



### **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 so as to ensure the satisfaction of all parish obligations and Diocesan assessments as they become due.
4. Enable the completion of required reports (e.g., Parish Annual Report, Parish Budget Report, interim monthly or quarterly parish financial reports) in a timely manner.



### **Pastor Responsibilities Regarding Parish Finances**

The responsibility for the finances of the parish are entrusted to the pastor or parish director, who is the chief administrative and financial officer of the parish and is directly accountable to the Diocesan Bishop.

Most civil documents and instruments are to be signed by the pastor. This includes his being an authorized signer for all parish bank accounts and those of any societies and organizations.

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 Parish Council and a Finance Council, meet with them at least quarterly, and periodically supervise or review all parish activities, societies and organizations.

### **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 Finance Council and the Diocese (i.e., Episcopal Vicar, Chief Financial Officer, or Internal Auditor) of incidents of misappropriation of assets or fraudulent reporting.

A high degree of integrity and confidentiality should be maintained at all times.

### **Parish Responsibilities to the Diocese**

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

Each parish and mission 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:

1. The pastor should discuss the situation with the Finance Council immediately. The Vicar General and Diocesan Director of Finance should be notified of actions taken or planned to correct the situation.



2. If the situation does not improve or becomes severe, the Vicar General, pastor, or Diocesan Finance Office, 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.
3. The parish may be required to file monthly or quarterly financial statements with the Finance Office so that the financial situation can be monitored.

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.



## **Record Retention**

Accounting and contribution records should be maintained for at least four years. Contribution envelopes should be kept for at least two years. Payroll records should be maintained for at least seven years. Parish Annual Reports should be kept indefinitely.

Signed written documents should be maintained for all contracts (i.e., rental agreements). Contracts should be retained for the length of the contract.

Legal records should be kept six years past the expiration date.

Weekly backups should be made of all computer files with a duplicate backup copy maintained at another location. If possible, daily backups are recommended for larger parishes.

Records containing sensitive or confidential information should be destroyed (i.e., shredded) before disposing in trash containers.

Records to be permanently maintained at the Diocese of Winona Pastoral Center are as follows:

- § Articles of Incorporation
- § Title Abstracts
- § Cemetery Permanent Care Certificates

Other documents, such as documentation for capital improvements, may be maintained at the discretion of the parish for internal use.



## Payroll

Each Parish is responsible for submitting the proper documentation to federal and state governments for compensation paid to their employees.

### A. W-2 Forms

1. Each year, before January 31, the parish must issue a Form W-2 to all compensated employees of the Parish. ***Please refer to page 3-9 for specific instructions on diocesan priests.***
2. Each tax year (ending December 31) the Form W-2 is subject to change. It is the responsibility of the Parish Accountant or Secretary to obtain the appropriate updated form.
3. A Form W-2 must be prepared and given to an employee if any of these conditions are met:
  - a. the individual received any amount of compensation as an employee;
  - b. the employee has had FICA or income tax withheld;
  - c. the employee would have had FICA or income tax withheld but did not because the number of exemptions claimed exceeded the deduction amount;
  - d. the employee received supplemental unemployment wages or third party sick pay.

These are general requirements subject to annual change. The Diocese of Winona Finance Office should be consulted if there are any questions regarding who is to receive a Form W-2.

4. Only originals or carbon copies of Copy A of the Form W-2 may be filed with the Social Security Administration. The form must be typed or printed from computer software.
5. Copy B, C and D are normally provided to the employee for their tax return preparation. The parish should plan on retaining at least one copy of the Form W-2 for parish files.



6. Each box of the Form W-2 requires specific information to be entered into it. Each year, changes in filing requirements require that parishes confirm the correct information for each box.
7. The Form W-2 must be filed with the Social Security Administration by February 28 along with Form W-3
8. Copies of Form W-2 must also be filed with the Minnesota Department of Revenue.

B. Form W-3

1. The parish must file a Form W-3, Transmittal of Income Tax on Tax Statement, along with the Forms W-2.
2. This form must be completed and filed by February 28. This form must accompany the Forms W-2.

C. Forms 1099

1. Parishes are required to file Forms 1099 for various payments they make for services rendered to the Church by individuals who are not employees of the Church, such as payments to the organist or pianist for playing during weekly masses or to an individual who performs repair work on the building as an independent contractor. The following questions can be used to determine whether an individual is an employee or independent contractor. Answering “yes” to one or more of these items may indicate employee status.
  - a. Does the parish furnish tools or a place to work?
  - b. Is payment based on the time spent rather than the task performed?
  - c. Does the parish have the right to discharge the individual performing the service without legal liability?
  - d. Does the parish provide training for the individual?

If further clarification is needed, contact the Diocesan Internal Auditor.

2. There are at least 12 forms in the 1099 family. The 1099-MISC is the form most parishes will be using to report these payments.
3. In general, the following rules apply to determine if a Form 1099 needs to be completed:



- a. Payments of \$600 or more are made to a person (other than a corporation) in a calendar year.
  - b. The payments made to a person are not subject to withholding taxes and are not reported on a Form W-2.
  - c. Bonuses and reimbursements under a nonaccountable reimbursement plan (i.e., expenses are not substantiated or adequately accounted for) are to be reported on a Form W-2, not a Form 1099.
  - d. Payments of interest by a parish to an individual must be reported on a Form 1099-INT.
4. The form must be filed by February 28 of each year.
5. A copy of the Form 1099 must be retained and kept on file for three years.
- D. Form 1096
  1. The parish must file a Form 1096, Annual Summary and Transmittal of U.S. Information Returns, along with the Forms 1099 and Forms W-2G.
  2. This form must be completed and filed by February 28.
- E. 941/944 Reports
  1. Each parish is responsible for filing its Form 941 to the federal government.
  2. The 941 Quarterly Tax Report is to be filed by the last day of the month following the quarter's end. This report can be filed either by telephone or internet.
  3. A copy of the 941 Quarterly Tax Report must be retained by the parish for three years.
  4. Beginning in 2006, for organizations owing less than \$1,000 in payroll tax in any given year, payroll tax reporting may be done on an annual basis using Form 944. Participation in the annual reporting program must be pre-approved by the IRS. Contact the IRS at 1-800-829-4933 and select Option 2.



**F. Form W-2G**

1. Parishes conducting charitable gambling must file a Form W-2G for each person who wins a single \$600 prize or more and such winnings are at least 300 times the amount of the single wager. For bingo winnings, the amount is a single \$1,200 prize or more.
2. The form must be filed by February 28 of the year following the year the winnings were paid.
3. There may be situations where the parish may be required to withhold a 27 percent tax from the winnings if the winnings exceed \$5,000 and are at least 300 times the amount of the wager.

More information on these payroll forms is available on the internet at [www.irs.gov](http://www.irs.gov).



### Instructions for Completing W-2's for Priests

Priests are considered employees for the purposes of reporting wages to the IRS. Their earnings are reported to the IRS on Form W-2.

These wages should be reported in the following manners:

W-2 Lines 1,2 & 17. (Line 2 will be zero)

Do not fill any amounts for the priests in lines 3,4,5,6 or 7.

941 Line 2.

Wages should include the following:

1. Base pay
2. FICA Allowance
3. Longevity pay
4. Mass stipend allowance if using flat monthly amount
5. Car allowance if the priest is given a flat amount or fixed amount each month rather than being reimbursed on a per mile basis.
6. Food and housing allowance if paid to the priest rather than being provided by the Parish may be excluded from wages taxable for income but are included in wages taxable for social security.

Note:

In parishes where there are no lay employees, it is not necessary to file a Quarterly 941 Report. The priest should simply receive a W-2 and the W-3 should be mailed to the following address: Social Security Administration, Data Operations Center, Wilkes-Barre, PA 18769.

In parishes where there are lay employees, the parish bookkeeper is responsible for the completion of the Quarterly 941 Report. Priest wages must be merged with those of the lay employees to provide an accurate report of compensation paid by the location. These wages must be added to Line 2 on the Quarterly Report. (Line 2 is for total wages subject to withholding. It does not mean that withholding must have occurred.)

At the end of the calendar year, a W-2 is issued to the priest along with all lay employees. The W-3 Transmittal Form is then sent to the address above.

Parishes which use a computerized payroll system may find that priest wages are being handled in this manner automatically.

**Payroll Accounting Examples**

Record (debit) gross salaries to the corresponding employment expense account. The payroll withholdings are recorded (credited) to the liability accounts 24XX when the employees are paid. When the employee withholdings are paid, also record (debit) the employees withholdings to account 24XX. The employer taxes (i.e., employer share of social security) are recorded (debited) to corresponding employment expense account when they are paid. Example: paid parish secretary

Gross wage	\$600.00
Federal Income Tax	(39.50)
Social Security Tax	(31.59) (7.65%)
State Tax	( 9.09) (2.3%)
403(b) Retirement deduction	(18.00) (3% to 16%)
Flex Plan Withholding-	
Dependent Care/Medical Reimb.	(50.00) (based on employee)
Flex Plan Withholding-Health Ins.	(137.00) (based on employee)
<b>Net pay</b>	<b><u>\$314.82</u></b>

Record in the Cash Disbursements Journal, as follows:

	Debit	Credit
Account 5044 Staff Wages	\$600.00	
Account 2401 Federal Withholding		\$39.50
Account 2402 FICA/Medicare Withholding		31.59
Account 2403 Minnesota Withholding		9.09
Account 2411 Lincoln Pension Holding		18.00
Account 2415 Flex Plan Withholding-		
Dependent Care/Medical Reimbursement		50.00
Account 2416 Flex Plan Withholding-Health Insurance		137.00
Account 1110 Cash (Checking Account)		314.82

To accrue the employer portion of FICA, Medicare and Pension, record as follows:

Account 5051 Lay FICA (Employer portion)	\$ 25.61	
Account 5052 Lay Medicare (Employer portion)	5.98	
Account 5063 Lay/Religious Pension (Employer portion)	18.00	
Account 2110 Payroll Taxes Payable		\$31.59
Account 2115 Pension Payable		18.00



When the payroll taxes are paid, record as follows:

Account 2110	Payroll Taxes Payable	\$ 31.59 (Employer portion)	
Account 2401	Federal Withholding	39.50 (Employee portion)	
Account 2402	FICA/Medicare Withholding	31.59	"
Account 2403	Minnesota Withholding	9.09	"
Account 1110	Cash (Checking Account)		\$111.77

When the retirement contribution is paid, record as follows:

Account 2115	Pension Payable	\$ 18.00 (Employer share)	
Account 2411	Lincoln Pension Holding	18.00 (Employee share)	
Account 1110	Cash (Checking Account)		\$ 36.00

When flex plan withholdings are remitted, record as follows:

Account 2415	Flex Plan Withholding- Dependent Care/Medical Reimb.	\$ 50.00	
Account 2416	Flex Plan Withholding-Medical Ins.	\$137.00	
Account 1110	Cash (Checking Account)		\$187.00



## Transaction and Classification Examples

The following are common problem areas regarding the proper classification of transactions:

- ◆ Direct deposits made to bank or investment accounts other than the main checking account. Examples include: CD interest rolled over, reinvested dividends and reinvested interest in a Deposit and Loan (D & L) Fund account. Record monthly as follows:

	Debit	Credit
+Account 11XX, Bank/Investment/D & L Fund Account		XXX
+Account 41XX Investment Income		XXX

- ◆ For restricted funds, a separate investment income account could be established to track the income restricted for a specific purpose.
- ◆ Refunds and reimbursements of expenses other than from insurance claims should be credited to the proper expense account from which it originated (reduces expense account to actual parish cost).
- ◆ Operating expenses of the school that are paid for by the parish should be recorded in the subsidy account (e.g., accounting, secretarial, and maintenance salaries and benefits; insurance, utilities).
- ◆ The income and expenses related to a capital campaign and subsequent project should be recorded in the parish accounts and reported on the Annual Report (e.g., accounts 4515/60XX, Capital Campaign; account 5097, Loan Interest).
- ◆ Shared salaries and benefits should be reasonably allocated to clustered parishes, school and cemetery (See page 3-13 for more explanation and an example.)
- ◆ Income should never be netted against expenses and expenses should never be netted against income. Such netting understates both income and expenses and violates basic accounting principles. For certain income accounts, there are associated expense accounts that are netted together for diocesan assessment purposes. Please review the Chart of Accounts in Section 4 to identify these accounts.



### 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 represent the cost relationships. The method of allocation may be based on one of the methods described below. The parish may choose another appropriate method that applies to their situation.

1. Proportion of time the priest dedicates to each parish.
2. 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 1) on a monthly basis from which the reimbursement from the other parish(es) is determined or 2) by a set amount for monthly reimbursement with a final settlement based on actual costs to be paid at year-end.

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	$\$5,690 \times 60\% = \$3,414$
Parish 2	$\$5,690 \times 40\% = \$2,276$

#### Allocation Based on Number of Families

Parish 1	$\$5,690 \times 71\% = \$4,040$
Parish 2	$\$5,690 \times 29\% = \$1,650$

Parish 2 could pay its actual allocated amount on a monthly basis or it could pay \$2,000 per month and settle the difference with Parish 1 at the end of the year.

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.



### **Allocation of Administrative Costs Between Parish Programs**

A parish may decide to allocate administrative costs across the various programs that are supported by administration. Even though this alternative will take extra time, it may be useful to know how different programs support themselves considering their share of common expenses.

In order to accomplish this allocation, it is necessary to determine how much each program uses the service represented by each cost. For example, utilities may be divided among the programs based on a percentage determined by the number of hours the program uses parish facilities divided by total hours of programs. Another example would be tracking the number of copies each program makes and allocating copying costs to the program. If a parish allocates administrative costs between the church and school, the allocation could be based on the percentage of square feet divided between the two areas. Other administrative costs that could be allocated are insurance expense, office supplies, telephone and postage.

Such allocations would be most useful for the larger parish with several programs. However, the smaller parish may benefit from allocating administrative costs to a lesser degree.



## Fixed Assets

Parish fixed assets, such as buildings and equipment, should be included on the statement of financial position. Adding fixed assets to the financial statements more adequately reflects the financial position of the parish. The parish should use cost information if available. Since many parishes do not know the cost of their buildings, the parish could also use the insured value to record the assets on the statement of financial position. Insured values may be obtained from Mr. Jeff Reimer, Internal Auditor or Mr. Ryan Christianson, Catholic Mutual Group. See the contact information on Page 2-1 of this manual.

If the insured value of fixed assets is used, capital expenditures should not be recorded in the fixed assets. Rather, they should be expensed in an account, such as 6093.00. Actual fixed assets costs and insured values should not be recorded in the same account.

To add existing buildings and contents to the statement of financial position, the following journal entry should be made:

1805.00	Buildings	\$1,345,000	
1820.00	Furniture & Equipment	\$ 90,000	
3150.00	Plant Fund		\$1,435,000



## Accounting Software

The Diocese of Winona has selected accounting software to recommend to parishes for their implementation. The software selected is [Logos Management Software](#), which provides accounting and church management software for use specifically in parish settings. Parishes not using Logos Management Software must use an approved accounting software package. If a parish decides to change accounting software packages, they must change to Logos Management Software.

In addition to meeting the criteria laid out by the task force given the responsibility to review parish accounting software packages, Logos Management Software was chosen for the following reasons:

1. The software was designed specifically for churches and includes modules for church census, sacramental register, ministry scheduling, facility scheduling and school management.
2. There are several other dioceses throughout the United States that either mandate or recommend Logos Management Software to their parishes. References from these dioceses and individual parishes in these dioceses highly recommended Logos Management Software.
3. Logos Management Software also works with the Diocese of Winona to develop a module by which financial and census information can be sent to the Diocese from the parishes electronically. This automation process eliminates the lengthy reporting process previously required of parish accountants when reporting information to the Diocese.
4. Logos Management Software will assist the Diocese of Winona with implementation of the software over a two-year period, during which special price breaks are given to parishes purchasing the software. This implementation period ended June 30, 2005. However, Logos Management Software has agreed to extend the special pricing for parishes and schools in the Diocese of Winona.
5. Among the software packages reviewed, Logos had the most user-friendly interface, giving a visual map of step-by-step directions a bookkeeper must follow to properly enter financial transactions, perform accounting duties and produce reports.
6. Estimating costs over a three-year period, including initial purchase, training, ongoing annual support and regular updates, Logos Management Software was the most affordable option considering the various needs of parishes throughout the Diocese of Winona.



7. In an effort to keep ongoing costs down, the Diocese of Winona is able to pass on a 40% discount on continuing maintenance agreements with Logos Management Software since the Diocese has agreed to handle all billing for these agreements.

Initially, the task force responsible for this recommendation struggled with recommending a new software package not currently being used in the Diocese. However, QuickBooks, the previous number one software package, was not written for churches and had significant internal control weaknesses, including the ability to change and delete historical data. Both PDS and CMS were written with churches in mind, but both fell short when compared with Logos Management Software. After reviewing the options, it was very clear that Logos Management Software stood high above the other options. This information was presented to Bishop Harrington who received and approved the recommendation. To make the implementation more feasible, especially for smaller parishes, Bishop Harrington has allowed parishes to pay for the software over two years. If a parish chooses to change from a different approved accounting package, Logos Management Software must be the new accounting software package. Parishes cannot change to a different accounting software package.

As of March 31, 2006, 104 parishes in the Diocese of Winona have committed to using Logos Management Software. This makes Logos Management Software the most widely used accounting software package in the Diocese. The first group went through training in June 2003. Several other training sessions have been held since then.

You can request a demo CD by contacting [Jeff Reimer](#) at the Diocese of Winona Pastoral Center or visiting [Logos Management Software](#) website at [www.logoscms.com](http://www.logoscms.com).

### **Logos Management Software User Groups**

In an effort to assist parish bookkeepers with accounting and software issues, user groups have been formed across the Diocese. These user groups meet quarterly in an effort to learn how to effectively use Logos Management Software in the parishes. User group meeting dates, times and places are posted on the Diocese of Winona website at [www.dow.org/par\\_accting.html](http://www.dow.org/par_accting.html).



### **Bank Accounts and Accounts at Other Financial Institution**

The Parish should maintain only one operating parish checking account and request bank statements dated as of the last day of the month. Have either the actual checks or check copies returned with the bank statement. If a bank does not return the actual checks or check copies, the parish must request the checks or copies to be returned. This is an essential element for proper internal controls for parish financial accounting.

Separate checking accounts should be used for school and cemetery accounts. The pastor may decide to open a separate account for mass stipends or include mass stipends with the operating account. The pastor may also decide to open other accounts as needed for special purposes. If this is done, it will be necessary to include all transactions in the Annual Parish Financial Report. Therefore, parishes are encouraged to keep the number of separate accounts to a minimum and to use the operating checking account for most ongoing activities. The parish accountant should not be authorized to sign checks.

All parish funds shall be deposited only in accounts that bear the parish name and Federal Tax ID number. A complete listing of parish accounts shall be disclosed on the Annual Parish Financial Report.

All funds not necessary for parish operations, generally determined by three months of operating expenses, must be deposited in the Diocese of Winona Deposit and Loan Fund.

If a parish organization or department has a specific need for a separate checkbook the pastor must be an authorized signer and the statements are to be mailed to the parish office. The parish accountant should not be authorized to sign checks.

It is extremely important that bank reconciliations be promptly prepared for all checking accounts, by an individual who is independent of the cash receipt and cash disbursement processes. If this is not feasible, a Finance Council member should randomly review the reconciliations at least four times a year. Upon completion of the bank reconciliations, the cancelled checks or returned check copies, including any voided checks should be filed numerically with the previously returned checks.



### **Cash Receipt Procedures Other Than Collections**

When cash receipts other than offertory collections exceed \$500, they should be deposited as soon as reasonably possible to reduce the risks associated with holding cash and checks on site. All such receipts should be kept in a locked file cabinet or a safe until deposited.

Mail should be opened by someone other than the parish accountant. Checks received should be listed before being turned over to the person responsible for deposit. Checks should be immediately endorsed "For deposit only (bank name and account number)." A copy of the list should go to the accountant with the checks for depositing. The original list should go to the pastor or parish administrator for subsequent comparison to the bank deposit.

For cash delivered by hand, pre-numbered receipts should be issued. Adequate control over the sequence of used and unused receipts should be maintained.



## Diocesan Collections and Remittance

Throughout the year, the Parish remits payments to the different diocesan corporations for diocesan collections and assessments. Every payment to the Diocese of Winona, Pension Plan for Priests of the Diocese of Winona, or Special Collections for the Diocese of Winona must be accompanied by a remittance form. A copy of this form is included in **Appendix A-6**. Special Collections uses its own remittance form and is also included in **Appendix A-6**. Both forms are also available online at [www.dow.org/finance.html](http://www.dow.org/finance.html). The remittance forms must be filled out and must agree to the total of the check(s) submitted.

It is essential that checks be made out to the correct diocesan corporation to be processed properly. The monies will be applied as directed on the remittance form(s). The following points indicate how checks should be written:

The following can be included on the same remittance form:

- ◆ All checks for assessments, other non-employee benefit invoices, and non-invoice payments should be made out to the **Diocese of Winona**. You do not have to include a copy of the invoice.
- ◆ All checks for self insurance should be made out to **Diocese of Winona Self Insurance**. You do not have to include a copy of the invoice.
- ◆ All checks for employee benefits should be made out to **Diocese of Winona Employee Benefits**. Checks for employee pension and health/life/AD&D should be accompanied by a detailed spreadsheet listing each employee's activity. Please include priests health insurance invoiced payments in this check. You do not have to include a copy of the remittance sheet for the priest health insurance.
- ◆ Checks for the assessment for priest pension should be made out to the **Pension Plan for Priests of the Diocese of Winona**. You do not have to include a copy of the invoice.

Special Collections Remittance Form:

- ◆ All checks for special collections should be made out to **Special Collections of the Diocese of Winona**. In addition, allocations between diocesan collections should be calculated and listed according to donor directions.



No Remittance Form:

- ◆ Checks to be deposited to parish endowments should be made out to the **Catholic Foundation of Southern MN**. Please mail these to Catholic Foundation of Southern Minnesota.

Checks made payable to the wrong corporation will be returned to the parish to change the payee name to the correct corporation. Using the correct corporate name helps maintain the separate nature of these corporations, ultimately protecting parish and diocesan assets.



## **Procedures for the Handling of Parish Collections**

### **Collections:**

- ◆ Ushers collect contributions from parishioners.
- ◆ The head usher will take the collection money up to the altar in a basket and place it in a visible location, away from doors.
- ◆ After Mass, at least **two** ushers, who are not to be members of the same family, will take the basket to the Sacristy and wait for the celebrant.
- ◆ Two persons, who can be the Pastor and one usher or two ushers, will take the funds to either the counting team, or be locked in the parish safe. Access to the safe via combination or key should be limited to the Clergy and key parish staff.

### **Counting Teams:**

- ◆ Counting should be done as soon as possible after Mass.
- ◆ Counting should be done in teams of two or more persons who are not members of the same family.
- ◆ Parish bookkeepers, members of the Parish Finance Council, and Clergy should not be members of counting teams.
- ◆ Pastors or parish administrators should consider appointing money counters instead of requesting volunteers.
- ◆ Counting team members should rotate from week to week so that different combinations of team members are used.
- ◆ No individual should be allowed to count every week on a consistent basis.
- ◆ Separate counts should be made for each Mass. Variances by Mass time are valuable indicators of problems.
- ◆ At least two people should retrieve the money from the safe and take it to the counting room.
- ◆ No individual should ever be left in the counting room alone with the collection. If there are only two counters and one person must leave, both must leave and lock the door behind them. They should reenter the room together.

### **Money Counting:**

- ◆ Separate totals must be obtained for loose monies and for envelope monies for each collection.
- ◆ A calculator tape of all checks must be prepared.
- ◆ All amounts should be entered in ink on a cash count/recap sheet (see Appendix A-2).
- ◆ Separate totals must be obtained for money received in parish envelopes.
- ◆ Each member of the count team must sign the count sheet.
- ◆ The counter will prepare the deposit slip, which will include a list of all checks.
- ◆ Checks must be restrictively endorsed (for deposit only) during the counting process.



**Deposit:**

- ◆ All collection money is to be deposited intact. No cash is to be removed for any reason, including petty cash, charity, parish bills, etc.
- ◆ All money to be deposited, along with deposit slips and tapes of checks, is to be placed in a locking bank bag.
- ◆ Two counters, or a priest and one counter will transport the deposit to the bank immediately after the count and place it in the night depository.
- ◆ Validated deposit slips returned by the bank, are to be given directly to the bookkeeper.

**Bookkeeping:**

- ◆ The bookkeeper will compare the deposit slip with the count sheets and investigate any differences.
- ◆ The bookkeeper is not to be involved in the counting process or have access to collection funds.
- ◆ Envelopes are to be totaled or posted to computer records with totals compared to count sheets.
- ◆ Statements of giving should be sent to parishioners at least twice per year, with instructions for donors to compare the information with their personal records and to reports discrepancies to the parish office.

Any suspicion of wrongdoing in the handling of parish collections must be reported to the pastor immediately. If the pastor is the suspected perpetrator, contact the Diocese of Winona Director of Finance or Internal Auditor. Cases of theft must be reported to the Diocese of Winona Director of Finance or Internal Auditor as soon as possible. For more details on the Diocesan Fraud Policy, see page 3-33.



### **Receipts for Contributions over \$250 (Cash and Noncash)**

Contributions from any individual, organization, or other entity (e.g., estate) that are equal to or exceed \$250 require that a receipt be provided to the contributor. The receipt must contain the following information:

1. Name and address of contributor
2. Amount of cash or list of goods or services
3. A statement declaring the Parish did not provide any goods or services for the contribution
4. The date the receipt was issued (not the date the cash was received)
5. Name and title of the parish personnel issuing the receipt

The person completing the receipt must not date the receipt earlier than the date the receipt is prepared.

The parish should retain a copy of the receipt for at least four years.

Generally, parishes should issue contribution statements at the end of the year for all contributions made during the year.

A sample receipt is provided in the Appendix A-8.



**Receipts for Contributions in Exchange for Goods or Services Provided by the Parish**

The receipt provided to the contributor should include the same information as outline in the preceding section.

The individual's goods and services should be listed on the receipt. The donor, not the parish, must assign the value to the goods or services provided.

A copy of the receipt should be retained by the Parish for at least four years.



### Cash Disbursements

All expenditures are to be approved by the pastor and be paid by check. The pastor should also sign all checks. If a signature stamp is used, the pastor must maintain complete control over its use and store it in a locked place. A set day(s) of the week is recommended for check approval and payment. The documentation (invoice, payroll summary, petty cash receipts) supporting the check should note the account charged and should be filed alphabetically by fiscal year. A person independent of the accounting, authorization process, and asset custody, should review the bank reconciliations and cash disbursements and receipts of all accounts on a random basis at least four times per year. The unused checks should be stored in a locked safe or file cabinet accessible only by the pastor and the bookkeeper.



### **Employee and Volunteer Expense Reimbursement**

Persons who have incurred expenses on behalf of the church should use a form to request reimbursement. See Appendix A-8 for a sample “Requisition – Check Request” form. This form must be accompanied by receipts for items purchased. Whenever possible, personal expenditures for the church should be pre-approved through this form before they are incurred.

Each parish should establish a volunteer expense reimbursement policy. Typically, expenses incurred by volunteers are only reimbursed if they are pre-approved by the parish. Non-reimbursed expenses, including mileage, can be claimed as a tax deduction on the volunteer’s income taxes in the form of charitable contributions. The parish should issue a receipt for a noncash contribution as explained in Section 3-24.

### **Charge Accounts**

The church may maintain charge accounts at local merchants for which monthly payments are made. There should be a limited number of authorized purchasers. Authorization/signature cards should be maintained at the store indicating who the authorized purchasers are. The monthly statement should be reviewed by someone other than the purchasers. If at all possible, people should use the expense reimbursement process described above.



## Petty Cash

To properly account for **petty cash** funds, it is suggested that the following be implemented. A check should be drawn payable to petty cash or the person responsible for petty cash. The check should be for a fixed amount of money, e.g., \$100. This check should be cashed with the proceeds immediately deposited into a locked cash box. One individual should be in charge of the petty cash distributions. Receipts, noting the date, payee, amount, purpose, and the account to be charged should be maintained for all expenditures. When almost all of the cash in the box is depleted, another check can be drawn equal to the total amount expended. The expenditure receipts are then cancelled, with the amounts posted to the cash disbursements journal under their appropriate account categories. At all times, the total of cash and receipts contained in the cash box should equal the beginning cash amount. **Collection proceeds or other cash sources (e.g., votive candle money) should not be used to replenish petty cash.**



## Month-End Procedures and Preparation of Financial Statements

At the end of each month, the parish bookkeeper should make any necessary adjusting journal entries, including recording all past due assessments and accounts payable amounts. Backups should be promptly made with duplicate copies maintained at another location. The pastor should maintain a current list of all passwords.

**Parish Financial Statements** should be prepared on a monthly basis by the 15<sup>th</sup> of the following month with review by the pastor monthly and by the Finance Council at least quarterly. If applicable, separate statements should also be prepared for the school, cemetery, and all parish organizations with their own checkbooks. The school, cemetery, and parish organizations should be submitting the statements at least quarterly to the Finance Council for review. Specifically, the following statements should be prepared:

1. A **statement of financial position** (balance sheet) listing all assets, liabilities and net assets. The accounting equation is Assets equals Liabilities plus Net Assets. Please refer to page A-27 in the appendix for a sample statement of financial position.
2. A fiscal year-to-date **statement of change in net assets** (income and expense report) containing columns for the year-to-date budget amounts and the actual versus budgeted numbers. A column showing percentages may also be desired as well as a column showing the current month activity versus the same period activity for the prior year. Transfers from one asset account to another (e.g., withdrawal from savings to checking) and loan proceeds and principal payments should not be shown on the statement of activities. Such transactions should be disclosed in a footnote. Please refer to page A-28 in the appendix for a sample statement of activities.
3. The Pastor and the Finance Council should also receive a detailed schedule of all liabilities of the parish. Examples include: unpaid invoices, taxes, insurance and other payroll deductions, unpaid short and long-term borrowings, outstanding diocesan assessments, priest pension assessment, un-remitted special collections, and contract commitments.
4. An optional statement of cash flows may also be prepared.



## Annual Financial Report

There are many reasons for having each parish complete and send the Annual Financial Report to the Diocese of Winona. The Diocese of Winona uses the Annual Financial Report as a tool for financial accountability, internal financial analysis and historical record. In addition, the Annual Financial Report is used to determine the diocesan assessment, pension plan for priests assessment and annual diocesan appeal target. It is important to receive accurate and timely financial information so that these objectives can be obtained.

All parishes are required to file the Annual Financial Report to the Diocese of Winona by August 31 of each year. The reporting period is from July 1 through June 30. The pastor and lay trustees are expected to sign the Annual Financial Report.

All funds held in bank accounts, at the Diocese of Winona Deposit and Loan Fund and in other investment vehicles, such as stocks and bonds, must be disclosed on the Annual Financial Report. Annual activity in each fund or account must be included in the receipts and disbursement activity disclosed on the report.

Parishes are able to report to the Diocese through Logos Management Software. In Logos accounting module, choose Reports-Custom Reports to access the routine to report the financial statements to the Diocese of Winona. Through this process, an electronic version of the report is emailed to the Diocese and a paper report is printed. This paper report must be signed by the preparer, pastor and trustees before mailing it to the Diocese.

Parishes not using Logos Management Software are required to produce an electronic report in a format prescribed by the Diocese of Winona. Contact the Internal Audit department at the Pastoral Center for the most recent report format requirements.

The financial information contained in the Annual Report should be communicated to the parish finance council on an annual basis. A summary version of the report may be provided to parishioners.



## Handling SCRIP

Many parishes utilize SCRIP for fundraising. Parishioners purchase SCRIP from the parish, which they then use at local stores such as JC Penny, Kohl's or K-Mart. SCRIP is also commonly used to pay utility bills. There are literally hundreds of businesses nationwide that participate in the SCRIP program. When parishioners purchase items with SCRIP, the parish receives a small percentage as the fundraiser contribution.

People order SCRIP from the parish, which in turn orders SCRIP from a company such as the National SCRIP Center. The SCRIP arrives at the parish to be picked up by or distributed to parishioners.

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:

1. 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. See Appendix A-26 for sample waiver letter.
2. 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.
3. A large inventory of SCRIP should not be maintained. SCRIP can be received from the National SCRIP Center (or other SCRIP clearinghouses) in one day by airmail. Parishes should only order the amount of SCRIP that has been requested by program participants.
4. 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. When a parish receives an order of SCRIP, serial numbers should be recorded. In the event that SCRIP would be lost or stolen, the recording of the serial numbers would allow the parish to quickly identify which SCRIP is missing. Local stores could then be alerted to watch for stolen SCRIP.
5. SCRIP records should be audited or reviewed by the parish finance council on a regular basis. Additionally, the SCRIP records should be stored in a separate area from the SCRIP.



6. 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 at least 85% 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.

A sample 990T can be found at Appendix A-22. Most current forms and instructions can be obtained from the IRS website at [www.irs.gov](http://www.irs.gov).



## Internal Control and Financial Audit Policy

*The ordinary is to exercise careful vigilance over administration of goods which belong to the public juridic persons subject to him. (canon 1276)*

*All (clerical and lay) administrators of ecclesiastical goods must fulfill their functions in the name of the church (canon 1282)*

*Administrators are to fulfill the obligation of a good householder;*

*Therefore they must: (canon 1284 –1,2,7,8)*

- *exercise vigilance against loss or damage, taking out insurance policies as necessary*
- *protect ownership by civilly valid methods*
- *maintain well-organized records of receipts and expenditures*
- *make an annual report on the administration*

## Parishes, Cemeteries, Parish Schools and Affiliated Organizations

### 1 Financial Audits:

- Ø The Diocese of Winona Finance Office will schedule annual financial and procedural audits on a periodic cycle.
- Ø Audits are based on the most recent completed fiscal year.
- Ø Audit expense will be paid 50% by parish/institution and 50% by the Diocese of Winona.
- Ø Parishes and Institutions will receive a management letter listing any required changes in procedures or non-compliance with Diocesan Policies.
- Ø Parishes and Institutions will make all noted corrections and implement any required changes in order to be in compliance with Diocesan policy and procedures within three months after completion of the audit.
- Ø Diocesan Finance Office will follow-up on audit recommendations.

### 2 Internal Controls:

- Ø The Parish/Institution Accountant/Bookkeeper may not be an authorized signer on any checking or savings accounts.
  - Ø The Canonical Administrator is a signer on all accounts.
  - Ø Additional authorized signers are to be chosen from the Trustees, Parish Council Chair, and Finance Council Members.
  - Ø Other non-administrative paid staff may not be authorized signers on any checking or savings accounts
- Ø Bank statements will be first delivered and opened by an authorized signer or their delegate who is not related to the accounting function.



- Ø An authorized signer or delegate will periodically review the bank statement along with the completed reconciliation.
- Ø Parishes should maintain one checking account for all financial operations.
- Ø Parishes not using an approved\* accounting package will purchase and install LOGOS accounting software.
- Ø All other Parishes are encouraged to install LOGOS Accounting Software.
- Ø The Parish/Institution Accountant/Bookkeeper will publish monthly financial reports on all accounts, on a timely basis. Financial reports will be reviewed by the Canonical Administrator and Finance Council Members.
- Ø The Parish Bookkeeper/Accountant will not participate in the counting of parish collections. Each parish will have collection counting teams consisting of at least two unrelated people.

Note: Non-compliance with this policy will result in denial of insurance coverage by the Diocese of Winona Self-Insurance Program. Request for exemption will be handled on an individual basis.

\* Diocese of Winona Finance Office will review and approve accounting software.



## Internal Control and Financial Audit Policy

### Centralized Parish School Systems

This policy regarding the financial administration of centralized parish school systems applies to the following Schools:

- Ø **Austin Area Catholic Schools**, including Pacelli High School, Queen of Angels School, St Augustine/St Edwards
- Ø **Mankato Area Catholic Schools**, including Loyola High School, Fitzgerald Middle School, Notre Dame Elementary
- Ø **Owatonna**, St Mary's School
- Ø **Rochester Catholic Schools**, including Lourdes High School, St. John's School, St. Francis School, St. Pius School, Holy Spirit School.
- Ø **Winona Area Catholic Schools**, including St. Stanislaus Middle School, Cathedral Grade School, St. Mary's Primary School.
- Ø **Winona**, Cotter High School, Cotter Jr. High School

#### 1. Financial Audits:

- Ø Centralized Parish School Systems are required to complete at a minimum an independent, financial audit, on a three-year cycle. Independent financial audits on an annual basis are recommended.
- Ø Financial audit, year one, and financial reviews, year two and three.
- Ø Effective fiscal year 2003-2004. Audit performed on year ending June 30, 2004.
- Ø Audit expense is the responsibility of the local school system.
- Ø Copy (2) of the audit report(s) and accompanying management letters delivered to the Ordinary by October 1 following the close of the fiscal year.
- Ø Schools will engage an independent licensed accounting firm other than the Diocese of Winona Internal Auditor to perform the annual audits and reviews.

#### 2 Internal Controls:

- Ø The school Accountant/Bookkeeper may not be an authorized signer on any checking or savings accounts.
- Ø The Canonical Administrator or the pastor designated by the pastors in the school system is a signer on all accounts.
- Ø Additional authorized signers are to be chosen from Pastors affiliated with the school, School Administrators, Trustees, School Board Chair, and School Finance Council Members.
- Ø Other non-administrative paid staff may not be authorized signers on any school checking or savings accounts.
- Ø Checks in excess of \$5,000.00 require two (2) signatures.



- Ø Bank statements will be first delivered and opened by an authorized signer or their delegate who is not related to the accounting function.
- Ø An authorized signer or delegate will periodically review the bank statement along with the completed reconciliation.
- Ø Schools will maintain one checking account for all financial operations, with the exception of hot lunch programs.
- Ø Schools not using an approved\* accounting package will purchase and install LOGOS accounting software.
- Ø All other schools are encouraged to install LOGOS Accounting Software.
- Ø The school Accountant/Bookkeeper will publish monthly financial reports on all accounts, on a timely basis. Financial reports will be reviewed by the Canonical Administrator, Pastors, School Administrators and School Finance Council Members.
- Ø The Finance Committee must include individuals with financial competency who actively participate in the oversight of the organization's finances.

Note: Non-compliance with this policy will result in denial of insurance coverage by the Diocese of Winona Self-Insurance Program. Request for exemption will be handled on an individual basis.

\*Diocese of Winona Finance Office will review and approve accounting software.



### **Additional Internal Controls**

Numerous internal control procedures are included in this manual. The following checklist highlights additional internal control procedures which are recommended for all parishes. Please refer to this checklist in conjunction with the preceding policy to ensure that your parish is using the proper control procedures.

- ◆ The Finance Council should meet at least four times per year, form an annual budget, and review the most recent parish financial report which should be prepared monthly on a timely basis, meaning by the 15<sup>th</sup> of the following month. Any variances from the budget should be analyzed. Minutes should be maintained for all meetings. The Finance Council must be aware of all bank or investment accounts and their activity.
- ◆ A person independent of the payroll and accounting process should review the payroll and the related tax returns at least semiannually. This should include the examination of the cancelled checks and tracing of wire payments to the bank statements as evidence of tax and withholding remittance.
- ◆ All monies received, from any income source, must be deposited intact on a prompt basis. The individuals counting or depositing the monies should not be maintaining the financial system.
- ◆ All Parish financial records should be maintained and stored at the parish office for at least four years.
- ◆ All employees should be placed on the formal payroll and a written policy should exist regarding unused vacation and sick time with all use of vacation and sick time accounted for on a timely basis.
- ◆ Personnel files should be maintained for all workers. The files should contain the completed application form, Form I-9 for employment eligibility, Form W-4 for tax exemptions, compensation information, vacation and sick time usage, and a description of the job duties.



### **Parish Audits**

The Office of Finance has established the internal audit program to assist parishes and parish schools with the safeguarding of parish assets. There is a three-fold purpose for an audit: 1) to assist the parish with accounting related issues; 2) to identify areas that need improved internal controls; and 3) to hold the parish accountable to Diocesan policies.

A parish will automatically be subjected to an audit with a change in priest. In addition, all parishes will be audited on a rotating basis over a five-year period. Several parishes will be selected for an audit each year in addition to those with a change in priest. A parish may also request an audit. Audit costs are split 50/50 by the parish and the Diocese.



## **Fraud Policy**

Fraud is any theft or misuse of parish assets for another's gain. The following list provides examples of fraud:

1. Any dishonest or fraudulent act;
2. Forgery or alteration of policy related items, such as loans, bank documents, changes in beneficiary;
3. Forgery or alteration of checks, drafts, promissory notes and securities;
4. Any misappropriation of funds, securities, supplies or any other asset;
5. Any irregularity in the handling or reporting of money transactions;
6. Disappearance of furniture, fixtures and equipment;
7. Any similar or related irregularity.

The parish internal controls are designed to minimize the possibility of fraud and protect employees and volunteers. However, parish assets are still vulnerable to fraud. Unfortunately, fraud is most often committed by long-term and trusted employees who have fallen into personal financial difficulties.

The Pastor and Finance Council are responsible for being aware of exposures and symptoms of exposures in their parishes, and for detecting suspected wrongdoing. As soon as an impropriety is detected or suspected, the Director of Finance or Internal Auditor must be contacted immediately. The Diocesan Office of Finance is responsible for the investigation or for the direction of the investigation of any suspected irregularity and will coordinate all investigations with Diocese of Winona's Legal Counsel and Self-Insurance Program.

The pastor, trustees and finance council will support the Diocese of Winona's responsibilities and will cooperate with law enforcement agencies in the detection, investigation and reporting of criminal acts, including prosecution of offenders. If the pastor chooses not to report the alleged incident of fraud to the Diocese of Winona and local law enforcement agencies, the Diocese of Winona Self-Insurance Program will not cover any losses or legal fees associated with the incident. Additionally, failure to report alleged incidents to local law enforcement could jeopardize future ability for prosecution and restitution. If a pastor chooses not to prosecute an offender, then insurance coverage will be denied.



Great care must be taken in the investigation of suspected improprieties or irregularities so as to avoid incorrect accusations or alerting suspected individuals that an investigation is under way and also to avoid making any statements which could provide a basis for a suit for false accusation or other offenses. Accordingly, the pastor and finance council should do the following:

1. Not contact the suspected individual to determine facts or demand restitution;
2. Not discuss the case with anyone inside the Diocese of Winona other than the Internal Auditor, the Legal Counsel, Director of Finance, Bishop of Winona and Vicar General and any others who have a “need to know”;
3. Not discuss the case, facts, suspicions or allegations with anyone outside the Diocese of Winona, unless specifically directed to do so by the Director of Finance, the Internal Auditor or the Diocese of Winona Legal Counsel;
4. Direct to the Director of Finance or Internal Auditor all inquiries from the suspected individual or from the individual’s representative or attorney. Proper response to such an inquiry should be, “I’m not at liberty to discuss this matter.” Under no circumstances should there be any reference to “what you did,” “the crime,” “the fraud,” “the forgery,” “the misappropriation,” etc.

Please contact the Director of Finance or Internal Auditor with any questions regarding this policy.