Parish Financial System

1. Financial Objectives

A. 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.

2. Pastor's Responsibilities Regarding Parish Finances

A. The responsibility for the finances of the parish is entrusted to the pastor/administrator who is the chief administrative and financial officer of the parish and is directly accountable to the Diocesan Bishop.

B. 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.

C. At a minimum, the pastor should review all incoming mail, approve and sign all checks.

D. Establish an active Pastoral Council and a Finance Council (both Councils are required), meet with them at least quarterly, and periodically supervise/review all parish activities, societies and organizations.

E. Each pastor is responsible for taking up all special collections that are authorized annually or on special occasions by the diocesan bishop. No one in authority on the parish level is permitted to take up any other special collection without permission from the diocesan bishop. Please note that Holy Day collections are considered as offertory. Taking up any collections or using envelopes which directly benefit the parish priest(s) is strictly forbidden.

F. No pastor or anyone representing a parish may require or collect a fee for parish services or functions of any kind (whether pastoral, sacramental, educational, social, or administrative) unless it is in accord with approved norms in the Parish Financial Practices Policy Manual of the Diocese of Erie and parish statutes, or prior written approval has been given by the diocesan bishop.

G. The Director of Parish Financial Services and either the Vicar General or the Chief Financial Officer of the Diocese must be promptly informed of all instances where fraud or misappropriation of parish assets has been uncovered or is suspected.

H. An annual inventory of the personal property of each priest is to be maintained, with a copy sent to the dean.

3. Business Manager/Bookkeeper's Responsibilities Regarding Parish Finances

A. The financial records should be maintained in an accurate and timely manner.

B. The business manager and/or bookkeeper are expected to perform their duties in a timely and competent manner, exhibiting a high degree of integrity while maintaining strict confidentiality at all times.

C. Any financial staff person or volunteer who suspects that there is fraudulent activity, embezzlement, or any other illegal or unethical activity should report such activity in confidence to the Diocesan Director of Parish Financial Services. Matters of a particularly sensitive nature should be reported to the Episcopal Vicar, Vicar General, or Chief Financial Officer. Additionally, a financial misconduct hotline is available at www.Eriercd.org

4. Parish Responsibilities to the Diocese

A. 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 Office of Financial Services or other appropriate office should be notified. Computer generated reports are acceptable.

B. 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 and the Director of Parish Financial Services should be notified of actions taken or planned to correct the situation.

2) If the situation does not improve or becomes severe, the Vicar, pastor, or Office of Financial Services, may request a financial evaluation of the parish. If appropriate, a meeting may then be held with the pastor and members of the Finance Council and the Parish Council Chairperson.

3) The parish (or mission) may be required to file monthly or quarterly financial statements with the Office of Financial Services so that the financial situation can be monitored.

C. 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 will be reported on the annual report.

D. 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 legal fees.

5. General Information

A. Each parish is to have its own statutes which indicate how its temporal affairs are to be administered. Parish statutes in order to be valid must be approved in writing by the Bishop.

B. The parish financial accounting system is to be maintained on the cash basis method of accounting, except for assessments and accounts payables that have not been paid by the due dates. These obligations are to be recorded through a journal entry that establishes a liability and a corresponding net asset deficit in the statement of financial position (balance sheet). Refer to page 4-3, Account 350, for a complete definition and example of the treatment of past due assessments and accounts payable amounts.

C. The reporting period is the fiscal year of July 1st through June 30th.

D. It is recommended that the accounting system be maintained through the use of a computer with QuickBooks or QuickBooks Pro software. Other software such as Parish Data Systems is acceptable. The use of a computerized system will ease the preparation of the payroll and the monthly financial statements.

E. Various standardized forms and other materials are available on request from the Office of Financial Services:

- Checklist for Accounting Duties and Functions (Appendix, A-5)
- Parish Finance Calendar (Appendix, A-6)
- Adjusting Journal Entry Blank Form (Appendix, A-9)
- Purchase Requisition Form
- Time Off Log (e.g., tracks vacation and sick time)
- Count Sheet and related forms for offertory and other collections

F. Please direct all accounting questions to the Director of Parish Financial Services.

6. Maintenance of Parish Records

A. **It is expected that all census, contribution, accounting and payroll records will be retained for at least seven years. Parish Annual Reports should be maintained indefinitely.** The weekly offertory envelopes may be properly discarded after they have been entered into the collection records.

B. All parish records including the accounting records, census and contributions records, Services Appeal and Capital Drive records, and all other miscellaneous documents and records are to be maintained on parish property, preserved in a safe place which is reasonably protected from fire, theft and other hazards. If accounting work is performed by an outside company (e.g., payroll service), copies of all reports are to be maintained at the parish. All cemetery records are to be maintained on cemetery or parish property.

C. All financial and contribution records are to be maintained on a current basis.

D. Any civil and canon law documents and records on which the property rights of the parish are based are to be carefully preserved in the parish archives with authentic copies submitted for preservation in the archives of the diocesan Office of Financial Services.

E. Weekly backups should be made of all computer files with a duplicate copy maintained at another location.

F. Signed written documents should be maintained for all contracts (e.g., rental agreements).

7. Bank and Other Financial Institution Accounts

A. Maintain only one operating parish checking account and request bank statements dated as of the last day of the month. Separate checking accounts should be used for school, cemetery and Mass stipend accounts. The pastor may decide to open other accounts as needed for special purposes. If this is done, it will be necessary to include them on the Financial Assets Report section of the Annual Report. Therefore, parishes are encouraged to keep the number of separate accounts to a minimum and to use the operating checking account for most on-going activities.

B. 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 bookkeeper should not be authorized to sign checks.

C. Property and assets of parish institutions (e.g., schools, cemeteries) and those organizations established by the parish which use the EIN of the parish is considered parish property.

D. It is extremely important that bank reconcilations be promptly prepared for all checking accounts, ideally by an individual who is independent of the cash receipt and cash disbursement processes. If this is not feasible, a Finance Council member must randomly review the reconciliations several times a year. The cancelled checks or images of them must be included in the monthly bank statements received from the bank. Upon completion of the bank reconciliations, the cancelled checks, including any voided checks should be filed numerically with the previously returned checks.

E. The pastor or any other person or nonparish entity may not commingle their financial assets with the assets of the parish.

F. No parish funds, securities, or valuables can be held in the name of the pastor or any other person.

G. The parish accounting/financial system is not to be used for nonparish purposes.

8. Collections and Cash Receipts (Cash, Checks, Electronic Transfers)

A. All monies received, from any income source, should be deposited intact on a daily basis. The individuals counting and/or depositing the monies should not be maintaining the financial system. All checks should be restrictively endorsed as soon as possible.

B. Ideally, rotating teams of at least three non-related counters should count all of the collections, including Holy Days and any special envelopes, Catholic Services Appeal and capital drive pledge payments, prepare the deposit slip(s) and make the bank deposit(s) on Sunday. Offertory count sheets should be used, signed by all counters and retained for at least four years. A copy of the deposit slip should be attached to the count sheet(s). Please refer to the Processing of Collection Receipts flowchart on page 20-2.

C. For miscellaneous income including cash received during and from parish activities and fund raisers, at least two individuals should always be involved in the counting of cash and the totaling of checks and preparation of the bank deposits.

D. Cash should never be counted at locations other than on parish property or the point of collection. These comments also apply to parish activity, organization, and capital campaign income.

E. The various income received by the parish should be entered into the accounting system (i.e., checkbook register, cash receipts journal) on a prompt basis.

9. Cash Disbursements

A. All expenditures are to be approved by the pastor after a review of the supporting documentation and be paid by check. The pastor should also sign all checks. If he prefers to use a signature stamp, he must maintain complete control over its use and store it in a locked place where the bookkeeper does not have access. A set day(s) of the week is recommended for check approval and payment. The documentation supporting the payment (invoice, payroll summary, petty cash receipts) should note the account charged and should be filed alphabetically by fiscal year. As previously stated, a person independent of the accounting/authorization process, and asset custody, should review the bank reconciliations and cash disbursements (including wire transfers and ACH payments) and receipts of all accounts on a random basis several times a year. The unused checks should be stored in a locked safe or file cabinet accessible only by the pastor and the bookkeeper. Receipts must be maintained for all payments including reimbursements to priest or lay person. Allowances paid in advance of receipts are strictly forbidden unless absolutely necessary.

B. It is suggested that a **petty cash fund** be established for the purchase of incidental items. 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.

10. Credit Cards

A. While it is preferable that parishes use vendors who will bill them directly, parishes may choose to use credit cards to facilitate their purchases of goods and services. Such cards are to have a reasonable dollar limit and are to be obtained in the name of the parish, not in the name of the pastor/administrator or any other staff person. In order to prevent use by unauthorized persons or for unauthorized purposes, it is imperative that there be adequate controls governing access and signoff. For each credit card account, a list of those persons authorized to use the card should be kept on file which details the name, card number, expiration date, and credit limit.

B. For each card transaction, the person using it is responsible for obtaining a receipt as documentation of the purchase. Parishes are to avoid incurring finance charges on a credit card by paying off any balances within each billing cycle. The disposition of any incentives or rewards (e.g., points, miles, rebates) accruing from the use of the parish credit cards shall be determined by the pastor/administrator.

C. Only on rare occasions may personal credit/debit cards be used for the purchase of goods or services for the parish. In most cases, the PA sales tax exemption is lost when parish purchases are charged to a personal card. Reimbursement for items charged to the personal card of a cleric, lay employee, or volunteer requires that the purchase be approved by the pastor/administrator and be supported by adequate documentation which is to be retained with the accounting records of the parish.

11. Payroll

A. All lay and religious workers are to be paid by check or direct deposit. Priests and lay employees are to be placed on a formal payroll with withholdings and issued IRS Form W-2 for their salary payments. If clarification is needed in order to determine whether a person should be treated as an employee or independent contractor, please contact the Diocesan Homan Resource Consultant at 1-800-374-3723, ext. 189 or at 814 824-1189. The Office of Financial Services can also be contact if the Human Resource Consultant is unavailable. Independent Contactors receiving $600 or more are to be issued IRS Form 1099-MISC. The 1099-MISC Form should also be used to report Mass stipend payments received and other payments such as weekend help (mileage reimbursements are not to be included). Common payroll examples are given on page 4-35 and Employment Practices and Guidelines begin on page 16-1.

B. To save time and money, consider paying the employees every two weeks. Women religious are paid at the end of the month. The payroll must be outsourced, including the preparation of the tax returns and the payment of the taxes and other withholdings.

C. It is vital that a person independent of the payroll and accounting processes periodically verify that payroll tax reports have been prepared and tax payment and other deduction checks or transfers have cleared the bank. This should be performed at least semiannually.

12. Month-End Procedures and Preparation of Financial Statements

A. **Manual System** - At the end of each month, the parish bookkeeper should add and cross-foot the cash receipt and cash disbursement journals and make any necessary adjustments or reclassifications (e.g., recording all past due assessments and accounts payable amounts). Please be certain that the journals are in balance. The last two lines of the last page of each month should contain month-to-date and year-to-date totals for both journals.

B **Computer System -** Needed adjusting journal entries should be prepared and entered (e.g., reclassifications, adjustment of investments to market value, recording past due liabilities including past due diocesan assessments). Backups should be promptly made with duplicate copies maintained at another location. The pastor should maintain a current list of all computer passwords.

C. **Parish Financial Statements** should be prepared on a monthly basis by the 15th 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-1 in the Appendix for a sample statement of financial position.

2) A fiscal year-to-date actual **cash basis statement of activities** (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-2 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 and other payroll deductions, unpaid short and long-term borrowings, outstanding assessments and unremitted special collections, and contract commitments.

13. Annual Report

A. All parishes are expected to file the Annual Report, the Parish Representation Letter (Appendix, page A-13), and any related reports by August 31st of each year. The reporting period is from July 1st through June 30th. Part A of the report pertains mainly to census and statistical information, with Part B used for the financial data. The pastor and all members of the Finance Council are expected to sign the Annual Report.

B. Special report forms are available are to be filed with the Annual Report if your parish has a cemetery, endowment, or a significant amount of fund raising activities.

C. A Microsoft Excel version of the Annual Report, including the special report forms, is available at www.eriercd.org and by contacting the Office of Financial Services.

D. An inventory of parish property is to be made annually and carefully preserved in the parish archives with an authentic copy submitted for preservation in the archives of the diocesan Office of Financial Services. The current information of all financial accounts using the Employer Identification Number (EIN) of the parish is to be reported in the Financial Assets Detail section of the Annual Report (Part B, page 2).

E. The financial information contained in the Annual Report should be communicated to the parishioners on an annual basis. It is also suggested that the parishioners be updated on the parish finances on one or two additional occasions throughout the year.