

**DIOCESAN FINANCE MANUAL**

**FOR**

**PASTORS, PRINCIPALS, ADMINISTRATORS**



**DIOCESE OF SALT LAKE CITY**



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Dear Friends,

Greetings of Christ's Peace and Love for all who administer finances on behalf of our local Catholic Church!

The proper financial management of a diocese, parish, mission or school is a serious and sacred responsibility that requires careful management and oversight. In the New Testament, in fact, Saint Paul lists the administration of church goods as among the gifts given by God for the well-being of the faith community. Today, more than ever, people expect transparency and that proper systems, procedures and oversight for church finances be observed.

Financial management has never been more complex, with tax laws, liability issues, employee benefits and insurance requirements. While larger parishes and schools can often hire financial managers, there are few such resources for smaller ministries. It is, nevertheless, the responsibility of the pastor, principal or chief administrator to oversee adherence to diocesan fiscal policies and procedures in order to ensure the proper care of church finances and properties.

The Diocesan Finance Council provides advice, support and oversight for the bishop in the administration of fiscal affairs. It is essential that every parish, school and church institution to have a finance council that meets regularly to provide advice and oversight for proper fiscal management. The Diocesan Finance Office will assist local administrators in the implementation of these policies and will provide support for those needing assistance.

The Diocese will continue to conduct local fiscal reviews to make sure financial management is in compliance with the expectations outlined in this financial manual. Every effort must be made to guarantee there is transparency and honesty in the care of gifts provided by the faithful for the church. We are all accountable before God in this effort.

I am grateful to all who dedicate their time and expertise for the proper administration and care of church resources. With assurances of my prayerful wish of God's blessings to you and to our ministry to our local Catholic church in Utah, I remain

Sincerely yours in Christ,

A handwritten signature in black ink, reading "Oscar A. Solis".

The Most Reverend Oscar A. Solis, D.D.  
Bishop of Salt Lake City



# INTRODUCTION

The purpose of this finance manual is to explain the Diocesan fiscal policies and procedures. There are four major goals the implementation of these policies should achieve:

- To provide standards that ensure pastoral accountability for the just stewardship of church, school and institutional resources.
- To reduce the possibility of errors or fraud by applying generally accepted accounting principles and implementing internal controls.
- To accurately report the financial transactions of each year in financial statements and reports.
- To compare year-to-date financial statements accurately.

Religious organizations place significant trust in their employees and volunteers. Since a significant portion of funding is provided in the form of cash contributions, there are operational issues that require careful oversight and control.

Throughout the manual, the Pastor, principal or administrator is considered to be the chief administrative supervisor for the parish, mission, school or agency. A business manager, program director or supervisor sometimes fulfills many of the same responsibilities. In such cases, the same policies apply. It must be remembered, however, that the chief administrator is ultimately responsible for the fiscal compliance of the local entity, just as the Bishop is for the Diocese.

NOTE: Throughout this manual the administrator refers to pastor, principal or administrator who has primary responsibility for a diocesan entity.

Cash is an extremely vulnerable asset than can be deliberately misappropriated or lost. The implementation of cash disbursement, cash receipt, and purchasing procedures assures that proper accounting principles are being applied and thus the chance of errors reduced.

By utilizing the capital assets policy, large expenses in any one year are isolated so that they do not distort the comparability of yearly financial statements. So too, by not expensing large capital purchases, the goal, accurate comparability of annual financial statements, will be achieved.

Where there is reason to suspect malfeasance, misappropriation of funds or other irregularities, Diocesan insurance carriers require the Diocese to report such to local civil authorities, with the possibility of conducting an investigation for criminal wrongdoing.

These are but a few highlights of the policies and procedures outlined in this manual. Hopefully, they will facilitate fiscal accountability in all of our institutions.



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# INTERNAL CONTROLS

## POLICY

Administrators, as well as all employees, have a fiduciary responsibility to ensure that the available resources are utilized in a manner consistent with the entity's mission and/or donor restrictions.

## RATIONALE

Implementing internal controls basically helps to keep honest people honest. The objectives of internal control systems include:

- Reduce possibility of theft and/or loss of assets
- Ensure compliance with laws and regulations
- Provide timely and accurate information via financial statements

## COMPONENTS OF INTERNAL CONTROL

- *Control Environment.* This sets the tone and is the foundation; provides structure and discipline.
- *Risk Assessment.* Identifies types of potential misstatements and designs controls to prevent or promptly identify misstatements.
- *Information and Communication.* The accounting system provides the information. The policy manuals, memoranda, and directives provide the communication.
- *Control Activities.* The policies and procedures are established to ensure that management directives are implemented. An example is that the Sunday collection count is performed in accordance with diocesan policies.
- *Monitoring.* Addresses the quality of the entity's internal control over a period of time. Assesses the design and operation of controls and takes any necessary action to correct deficiencies. The Parish Finance Council, annual audits and diocesan reviews are ways of monitoring internal controls.

## PROCEDURES

### CASH

Although the size and type of an entity affect internal controls, basic controls are always relevant. All entities are to implement as many basic controls as possible.

- Control the opening of mail, preferably using two people
- Restrictively endorse checks when received
- Prepare a daily list of cash receipts when mail is opened

- Compare daily list to bank deposit
- Deposit funds as soon as possible
- Reconcile cash receipts with cash deposited by a person not involved with cash receipts
- Separate the handling of cash from the processing and recording of receipts
- Require documentation so as to monitor conditional pledges to donate; record the unconditional pledges to donate in the general ledger
- Require documentation of non-cash contributions for determination of proper accounting
- Require approval and support for adjustments, write-offs, or other items reducing contributions, promises to give, and accounts receivable
- Resolve complaints from donors, utilizing a person not involved in the cash receipts function
- Train and supervise volunteers who assist in the cash receipts function

## CHURCH OFFERINGS

- Implement clear procedures to be followed from the time the money is put in the offering plate until the money is deposited in the bank. These procedures are to be used to train all people involved in the collection process.
- Always follow the principle of at least two. A minimum of two unrelated people should always collect and count offerings. Count teams should be rotated on a regular basis, and the teams should not include the same two people each time.
- Encourage the use of offering envelopes. Envelopes provide a paper trail for cash receipts and provide another way to avoid possible embezzlement.
- Count the offerings as soon as possible; safely secure before and after the count.
- Use a secure area for counting. Count team members should not bring coats, purses, or briefcases into the count room.
- Have counters complete offering count sheets in ink, sign and date.
- Use a restrictive endorsement for checks – “For Deposit Only Account Number”
- Verify amounts indicated on offering envelopes with the envelope contents. Any variance should be noted on the envelope.
- Properly identify restricted funds; note on the envelope & the count sheet.
- Place offerings in a secure location while stored in the church. This may be accomplished by using a safe or by placing offerings in locked/sealed bags.
- Segregation of duties is important. Someone (e.g. accountant) other than the count team should record offerings on parishioners’ statements. Offering count sheets should be reconciled regularly with deposits by someone (e.g. administrator) other than the person who deposits the offering. The same person is not to handle all of the following aspects of a cash transaction:
  - Receiving the cash
  - Processing the deposit
  - Recording the transaction
  - Reconciling the bank statement

## DISBURSEMENTS

Internal controls should ensure that disbursements are made only upon proper authorization, for valid business purposes, and that all disbursements are properly recorded.

Segregation of duties regarding expenditures is similar to that for cash receipts. This generally means the same person does not handle all of the following aspects of a transaction:

- Authorization
- Processing
- Check signing
- Recording
- Bank reconciliation

## PAYROLL

Internal controls should help ensure that payroll payments are made to the proper employees for services actually rendered, at approved rates of pay, with all required deductions for payroll taxes being made. All other deductions should be properly authorized by the employee in writing, including 403(b), cafeteria plans, health insurance, etc. Withheld items should be remitted to the proper governmental or other entity on a timely basis.

There are four functions accomplished through the payroll cycle:

- *Personnel administration.* Includes interviewing, reference checking and hiring, along with processing personnel and wage records. A copy of the employee's driver's license is to be maintained on file as well as the safe environment certification if the employee is to work with minors.
- *Timekeeping and payroll preparation.* Includes preparation of timesheets, payroll records, checks and summarization and calculation of payroll,
- *Payment of payroll.* All salary are direct deposits to the employee's bank account. Suggest maintaining a separate payroll bank account, as this will limit exposure to payroll fraud.
- *Preparation of payroll tax returns and payment of taxes.* The careful and timely preparation of all payroll tax returns and the payment of taxes are necessary to avoid penalties and criminal charges.

## FRAUD

Fraud can be defined as the act of deceiving or misrepresenting. Unfortunately, fraud will occur in religious organizations as well as other types of entities and has a very divisive effect on the organization. Management is responsible for establishing and maintaining effective internal controls to prevent fraud. Fraud can occur in the following ways:

- *Fraudulent financial reporting.* This occurs through misstatements or omissions of amounts or disclosures from the financial statements with the

intent of deceiving financial statement users. This would include the recording of fictitious transactions, misclassification of expenses, etc.

- *Misappropriation of assets.* Involves theft of the religious organization's assets, such as taking physical assets/cash, paying for goods/services not received, or paying inflated prices for items received.

The trusting environment and potential lack of adequate controls in a religious organization provide more opportunities to commit fraud than typically provided in other environments. The three factors which comprise the so-called "fraud triangle" are:

- Perceived pressure facing the employee or volunteer
- Perceived opportunity to commit fraud
- Employee's/Volunteer's rationalization

## FRAUD AND INTERNAL CONTROLS

Some of the common internal controls that could detect fraud or prevent it from occurring include the following:

- Adequate segregation of duties
- Administrator to receive the unopened bank statements for review
- Timely review and comparison of contributions to budget
- Timely review of expenditures by management or board member
- A control environment that advocates strong internal controls
- Volunteer training

The following actions contribute to fraud:

- Overemphasis on the entity's short-term goals to the detriment of internal controls and proper planning for the future.
- A misconception that all employees and volunteers are trustworthy
- Over reliance on one individual
- Cutting procedural steps in the interest of time

# **CASH**

## **POLICY**

Cash is to be handled in accordance with the policies established by the Diocese.

## **RATIONALE**

Cash, being the most liquid asset, is the most susceptible to actual or apparent misappropriation. Adherence to this policy will reduce the risk of problems resulting from poor cash controls.

## **PROCEDURES**

1. All church funds shall be deposited only in accounts that bear the entity's name. There should be no more than one general account, a payroll account, and where appropriate a Mass stipend account. Organizational accounts when deemed necessary. See procedure #6.
2. All receipts shall be recorded within the church accounting system. The existence and use of bank accounts not maintained within the general ledger is expressly forbidden.
3. Bank accounts in the name of the parish or school may be established only by resolution of the Administrator. The Administrator must be a signer on all bank accounts. Anytime a change of signature(s) on the bank is required, the Administrator must sign the new card(s). There should be an alternate signer on all accounts for emergency circumstances.
4. No checks made payable to the institution may be endorsed and converted into cash, nor deposited in accounts other than church bank accounts set up in accordance with procedure #3.
5. No priest or other employee shall maintain a personal account that contains church funds or to which church funds are deposited.
6. Separate accounts for church organizations (altar society, Home & School, etc.) may exist. Such accounts must, however, contain reference to the name of the parish or school to which they pertain (e.g. St. Vincent's Altar Society; St. Jude Altar Society of Holy Spirit Church). The Administrator must be one of the authorized signers on such accounts. All bank statements for these accounts must be mailed directly to the Administrator, who is to review them for accuracy. These accounts must be reflected on the general ledger, see procedure #2.
7. Personal gifts to a priest or staff member are not to be made payable to the parish but to the individual beneficiary.
8. The Administrator is to establish a parish finance council, usually part of the Pastoral Council. This council should review the financial status of the entity on a regular basis. Each will have a periodic financial review arranged by the Diocese, unless an annual independent audit is performed.

9. The Administrator is to receive unopened bank statements. He/She should then scan the statements and the enclosed cancelled checks for unusual items prior to forwarding the statement for reconciliation.
10. Bank accounts should be reconciled by someone other than the bookkeeper, such as the secretary, or a council member. If the bookkeeper reconciles bank accounts, the reconciliation should be reviewed by the Administrator or the Finance Council.
11. All unused checks are to be safeguarded in a safe or locked cabinet.
12. The following suggestions ensure proper control over a petty cash fund:
  - a. The fund should be recorded in the Petty Cash general ledger account and periodically replenished for exactly the amount of expenditures from the fund. The size of the fund should be determined by its activity, but should not exceed \$500.
  - b. The fund should be in the sole custody of a single employee. The custodian should balance the fund at least monthly, and periodically the Administrator, or some other person so designated should randomly audit the fund.
  - c. Disbursements from the fund should be supported by petty cash vouchers prepared in ink. All original supporting data should be attached to the voucher. Upon reimbursement of the fund, every voucher (and related supporting data) covered by the reimbursing check should be canceled in such a manner as to preclude its reuse.
  - d. The petty cash fund should be maintained on the books as a cash account.
13. Surplus parish funds, defined as amounts in excess of 30 days operating cash requirements, must be invested in the Diocesan Deposit and Loan Fund (see D&L policy statement in this section).

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Sample of recording Petty Cash Activity

1. *Recording individual transaction at time of transaction*

Expense Account for item	Debit	(Expense)
Petty Cash	Credit	(Asset)
To record item paid from petty cash		
(There will be an entry for each transaction)		
Petty Cash	Debit	(Asset)
Cash	Credit	(Asset)
To record replenishment of petty cash		
(This will be a periodic entry – at time of actual replenishment)		

2. *Recording individual transactions at the same time of replenishment*

Expense Account	Debit	(Expense)
Expense Account	Debit	(Expense)
:	:	(Expenses)
Expense Account	Debit	(Expense)
Cash	Credit	(Asset)
To record all items paid from petty cash and replenishment of petty cash		

Note: Individual petty cash expenditures are not recorded at time of expense. Only one journal entry is necessary – debits to various expense accounts and offset with the replenishment check (Cash).

## Petty Cash Reimbursement Form

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(A) Stated balance of petty cash account \$ \_\_\_\_\_

(B) Less: Actual cash on hand

Bills 20's 10's 5's \_\_\_\_\_  
1's \_\_\_\_\_

Coins 25¢ \_\_\_\_\_  
10¢ \_\_\_\_\_  
5¢ \_\_\_\_\_  
1¢ Other \_\_\_\_\_

(C) Amount expended (A-B) \$ \_\_\_\_\_

(D) Cash disbursed from fund (per attached receipts):

Expense Type	G/L Code	Amount
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Subtotal of cash disbursed \_\_\_\_\_

(E) Difference: (over)/short (C – D) \_\_\_\_\_

(F) Total to be reimbursed (D + E) = (C) \$ \_\_\_\_\_

Prepared by: \_\_\_\_\_ Approved by: \_\_\_\_\_

Date: \_\_\_\_\_

<b>PETTY CASH VOUCHER</b>	
DATE _____	FOR _____
AMOUNT _____	_____
APPROVAL _____	_____
ACCOUNT _____	RECEIVED BY _____
_____	_____
(ATTACH RECEIPT)	

<b>PETTY CASH VOUCHER</b>	
DATE _____	FOR _____
AMOUNT _____	_____
APPROVAL _____	_____
ACCOUNT _____	RECEIVED BY _____
_____	_____
(ATTACH RECEIPT)	

<b>PETTY CASH VOUCHER</b>	
DATE _____	FOR _____
AMOUNT _____	_____
APPROVAL _____	_____
ACCOUNT _____	RECEIVED BY _____
_____	_____
(ATTACH RECEIPT)	

<b>PETTY CASH VOUCHER</b>	
DATE _____	FOR _____
AMOUNT _____	_____
APPROVAL _____	_____
ACCOUNT _____	RECEIVED BY _____
_____	_____
(ATTACH RECEIPT)	

<b>PETTY CASH VOUCHER</b>	
DATE _____	FOR _____
AMOUNT _____	_____
APPROVAL _____	_____
ACCOUNT _____	RECEIVED BY _____
_____	_____
(ATTACH RECEIPT)	



# **CASH RECEIPTS**

## **POLICY**

Receipts are to be handled and recorded in accordance with the policies established by the Diocese. These policies and procedures will serve to meet the following objectives:

- As few persons as possible will handle cash
- Conversion of church cash to personal use will be as difficult as possible.
- Control over cash will be established as early as possible, accountability maintained, and opportunities for concealment of conversion will be reduced.

In fulfilling proper stewardship of resources the Administrator is to engage the talents of qualified lay people.

## **RATIONALE**

While parish/school/organizational finances are a responsibility shared by the entire parish or school communities, it is the Administrator who, by appointment of the Bishop, exercises the control of leadership and coordination. This person supervises the recording of revenues and is the agent of accountability on behalf of the community in relation to the Diocesan church.

## **PROCEDURES**

- I. Parish Collection Counting:
  - a. A collection count committee of trustworthy persons should be established in sufficient number to count collections as expeditiously as possible. Prospects should be screened with the assistance of the Finance Council and final approval by the Administrator. The number of members should be sufficient to cover the counting requirements without over burdening the members. The need for absences, vacations, etc., should be considered.
  - b. Cash count procedures should be in writing and furnished to each member of the count committee.
  - c. Collections should be counted in the presence of at least two unrelated people until record control has been established. Each person should recount the other's work, and reconcile the total. No one person or family should have sole control of the money.
  - d. Amount of offering should be indicated on outside of the parish envelopes for subsequent posting to parishioners' statements. Loose checks should be listed for subsequent posting to parishioners' statements. (See subsequent discussion of parishioner statements).
  - e. The count results should be written in ink on a standard count form (see sample) and a deposit slip prepared. Copies of the count form(s) and deposit slip(s) should be forwarded directly to the Administrator and the bookkeeper.
  - f. Collections should be counted and checks endorsed for deposit as soon as possible after each Mass or service. Note: Counting and

depositing the collections after each Mass is recommended, especially in the larger churches. If it is not practical to count after each Mass, the deposit should be controlled by the Administrator or two designated people and placed in the safe, preferably by use of the drop slot. At the time of count, the count procedures are to be followed.

- g. Counters should not make the deposit; deposit information should be forwarded to another individual to make the deposit. All checks should be restrictively endorsed "For Deposit Only in the Account of (parish)."
- h. If possible, parishes should arrange for evening and Sunday deposits.
- i. Parish funds should never be taken home by anyone.
- j. Collection records should be compared from week to week and also compared with the same week of the previous year.
- k. A person not involved in counting the collections should compare totals from collection counters to deposits.
- l. The finance council is to ensure proper control is exercised over the collection count by periodically performing the following procedures:
  - i. Tracing copy of deposit slip to collection count record.
  - ii. Ascertaining that two members of the count committee have signed the count sheet in ink.
  - iii. Tracing collection deposits to bank statements and ascertain that deposits were timely.
  - iv. Determining that procedures for handling mail receipts are being followed.

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Sample of persons needed for the cash receipt function for internal control purposes:

Count Teams -	Pairs of unrelated counters (check each other's work)
Administrator -	Compares totals from collection count sheets to deposit slips Review bank statements/cancelled checks for unusual items Reviews bank reconciliation
Accountant -	May perform bank reconciliations if reviewed by the Administrator Enters cash receipts into accounting system & updates parishioners' giving records
Secretary -	Opens mail and lists checks
Council member-	Deposits checks Reconciles bank statement(s)
Finance Council Members -	Assist with screening of count committee members. Periodically reviews count team procedures. May assist with check deposits and bank statement reconciliation

Note: We have to be careful not to assign administrative tasks on a regular basis to council members. They are policy members and are to oversee and provide fiscal advice.

## PARISH COLLECTION COUNT SUMMARY

Parish: \_\_\_\_\_

Date: \_\_\_\_\_.

Account No.	Account Description			Amount
	Sunday Collection			
	Envelopes – Checks		\$	
	Envelopes – Cash/Coin	See Detail	\$	
	Loose Checks		\$	
	Loose Cash/Coin	See Detail	\$	
	Total Sunday Collection			\$
	Special Collection for:			\$
	Building Fund			\$
	Votive Offerings (Candles)			\$
	Gifts and Bequests			\$
	Intermountain Catholic			\$
	Religious Formation			\$
	Youth Ministry			\$
	Other:			\$
	School Tuition			\$
	School Fundraiser			\$
	Other:			\$
	Total Parish Collection/Deposit			\$

Counters – Signatures & Date

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### PARISH COLLECTION COUNT DETAIL

Collection for \_\_\_\_\_ Parish: \_\_\_\_\_ Date: \_\_\_\_

Account No.	Account Description	# of bills	Currency Amount	Currency Total	Total Amount
	Checks				\$
	Envelopes – Cash/Coin		100	\$	
			50	\$	
			20	\$	
			10	\$	
			5	\$	
			1	\$	
			Coins	\$	
	Total Cash/Coin in Envelopes				\$
	Loose Cash/Coin		100	\$	
			50	\$	
			20	\$	
			10	\$	
			5	\$	
			1	\$	
			Coin	\$	
	Total Loose Cash/Coin				\$
	TOTAL CASH/COIN				\$

Counters – Signatures & Date

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II. All Other Cash Receipt Procedures

- a. All Sunday/Holy Day collections must be counted, recorded, and deposited within one business day of receipt. All other cash receipts should be deposited as soon as reasonably possible to reduce the risks associated with holding cash and checks on site. The Administrator should determine a limit for cash and checks on hand that should not be exceeded; for example, a deposit might be required when cash and checks on hand exceed \$500.
- b. All receipts (cash and checks) should be maintained in a locked file cabinet or safe until deposited. Only the Administrator (or delegated agent) should have a key or combination to this safe.
- c. All Diocesan and national collections should be remitted to the Chancery Office within two weeks following collection in order to expedite the distribution of funds to the specified charities.
- d. The use of envelopes is encouraged. Loose cash weakens the system.
- e. Mail should be opened by someone other than the person responsible for cash receipts. Checks received should be listed before being turned over to the person responsible for deposit.
- f. Banks should be instructed in writing not to cash checks made payable to the Parish or School and not to accept them for deposit in accounts other than the designated depository account.

III. Recommended Procedure for Athletic Gate Receipts.

- a. Standard “pre-numbered” forms should be prepared by the school Business Manager (1) and reviewed annually with the Athletic Director.
- b. Both the standard form and “numbered roll tickets” should be stored and distributed by the school Business Manager for each athletic contest.
- c. The Athletic Director shall distribute numbered roll tickets with the appropriate form to “collectors.” Individual collectors should be responsible for reconciling the cash box to the form, completing the form and returning it along with the unused roll tickets to the Athletic Director at the conclusion of each contest.
- d. Oversight of collection procedures at field or gymnasium is the responsibility of the Athletic Director.
- e. Reconciliation of receipts is the responsibility of the school bookkeeper.

(1) Where there is no business manager or athletic director, the administrator is to designate someone to perform the responsibilities indicated.

# ATHLETIC GATE RECEIPTS

## Ticket Sales Report Form

Contest \_\_\_\_\_ Date \_\_\_\_\_

Beginning Balance \$ \_\_\_\_\_

*First ticket number*                      *Last ticket number*                      *Color* \_\_\_\_\_

Number of adult tickets sold                      @                      = \$ \_\_\_\_\_

*First ticket number*                      *Last ticket number*                      *Color* \_\_\_\_\_

Number of student tickets sold                      @                      = \$ \_\_\_\_\_

Number of passes sold                      \_\_\_\_\_ @                      = \$ \_\_\_\_\_

Number of family passes allowed  
entrance                      \_\_\_\_\_

Number of student passes allowed  
entrance                      \_\_\_\_\_

**Total Attendance**                      \_\_\_\_\_

**Total Cash Received**                      \$ \_\_\_\_\_

**Less Balance**                      \$ \_\_\_\_\_ (same as  
above)

**Total Deposit**                      \$ \_\_\_\_\_

# **CASH DISBURSEMENTS**

## **POLICY**

Disbursements are to be handled and recorded in accordance with the policies established by the Diocese.

## **RATIONALE**

These policies and procedures will make inappropriate disbursements, such as those for personal use, more difficult.

## **PROCEDURES**

1. Pre-numbered checks should be used and numerical control maintained. Safeguard unused checks in a safe/locked cabinet. Account for voided checks.
2. The individual who prepares the checks should not be authorized to sign the checks, and should be rotated with a replacement on a periodic basis.
3. Checks should be signed by Administrator or delegate; supporting documentation should be reviewed before signing.
4. Checks should be mailed or distributed by someone other than the person preparing checks when possible. (See subsequent discussion of payroll)
5. It is NEVER permissible to pre-sign checks. The value of adhering to this is that it provides check signers with detailed knowledge of programs and ensures that at least one person is maintaining day to day financial control according to the approved budget. Only in unusual circumstances may the Administrator delegate the signing of checks to others. This procedure should reduce the church's exposure to embezzlement.
6. Signature stamps should not be used to sign checks.
7. The person who signs the checks should not reconcile the bank statement.
8. Budgets should be developed and approved for all accounts. Disbursements not specified in the approved budget should not be allowed without direct approval from the Administrator.
9. Each month, actual disbursements should be compared with the approved budget. Significant differences between actual and budgeted expenses should be investigated and resolved.
10. A review committee of at least two individuals should be established to determine that proper control is being exercised over cash disbursements. Checking accounts should be reviewed for accuracy or irregularities. Cancelled checks should be inspected for legitimacy of expense, and endorsement by the proper party. In addition, checks should be reviewed to ensure that they were not altered.
11. Checks clearing the bank should be reviewed and any large and/or unusual amounts investigated.
12. Reasonable limits on credit cards issued in the parish's name are to be maintained. Original receipts are to be matched to the credit card statements prior to payment.

13. Debit cards are NOT to be issued, as they are difficult to monitor and provide the user access to the entire account balance.

Each parish has an expenditure limit. (Refer to the Pastoral Directives, under the heading "Pastoral Concerns," for Parish Expenditure Limits). Permission of the Bishop or Vicar General is required for a parish/mission/school to exceed the established expenditure limit. Procedures for major projects are outlined in the Diocesan Directives.



# PARISHIONERS' STATEMENTS

## POLICY

Periodic statements (quarterly and/or annually) should be sent to parishioners noting contributions to the parish and to special collections. Payment of school tuition or fees may not be credited as charitable contributions.

## RATIONALE

Statements provide a record for parishioners' personal and tax record keeping purposes. In addition, they provide assurance that the total contributions recorded in the financial records are reasonable in relation to total offertory received.

Furthermore, the IRS requires written acknowledgment of any single donation exceeding \$250. The acknowledgment letters must include the following information to conform:

- The name of the donor
- The amount of cash and a description of any other property contributed. (The religious organization is not responsible to determine fair market value)
- Value of any item(s) provided in return. However, if the only benefit provided consists of "intangible religious benefits," a statement to that effect should be included.

Please note that donation of non-cash property in excess of \$5,000 requires an additional IRS filing of Section B, [Form 8283](#), completed by the donor and signed by a qualified appraiser, the donor and the Administrator.

## PROCEDURES

1. A record of each parishioner's contribution should be kept by someone not having responsibility for counting collections or handling mail receipts.
2. Statements should be pre-printed with the following confirmation request:  
*"This statement is for your records. Please examine it carefully. If it does not agree with your records, please communicate this directly to the (specify official title of chief administrative position)."*
3. Prior to mailing statements, the total of the posting source (envelopes) should agree with the total postings (what has been deposited and entered into the financial records).
4. Statements should be mailed to the parishioners under conditions that make it impossible for anyone who has manipulated these statements to suppress delivery or intercept replies.
5. The parish finance council or other designates may perform the following steps related to statements:
  - a. Trace amounts listed on envelopes and loose check listing to parishioners' statements on a random test basis one Sunday each month.
  - b. Periodically check total envelope amounts and loose checks amounts against control totals for parishioners' statements.
  - c. Total parishioners' statements which should agree with control totals in the financial records.

- d. Control the mailing of statements to parishioners.
- e. Review actual procedures in use at the parish/school on a periodic basis.

# **DEPOSIT AND LOAN (D&L) PROGRAM**

## **POLICY**

Parishes are to regularly invest all resources in excess of one month's operating requirements in the Diocesan D&L program. All building, maintenance, or other special funds are to be deposited in the Diocesan D&L Program. Schools may also deposit funds in the D&L.

Parishes and schools are authorized to borrow only from the Diocese. The D&L Fund is established to loan funds to parishes, and on occasion schools. Parishes requesting loans must have a minimum of sixty percent of the total amount needed on deposit in the D&L Fund. All loans exceeding \$50,000 (smaller loans are sometimes approved directly by the Bishop or Vicar General) must be reviewed by the Diocesan Finance Council as well as approved by the Bishop.

Parishes/Schools may make withdrawal requests from their D&L savings account as funds are needed.

Parishes are responsible to maintain their debt payments in a current status. Agreed upon monthly automatic payments must be made to service any outstanding debt with the Diocese. Parishes with debts may also maintain D&L savings accounts.

## **RATIONALE**

The Diocese operates the D&L program as a cooperative savings and loan program for the benefit of all the parishes and occasionally schools of the Diocese. By accepting deposits from entities with excess funds, the program is able to make loans to other parishes/schools so that they may carry out special projects such as construction or renovation.

As St. Paul advised the Corinthians:

*"Your plenty at the present time should supply their need so that their surplus may one day supply your need, with equality as a result." (2 Corinthians 8:14)*

## **PROCEDURES**

The Diocesan Finance Office will maintain a ledger of established parish/school D&L accounts and will calculate interest on a monthly basis. By crediting interest to depositing entities at a comparable rate with the market, the D&L Fund is capable of making loans to borrowing entities at a rate close to, or at the current prime rate.

Any parish that has funds in excess of those needed to meet thirty days of parish operating needs is required by Diocesan policy to deposit the funds into their D&L Savings account.

Parishes may have D&L savings accounts for special funds as needed. So, for instance, a typical parish might have three separate accounts, one for normal excess funds, one for restricted donations, and one for future capital improvements.

To make a deposit, a check made payable to the **Diocesan Capital Corp.** is sent to the Diocesan Finance Office, to the attention of the D&L Fund. Deposit slips can be obtained from the Diocesan Finance Office for direct deposit into the D&L Fund. All deposits are credited to the individual account on the day received. Monthly interest income earned will be calculated and posted to the individual accounts.

The procedure for withdrawing funds from existing D&L savings accounts is as follows:

Prepare a short letter, signed by the Administrator, requesting a withdrawal of funds with a brief explanation of the reason for the withdrawal (e.g., for the payment of salaries, operations, painting). The withdrawal request should be sent to the Vicar General. The Vicar General submits the approved "Request for Payment" to the Diocesan Finance Office and a check will be mailed to the parish or institution. Approval by the Bishop is necessary if the amount of the request is for an extraordinary expenditure in excess of the limits defined in the Pastoral Directives.

Significant loans from the D&L Fund require the approval of the Diocesan Finance Council and Bishop. To apply for a loan, a parish/school presents its request in writing to the Bishop.

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Summary of journal entries on D&L activity:

1. *Deposit funds to D&L savings account*

D&L Account	Debit	(Asset)
Cash	Credit	(Asset)

2. *Interest earned on D&L savings account*

D&L Account	Debit	(Asset)
Interest income	Credit	(Revenue)

3. *Withdrawal of funds from D&L account*

Cash	Debit	(Asset)
D&L Account	Credit	(Asset if savings/Liability if loan)

4. *Loan payment on D&L loan account*

Interest Expense	Debit	(Expense)
D&L Loan Account	Debit	(Liability)
	Cash	Credit
	(Asset)	

5. *Diocesan direct payment on construction project*

Capital Asset (Building)	Debit	(Asset)
D&L Account	Credit	(Asset if savings/Liability if loan)

# PARISH ASSESSMENT

## POLICY

Canon Law authorizes the Bishop to assess parishes for support of the Diocese and other special needs. The formula for the parish assessment is uniform for every parish. It consists of a predetermined percentage of the ordinary parish income (calculated from the weekly Sunday and Holy Day collections, both envelope and loose plate, including any other formula of regular parish support by parishioners). Special (second) collections which are designated for particular works are not included in the assessment base.

The amount of the assessment to be used in preparing the next year's budget will be based on the ordinary income of the most recently completed fiscal year.

The amount due will be invoiced monthly by the Diocesan Finance Office.

# DIOCESAN OBLIGATIONS

## POLICY

A statement of amounts owed by the parish or school is prepared monthly, by the Diocesan Finance Office. The following are items usually included:

1. Monthly Parish Assessment
2. Loan Payments
3. Unemployment insurance (quarterly)
4. Workers compensation insurance (quarterly)
5. Long term disability insurance (semi-annual)
6. Property and auto insurance
7. Intermountain Catholic subscription
8. Other items as incurred

Diocesan obligations shall be paid in full when due or within thirty days of billing. Proportionate monthly installments can be made.

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### Sample journal entries

#### *Record amounts due to Diocese*

Assessment	Debit	(Expense)
D&L	Debit	(Liability – loan account)
Unemployment insurance	Debit	(Expense)
Workers compensation	Debit	(Expense)
Disability	Debit	(Expense)
Property/auto insurance	Debit	(Expense)
Intermountain Catholic	Debit	(Expense)

D&L	Debit	(Asset – savings account)
Accounts Payable	Credit	(Liability)
<i>Payment of invoice</i>		
Accounts Payable	Debit	(Liability)
Cash	Credit	(Asset)

## PAYROLL AND WITHHOLDING TAXES

### POLICY

Payroll is to be processed and paid in accordance with Diocesan policies, federal and state laws. A photocopy of every employee's social security identification must be retained on file by the parish/school/institution as well as a document verifying eligibility to work in the United States.

### RATIONALE

These policies and procedures will ensure the reasonableness of amounts paid for payroll, prevent attempts at overpayments, and ensure compliance with tax regulations regarding payment and withholding.

### PROCEDURES

1. Only electronic fund transfers are to be used for all payroll disbursements.
2. Payroll is to be reviewed and approved by the Administrator or delegate. The review should encompass hours worked, rate of pay, overtime hours and deductions.
3. The payroll bank account (if separate from the regular checking account) should be reconciled monthly.
4. Payroll is processed at least monthly.
5. Withholding taxes must be deposited in accordance with federal, state and specific diocesan directives.
6. Under no circumstances is anyone to be paid in cash or by checks not properly accounted for in parish payroll records. Otherwise, such actions could readily entail fraud and lead to criminal charges.

The proper recording and maintenance of payroll records is not only essential in assessing parish and school operations, but also for federal and state tax purposes. The Internal Revenue Service (IRS) and local tax authorities require the maintenance of records that reflect the remuneration paid to each employee performing services for the parish or school. Also required are numerous reports

relating to payroll that must be prepared and submitted in accordance with specified filing dates.

Payroll systems used should readily provide the following information:

- a. Current period earnings, by employee
- b. Quarterly and annual earnings, by employee
- c. Current, quarterly, and annual totals for taxes withheld from employees
- d. The distribution of these expenditures to the appropriate accounts

Not all who provide services to the parish/school are employees. The following section will outline the status and treatment of workers.

Who is an Employee?

The IRS defines an employee as “anyone who performs services subject to the will and control of the employer both as to what shall be done and how it shall be done” and receives some type of remuneration for such services.

The term “employee compensation” can refer to the payments made to office staff, teachers, coordinators, ground keepers, custodians, musicians, and part-time helpers, as well as many others. Most regular staff members will be considered employees.

Who is an Independent Contractor?

All individuals receiving payment for services from the parish/school and who are not considered employees are generally independent contractors. An example might be a person hired to paint a parish building for a fee.

The primary distinction between employees and non-employees or independent contractors is that employees have Income Tax and Social Security amounts deducted from their wages and may be entitled to other diocesan benefits. Nonemployees do not have these payroll deductions withheld from their payment and are thus solely responsible to the IRS for remitting their required amounts.

Note: Aggregate payments made to independent contractors totaling \$600 or more per calendar year must be reported by the employer to the IRS, utilizing form 1099-NEC for tax purposes. A W-9 must be maintained on file for each independent contractor.

Diocesan Priests

For payroll and government reporting purposes diocesan priests have a hybrid status. For Social Security purposes, diocesan priests are generally considered to be self-employed and, as such, FICA tax is not to be withheld from their gross wages. However, unlike other self-employed individuals (painters, etc.), priests annual wages are to be reported on a form W-2, not a 1099. Priests' wages will be reported on payroll tax returns (quarterly 941). Priests may pay their own federal taxes quarterly, if they desire, or can arrange for monthly withholding by the institution if preferred. The W-2 should reflect a housing allowance in box 14 as specified in the Pastoral Directives.

A useful guide for understanding and preparing clergy income taxes is Income Taxes for Priests only by Martin LeNell. (Durand Data System, P.O. Box 369, Durand, Illinois, 61024).

## Payroll Record Retention Requirements

The IRS requires the parish/school, as an employer, to maintain, for at least four years, the following payroll records:

1. The name, address and social security number of each employee.
2. The periods of employment.
3. The total amount and date of each payment of remuneration and the period of service covered by the payment.
4. The amount of tax collected with respect to each payment and the date collected.
5. The withholding exemption certificates (Forms W-4) filed by each employee with the parish/school.
6. Any agreement between the parish/school and the employee for the voluntary withholding of additional amounts of tax.
7. The total amount paid to employees during the calendar year.
8. Copies of tax returns filed with the IRS or other taxing agency and the dates and amounts of the deposits made with tax depositories.
9. Records or schedules supporting items reported on the tax returns under #8 above.

## Additional Payroll Related Policies, Procedures and Forms

Employees and independent contractors must be paid by check/electronic transfer, never cash. Checks/Electronic transfer generally provide a proper accounting record.

All non-exempt employees' payments should be based on time sheets, which specify when work was performed. As a matter of policy, time sheets should be signed by authorized staff members before being processed for payment. Exempt employees should submit record of absences from work for vacation, sick leave, family leave, jury duty, etc.

Regarding gifts and bonuses to employees, volunteers, or to independent contractors, the IRS draws a strict line over taxability. Generally speaking, only de minimis gifts like a turkey or ham are nontaxable. Any other gifts, whether cash, gift certificates, weekend trips, etc., are all considered taxable income subject to withholding, as appropriate, by the entity. Please contact the Diocesan Finance Office regarding taxability of gifts.

Taxes withheld from employees salaries must be deposited with the respective federal and state agencies. Failure to make timely deposits will subject the parish or school to stiff penalties.

A new employee is required to establish eligibility to work in the United States by completing an I-9, Employment Eligibility Verification form and verified through the e-verify or the US Citizenship and Immigration Services.



# **FINANCIAL REPORTING**

## **POLICY**

The Diocesan Fiscal year extends July 1<sup>st</sup> through June 30<sup>th</sup> of the succeeding year.

## **REPORTING TO PARISHIONERS**

Annual reporting of the financial status of parish operations is an important aspect of parish administration. Parishioners need to feel comfortable with the stewardship of their contributed funds. Regular accounting of the usage of church funds is a vital factor in establishing a level of trust among parishioners and will contribute to parishioners' support for parish needs.

Full financial disclosure requires the publication of parish balance sheets as well as statement of receipts and expenditures annually (June 30). Weekly or monthly reports of parish receipts and expenditures should be printed in parish bulletins. Periodic financial reviews of institutions will be performed by Diocesan personnel or by independent public accounting firms.

## **REPORTING TO THE DIOCESE**

Annually, by July 31<sup>st</sup> of each year, the parish and school must submit an annual report to the Diocesan Finance Office. All organizations are mandated to submit signed (1) Statement of Financial Position, (2) Statement of Activities, and (3) Attestation Form attesting that Finance Council has reviewed the reports and agree to its contents.

# **BUDGETS**

## **POLICY**

Parishes and schools shall prepare an annual revenue and expense budget to guide the administration through the fiscal year's financial transactions. Expense budgets shall include full provision for interest, assessments, insurance, depreciation and debt obligations. Payments of interest, assessments, insurance, and principal on debts shall be made as due, and shall be a priority in budgets. Administrators and parish/school finance councils are responsible for compliance with this policy.

## **IMPLEMENTATION**

1. An analysis of the actual operating results versus the approved budget shall be completed at least annually and presented to the parish and school finance councils as well as to the Diocese (as part of the annual report).

2. All parishes, schools and other entities should budget annually for all necessary capital maintenance and improvements. Failure to do so only postpones inevitable costs and creates emergency funding needs in subsequent years.

# **PURCHASING**

## **POLICY**

The Administrator in consultation with the Finance Council is to establish a procedure for the purchasing of goods and services and set a dollar limit on the amount of purchase by others. This policy should include separate limits for various categories of employees. In addition, a limit on the administrator's own authority should be set to ensure the Finance Council is consulted prior to all "extraordinary" non-budgeted items. It is advised that the Administrator's limit not exceed \$2,000 for non-budgeted items; however, the actual limit used should be determined as appropriate for the particular entity, as agreed upon with the finance council. The limit is not to exceed the amount specified in the Pastoral Directives.

Some form of purchase order system (see procedures below) is advised.

## **RATIONALE**

This policy will ensure that purchases are properly authorized and that goods were received or services performed prior to paying an invoice.

## **PROCEDURES**

1. Purchase requisitions, check requests, purchase orders or some purchase authorization document should be used. Given the low volume of supplies and other goods received by many parishes, a check request system may be most appropriate. A sample form and a purchase order system follow.
2. Approval should be made in writing on the invoice or check request indicating that goods were received or services performed.
3. Invoices should be reviewed for terms, prices, extensions, compared with purchase authorization/check form and approved by the bookkeeper.
4. Invoices should be approved by the Administrator when signing checks in payment thereof, in accordance with the approval policy above.
5. Invoices should be filed and maintained in support of payment.

## **SAMPLE PURCHASE ORDER SYSTEM**

If implemented properly, a purchase order system can be a valuable tool in controlling purchases and auditing inventory. For those parishes and schools where the volume of goods purchased is sufficient to warrant such a system, the following, or similar procedures, should be adopted:

1. A pre-numbered, four-part purchase order should be utilized for all purchases of goods or materials. Various authorized individuals would prepare the orders; however, the Administrator or bookkeeper should initial all orders. The original of the order is sent to the vendor to initiate the order or to confirm a verbal order. Vendors should be informed in

writing that the parish/school will not be responsible for the payment of invoices submitted without purchase order number identification.

2. One copy of the order is maintained at the parish/school in a vendor file, while another is filed numerically. The final copy is sent to the Administrator for approval for more expensive orders. Upon approval, this copy should be returned to the bookkeeper to document approval.
3. When goods are received, the quantity received and the date should be entered onto the parish vendor file copy of the purchase order. This receiving documentation is then matched with the accounting copy of the purchase order.
4. Vendors should be instructed to send invoices directly to the bookkeeper, who matches the approved purchase order, receiving documentation, invoice and schedule payment. No payment is made unless all three match.

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Sample Request for Payment

<p>Parish/School Address</p> <p>REQUEST FOR PAYMENT</p> <p>PAY TO THE ORDER OF (attach original invoice):</p> <p>NAME _____</p> <p>ADDRESS _____</p> <p>ADDRESS _____</p> <p>CITY, STATE, ZIP _____</p> <table style="width: 100%; border: none;"><tr><td style="width: 50%; border: none;">ACCOUNT NO.</td><td style="width: 50%; border: none;">AMOUNT</td></tr><tr><td style="border: none;">_____</td><td style="border: none;">\$ _____</td></tr><tr><td style="border: none;">_____</td><td style="border: none;">_____</td></tr><tr><td style="border: none;">_____</td><td style="border: none;">_____</td></tr><tr><td style="border: none; text-align: right;">Total</td><td style="border: none;">\$ _____</td></tr></table> <p>EXPLANATION (Please describe use of funds and attach pertinent information)</p> <p>_____</p> <p>_____</p> <table style="width: 100%; border: none;"><tr><td style="width: 60%; border: none;">Approved By:</td><td style="width: 40%; border: none;">Date:</td></tr></table>		ACCOUNT NO.	AMOUNT	_____	\$ _____	_____	_____	_____	_____	Total	\$ _____	Approved By:	Date:
ACCOUNT NO.	AMOUNT												
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# **CAPITAL ASSETS**

## **POLICY**

All capital acquisitions must be recorded on the books as an asset. A capital asset is defined as any item purchased or any improvement made which costs more than \$1,000 and is expected to be used in the parish/school more than one year. Both criteria must be met in order to classify something as a capital asset.

## **RATIONALE**

By recording capital items, the parish/school will have better information on the value of land, buildings and renovations along with major furniture and equipment. This information will facilitate decision making regarding the administration of resources and insurance coverage.

The documentation of all capital assets should be maintained on a permanent basis. Once the asset is disposed of, the original purchase documentation may be pulled and combined with the disposal documentation and maintained with the current year's general ledger activity files, which are kept for seven years.

# INVENTORY

## POLICY

All furniture, fixtures and equipment with a cost exceeding \$500 must be inventoried on an annual basis.

## RATIONALE

Certain capital assets, by their nature, are more subject to loss of value or theft. These assets, namely furniture, fixtures, video or computer equipment, and the like, require more careful control than land, buildings and renovations. As a result, all furniture, fixtures and equipment (FF&E) must be inventoried on an annual basis. This inventory must include a description of the item, the date of purchase, the price and location of the item on the premises. A sample inventory sheet is included.

### INVENTORY LIST PARISH/SCHOOL/ENTITY AS OF DATE

Date Asset Placed in Service	Description of Asset	Original Cost	Location	Vendor	Expected Useful Life

# **DEPRECIATION**

## **POLICY**

Parishes and schools are required to record depreciation on capital assets.

## **PROCEDURES**

### **CAPITAL PURCHASES**

Capital assets are assets that are long-term in nature, thus benefiting the organization over a period of time. A purchase or improvement will be considered a capital asset if the item purchased cost more than \$1,000 and is expected to be useful to the organization for more than one year. If a purchase does not meet both criteria, the purchase should be recorded as an expense for the current year.

Capital assets should be recorded at cost (except assets owned but not currently recorded which will be explained later). A separate record of all capital purchases should be maintained. This record shall detail the name of the item(s) purchased, a short description of the item(s), the vendor, the date of purchase, the cost of the purchase and any related depreciation, (which is explained later). (A sample of inventory record is included).

### **Renovations versus Ordinary Repairs**

The cost of major renovations to church facilities should be recorded as a capital asset if the renovation costs exceed \$1,000 and is expected to be useful for more than one year. Conversely, ordinary repairs are expenditures that meet one of the following criteria: the cost of repairs is less than \$1,000 or they will last less than one year. Ordinary repairs should be recorded as an expense in the current year.

### **Lien Waivers**

The invoice or application for payment of services rendered by a contractor for any construction, repair or remodel of facilities must be certified as correct by the contractor and shall be accompanied by a waiver of lien from each subcontractor and materialman. In addition, such invoice or application shall contain a certification of the contractor that there are no claims of mechanic's or materialmen's lien on the work, and that waivers from all subcontractors and materialmen constitute an effective waiver of lien to the extent of payments that have been made or are to be made concurrently with payment pursuant to such invoice or applications.

The building procedures of the Diocese are set forth in the Pastoral Construction Manual.

## RECORDING UNRECORDED ASSETS

Many parishes/schools own property that has not been recorded as a capital asset. These unrecorded assets are normally the land, buildings and improvements. The assets owned by a parish/school are to be recorded at their current replacement cost.

## RECORDING DONATED CAPITAL ASSETS

Donated capital assets should be recorded using an estimate of their fair market value at the time they are donated should a reliable cost amount not be available.. There are several sources for determining the fair market value such as want ads, local stores, and appraisers.

## DEPRECIATION

Depreciation is the means of recognizing, within financial records, the loss in value of capital assets over time. This loss in value is treated as a cost to the parish/school over the years that the asset is in service.

Assets are typically assigned an estimated useful life, or amount of time that the asset will continue to be useful and productive. The total cost of the asset is then depreciated evenly over the determined longevity of the asset.

The main reason for capitalizing assets (rather than expensing them) is to spread the actual cost of the asset over its useful life rather than expensing the entire amount in one fiscal year.

If an asset is being financed over time, it is not proper to record the addition of an asset every time a payment is made. Recording "Depreciation Expense", includes the cost of the asset in financial records.

In addition, by crediting the account "Accumulated Depreciation", the asset recognizes some loss. The Accumulated Depreciation account is known as a contra asset; this means that it should not necessarily be viewed by itself. This account, Accumulated Depreciation, should be viewed in conjunction with the related asset account.

The adjustment to record the depreciation expense and the related accumulated depreciation should be made at regular intervals, but not less than annually.

## Rationale for Depreciation

There are usually two reasons to depreciate assets. This first is that depreciation expense, in a "for-profit" organization, reduces state and federal taxable income thereby reducing their tax obligation. The second is to recognize the loss of value in assets.



For purposes of church accounting, the first reason, tax savings, is irrelevant. However, using depreciation as a means of tracking of the remaining usefulness of diocesan assets is a valid argument for the procedure.

The Financial Standards Accounting Board (FASB) has issued standard No. 93, which requires the depreciation of capitalized assets.

## Depreciation Guidelines

The following are estimates for the useful lives of various assets. These estimates are guidelines that should be adjusted when more accurate information is available.

TYPE OF ASSET	ESTIMATED USEFUL LIFE
Small Office Equipment	3 years
Vehicles	5 years
Large Equipment	10 years
Building Renovations	10 – 30 years
Buildings	30 years

## Depreciation Methods

There are a wide variety of depreciation methods, but the “Straight-Line” method is appropriate for diocesan assets.

Any questions regarding depreciation should be directed to the Diocesan Finance Office

# RECORD RETENTION

## POLICY

All church/school records should be kept in a secure location. Important documents such as personnel and payroll records, legal documents, current journals and ledgers should be maintained in a locked fire proof cabinet.

## RATIONALE

Records should be kept as long as legally required or the value for the institution.

## PROCEDURES

Following is the retention time for records.

## **Finance**

### **Permanent**

1. Audit
2. Annual Parish Financial Report
3. Bank Account List
4. Cash Books
5. Chart of Accounts
6. Depreciation Schedule
7. Exempt Organization Business Income Tax Return (990-T)
8. Fix Assets
9. General Ledger

### **Seven Years**

10. Accounts Payable
11. Accounts Receivable
12. Annual Inventory
13. Banking Records - bank statements, canceled checks, bank reconciliation statements, and check registers
14. Budget
15. Donations/IRS Tax Letter
16. Capital and Noncapital Assets
17. Journals
18. Sales Tax Receipts
19. Payroll Taxes
20. Payroll Records

### **Six Years**

21. Paycheck Protection Loan (PPP) – destroy records six years

after the loan is forgiven or the loan has been repaid.

### **Other**

22. Grants – four years or the retention period stipulated by the grant provider.

## **Insurance**

### **Permanent**

23. Appraisals
24. Certificate of Insurance

### **Twelve Years**

25. Claims
26. Special Events Coverage
27. Risk Inspection Reports

### Four Years

28. Boiler Inspections

### **Legal**

#### Permanent

29. Constitutions, Charters, Bylaws

30. Legal Files – correspondence, lawsuits, court decrees and decisions, case support documentation.

#### Seven Years

31. Contract – seven years after contract ends

32. License – seven years after license expires.

### **Administrative**

#### Permanent

33. Finance Council Meeting Minutes

34. School Board Meeting Minutes

35. Policy Manuals and Statements

### **Administrative (Continued)**

#### Superseded

36. Procedural Manuals

### **Construction**

#### Permanent

37. Architectural Drawings – copies should be deposited with the Diocesan Archives.

38. As Built Plans – copies should be deposited with the Diocesan Archives.

39. Specifications – copies should be deposited with the Diocesan Archives.

#### Superseded

40. Operations Manuals

# **OTHER ORGANIZATIONS**

## **POLICY**

Any guild, society, club, or organization that operates within the guises of a diocesan entity is under the authority of the Pastor, Principal or Administrator of the associated diocesan parish or school. These include but are not limited to organizations, such as Home & School Association, Youth Groups, Altar Societies, etc.

## **RATIONALE**

The Administrator is ultimately responsible for the oversight of all financial activities undertaken in the name of the parish or school. This includes, for example, ensuring that the organization adheres to income tax policies, D&L policies, political activity, restrictions, contribution restrictions, and other financial and legal regulations or policies applicable to the parish or school organizations.

## **PROCEDURES**

1. The authorization of the Administrator is required before any church related organization may open a bank account.
2. The Administrator is to receive a quarterly accounting of the financial activities of any and all related organizations.
3. The Administrator is to be a signer on every account.
4. Diocesan-related organizations are subject to the same policies as parishes or schools with respect to the holding of excess funds and are thus required to invest any excess funds (beyond current operating needs) into the related D&L Savings account.

# **PARISH/SCHOOL FINANCE COUNCILS**

## **POLICY**

Each parish and school is to have an advisory finance council.

## **BACKGROUND**

There are two primary groups to assist the Administrator with Parish life and operations, the Parish Council and the Finance Council. Likewise there are two to assist the administrator with school life and operations, the School Board and Finance Council.

The Parish Council is the pastoral planning body for the parish and is responsible for the ongoing process of developing long and short-range priorities for the pastoral ministry in the parish. Each parish of the Diocese is to have a Parish Council to develop a plan for ministry in the parish community. It shall include:

1. The Administrator of parish and school
2. Other professional staff and volunteers who, by virtue of their office, ought to be included in pastoral planning
3. Elected people from the parish/school committees

Policies regarding Catholic school boards are promulgated by the Catholic Schools Office and Board.

The Finance Councils are advisory groups which provide fiscal advice for the Administrator of the parish or school. This includes assisting the administrator in developing, maintaining and disbursing the material and financial resources of the institution. It is important that council members have the fiscal expertise for these specific financial tasks.

## **PROCEDURES**

1. The Finance Council is to oversee the sound fiscal operation of the institution, develop the annual budget and review the annual report. Likewise it is to ensure the implementation of Diocesan financial policies in the operation of the parish or school.
2. Prior to each fiscal year, the finance council is to recommend to the Administrator and to the relevant advisory councils, a dollar amount for the budget based upon expected revenues.
3. For the parish, the Pastoral Council should articulate funding priorities for the parish budget in light of the parish goals, objectives and policies. The school board should do the same for the school.
4. In cooperation with those who administer parish or school programs, the finance council should prepare a detailed budget for the coming fiscal year.

5. A final budget recommendation should then be made to the Pastor/Administrator who, in consultation with the Pastoral Council/School Board, will act on it.

## **UNRELATED BUSINESS INCOME**

It is the general policy of the Diocese to engage in activities that are substantially related to its tax-exempt purpose. Income producing activities unrelated to the diocese's tax-exempt purpose may be subject to unrelated business income tax if the following three conditions are met:

1. The activity constitutes a trade or business;
2. The trade or business is regularly carried on; and
3. The trade or business is not substantially related to the Diocese's exempt purpose.

Even if an activity meets the above three criteria, the income may not be subject to tax if it meets one of the following exceptions:

- a. substantially all of the work in operating the trade or business is performed by volunteers;
- b. the activity is conducted by the organization primarily for the convenience of its members; or
- c. the trade or business involves the selling of merchandise, substantially all of which was donated.

In general, rents from real property, royalties, capital gains, interest and dividends are not subject to the unrelated business income tax unless financed with borrowed money.

For further reference, please contact the Diocesan Finance Office.

## **RESTRICTED FUND BALANCES**

Any funds given to the parish/school by an outside agency or person, which are restricted as to use, are considered liabilities or obligations of the parish/school and are recorded as restricted funds. In such cases the donor has entrusted the church with funds with the expectation that they will be used for a specified purpose. Such funds cannot be accepted if there are long-term commitments involved, when not directly related to the mission of the church or they are unduly restrictive.

Such obligations are to be recorded in the financial records in order to uphold the integrity of the donor's restricted gift. The restriction on the donation requires that the demands of the restriction be fulfilled. Such funds need to be accounted for separately to ensure that they are used for the purpose specified.

If the church does not use the funds for the purpose specified by the donor, the funds must be returned to the donor. Therefore, the recognition of the money as revenue is deferred until spent on the restricted purpose. Only then is the donation recognized as revenue. In the meantime, an amount representing the donated funds is held in a restricted fund balance account.

It is important not to confuse restricted fund balance accounts with unrestricted fund balance or Endowment Fund accounts. The restricted fund balance accounts are similar to liability accounts and should be used as such.

## MATERIALITY AND EXPEDIENCY

These procedures have been developed in order to accurately reflect the financial position of the parish/school (reflecting both additional resources and obligations on the balance sheet) and uphold the integrity of the donor's restricted donation. The time associated with the additional record-keeping requirements is offset by the legal obligation that arises from donor restrictions.

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### Sample of journal entries

#### *Restricted funds received*

Cash	Debit	(Asset)
Deferred Revenue	Credit	(Liability)

#### *Utilization of restricted funds for specified purpose*

Deferred Revenue	Debit	(Asset)
Restricted Donation	Credit	(Revenue)

The accounting records should document appropriate use of restricted funds

# CUSTODIAL COLLECTIONS

(Also referred to as Special Collections)

Custodial funds are all monies collected on behalf of another organization. In essence, the parish/school is acting as a custodian of those funds for another organization. Examples of custodial funds are collections for the Catholic Communications Campaign, the World Mission Sunday Collection, the Campaign for Human Development, the Bishop's Annual Overseas Aid appeal, Lenten Rice Bowl, etc.

Since these funds do not belong to the parish/school, they should not be recorded as revenue. Instead, there is an obligation to pay the outside organization the amount of funds collected on their behalf. The funds are considered a custodial liability.

Generally, custodial funds are to be remitted to the Chancery Office at the Pastoral Center within two weeks of collection.

Parishes/schools may not collect or maintain funds for entities not connected with the parish/school.

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## Sample of journal entries

### 1. *Funds received*

Cash	Debit	(Asset)
Special Collection	Credit	(Liability)

### 2. *Funds sent to Chancery Office*

Special Collection	Debit	(Liability)
Cash	Credit	(Asset)



# CATHOLIC FOUNDATION OF UTAH ENDOWMENTS

## OVERVIEW

Endowments may be set up for the benefit of parish, school or other programs. Not only does this provide an additional income source for programs, but also provides a means for people to leave a more lasting gift for their parish/school or charitable endeavors. All such endowments are to be established in the Catholic Foundation of Utah (CFU).

Such funds are designed to provide a stable level of current earnings over a long period of time. It is necessary to build up a relatively large investment base or principal balance in order to generate a large enough level of current earnings to be beneficial. The generated interest is determined by productivity of the current investment market, and distribution policies determined by the Foundation's trustees.

There are two types of endowments which may be established in the CFU by the parish/school or outside donor(s).

1. Permanently restricted endowments – Original gifts and subsequent gifts comprise the principal balance. Annually, the CFU Board of Trustees determines the percentage of distribution to the beneficiaries (parish/school/entity). The principal balance remains intact indefinitely. Only the net earnings on the endowment may be distributed to the beneficiary.
2. Temporarily restricted endowments – Funds are deposited to provide future source of revenue for the specified beneficiary. The donor(s) may not only stipulate the beneficiary, but also any other type of restriction. At some point, the entire amount of the endowment may be utilized by the beneficiary.

The pertinent difference between the two types of endowments is that with permanently restricted endowments, the principal balance remains intact, whereas with the temporarily restricted endowments the entire amount is accessible to the beneficiary at their discretion, pending any particular time restriction placed by the donor.

When funds are disbursed, the administrative office of the CFU will stipulate in writing the purpose of the funds. It is the responsibility of the beneficiary to utilize the funds for the purpose specified.

Funds maintained in the CFU are invested as pooled investments and therefore all endowments will experience the same type of return. The pooled investments are in managed portfolios, invested in securities and bonds.

Temporarily restricted endowments can be invested in a money market account when the beneficiary so stipulates.

Charitable remainder trusts and annuities are pooled and administered by an outside investment firm.

Questions regarding CFU transactions should be directed to the Executive Director of the Foundation at the Diocesan Pastoral Center.

## ACCOUNTING FOR ENDOWMENT FUNDS

The procedures involved in accounting for endowment funds are essentially the same as those required for restricted funds. Contributions are designated for a purpose, and income should not be recorded until expended for the intended purpose. The one difference is that the entire amount of temporarily restricted endowments may be used for the restricted purpose, while only the income may be used from permanently restricted endowments, as the principal must remain intact.

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Journal entries for funds maintained in CFU

### Outside donor creates a permanently restricted endowment

1. *Initial donation from outside donor*

No entry – may include as a note to the financial statement that a permanently restricted endowment is maintained in the CFU. Earnings on the endowment will be distributed to the parish/school/entity as determined by the trustees of the CFU and are to be used for a specific purpose.

2. *Distribution on permanently restricted endowment received*

Cash	Debit	(Asset)
Deferred Income	Credit	(Liability)

*Once the distribution is utilized*

Deferred Income	Debit	(Liability)
Restricted distribution from CFU	Credit	(Revenue)

(Same journal entries as discussed in Restricted Income Section. Accounting records should document appropriate use of distribution)

### Parish/School/Entity creates a permanently restricted endowment

1. *Parish/School/Entity create endowment in CFU*

Transfer to CFU	Debit	(Expense)
Cash	Credit	(Asset)

As stated above, the financial statements may include as a note to describe the amount held by CFU on behalf of the Parish/School.

2. *Distribution on permanently restricted endowment received*

Cash	Debit (Asset)	Deferred Distribution	Credit (Liability)
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*Once the distribution is utilized – accounting records should document appropriate use of funds distributed*

Deferred Distribution	Debit	(Liability)
Restricted distribution from CFU	Credit	(Revenue)

### **Outside donor creates a temporarily restricted endowment**

*1. Upon receipt of donation*

Investment in CFU	Debit	(Asset)
Change in interest in CFU	Credit	(Revenue)

*2. Withdrawals from temporarily restricted endowment*

Cash	Debit	(Asset)
Investment in CFU	Credit	(Asset)

*3. Recording of change in value of endowment (annually – June 30)*

If gain:

Investment in CFU	Debit	(Asset)	Change in interest in CFU
Credit		(Revenue)	

If loss:

Change in interest in CFU	Debit	(Revenue)
Investment in CFU	Credit	(Asset)

### **Parish/School/Entity creates a temporarily restricted endowment**

*1. Upon payment to CFU to establish endowment*

Investment in CFU	Debit	(Asset)	Cash	Credit	(Asset)
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*2. Withdrawals from temporarily restricted endowment*

Cash	Debit	(Asset)
Investment in CFU	Credit	(Asset)

*3.*

*Recording of change in value of endowment (annually – June 30)*

*If gain:*

Investment in CFU	Debit	(Asset)
Realized gains	Credit	(Revenue)

*If loss:*

Realized losses	Debit	(Revenue)
Investment in CFU	Credit	(Asset)

***Donors should be encouraged to send contributions directly to  
The Catholic Foundation of Utah***