

Designated gifts represent either single gifts or a group of gifts not specified as restricted by a donor. These funds are segregated into a Designated Net Asset Fund for a purpose identified/specified by parish leadership. Designated Net Assets are not <u>necessarily</u> related to a specific gift and are determined and segregated by authorized parish leadership.

As long as there are no donor restrictions on a particular contribution, authorized leadership may designate the donation for a specific purpose. This designation may be changed or removed at a later date as long as the change is authorized using the appropriate governance process. The use of the designated gift category allows the parish to segregate a portion of their Unrestricted Net Assets for use in the future for specific programs or projects.

There are several instances of gifts received that may confuse pastors or bookkeepers as to whether the contribution received actually comes with a restriction attached. To aid in this decision process, here are two examples:

1. Memorials – a restriction has to be specified prior to receipt of the memorial. A funeral notice specifying that memorials are to be given to St. Anthony's parish would not contain a restriction. A funeral notice specifying that memorials are to be given to St. Anthony's parish for purchase of new church pews would contain a temporary restriction.
2. Bequests – Parishes receiving gifts via a bequest should inquire if the will specifies a restriction regarding the use of the funds bequeathed. Absent a restriction being mentioned in the will, the funds would be accounted for as an unrestricted gift.

22.2.2 Restricted Gifts

Restricted gifts represent gifts made by a donor that contain a restriction at the time of the donation and can only be changed by communication from the donor.

The donor has the influence over his or her gift. He or she may restrict a gift for a particular purpose. Leadership, including the pastor, does not have authority to contradict or change a donor restriction without the donor's permission. It is recommended that a parish/school develop a written policy regarding receipt of gifts with donor restrictions.

22.3 Net Asset Categories

22.3.1 Net Assets without Donor Restrictions

This category represents the portion of Net Assets (financial worth) with the absence of donor-imposed restrictions. The total of unrestricted funds is not restricted for a specific purpose and may be designated for any purpose that your governing financial body deems appropriate. This section includes the Unrestricted, Designated, and Plant Funds.

22.3.2 Net Assets with Donor Restrictions

Net Assets with Donor Restrictions are the unspent funds subject to donor-imposed restrictions. Donor restrictions may be classified as:

- Temporarily Restricted - funds can be restricted as to purpose or time. As funds are spent in accordance to the donor's restriction, the temporary restrictions are released.
- Permanently Restricted - typically used for Endowment funds, these funds are given with the stipulation that the organization must maintain the net assets in perpetuity, spending the investment earnings but not the principal.

Some donors impose restrictions that are temporary in nature, for example stipulating that resources be used after a specified date, for particular programs or services, or to acquire buildings or equipment.

Other donors impose restrictions that are perpetual in nature, for example, stipulating that resources be maintained in perpetuity.

22.4 Recording of Net Assets

Net assets are typically updated at the end of the fiscal year automatically by most accounting software packages. This includes ParishSOFT Accounting if the GAAP Compliance function is turned on. Currently that function is not active which means that each parish is responsible for creating their own Net Asset entries.

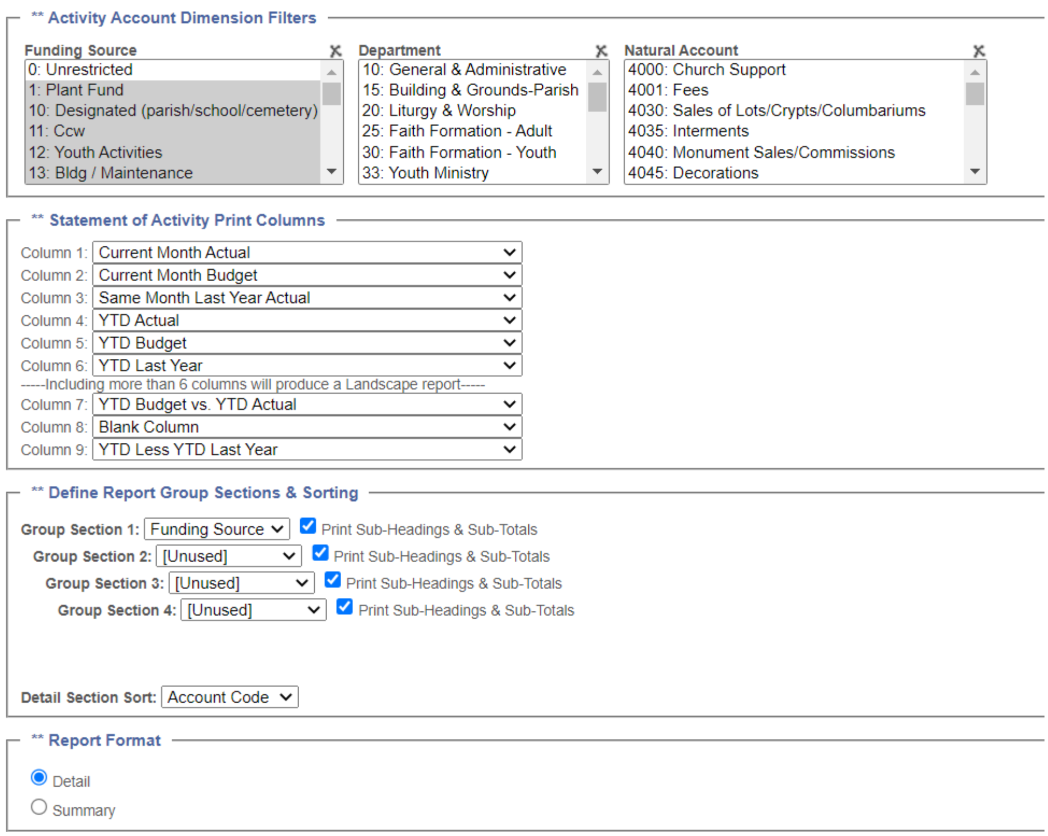
22.4.1 Purpose

The ParishSOFT accounting software, without the GAAP compliance feature turned on, puts the entire Net Income/(Expense) for a month/fiscal year into the UR-Undesignated Fund's Net Asset Account. This makes it necessary for the bookkeepers to enter a net asset entry to distribute the Net Income/(Expense) to the various funds on a monthly basis.

22.4.1.1 Monthly Net Asset Entry Procedure

In order to facilitate recording the net asset entry, a net asset report is generated for each entity.

1. Choose Reports, Statements and Statement of Activities for the report
2. Select All funding sources **except** 0: Unrestricted
3. Current Month Actual must be selected for the columns, YTD Actual is an optional selection.
4. The Report Group Sections & Sorting should be set to Funding Source and the Print Sub-Headings and Sub-Totals box checked.
5. The Report Format should be set to Detail.



The report will look similar to this:

St Casimir's Parish
Statement of Activities
January 31, 2023

	Current Month Actual	YTD Actual
Account Shortcut and Description		
Income		
Ccw		
Organization Income		
4260GA21P11 CCW Income	0	900
Ccw Totals:	**0**	**900**
Restricted (donor)		
Donations		
4205GA21P50 Church Decorating and Flowers	0	890
Restricted (donor) Totals:	**0**	**890**
Rooted In Faith		
Interest/Dividends		
4110GA21P52 Interest - Rooted In Faith	0.13	0.89
Rooted In Faith Totals:	**0.13**	**0.89**
Building Fund		
Building/Maintenance Fund		
4250BG00P60 Building/Maintenance Fund	0	2,200.00
Building Fund Totals:	**0**	**2,200.00**
Memorials / Bequests		
Interest/Dividends		
4110GA00P63 Interest/Dividends	4.58	22.67
Memorials / Bequests Totals:	**4.58**	**22.67**
Endowment		
Interest/Dividends		
4110GA00P90 Interest/Dividends on Endowments	165.28	519.18
Realized Gain/Loss on Endowments		
4170GA00P90 Realized Gain/Loss on Endowments	-125.92	-261.05
Unrealized Gain/Loss on Endowments		
4575GA00P90 Unrealized Gain/Loss on Endowments	902.91	1,941.68
Endowment Totals:	**942.27**	**2,199.81**
Income Totals:	**946.98**	**6,213.37**
Expense		
Ccw		
Organization Expense		
5170GA21P11 CCW Expense	0	35.94
Ccw Totals:	**0**	**35.94**
Restricted (donor)		
Restricted Fund - Expense		
5195GA21P50 Church Decorating and Flowers	0	503.74
Restricted (donor) Totals:	**0**	**503.74**
Building Fund		
Repair and Maintenance-Building and		
5192BG00P60 Repair and Maintenance-Building and	0	2,030.00
Building Fund Totals:	**0**	**2,030.00**
Endowment		
Investment Management Fees		
5196GA00P90 Investment Management Fees	47.29	162.26
Endowment Totals:	**47.29**	**162.26**
Expense Totals:	**47.29**	**2,731.94**
Income - Expense:	**899.69**	**3,481.43**

The net asset entry for the current month would be this:

1. Note that the debit to the UR Unrestricted Funds-Parish account matches the Net Income for the month.
2. The other entries are the net of any income less any expenses.
    a. If this amount is an income amount, the various net assets for the designated/restricted funds are credited.
    b. If any of the amounts are a net expense, the designated/restricted fund would be debited.

In this example all the amounts were income so were entered as credits.

Entry # / Date	Comment	Debit	Credit	Comment/Project
3995 01/31/2023	**Parish Net Asset Entry - January**			
3300NA22P52	Rooted In Faith		0.13	Interest
3100NA00P00	UR-Unrestricted Funds-Parish	899.69		
3300NA21P63	TR-Memorials/Bequests		4.58	Interest
3500NA21P90	DOW Foundation Account		894.98	
	Entry Totals:	**899.69**	**899.69**	

22.5 Reporting of Net Assets

All categories of net asset balances are disclosed in the Net Assets section of the Statement of Financial Position.

The Net Asset Without Donor Restrictions portion of the Net Assets section on the Statement of Financial Position represents the unrestricted and board designated equity available for future operating activities.

On the Statement of Financial Position, Net Assets with Donor Restrictions represent remaining balances of donor restricted gifts, net of related expenses, as of the financial statement's report date.

22.6 End of Period Review Procedures

At the end of the fiscal year it is always a good idea to review the designated and restricted funds to determine if changes need to be made. Taking a look at the restricted gifts and projects that make up the accounts will help to determine whether the restrictions have been satisfied, or if a project is done and whether excess funds or shortages need to be released from their restriction.

SECTION 23 – **PARISH ASSESSMENT**

The Bishop sets the Cathedraticum, otherwise known as the parish assessment, with advisement from the Diocesan Presbyteral Council and the Diocesan Finance Council in accordance with Canon Law which states:

> "After the diocesan bishop has heard the finance council and the presbyterial council, he has the right to impose a moderate tax for the needs of the diocese upon public juridic persons subject to his governance…" Canon 1263

Funds are used for the administration and the ministries of the Diocese of Winona-Rochester, which include the administrative offices of the Bishop, Vicar-General, Finance, Human Resources and other general diocesan programs.

23.1 What is Assessable?

The parish assessment is based on assessable income (Natural accounts 4000-4299) which includes all contributions and church income excluding only those items noted under the non-assessable income below.

Type of Income	Natural Account Range
Church Support	4000-4099
Realized InvestmentIncome	4100-4199
Bequests, Memorials and Other Donations	4200-4220, 4250
Fundraising Revenue	4270
Other Income	4070,4260-4269 4271,-4299

23.2 Non-assessable Income

Non-assessable income (Natural Accounts 4500-4599) includes the following

Types of Income	Natural Account
PPP Loans/COVID Grants/Employee Retention Credit	4505-4507
Sales of Property and Equipment	4510
Contributions to approved major building projects over $120,000	4515
CFSM Capital Campaign Distirbutions	4517
St Thomas More Newman Center-DOW-R Subsidy	4520
Rebate from Catholic Ministries Appeal	4525
Insurance Settlements	4530
Refunds/Rebates	4535
Faith Formation Tuition (does not include sacrement fees, or other program fees such as Vacation Bible School)	4540
Special Collections to be forwarded-USCCB, Diocese, Other	4550
Mass Stipend Income	4560
Unrealized Gains/Losses on Investments	4570-4575
Transfers from Other Funding Sources	4597

Parish Assessment Rate

The parish assessemnt rete is 6% of the annual parish assessable income. Income used to pay school subsidy is assessed at a discounted reate of 2%. However, this discounted rate only applies to school subsidy up to 50% of parish assessable income.

Example:

	Total Amount per Annual Report	Assessment Basis	Assessment Rate	Assessment
Parish Assessable Income	$ 100,000	$ 50,000	6%	$ 3,000
School Subsidy (capped at 50%)	$ 55,000	$ 50,000	2%	$ 1,000
Total Assessment				**$ 4,000**

23.3 Payment of Annual Assessment

The preferred method of payment is to fully pay assessment upon receipt of the bill. However, parishes may pay assessment on a quarterly or monthly payment plan with the full balance due by June 30th of the fiscal year.

SECTION 24 - **CATHOLIC MINISTRIES APPEAL**

24.1 What is the Catholic Ministries Appeal?

Contributions to the Catholic Ministries Appeal are used for a variety of ministries within the Diocese of Winona-Rochester. The customary activities are listed below:

EDUCATION AND YOUTH	**COMMUNITY SERVICE**
Youth and Young Adults	Catholic Charities Social Action
Catholic Schools	
Life, Marriage, and Family	**PARISH SERVICES AND OUTREACH**
Lay Formation and RCIA	Parish Financial Services
Faith Formation	Cemeteries
Vocations	Divine Worship
	Hispanic Ministry
EVANGELIZATION AND MISSION ADVANCEMENT	
Courier	**CLERGY SERVICES**
TV Mass, Social Media, and Website	Care for Priests
Newman Centers – Winona and Mankato	Hispanic Chaplaincy

24.2 Formula for Determining Goal

The Catholic Ministries Appeal formula calculates parish goals based on two factors: Church Support and Active Registered Families.

The formula takes into consideration the ability of the parish to raise money based on the number of active registered families and the actual amount of money the parish generates from church support. Gifts, bequests and special fundraising are not included in church support.

Church support from the most recently completed fiscal year is calculated for each parish. If a parish financially subsidizes a Catholic school, then the amount of church support is reduced by 50% of the amount of subsidy paid to the school in the most recently completed fiscal year. The net amount of church support for a parish is then divided by the total church support for all parishes in the Diocese. The result of this calculation is the church-support percentage.

The second factor is the number of Active Registered Families in the parish. This number is taken from the most recent fiscal year-end census report. The number of active registered families in a given parish is divided by the total active registered families in the Diocese. The result of this calculation is the active registered-families percentage.

The two percentages are then averaged (added together and divided by two). The average of the two factors is the percentage of the Catholic Ministries Appeal goal that the parish is targeted to achieve.

24.3 Capital Projects and Rebates

Prior to May 31, as part of the Catholic Ministries Appeal, the parish may establish a separate parish project goal to include funding for a capital project above and beyond the parish's CMA goal. One hundred percent of any monies raised in excess of the parish CMA goal will be returned to the parish free from the canonical diocesan assessment on the CMA over-goal rebate.

If the parish chooses not to identify and submit a parish project goal, funds raised in excess of the parish's CMA goal will be assessable to the parish.

When a parish has met the requirements to receive a rebate, rebates will be distributed in July, October and January. Rebates are based upon actual payments received, not pledges.

24.4 Campaign Goal Shortfalls by Parishes

In the event that a parish falls short of the CMA campaign goal, the shortfall is the responsibility of the parish. The amount of the shortfall will be billed to the parish in the month succeeding the December 31st end of the CMA campaign.

Contributions received by the parish after the end of the CMA campaign are an assessable contribution to the parish.

24.5 Campaign Timetable

- Pre-Appeal Weekend - 3rd Weekend in February
- Appeal Weekend - 4th Weekend in February
- Pledge Weekend - 1st Weekend in March
- Follow-up Weekends - 2nd Weekend in March through Easter
- Campaign Completion - December 31

SECTION 25 – **FUNDRAISING AND CAPITAL CAMPAIGNS**

25.1 Scope

Primary sources of operating income for most parishes and schools come from parishioner contributions, school tuition fees, program income and grants. Most parishes and schools utilize fundraising and capital campaign income as secondary sources of income to supplement daily operations. Fundraising revenues supplement general operating income and pay for specific needs beyond the scope of the operating budget.

Fundraising events take many forms, such as dinners/galas, raffles, charity auctions, golf tournaments and marathons. These special events not only generate much-needed revenue for the parish/school but also raise awareness about the organization's mission. Some parishes/schools have these fundraising events annually. For others, these events are incidental to the parish's central activities and do not happen regularly.

This Fundraising and Capital Campaign section outlines several of the most common types of fundraising. Policy sections include procedures and requirements for fundraising activities along with examples of common types of fundraisers. Additionally, policy sections related to organized capital campaigns, describe policies, requirements and processes for both in-house and outsourced capital campaigns.

25.2 Budgeting for Fundraising

Fundraising income and expense may be difficult to project and the parish be cautious when including fundraising income in their budgets. Historical performance may be a good indicator for long established fundraising activities, but cannot be used as a guarantee of future results.

25.2.1 General Fundraising
Fundraising as a general source of revenue is included within a parish's annual budget process as income to fund regular operating expenses. To fully understand the need for fundraising activities, parish leadership should review historical financial statements, prior budgets, long range plans and pastoral or strategic plans.

25.2.2 Fundraising Reliance
When planning for repeating fundraising events such as parish festivals, it is important to know that past results may not accurately predict future success. Parish personnel should review similar fundraising activities conducted in previous years, looking at each event's financial results and methods of to gauge financial success of future planned events.

25.2.3 Fundraising Coordination
An important aspect of parish fundraising involves coordination of general, restricted and capital campaign fundraising initiatives across parish and school communities. Not only are all parish personnel involved in this coordination, parish organizations such as the women's and men's groups should also be included. All fundraising activities including one-time

requests, second collections, festivals, capital campaigns and merchandise sales should be considered when planning any new fundraising effort.

A common way to coordinate fundraising efforts is by maintaining a master fundraising calendar. This calendar includes all local parish and school-based fundraising activities and communications. It also includes diocesan designated collections as well as the Catholic Ministry Appeal. Mailing lists and donor databases should also be reconciled and/or consolidated when it is feasible to do so.

Poor coordination or an excess of fundraising events generally results in donor fatigue. While parishes may raise funds for many different causes, parishioner financial resources are limited. If parish community members become oversaturated by requests to give financial and material resources, overall fundraising success will be jeopardized

25.3 Accounting for Fundraising

Contributions received through fundraising may be classified as Without Donor Restrictions or With Donor Restrictions depending on the case statement of the fundraising project or capital campaign.

Money raised for a specific item or project is received and classified as a contribution With Donor Restrictions. The income generated while holding those contributions may be classified as Without Donor Restrictions or With Donor Restrictions, again depending on the case statement of the fundraising project, capital campaign, or donor wishes.

25.4 Internal Controls for Fundraising

The procedures for cash receipts and disbursements apply to parish fundraising activities. Assuring proper control over tickets and monies for the fundraising activity is vital. Fundraising activities increase the likelihood that other people outside of the parish's normal flow of internal controls will handle tickets, cash, checks, and credit cards.

25.5 Reporting for Fundraising

25.5.1 Financial Statement Reporting

Statement of Financial Position – Regarding cutoff, parish and school fundraising events may span two fiscal years. It is important to prepare the necessary journal entries in order to record the activity in the proper fiscal year.

This may result in accruals which include prepaid/deferred expenses and/or deferred revenue that represents activity for a fundraising event that will take place in the next fiscal year.

25.5.2 IRS Reporting

Donations received by parishes and schools must be properly acknowledged to donors. For more information regarding IRS contribution reporting requirements, see IRS Publication 1771- Charitable Contributions: Substantiation and Disclosure Requirements.

25.6 Capital Campaign Fundraising

A capital campaign is the single most effective way to raise large amounts of money for a specific project.

25.6.1 Capital Campaigns

Fundraising for capital needs is a common practice for parishes. Many capital expenditures are not affordable in the context of annual operating budgets. Regular maintenance (or awareness of required maintenance) and capital expenditure planning are essential for successful capital campaign fundraising efforts.

To ensure visibility into money required to care for existing facilities and capital assets, parish personnel should maintain a Deferred Maintenance Budget (see the Finance Department web-page for access to this template in the Appendix section of the Policy Manual). This schedule is typically maintained by parish administrative personnel in consultation with maintenance employees and/or contractor and Buildings & Grounds committee members.

The Deferred Maintenance Budget template should also include future capital asset acquisitions and major projects. By viewing future capital needs on one schedule, parish personnel and volunteer leaders can adequately plan for the future. Proper use of the Deferred Maintenance Budget template brings capital funding needs into view and allows parishes to minimize capital funding emergencies.

A capital campaign is a time specific campaign to raise money for a specific capital purpose. Common reasons for capital campaign fundraising include new construction, new equipment, or replacing or upgrading older buildings and equipment. A capital campaign may also be used as a tool for reducing and eliminating external (bank) debt.

After considering the campaign's feasibility, parish leadership will decide whether to proceed with a capital campaign. Leadership will also decide whether to outsource the capital campaign or conduct the campaign in-house. In either case, the actions to be performed or overseen include the following:

- Help with recording and documentation of pledges
- Thanking donors for their pledges/ donor recognition
- Pledge redemption- including annual, quarterly or monthly reminders
- Continued communication, including both contact pledgers as well as non-pledgers
- Engaging new parishioners who were not present when the original campaign was conducted
- Individualized follow up with those not fulfilling their pledge

After the initial phase, a capital campaign needs ongoing support including repeated follow up both with those who pledged and those who didn't. Such follow up efforts can be conducted either in-house or outsourced to a stewardship consultant. Additional resources for conducting capital campaigns are the Diocesan Director of Development, the Executive Director of the Catholic Foundation of Southern Minnesota or outside campaign consulting firms.

25.6.2 Confidentiality

Sharing specific donor information with campaign volunteers is not advised. Volunteers who are assisting with asking or making phone calls can be allowed to ask for a specific targeted amount determined by the committee. However, specific giving histories of donors is not shared with other parishioners or is done with extreme caution and limited to parish trustees. Donors are very sensitive about what they give and having their information remaining in trusted hands (the pastor and appropriate staff). Confidentiality is important in the trust between a donor and his or her parish.

25.6.3 Internal Controls

Pledges given with monies during an in-pew ask go through the normal financial reporting process. No one is given permission to sort through the collection basket to take out pledge cards and down payments before the entire collection is put in tamper-evident bags and safely stored according to the established internal controls. The money counters will receive it in the morning, will count the cash, mark the pledge forms, and get the pledge forms to the appropriate people after counting has finished.

25.6.4 Accounting

25.6.4.1 Non-Cash Contributions

Donations of stock and other non-cash items may be used to fulfill capital campaign pledges. The proper method of accounting for these items is discussed in more detail in the chapter on Revenue Recognition.

25.6.4.2 Accounting Process

For any capital campaign with a goal over $120,000 the revenue account to be used for pledges/donations is 4515 Contributions to Approved Major Building Campaign. It will most likely be restricted to funding source 60 (building).

For pledges received, the pledge balance should be recorded in Account #1220CS00 and contribution revenue should be recognized in Account 4515. As pledges are received, the receivable account receives the credit for the pledge payments deposited.

Open pledges should be reviewed at least annually and a contra receivable account should be set up for the estimated pledges not expected to be collected.

- Debit Account 5195 - Capital Campaign Uncollectible Pledges.
- Credit the contra pledge receivable account 1220CS01 for the amounts written off as uncollectible.

Once the project is completed, the remaining funds (if any) are released from restriction and available for unrestricted use.

25.7 Common Fundraising Events

25.7.1 Festivals

Parishes and schools may raise money by having a festival. This may be a relatively small event focused on parishioner families, or something much larger that involves an invitation to the larger community.

Due to the wide variety of activities in parish festivals, careful planning and consideration of logistics is required. Important topics for consideration include but are not limited to:

- Volunteer training, safety and background checks
- Internal controls for handling cash and other valuables
- Liquor, gambling and municipal license requirements
- Insurance coverage limitations and insurance program requirements
- Parking and safety surrounding festival area
- Committee structure & coordination
- Budget, spending & reimbursement procedures

It is important to review festival procedures on a regular basis to ensure that none of the underlying assumptions or external considerations have changed.

25.7.2 Exhibitors and Vendors

It is the responsibility of the sponsoring and hosting organizations to ensure that those who exhibit at a diocesan, parish or school event, or who sell or distribute items at one of these events do not threaten the integrity of the Church's message. Therefore, Exhibitors or Vendors must not exhibit, sell, or distribute materials that are in contradiction to the teachings of the Church. Exhibitors or Vendors must comply with all local, state, and federal laws related to licensing and taxation.

The diocese, a parish, or a school may establish additional specific rules and guidelines (i.e. Insurance) for Exhibitors or Vendors that are consistent with this policy and which must be followed by all Exhibitors and Vendors at that event.

If outside vendors participate in craft shows or fund-raising events held in parish facilities where the vendor is selling taxable merchandise, the parish or school must see that all such vendors have sales tax licenses. The responsibility to collect and remit the tax remains with the vendors.

25.7.3 Corporate Sponsorships or Advertising

Corporate sponsorship represents a significant funding source for tax exempt organizations and an important business strategy for taxable corporations. A sponsorship creates corporation identification with charitable activity. This type of identification is valuable to corporations.

However, the IRS considers soliciting, selling, and publishing commercial advertising to constitute a trade or business that, if regularly carried on and not substantially related to the organization's exempt purpose, may produce income subject to UBIT. In contrast to advertising, however, qualified sponsorship payments are specifically excluded from the definition of unrelated trade or business. Accordingly, income generated from qualified sponsorship payments are not subject to UBIT.

A **qualified sponsorship payment** is any payment made to a parish/school without an arrangement or expectation that the payer will receive a substantial benefit in return other than an acknowledgement of the sponsorship by printing the name, logo and/or product lines in association with the event.

This does not include advertising the sponsor's products or services, including messages containing qualitative or comparative language, price information, or other indications of savings or value, an endorsement, or an inducement to purchase, sell, or use such products or services. Review contracts for sponsorship payments to determine if:

- The "sponsor" received any substantial return benefit. Payments are contingent upon the level of attendance
- The payment entitles the payor to the use or acknowledgement of the name or logo (or product lines) of the payor's trade or business in periodicals
- The payment is made in connection with any qualified convention or trade show activity
- An exclusive provider arrangement exists
- Qualitative or comparative language
- price information
- indications of savings or value
- an endorsement or an inducement to purchase, sell, or use such products or services

See IRS - Advertising or Qualified Sponsorship Payments for more details.

25.7.4 Auctions

Parishes and schools may raise money by having an auction. Live, Silent and Online Auctions are a great way to engage donors and raise money for the parish/school. This may be a separate event or part of a larger event including a meal, entertainment and other activities. Typically, items included in the auction are:

- Directly Donated - such as gift baskets, collectibles, gift cards/certificates, or hand-crafted goods.
- Purchased Specifically to Sell at the Auction - such as travel packages, signed memorabilia, custom artwork, or golf lessons.
- Donations Directly Received at the Auction

25.7.5 Gala and Concerts

Galas can bring large numbers of guests to grand venues, giving the donor the opportunity to dress formally and enjoy an evening of socializing, entertainment, food and drink, and raising funds for a worthy cause. Galas often involve concert performances, auctions, or other activities to gain donations for the parish/school.

25.7.6 Marathon

Many schools participate in the Minnesota Marathon for Nonpublic Education. The first Saturday in October is the generally the official start date for the state-wide event. Money is raised to support school programs as well as faith formation and other educational efforts. Participation may include a walk/run or a service project. Collections are recorded as direct contributions to the school.

25.7.7 Scrip

The term scrip refers to a program where parishes or schools purchase gift cards from a broker at a discounted price and re-sell the gift cards at full face value. The difference between purchase and sale price is retained by the parish or school as net profit. Note: this area has a high exposure for fraud. **Please see Section 12 for further instructions regarding Scrip**.

25.7.8 Gaming and Gambling

Gaming is a recreational activity and, if conducted for a profit, a trade or business. Gaming includes bingo, raffles, lotteries, pull-tabs, scratch-offs, tip boards, tip jars, and other games of chance.

All gambling that is done as a part of a fundraising event must be done in accordance with federal, state and local laws. Common methods of gambling include but are not limited to raffles and bingo. Parishes must be sure to obtain the proper license(s) to conduct gambling well in advance of any event. Gambling permits require the approval of local municipalities before obtaining approval from the state. Submitting the application for a gambling license at least six weeks prior to an event is strongly encouraged.

Conducting gambling in Minnesota requires specific procedures for acquiring gambling equipment, recordkeeping before, during and after an event, requirements for signage and information, and criteria for which kind of variations of a raffle and other forms of gambling are legal. More information about how to conduct lawful gambling can be found at the Minnesota Gambling Control Board website. The website also contains the required forms for recordkeeping.

The Minnesota Gambling Control board also regulates “Who May/May Not Play” regarding pull-tabs, tip boards, raffles, paddlewheels and bingo. Your parish/school may also impose additional restrictions in your house rules.

At the end of the calendar year certain information may need to be provided to winners for tax purposes. For more information, refer to the IRS Form W-2G, Certain Gambling Winnings.

In order to comply with the gambling rules and requirements, consult with the Minnesota Gambling Control Board or legal counsel for specific questions and situations. The link to the MN Gambling Control Board website is: https://mn.gov/gcb/

Games of chance, including raffles, lottery and bingo are not deductible to the participant.

25.7.8.1 Raffles

A parish/school that sponsors raffles may be required to secure information about the winner(s) and file reports on the prizes with the Internal Revenue Service. The parish/school may also be required to withhold and remit federal income taxes on prizes.

Generally, the parish/school must report raffle prizes if:

- The amount paid is $600 or more; and
- The payout is at least 300 times the amount of the wager.

The organization must use Form W-2G for this report. See About Form W-2 G, Certain Gambling Winnings for more information.

The mailing of raffle tickets **is prohibited** according to United States Postal Service regulations. See USPS Customer Support Ruling PS-307 revised in July 2014 for complete information

25.7.8.2 Bingo

Due to the handling of cash, conducting Bingo games requires careful attention and strong internal controls over cash and cards. Parishes must comply with all Minnesota regulations regarding the documentation of money during the conduct of bingo. For more information, see Minnesota Charitable Gambling – Bingo.

A parish should establish written bingo procedures which include the number of workers required to run a bingo game, detailed procedures for collecting, counting and depositing cash, and preparation of bingo activity reports. Those supervising bingo should be trained in the proper procedures. Bingo procedures should be reviewed on a periodic basis to ensure the parish is conducting bingo within its stated guidelines.

Some general tips to successful Bingo events include:

- Staff event with enough workers to run the bingo game and adequately monitor door and floor sales
- People collecting admissions and selling cards cannot also be counting money and preparing reports
- Rotate bingo workers to different parts of the hall or to other tasks during the course of a game

SECTION 26 – **FINANCIAL STATEMENTS**

26.1 Purpose

The objective of Financial Statements is to provide information about the financial status of a parish or school. Reviewing the financial statements on a regular basis is important to aid leadership in making decisions that impact operations of the parish/school.

26.2 Scope

The purpose of parish financial reporting is to accurately reflect the parish or school financial activity on a timely basis, summarize financial transactions in a consistent manner and provide budget information to compare to operating activity.

The format and content of financial reports depends upon the audience to which the information is presented. Parishioners at large, parish leaders (finance council, parish council and parish staff), and the diocese are three key recipients of financial information.

- It is the responsibility of the parish to report back to the parishioners the financial condition of the parish.
- It is important for leadership to receive accurate and timely information in order to make informed decisions. Parish financial statements should provide information that addresses questions about the operations of the parish/school.
- The Annual Parish Financial Report to the Diocese contains the financial results from all parish operations.

26.3 Basic Financial Statements

26.3.1 Statement of Financial Position

The Statement of Financial Position is a financial report that includes parish assets, liabilities and net assets. It indicates financial health at a given point in time. The asset accounts represent what the parish owns. The liability accounts represent what the parish owes to vendors and other organizations and the net assets are the fund balances built up over time. The statement of financial position follows the accounting formula:

Assets = Liabilities + Net Assets

It is common to look at this report on a monthly, quarterly and annual basis. It is also common to compare this report to the previous fiscal year at the same point of time and in some cases, compare the results to the previous fiscal year end.

26.3.2 Statement of Activities

The statement of activities (income statement) reports the revenue and expense for a period of time such as monthly, quarterly or annually. This report can be detailed to include every account, or it may be summary in nature. Avoid disclosure of confidential information, such as detailed salary and benefit information, when preparing detailed financial reports.

The level of detail included in the report should match the reader of the report as shown in the following table:

Audience	Level of Detail
Parishioners	Summary of key revenue and expense categories by entity (parish, school, cemetery).
Finance Council	Summary by ministry areas and supplemental information as needed and detailed financial statement on a periodic basis.
Parish Council	Summary by ministry areas.
Staff	Typically used for budget preparation and analysis. Detailed statements for specific program areas and summary of other parish or school areas.

26.4 Supplementary Reports

In addition to the Statement of Financial Position and Statement of Activities, there are other reports that provide additional information and help organize, maintain and present detailed transactions and financial activity.

Some examples are:

- Bank reconciliation reports
- Accounts payable and/or accounts receivable aging reports
- Project detail reports
- Project summary reports

26.5 Cut-off Considerations

Cut-off is a term that refers to recording transactions in the proper fiscal period. Cut-off period is a length of time that the parish/school continues to keep its accounting records open to record invoices or other expenses or revenue that relate to the open period. It is recommended to leave the records open until the bank statements for current assets are received and accounts reconciled. The goal is to have financial statements prepared and the month closed by the 15th of the following month.

However, at fiscal year end, it is recommended to leave the records open for at least three to four weeks to capture as much of prior year financial activity as possible. In accrual accounting it is important to record transactions in the period that they are incurred (for expenses) or earned (for revenue.) Keep in mind that some cash receipts, received prior to the fiscal year end, should be recorded as deferred revenue if it relates to activity of the next fiscal year).

When information comes to light after an accounting period is closed, it is prudent to consider whether an unrecorded transaction would be material enough to warrant reopening an accounting period. Information is material if its omission or misstatement could influence the economic decisions of the parish/school leadership taken on the basis of the financial statements.

In an audit, cut off procedures are usually tested to make sure that the financial data is recognized in the proper accounting period.

26.6 End of Period Considerations

After the end of each month, balance sheet accounts such as cash, receivables and payroll liabilities should be reconciled to subsidiary ledgers or other outside documentation. After the accounts have been reconciled and reviewed for accuracy, the accounting period should be closed within the accounting software to prevent recording any new transactions or adjustments. After the period is closed, financial statements should be distributed. Once financial statements have been issued, accounting records for the corresponding periods should not be revised in any way.

Closing the financial statements enables consistent financial information to be presented to key stakeholders. This practice ensures integrity of the statements. In the rare event that there is a material adjustment needed, an accounting period may be reopened for the adjustment. The financial statements should be reissued noting the reason for the adjustment.

SECTION 27 – **RECORDKEEPING AND RETENTION**

Records management is the practice of maintaining the records of an organization from the time they are created up until their eventual disposal or transfer to an archive. A schedule of planned records retention details which records must be kept, how long they must be kept, and whether they should ultimately be destroyed or saved. The complete records retention schedule can be accessed in the Appendix Section

27.1 Reasons for Implementing a Records Management Program

There are many important reasons to invest the time and effort needed to implement a records management program. These include:

- There are federal and state laws as well as canon laws that govern how long records must be maintained. By following the Parish Records Retention Schedule, you ensure that your parish is in compliance with these laws.

- Good record keeping is important for business continuation. If an employee leaves, organized records can help his or her successor take over with a minimum of disruption to the parish. If a disaster strikes, good records can help the parish get back up-and-running quickly.

- Good recordkeeping results in good archives. By following the parish records retention schedule, you ensure that documents with important legal, historic or informational value are preserved for posterity.

- The records retention schedule clarifies which records you may destroy. Many parishes have large backlogs of older records that can be shredded, resulting in a reclamation of storage space.

- Records management can be time consuming on the front end, during the initial work of organizing documents. It does, however, save a tremendous amount of time on the back end when needed records can be easily located.

27.2 Paper and Electronic Records

A record refers to all documents, both paper and electronic, generated and received during the course of conducting business. Receipts, personnel files, emails, Word documents, Excel files, offering envelopes, bank statements and photographs are all examples of records. The Parish Records Retention Schedule applies to all of your records, regardless of their format. For example:

- One parish may receive its monthly bank statement electronically. Another parish may receive its monthly bank statement on paper. The records retention schedule stipulates that all bank statements must be kept for seven years. Whether the parish chooses to keep the statement for the duration of those seven years electronically or on paper is its individual choice. The only requirement is that the statement be accessible for all seven years, regardless of the format.

- The staff of one parish may receive a handwritten thank you note on paper from a bride and groom who celebrated their wedding at the parish. The staff at another parish may receive the same thank you message from a bride and groom via an email. The records retention schedule indicates that thank you notes fall under the category of "general correspondence" and only need to be kept as long as they are useful to the parish. In either case, the parish is free to shred the paper note or to delete the email message once it has been shared.

Some parishes have asked if they can scan their inactive paper records and keep these electronically. The answer is yes, but the parish will need to make sure to migrate them every time they change software programs. The key is that the parish must be able to ACCESS all records the entire time the retention schedule requires they be kept. If you are scanning records, it is recommended you save them as .pdfs, a comparatively stable file format. Electronic files should be backed up regularly. Conversely, parish staff can print out electronic records and simply keep paper copies if this is their preference.

Sacramental records constitute a major exception to the rule that paper and electronic records are essentially equivalent. You may also keep copies of your registers electronically, including in ParishSOFT Family Suite, but electronic copies can never replace the official paper register.

27.2.1 Organizing Paper and Electronic Records

27.2.1.1 Paper Records

Facing a closet, garage, or basement full of overflowing filing cabinets or mountains of dusty cardboard boxes can be daunting. Recognize upfront that the backlog of records was likely created over many years and will take time to organize. The important thing is to take the first step and get started. Once you begin to see your progress you will likely be inspired to continue. If you are facing piles of paper and do not know where to begin, try sorting the paper into four piles:

1. Active records are records you use in the course of conducting business every day. These will usually be kept in your office, the filing cabinets closest to your desk, or any other place that is convenient. Your active records may include files for current construction projects, liturgies in the planning stage, and other documents you need to access often.

2. Inactive records are those you are no longer currently using but that are scheduled to be destroyed eventually. These can be stored in any secure location. You most likely do not want them taking up prime real estate in your office. Six-year-old invoices and receipts are examples of inactive records.

3. Archival records are those with long-term historic value that need to be kept in perpetuity. Canon law (535) specifies that every parish must have archives. These records shall be kept in a secure location, preferably in a climate-controlled area (such as a locked room in the parish center rather than in an unheated attic or

garage). If you have questions regarding the preservation of your records, please call the Chancellor at the Pastoral Center. Records that are ready for destruction are past their stated retention schedule and can be destroyed. This will likely be your biggest pile.

27.2.1.2 Electronic Records

Many people find electronic records to be easier to organize than their paper counterparts because the work can be done sitting at a desk and no heavy lifting is required. To begin organizing your electronic records:

- Delete old emails, Microsoft Office files, and any other electronic records that the records retention schedule indicates you do not need to keep. Again, email should be treated the same as any other correspondence, as defined in the records retention schedule.

- Create folders in your email, Microsoft Office, or any other electronic applications you use that mirror the records retention schedule. This will make maintaining your electronic records simpler in the future. For example: The records retention schedule indicates that successful grant applications should be kept for three years after the funds are dispersed. The person at the parish who manages grants can save the application in a folder titled "successful grants" and on a yearly basis simply delete any applications past their stipulated retention period.

- It is preferable to print out and save in paper form any records that the retention schedule indicates belong in the archives

27.2.2 Organizing Other Tax Records

27.2.2.1 Sales and Use Tax
Organizations are required collect and remit sales and use tax when appropriate. Sales Tax applies to most retail sales of goods and some services in Minnesota. The most common instances of sales tax are:

- Sale of cemetery products such as vases, flowers, and wreathes.
- Religious goods in a parish store or gift shop.

You may owe Use Tax on taxable goods and services used in Minnesota when no sales tax was paid at the time of purchase.

27.2.2.2 Sales and Use Tax Returns
Tax returns are generally required to be filed on a monthly or annual basis. In the event you do not collect and remit sales or use taxes, you are still required to file an annual "zero tax due" return.

Further information can be found at the MN Department of Revenue's website:
https://www.revenue.state.mn.us/sales-and-use-tax

Security and Privacy

Any records that contain personal, financial, or otherwise sensitive information slated for destruction according to the retention schedule must be shredded. Unless your parish has a very small amount of shredding, you will find it more convenient and cost effective to hire a professional shredding company rather than to shred in-house. Some neighboring parishes have collaborated with each other to split the cost of shredding services. Remember that parishes are entrusted with extensive private information on both their employees and their parishioners. It is paramount that you preserve this trust by handling confidential information with care. Records shall be kept in a secure location that is not accessible to unauthorized parishioners, staff, students, or volunteers. Parish, school or cemetery records shall never be kept in the home of an employee or volunteer.

27.3 For Further Information

If you have questions regarding the parish records retention schedule or if you would like further guidance please feel free to contact the Diocesan Finance Department (for financial records) or the Chancellor (for archival records.)