

***DIOCESE OF CHARLESTON***

***Accounting and Internal Control Procedures***

***July 1999***

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## INTRODUCTION

This manual describes financial and accounting guidelines and procedures to account for parish operations. The procedures outlined do not require a computer and are designed to meet the requirements of both the large and small parish. The purpose of the manual is to provide financial and accounting guidelines that will:

- Strengthen the parish internal control structure to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with the Bishop's authorization;
- Provide a uniform method of internal control throughout the diocese;
- Provide for continuity in the event of a change in the pastor/parish life facilitator; and
- Incorporate sound business practices into the daily parish life.

## BUSINESS CONDUCT AND MANAGEMENT

Each pastor/parish life facilitator has a responsibility to his/her parishioners to administer the receipt and disbursement of parish funds in a prudent manner. Prudent management of monies requires the fiduciary to safeguard monies received, conserve the assets of the parish, and expend funds within parish means. These activities are to be conducted in a manner that minimizes the potential for waste, fraud, or abuse, but more importantly, in a manner that establishes accountability for financial activities.

It is essential that the pastor/parish life facilitator exercise good business judgment in the financial affairs of the parish. A pastor/parish life facilitator must be aware of accepted business practices. This includes requirements to file tax and other legal forms. When a pastor/parish life facilitator is in doubt about an accepted business practice or legal ramifications of a given situation, he must consult the chief financial officer of the Diocese of Charleston and also seek counsel and advice of the parish finance council.

# **I. FINANCE COUNCIL**

## **I. What is a Parish Finance Council?**

It is a consultative body of the Christian faith established to advise the pastor/parish life facilitator and parish pastoral council in matters pertaining to the financial affairs of the parish.

## **II. What is Its Function and Competence?**

Its function is to assist the pastor/parish life facilitator in the responsible planning and administering of all parish financial matters and to set the parish financial policy and procedures - to provide effective management of parish assets.

The pastor/parish life facilitator has authority from the Bishop and the universal law of the Church to decide and act on behalf of the parish (Canon #532). The parish finance council is advisory to the pastor/parish life facilitator and its recommendations are valid only when accepted and endorsed by the pastor/parish life facilitator. Therefore, it is important that the pastor/parish life facilitator be involved in the deliberations and functioning of the parish finance council. The relationship between this council and the pastor/parish life facilitator is meant to be supportive and, by no means, adversarial.

In order for the parish finance council to fulfill its mission, it must have access to the financial information needed for its deliberations. Parish operating statements, account balances, revenue and expenditure statistics, and other information related to the financial status and operation of the parish should be submitted to the parish finance council. Such information must be shared in confidence, with prudence as a guideline for discussion.

Although the pastor/parish life facilitator is not held by any strict obligation to the recommendations of the parish finance council, he/she should not depart from the council's recommendations unless required by some particular diocesan law or some grave reason of conscience. If the pastor/parish life facilitator, in good conscience, feels he/she cannot accept the recommendations of the council, he/she shall fully and frankly communicate his/her reservations to the council's membership.

The parish finance council is directed by the values of the Gospel as well as by good business practice. Efficient and effective use and management of parish resources must be measured as much by their contribution to the parish mission and ministry as by commonly accepted business standards.

## **III. How Should The Parish Finance Council Relate To:**

### Pastor/parish life facilitator & Pastoral Staff

The pastor/parish life facilitator and pastoral staff consult with that parish finance council in all acts of ordinary administration described in Section IV of this document.

The pastor/parish life facilitator and pastoral staff should seek consent of the parish finance council in certain acts of extraordinary administration such as (but not limited to):

- ◆ Purchase of significant unbudgeted goods/services
- ◆ Alienation of property
- ◆ Leasing arrangements
- ◆ Implementation of special parish collections
- ◆ Acceptance or refusal of major bequest
- ◆ Addition of personnel to parish staff
- ◆ Any contracts that bind the parish
- ◆ Any construction/major repair not budgeted
- ◆ Borrowing

It should be noted that receiving consent on certain acts of extraordinary administration does not grant pastor/parish life facilitator final authority to execute. Pastor/pastoral administrator will receive final approval from the Bishop, and in many cases, it will be the Bishop as A Corporation Sole who executes the administrative act.

### Parish Pastoral Council

The parish pastoral council encourages the parish finance council to demonstrate proper stewardship of resources rather than the determination of priorities. Priority setting is the role of the parish pastoral council.

The parish pastoral council involves the parish finance council in long-range planning in order that the parish pastoral council can understand the financial implications of long-range goals.

The parish pastoral council reviews the annual budget in light of priorities and reviews quarterly and annual financial statements.

### The Diocese

The parish finance council may from time to time interact with diocesan offices and governing bodies as appropriate, e.g., finance office, building commission, diocesan finance council.

The parish finance council ensures completion of all required financial reports. The pastor/parish life facilitator approves all such reports.

The parish finance council adhere to:

- (a) appropriate diocesan fiscal policy
- (b) norms stated in Canon Law.

## **IV. Specific Duties of a Parish Finance Council Are:**

1. To become aware of and adhere to (a) diocesan fiscal policy and (b) norms as stated in Canon Law (Canons 1281 through 1288);

*Can. 1281* § 1 Without prejudice to the provisions of the statutes, administrators act invalidly when they go beyond the limits and manner of ordinary administration, unless they have first received in writing from the Ordinary the faculty to do so.

§ 2 The statutes are to determine what acts go beyond the limits and manner of ordinary administration. If the statutes are silent on this point, it is for the diocesan Bishop, after consulting the finance committee, to determine these acts for the persons subject to him.

§ 3 Except and insofar as it is to its benefit, a juridical person is not held responsible for the invalid actions of its administrators. The juridical person is, however, responsible when such actions are valid but unlawful, without prejudice to its right to bring an action or have recourse against the administrators who have caused it damage.

*Can. 1282* All persons, whether clerics or laity, who lawfully take part in the administration of ecclesiastical goods, are bound to fulfil their duties in the name of the Church, in accordance with the law.

*Can. 1283* Before administrators undertake their duties:

- 1° they must take an oath, in the presence of the Ordinary or his delegate, that they will well and truly perform their office;
- 2° they are to draw up a clear and accurate inventory, to be signed by themselves, of all immovable goods, of those movable goods which are precious or of a high cultural value, and of all other goods, with a description and an estimate of their value; when this has been compiled, it is to be certified as correct;
- 3° one copy of this inventory is to be kept in the administration office and another in the curial archive; any change which takes place in the property is to be noted on both copies.

*Can. 1284* § 1 All administrators are to perform their duties with the diligence of a good householder.

§ 2 Therefore they must:

- 1° be vigilant that no goods placed in their care in any way perish or suffer damage; to this end they are, to the extent necessary, to arrange insurance contracts;
- 2° ensure that the ownership of ecclesiastical goods is safeguarded in way which are valid in civil law;
- 3° observe the provisions of canon and civil law, and the stipulations of the founder or donor or lawful authority; they are to take special care that damage will not be suffered by the Church through the non-observance of the civil law;
- 4° seek accurately and at the proper time the income and produce of the goods, guard them securely and expend them in accordance with the wishes of the founder or lawful norms;
- 5° at the proper time pay the interest which is due by reason of a loan or pledge, and take care that in due time the capital is repaid;
- 6° with the consent of the Ordinary make use of money which is surplus after payment of expenses and which can be profitably invested for the purposes of the juridical person;
- 7° keep accurate records of income and expenditure;
- 8° draw up an account of their administration at the end of each year;
- 9° keep in order and preserve in a convenient and suitable archive the documents and records establishing the rights of the Church or institute to its goods; where conveniently possible, authentic copies must be placed in the curial archives.

§ 3 It is earnestly recommended that administrators draw up each year a budget of income and expenditure. However, it is left to particular law to make this an obligation and to determine more precisely how it is to be presented.

*Can. 1285* Solely within the limits of ordinary administration, administrators are allowed to make gifts for pious purposes or christian charity out of the movable goods which do not form part of the stable patrimony.

*Can. 1286* Administrators of temporal goods:

- 1° in making contracts of employment, are accurately to observe also, according to the principles taught by the Church, the civil laws relating to labour and social life;
- 2° are to pay to those who work for them under contract a just and honest wage which will be sufficient to provide for their needs and those of their dependents.

*Can. 1287* § 1 Where ecclesiastical goods of any kind are not lawfully withdrawn from the power of governance of the diocesan Bishop, their administrators, both clerical and lay, are bound to submit each year to the local Ordinary an account of their administration, which he is to pass on to his finance committee for examination. Any contrary custom is reprobated.

§ 2 Administrators are to render accounts to the faithful concerning the goods they have given to the Church, in accordance with the norms to be laid down by particular law.

*Can. 1288* Administrators are not to begin legal proceedings in the name of a public juridical person, nor are they to contest them in a secular court, without first obtaining the written permission of their proper Ordinary.

2. To review parish accounting function;
3. To establish and maintain a system of internal control for the proper handling of cash;
4. To ensure completion of an accurate inventory of the parish's movable contents;
5. To establish and direct a sound budgeting process, interacting appropriately with the parish pastoral council;
6. To review operating statements on a monthly basis;
7. To provide the parish pastoral council with periodic reports (at least quarterly) on the financial status of parish;
8. To review and approve a completed annual parish financial report to be submitted to the diocesan Bishop; to prepare and present an annual financial report to the parish at large;
9. To provide for proper accounting and fiscal reporting for authorized parish groups that rely on the tax exempt status of the parish but hold and maintain their own fund; (affiliated organizations)
10. To provide consultation in the hiring and dismissal of the parish business manager and/or bookkeeper;
11. To coordinate the areas of parish stewardship/development; to ensure that parish stewardship efforts are consistent with diocesan development policies;
12. To provide for sufficient capital reserves;
13. To develop plans for the investment of assets;
14. To develop plans for systematic payment of any parish debt;
15. To meet all requirements of federal and state tax laws and maintain an accurate record of tax filings and payments;
16. To work toward the establishment of a parish endowment fund in accordance with diocesan policy;
17. Review annual inspection reports submitted by the diocesan insurance company and comply with any recommendations made in the report;
18. Facilities management - a routine plan of preventive maintenance should be adopted and monitored;
19. Document all meetings by recording appropriate agendas and minutes; these documents should be kept as permanent parish records; and
20. Review and approve the annual parish audit; any unresolved variances or fluctuations in



the parish's financial figures should be reported to the pastor/parish life facilitator and the diocesan chief financial officer.

## **V. Parish Finance Council Membership**

1. The parish finance council shall include the pastor/parish life facilitator and not less than lay members of the parish who are knowledgeable and skilled in financial matters and are active members of the parish. Membership is appointed by the pastor/parish life facilitator and shall be for a term of three years, renewable for a second three years. It is strongly recommended that appointments be staggered so that member terms do not expire simultaneously. This staggering of appointments will help facilitate continuity as new members begin their term. Encouraging staggering of appointments so they do not roll off at the same time. Appointments should not be relatives of pastor/pastoral administrator or other parish employees.
2. The pastor/parish life facilitator may appoint a chairperson of the parish finance council. The chair assists the pastor/parish life facilitator by coordinating the work of the finance council, preparing for meetings and implementing the proposals of the council which have been accepted and ratified by the pastor/parish life facilitator.

## **II. PARISH AUDITORS**

Diocesan policy stipulates that two adult members of the parish who are active in parish life, in good standing, and having prudence and upright character and skilled in business affairs and in accounting shall be chosen each year by the pastor or administrator of the parish to act as auditors of the parish to examine and approve the annual financial report. Ideally, parish auditors should not be members of the finance council, the parish council, or relatives of members of these councils in order to avoid any question of conflict of interest in the deliberations of the council.

The parish auditors should perform a detailed review of the annual report utilizing the "Parish Auditor's Checklist" provided in Exhibit 1. A copy of the completed report should be sent to the diocesan finance office no later than August 31st of each year. Problems noted should be brought to the immediate attention of the pastor/parish life facilitator and finance council and should be resolved to satisfactory resolution. Upon completion of their review, the parish auditors must sign the checklist, as provided, to indicate they are satisfied with the complete and accurate preparation of the report. The signed audit checklist should then be forwarded to the pastor and finance council.

If the auditors, after consultation, disagree with the annual report, they are to advise in writing the pastor/parish life facilitator and the diocesan chief financial officer.

### III. BANK ACCOUNTS

The increasing financial pressures facing today's parishes require that control over cash balances, receipts and disbursements be maintained. Cash management is a tool to improve the liquidity necessary to meet a parish's day-to-day needs. The remainder of this section provides guidelines relating to the proper accounting and control over cash balances.

#### SEGREGATION OF DUTIES

Adequate safeguards and control over cash balances require a minimum level of segregation of the primary responsibilities involving cash transactions: authorization, custodial, recording, and reconciliation. Ideally, two or more of these responsibilities should not be performed by the same individual. The following guidelines should be considered when evaluating the appropriate level of segregation:

- Authorization: The pastor/parish life facilitator has the final responsibility of committing parish resources;
- Custodial: Parish funds should be maintained in adequately protected bank accounts;
- Recording: Transactions should be recorded by a competent accountant/bookkeeper; and
- Reconciliation: Reconciliation of account balances should be performed by someone other than the accountant/bookkeeper and reviewed by the pastor/parish life facilitator.

#### BANK ACCOUNTS

Each parish should maintain only one checking account from which all check disbursements are to be made unless the need for an additional account is mandated by law. This account should be interest bearing. If the parish does have an approved separate building fund account, all activity should run through the main checking account so that it is accurately recorded in the parish's financial statements.

Parishes should not maintain accounts outside of the state of South Carolina.

Each parish should utilize government-insured, interest-bearing accounts/instruments to maximize the earning power of available cash balances. The following is a partial list of allowable investment instruments:

Certificate of Deposits	Money Market Funds
U.S. Government Instruments	Government Agency Instruments
State/Muni Gov't Instruments	Diocesan Deposit & Loan Fund

All cash accounts and investments must be listed on the parish's quarterly financial statements.

## BANK RECONCILIATION

The pastor/parish life facilitator should receive the unopened bank statements and review deposit activity and canceled checks for obvious inconsistencies prior to forwarding the statements to the individual responsible for the preparation of the bank reconciliations.

The parish checking account and all savings accounts should be reconciled monthly to the general ledger and/or checkbook.

The reconciliation process should be adequately documented. Exhibits 2A & 2B are the current accepted formats.

The pastor/parish life facilitator should review the reconciliation and document his review via his initials.

The pastor/parish life facilitator's review of the reconciliation should include scanning deposits and charges to the bank account as reflected on the monthly bank statements for any inconsistent or unusual deposits or charges.

## LEAD BANK

Currently the diocese has named Bank of America (formerly NationsBank) as its lead bank. Parishes are encouraged to bank with Bank of America when practical. Bank of America is offering free interest bearing checking accounts to all parishes. The contact at Bank of America is Dawn Radcliffe at (843)723-6850 (Charleston) or please feel free to contact your local branch manager.

## PARISH ORGANIZATIONS

All parish organizations, societies, ministries and clubs are fiscally responsible to the pastor/parish life facilitator. Assets of any such association are the property of the parish. **Parish organizations may have their own checking accounts at the sole discretion of the pastor/parish life facilitator.** All bank accounts shall bear the name and federal identification number of the parish. **Each and every account shall have the pastor's signature as one of the authorized signatures.** All parish organizations must submit a written financial report to the parish on a quarterly basis. The parish will in turn submit a copy of the report to the diocese with their parish quarterly return. See Exhibit 3 for the current approved format for parish affiliated organizations.

## IV. CASH RECEIPTS

This section provides guidelines to improve the accountability and safeguarding of the parish's cash receipt activity.

### COLLECTIONS

Immediately after each collection, all baskets should be consolidated into one basket in the presence of **at least two** parishioners. The persons serving in this capacity should be periodically changed and/or rotated. These parishioners should place the collection into locked safekeeping as explained in the next paragraph.

During the period from the time of collection to the actual count, collections should be safeguarded via the use of locked deposit bags, storage boxes, and/or a fireproof locked file cabinet/safe maintained in the church for temporary storage during Mass and in the rectory for storage after Mass.

### OFFERTORY

**Weekly collections should be counted in a secure area on the parish grounds by no less than two parishioners.** These parishioners should take possession of the offertory immediately after Mass or after collection if offertory is not placed at the altar. A team should not be comprised of all members of the same family. Team members should be routinely rotated.

**Note: We recommend that the parish bookkeeper not be involved in the counting of the collection because he/she also records deposits and disbursements. In the event he/she must be involved, he/she should be part of a larger team.**

Optionally, weekly collections should be counted after each Mass.

Restrictively endorse all checks received by the parish immediately upon receipt to prevent the unauthorized cashing of such check (e.g. "for deposit only" to the parish's account Exhibit 4). Bank guidelines require the endorsement to be placed in the top one and one-half inches of the back of the check.

The counting of collections should be documented using a tally sheet. There are samples in Exhibits 5 and 6. The tally sheet should include a breakdown by Mass and type of offering (i.e., regular offertory, special collection, building fund, etc.)

A reverification of the count should be performed by the parishioners responsible for the count. The tally sheet should be signed by all parishioners who performed the count. Final draft should be completed in pen. Tally sheets should be retained for a minimum of three years.

The parishioners responsible for counting the collections should prepare the deposit slip(s), in duplicate, for each Mass immediately after the count is completed. The original deposit slip goes to the bank with the deposit and a copy to the bookkeeper for recording the deposit.

After counting, the collection should be kept in a locked bank bag for deposit.

The tally sheet(s), donor envelopes, and deposit slip(s) are attached together and given to the pastor/parish life facilitator to be forwarded to the parish's bookkeeper.

The bookkeeper should complete parishioner contribution records promptly. The amount of offering should be indicated on the outside of the envelope during counting to facilitate updating of contribution records. Loose checks should be listed or copied for subsequent posting to Parishioners' statements.

Pre-numbered receipt forms should be used where issuance of a receipt for monies received is appropriate (examples; youth trips, and cash received for any reason).

The finance office realizes that the weekend collections may not be counted after each Mass; however, it is important that the other recommended controls be followed. If the parish/mission is unable to adhere to these policies because of a lack of volunteers, please call the controller to work out other alternatives.

## DEPOSITS

**All** cash and checks collected should be included for deposit (i.e. under no circumstances should funds be disbursed directly from the collections). The depositing of collections and miscellaneous receipts should be made as follows;

### Offertory Collections

- . Weekday collection - immediately after Mass; no later than next morning
- . Weekend collection - immediately after last Mass on Sunday

Miscellaneous Receipts - immediately after receipt; no later than next morning.

**Important:** Monies not immediately deposited should be adequately safeguarded. The used of a safe or locked fireproof file cabinet is strongly suggested.

Each individual deposit should be supported by a validated deposit slip, including the transfer of funds between bank accounts.

Two individuals should be responsible for depositing all cash receipts, particularly for parishes making "night" deposits on Saturday, Sundays or after weekday banking hours.

The actual time of depositing weekend collections at the bank should be varied/changed periodically to avoid an observable routine.

Parishes with significant weekend collection deposits should consider utilizing a collection service which would eliminate the need for the pastor/parish life facilitator and/or parishioner to transport the collections to the bank.

Validated deposit slips should be retained and returned to the parish bookkeeper to support the recording of receipt activity in the parish's financial records.

## RECORDING

**All** cash receipts activity must be recorded in the parish's cash receipts journals in a timely manner, preferably daily but at least weekly, to ensure the accuracy of interim and year end financial data.

Prior to recording cash receipts, the parish bookkeeper should have the totals from the validated bank deposit slips agree with the totals of the tally sheet(s). Tally sheets should be retained as a parish record for three years. It is advised that the figures from the tally sheets be transferred to a manual or computer spreadsheet so that trends can be easily traced.

Supporting records of major gifts, bequests, and endowments should be retained as permanent financial records. Copies of the supporting documents for bequests must be forwarded to the finance office in order for the bequests to be considered exempt from assessment.

## PARISHIONERS' STATEMENTS

A record of each parishioner's contribution should be kept by someone not having responsibility for counting collections or handling mail receipts.

Statements should be preprinted 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 directly to the pastor/parish life facilitator." These statements should be mailed at least annually to parishioners. Please remember that the IRS requires each single contribution for \$250 or more must be listed separately on the statement (Exhibit 7).

The total of the weekly postings to the parishioners' accounts should agree to the totals on the weekly tally sheets.

## NATIONAL AND DIOCESAN COLLECTIONS

A separate tally sheet should be used for each national and diocesan collection.

National and diocesan collections should be remitted to the Diocese of Charleston using form CR.-2 (Exhibit 8B) within 30 days of the collection. The amount remitted should equal the amount reflected on the supporting tally sheet.

B.S.A. funds collected by the parish should be submitted in their original envelopes to the B.S.A. Office, P.O. Box 300, Charleston, SC 29402. It is advised that cash be removed from the envelopes prior to mailing and the total cash in the batch be replaced by a parish check.

## **V. RECONCILIATION OF BANK STATEMENTS**

The pastor/parish life facilitator should open all bank statements and review deposit activity and canceled checks for obvious inconsistencies prior to forwarding the statements to the individual responsible for the preparation of the bank reconciliations.

Reconciliations should be prepared by someone other than the check preparer. If the size of the parish staff does not provide for the segregation of these duties, a member of the parish finance council should be asked to accept this responsibility.

All voided checks should be saved and accounted for. "Void" should be written across the face of the check and signature portion removed.

All outstanding checks older than 120 days should be written off.



## VI. CASH DISBURSEMENTS

This section provides guidelines to improve the accountability and safeguarding of the parish's cash disbursement activity.

**The check signing authority should rest only with the pastor/pastoral administrator.**

All disbursements should be approved by the pastor/parish life facilitator; and the pastor/parish life facilitator (or a designated member of the finance council) should periodically review the distribution of expenses to account classifications and, if applicable, the allocation between church and school records.

The use of a rubber signature stamp is not encouraged; however, if a rubber signature stamp is used, the stamp should remain in the pastor/parish life facilitator's custody at all times. The use of a signature stamp, if other than by the pastor/pastoral administrator, should be restricted to a designated individual and its use monitored. All stamped checks should be reviewed by the pastor/parish life facilitator prior to release.

Blank checks should never be pre-signed and should always be kept in a secure area.

Expenditures that exceed \$1,000 (except for utilities, diocesan obligations, clergy/religious compensation, and payroll expenses) should be reported to the finance council at their next meeting.

**Individual expenditures or a project whose combined expenditures will exceed \$7,000 requires prior approval from the Bishop.**

All parish disbursements should be made by pre-numbered checks except if from petty cash. Under no circumstances should disbursements be made from undeposited funds.

All check disbursements should be made out to a specific party. Under no circumstances should a check be made out to "Cash".

All withdrawals from savings accounts/instruments must be deposited first in the parish accounting before disbursal.

Cash disbursement activity should be recorded in the parish's financial records at least weekly, preferably daily. The disbursement should be recorded to the account classification added prior to payment (see accounts payable section).

All disbursements must be supported by appropriate documentation (i.e. invoices and receipts). Refer to accounts payable section for further discussion.

## PETTY CASH FUND

A petty cash fund should not be maintained at a level above \$100.

Petty cash disbursements should not individually exceed \$25; large disbursements should be made by check.

Petty cash disbursements should be supported by a purchase receipt or petty cash voucher, both initialed by the person who maintains the fund.

Access to the petty cash fund should be restricted to no more than two individuals at any one time.

Replenishment of the petty cash fund should be done on an as needed basis, at least monthly, but never above the predetermined level (not to exceed \$100).

Replenishment of the petty cash fund should be done by check in the name of the person who maintains the fund. It should never be replenished by cash from the collection.

## **VII. ACCOUNTS PAYABLE**

The control and monitoring of parish obligations is critical to ensure that complete and proper recognition is given to all of the expenditures of the parish in the annual report. This section provides guidelines to improve the accounting for parish obligations.

Take advantage, when feasible, of purchase discounts.

All vendor bills should be reviewed and approved by the pastor/parish life facilitator; approval should be documented by the pastor/parish life facilitator's initials. Payments should not be made from statements but rather from the actual invoice. This will help minimize the risk of duplicating payments. In the case of credit card purchases, the actual receipt must be presented for payment to be approved. Under no circumstance should credit card statements be used to initiate payments.

The parish bookkeeper should assign an account classification to be written on the vendor bill prior to payment.

Delivery of goods or services should be verified before authorizing payment.

All unpaid bills, without exception, should be filed separately by due date. Disputed bills should be filed separately and resolved timely.

At the end of each month, a listing of the parish's unpaid obligations should be prepared for review at the next finance council meeting.

The amount of outstanding obligations of the parish should be reflected on interim and year end financial reports to properly present the parish's financial position and operating result.

The timing of payment of vendor bills should be directed by the pastor/pastoral administrator based on the terms of payments and availability of funds.

Paid bills should be appropriately canceled (i.e. marked "PAID", check date, check number) and coded for distribution to the appropriate expenditure classification.

Paid bills should be filed separately in alphabetical order by fiscal year to create a satisfactory audit trail.

## Payments Mailed to Finance Office

Type	Remittance Form	Payment Frequency	Comments
Assessment	CR-1	Monthly	Will receive letter when calculations complete
Priest Health/Life/Dis.	CR-1	Monthly	Will receive F.O. bills
Priest Retirement	CR-1	Monthly	Annual contribution is set annually on 7/1
Property Insurance	CR-1	Monthly	Will receive itemized statement from Catholic Mutual usually in July/August
2nd Collections	CR-2	30 days after each collection	
D&L Deposits	CR-1		
D&L Loan Payments	CR-1	Monthly	Take figures from amortization schedule

BSA contributions should be mailed to PO Box 300. Miscellany payments should be mailed to PO Box 818. Assessment, property insurance, priest retirement and health insurance will be billed on an annual basis with 1/12 of the total due each month. Parishes will receive monthly statements.

Monthly payments are due by the end of the month. A service charge of 1% per month will be added to any invoice not paid during that month. If a parish is experiencing financial difficulties that prevent it from staying current on its diocesan obligations, then the diocesan chief financial officer should be contacted to work out a payment schedule and discuss waiving the service charge.

Effective 7/1/95, Miscellany subscriptions will be expected to be paid monthly over the course of the fiscal year and will be eligible for the service fee.

### Payments made directly to vendors

Lay Health/Life/LTD	Will receive monthly bills from CBEBT
Lay retirement	Special forms to mail to Interstate Johnson Lane Please note that failure to pay benefits in a timely manner may be a violation of federal law.
Workers' Compensation	Will receive bill from Catholic Mutual Group (843) 402-9115 ext. 23
Auto Insurance	For parish vehicles Tracy M. Bates handles details. Will receive bill from Catholic Mutual (843) 402-9115 ext. 23

## VIII. FINANCIAL REPORTING AND BUDGETING

There are two general methods of recording transactions. One is the cash basis, the other the accrual basis.

The following is a brief description of each accounting method:

- The **cash basis** is the basis of recording transactions at the time cash is either received or disbursed. Since transactions are recorded with the actual cash payment, cost attributable to activities during the reporting period may not be recorded if the cash payment is made prior to the beginning of the period or subsequent thereto.
- The **accrual basis** is the basis of recording transactions when the activity or benefit accrues, that is when the goods are used or the services are performed regardless of when the cash payment or receipt is made.

Previously, parishes have been recording their transactions on the cash basis. We are in the process of implementing a transition to the accrual basis. Until this transition is complete, we require that a list of all outstanding bills over \$100 be included with the annual financial (4th quarter) report.

The rest of this section provides guidelines to improve the financial reporting and budgeting process of the parish.

### FINANCIAL RECORD KEEPING

Each parish's chart of accounts should conform to the account identification system approved by the diocesan finance office. Subaccounts may be used for internal use but no changes and/or additions may be made to the chart of accounts.

Journals of original entry should include: (1) general journal or account summary journal; (2) cash receipts journal; and (3) cash disbursements journal.

The parish's bookkeeping responsibilities should be performed by an individual with a proven ability to maintain financial records. The pastor/parish life facilitator's primary responsibility will be to review and approve financial activity; ideally the pastor/parish life facilitator should not perform record keeping functions.

The totals from the cash receipts and cash disbursements journals should be posted to the general ledger on a monthly basis. Accounting records and source documentation are to be kept on the parish premises at all items. In addition, the bookkeeping function is to be performed at the parish. All records are the property of the parish.

## REPORTING

The quarterly and annual financial reports should conform to the format established by the diocesan finance office. Computer reports that are in the diocesan format are encouraged.

Although quarterly and annual reports are required to be submitted to the diocese, good financial procedures would dictate monthly reports being prepared and submitted to the pastor/parish life facilitator and finance committee.

(Note: Parishes which have their finance council meet on a monthly basis may wish to have monthly financial statements available for review.)

The detail statement of revenue and expenditures would be more meaningful if presented with comparative budgeted figures.

## BUDGETING

The pastor/parish life facilitator, with assistance of the finance council, should prepare a financial budget prior to the commencement of each fiscal year. Ideally, the final budget should be completed by May 31st.

The basic objectives of a budget are to:

1. Provide a written expression in quantitative terms of the policies and plans of the parish;
2. Provide a basis for the evaluation of financial performance in accordance with the plans;
3. Provide a useful tool for the control of costs; and
4. Create cost awareness throughout the organization.

The budget preparation process should focus on three areas: revenues, operating expenditures, and capital expenditures.

Each quarter a report should be prepared comparing budgeted amounts to actual amounts, particularly for revenues and operating expenditures. Any unexpected and/or significant fluctuations should be reviewed and resolved by the finance council. A formal budget vs. actual report should be prepared (quarterly) and announced to parishioners for public inspection preferably in the parish bulletin. **Once the budget is approved the budget should not be changed.** We prefer that any variances be explained and documented.

## IX. PERSONNEL AND PAYROLL

### PERSONNEL

Parishes are directed to follow and adhere to the guidelines in the diocesan parish personnel manual or school manual with respect to employees in a parish or school.

Parishes are urged, but not required, to prepare written descriptions of job responsibilities and lines of authority to assure clear understanding of authority and responsibilities in various positions. Exhibit 9 is a sample format for developing a job description.

Parishes are expected to use reasonable care in selecting individuals for employment in various positions within the parish, in checking references and qualifications, and in monitoring and evaluating job performance. Exhibit 10 is a sample performance appraisal format.

All employees are **required** to complete the Diocesan Application Form (Exhibit 11), Form W-4, and Form I-9. They should read and sign off on the Diocesan Sexual Abuse Policy. Exhibit 12 outlines what should be included in each employee's personnel file. Background screens are required and will take effect this summer.

Time sheets must be used by all lay employees. Exhibit 13 is an example of an acceptable format.

**In the event of any threatened or actual dispute between a parish and a person regarding employment, scope of responsibilities, advancement, termination, discipline, or failure to hire, the parish is to immediately notify the Director of Human Resources. An employee should not be terminated prior to the Human Resources Director's consultation with the diocesan attorney.**

### CLERGY/RELIGIOUS COMPENSATION

Compensation paid to clergy should be in the amounts predetermined by diocesan policies. The Bishop, in consultation with the Priest Personnel Board and Presbyteral Council, determines the level of compensation. Clergy compensation is not determined by the local finance council. Religious stipends should be payable to the order or community. Diocesan policy requires a contract be negotiated with the religious superior or provincial. The religious order is responsible for all tax reporting.

### DIOCESAN BENEFITS PROGRAM

All individuals who are considered employees of the parish should be offered diocesan benefits based on their eligibility. See Exhibit 14 for a list of available benefits.

### PAYROLL REPORTING GUIDELINES

The proper recording and maintenance of payroll records is not only essential in determining the results of parish operations but also for federal and state tax purposes. The Internal Revenue Service (IRS) and state authorities require that records be maintained that reflect the remuneration paid to each employee performing service for the parish. They also requires numerous reports relating to payroll that must be prepared and submitted in accordance with specified due dates.

This section is intended to supplement the various forms and instructions provided by the taxing authorities and to show how the required information can be obtained from this system. The information required for filing tax returns can be readily complied through the use of individual earnings records.

Any payroll system, whether internally prepared or processed by an outside payroll service, should provide, at a minimum:

- current period earnings, by employee
- quarterly and annual earnings, by employee
- current, quarterly, and annual totals for taxes withheld from all employees
- distribution of these expenditures to the appropriate accounts/cost centers
- accumulation of employee benefit obligations (i.e. pension contributions, health care benefits, etc.).

The payment of wages in the form of **cash** is expressly **prohibited**. All wages/compensation will be paid by check only. In addition, all compensation paid to employees or contractors (see below) will be recorded in the financial records of the parish and will be reported via the proper government filing (i.e. Form W-2 or Form 1099). The federal and state governments impose serious financial penalties for failure to comply with the guidelines stipulated in this section.

## PAYROLL TAXABILITY

An employee is defined 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 remuneration for such services. The parish will generally employ three types of individuals: clergy, religious, and lay employees. Generally, clergy compensation is not subject to FICA tax, federal and state unemployment tax, and federal and state withholding. Lay employees, generally, will be subject to all such taxes except federal and state unemployment tax. Note that wages paid by religious organizations that are exempt from federal income taxes under Internal Revenue Code Sect. 501 (c) (3) are not subject to the federal unemployment tax.



Generally, individuals who are not "subject to the will and control of the employer both as to what shall be done and how it shall be done" and receive remuneration for such services will be considered independent contractors. The parish organist or part-time housekeeper/janitor, should be treated as employees if they are subject to the will and control of the pastor/parish life facilitator. Please contact the Director of Human Resources when in doubt as to whether the individual is an employee or independent contractor. Compensation paid to an independent contractor is reported on Form 1099, explained later in this section. In addition, the parish is required to withhold and remit federal taxes equal to 20% of the amount earned if the independent contractor does not supply the parish with their federal identification number (a social security number for an individual).

Lay independent contractors are **not** eligible for diocesan benefits.

The IRS classifies parish priests as dual status taxpayers. That means priests are considered self-employed for Social Security Tax purposes but employees for income tax purposes. (This is applicable for ordained ministers of all faiths.) The IRS is not saying that priests are employees. However, when the twenty factors used by the IRS determine the manner in which an individual should report his income are applied to parish priests, the priests will have more characteristics of an employee than of an independent contractor. Therefore, the IRS will expect to see Form W-2 to report the earnings of a priest. The likelihood of an IRS audit increases with the use of Form 1099-Misc.

Since the parish must issue the W-2, it is important to understand what constitutes income to a priest. There are many other complex issues to be addressed as well including the reasoning behind W-2's, acceptable accountable reimbursement plans, quarterly estimated tax payments, and the completion of the 941's. The Finance Office recommends that pastors refer to the publication Income Taxes for Priests Only by Wayne Martin LeNell, CPA, Ph.D., and consult with their tax advisors on these complicated issues. If you would like to purchase a copy of Income Tax For Priests Only, please contact the National Federation of Priests'

Councils at 1-312-226-3334. The

Finance Office can answer any questions.

The remaining portion of this section addresses the various federal and state reporting and payment requirements applicable to each parish.

## FEDERAL PAYROLL REQUIREMENTS

### **Federal Income Tax Withholdings**

All employers having employees subject to federal income tax withholding (or FICA/Medicare withholding) must have an employer's federal identification number. Application is made on federal Form SS-4 (Exhibit 15). All parishes are to have their own EIN. Missions may use the EIN of the main parish. Schools may use the parish number or apply for their own number. The parishes/missions should **not** use the diocesan EIN number.

An employer is obligated to withhold and remit federal income tax whenever wages are paid (with the exception of priest who are exempt from federal withholding but elect to have federal income tax withheld), actually or constructively.

An employer must ask each employee to file Form W-4, Employees' Withholding Allowance Certificate indicating marital status and number of exemption allowances.(Exhibit 16). This is not required to be updated annually, only when the employee makes a change.

Wage-bracket withholding tables are available from the IRS.

Every employer required to withhold federal income tax must make payment to the government either semi-weekly or monthly depending upon the amount of taxes reported on your Form 941 in a four quarter look-back period July 1 through June 30. Prior to 1997, the IRS sent out an annual deposit schedule (semi-weekly or monthly). Beginning in 1997 and following years, this notice will be mailed only to employers identified as having a change in their deposit schedule for the next calendar year.

Simply stated, if you reported \$50,000 or less of employment taxes for the look-back period, you are a monthly depositor. Under the monthly rule, employment and other taxes withheld on payments made during a calendar month must be deposited by the 15th day of the following month. If you reported more than \$50,000 of employment taxes for the look-back period, you are a semi-weekly depositor. Under the semi-weekly rule, employment and other taxes withheld on payments made Wednesday, Thursday, and/or Friday must be deposited by the following Wednesday. Amounts withheld on payments made on Saturday, Sunday, Monday, and/or Tuesday must be deposited by the following Friday. The IRS does assess substantial penalties and interest for late payments.

The task of transmitting withheld taxes to the government is accomplished in essentially one of three ways. The tax may be sent directly to the IRS, deposited with an authorized depository (i.e. usually your local bank) following the above guidelines for semi-weekly vs. monthly depository or deposited through the Electronic Federal Tax Payment System (EFTPS). The following is a brief explanation of each of the three methods for transmitting taxes to the government.

- A). Sending directly to the IRS - if an employer accumulates less than a \$500 tax liability (federal, social security and Medicare withholding) during a quarter for Form941 deposits are required and this liability may be paid with the quarterly tax return for the period. However, if you are unsure that you will accumulate less than \$500, deposit under the appropriate rules so that you will not be subject to penalties and interest for failure to deposit.
- B). Depositing with an authorized depository - if you are not making deposits by electronic funds transfer (discussed below), use Form 8109, Federal tax deposit Coupon (FTD Coupon), to make the deposit at an authorized financial institution or

Federal Reserve Bank. The FTD Coupon book is sent automatically by the IRS and will be preprinted with the parish name, address and EIN (Employer Identification Number). They have entry boxes for indicating the type of tax and tax period on each coupon. It is very important to clearly mark the correct type of tax and tax period on each FTD Coupon. Should you not receive your supply of FTD Coupons or need additional coupons, please call the IRS at 1-800-829-1040.

- C). Depositing through the Electronic Federal Tax Payment System (EFTPS) - if your total deposits of social security, Medicare and federal income taxes withheld were more than \$200,000 in the previous calendar year, you must make electronic deposits. The EFTPS must be used to make electronic deposits. If you are required to make electronic deposits and fail to do so, you may be subject to a 10% penalty. Electronic deposits must be made in accordance with the same due dates as discussed above (semi-weekly or monthly) in order to avoid late payment penalties. Employers who are not required to make electronic deposits may voluntarily participate in EFTPS. Form 9779 is necessary to enroll in EFTPS whether you are doing so voluntarily or not. For further information on EFTPS or to request Form 9779, please call 1-800-555-4477.

Every employer liable for federal income tax withholding must file a quarterly return with the IRS on Form 941. Form 941 is due by the last day of the month following the end of a quarter.

### **Social Security Tax (FICA)**

The Federal Insurance Contributions Act (FICA) imposes a tax on both the employer and employee.

The employer's duties for both the Social Security and Medicare taxes are twofold. First, the employer must withhold the employee portion from each payment of wages based on a flat percentage of taxable wages (see below). Second, the employer must pay the employer portion of the tax, the amount of which is the same as the amount withheld from employee wages.

The Social Security and Medicare tax rates have been increasing almost every year, as has the base of taxable wages. The Social Security and Medicare rates in effect for any given year can be obtained from Circular E, a federal publication issued to employers annually. Circular E will also state the base of wages subject to Social Security and Medicare.

The guidelines for remitting the Social Security and Medicare taxes to the IRS are similar to those used for federal income tax withholding described above.

Every employer liable for the Social Security and Medicare taxes must make a quarterly return with the IRS on Form 941 due by the last day of the month following the end of a quarter.

The following summarizes social security coverage:

- Clergy - Generally, the clergy performing the services of the ministry are exempt from social security taxes. However, the clergy are subject to self-employment taxes.
- Other - Generally, all other parish employees are covered by the FICA tax.

### **Federal Unemployment Tax Act (FUTA)**

Neither clergy nor lay employees' wages are subject to the federal unemployment tax.

## STATE OF SOUTH CAROLINA REQUIREMENTS

### **State Income Tax Withholding**

#### General Information

An employer required to withhold South Carolina income tax is generally any employer required to withhold federal income tax under the provisions of the Internal Revenue Code.

Generally, a covered lay employee is any resident performing services within or outside South Carolina, or any nonresident performing services in South Carolina.

Wage-bracket withholding tables are available from the South Carolina Division of Taxation (S.C. Circular E).

Employers should complete Form SCTC-111 obtained from the South Carolina Department of Revenue to apply for a state withholding number. As with the federal EIN, each parish that withholds state taxes should have its own state withholding number. Missions may use the same number as the parish if they are also using the parish's federal EIN.

#### Returns and Payment

Resident withholding agents are required to make state withholding tax deposits at the same time a federal tax payment is made. Although any employer may voluntarily participate in electronic funds transfer (EFT), those whose South Carolina withholding tax exceeds \$20,000 during a quarter are identified and mandated to pay by EFT.

Except for EFT withholding agents, all South Carolina employers are to deposit state withheld taxes with their local banks using Form WH-1601. All payments made without a pre-printed form must be mailed to the South Carolina Department of Revenue and Taxation.

On or before January 31st of each year, employers must file an annual reconciliation return (Form WH-1606) showing a reconciliation of all returns and payments of income tax withheld with the total withheld per all individual W-2 forms along with state copy (Copy 1) of these forms.

## FEDERAL AND STATE PAYROLL TAX RECORDS

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

- The name, address, and social security number of each current and former employee
- The period of employment
- The total amount and date of each payment of remuneration and the period of service covered by the payment
- The amount of tax collected with respect to each payment and the date collected
- The withholding exemption certificates (i.e. Form W-4 or W-4E) filed by each employee with the parish
- The total amount paid to the employee during the calendar year
- Copies of the payroll tax returns filed with the federal and state authorities, as well as the dates and amounts of the deposits made with the tax depositories.

### FORM W-2

Each year, an employer must furnish a Form W-2 to each employee who has been paid wages.

The statements, which also are used to report the amount of FICA and Medicare tax withheld, must be furnished to the employee by January 31st of the year following the year to which the form relates. If any employee is terminated before the end of the year, the employer is still obligated to furnish the employee with Form W-2.

Compensation other than wages, whether or not subject to withholdings, is to be reported on Form W-2 when the payments, cash or noncash, amount to \$500 or more in a year or when the total of the other compensation plus wages reported is \$500 or more.

Copies of the Form W-2 must be submitted to the Social Security Administration with a transmittal form (Form W-3) by February 28th of the year following the year to which the form relates. The transmittal form summarizes total wages, taxable FICA wages, federal income tax withholdings, and FICA withholding of all Form W-2's transmitted. The W-3 totals should always reconcile to the totals of the four (4) quarterly 941s. Any discrepancy should be resolved and the appropriate corrections made to either the W-2, W-3 or quarterly 941.

Refer to the last paragraph of "Returns and Payments" in state of South Carolina income tax section for state transmittal requirements.

## FORM 1099

Every organization that makes payments of \$600 or more to an independent contractor must file information returns on IRS Form 1099 for the payments made. Specifically, a 1099 is required when any of the following are paid:

- Dividends or interest of \$10 or more
- Compensation of \$600 or more to all independent contractors (except individuals who receive Form W-2)
- Rents of \$600 or more

Generally, you need not file a 1099 for payments for services, rents, etc., made to a corporation.

If you employ an independent contractor, the best approach is to request their tax identification number before paying them.

(Note: If you are unable to obtain a tax identification number, you will be required to withhold 20% of the amount earned for federal taxes).

You are liable for penalties if you fail to file 1099's, if you file incomplete 1099's, or if you file the forms late.

1099's are required to be filed with the IRS by February 28th and are required to be given to the recipient by January 31st.

Consult the diocesan controller if you have a special situation not addressed above.

## FORM I-9

Federal law requires employers to verify the employment eligibility within the United States of all new employees hired after November 6, 1986. In fulfilling this requirement, all employees hired after this date are required to complete Form I-9, Employment Eligibility Verification. This form is to be certified by the employer and retained by the employer for one year after termination unless pending litigation exists. Refer to Exhibit 17 for a copy of Form I-9.

The filing of this form requires one or two (depending on type of identification) proofs of identity. Refer to form for specific requirements. Diocesan policy requires that copies of the proofs(s) of identity be attached to the Form I-9.

## X. FIXED ASSETS

In addition to accounting for cash receipts and cash disbursements, a parish must account for the fixed assets used in its operations. Fixed assets, sometimes referred to as long-term assets, capital assets, or plant and equipment, represent assets that are generally held for several accounting periods. Examples of such assets include land, land improvements, building and related improvements, equipment, furniture, fixtures, vehicles, etc.

Proper accounting requires capitalization of items purchased that are expected to have an estimated useful life of greater than one year and a cost of greater than \$500. The amount to be capitalized should be the total cost of the acquired asset.

Every parish must maintain permanent records of all fixed assets. Each asset record should detail the following information:

- Asset description
- Serial number
- Purchase date
- Vendor or party purchased from
- Purchase price (cost only)
- Physical location
- Person responsible for asset
- General ledger account charges
- Disposal date, when applicable
- Warranty period
- Leasing obligations, if applicable

A fixed asset purchase requiring several disbursements to fully satisfy obligation need only be documented on one asset record. Refer to Exhibit 18 for an example of an asset record. As a general rule, an asset record should be established for all "asset" purchases even if charged to expense. The consideration received for asset disposal should represent market price (fair market value) on the date of disposal.

## **XI. CAPITAL PROJECTS**

Any parish undertaking a capital project (i.e. purchase of land and/or purchase or construction of a building or major renovations) must fulfill the following requirements;

### **Step 1.**

#### **Request Written Permission from the Bishop to Begin the Process**

A written request is submitted to the Bishop with a copy to both Monsignor James Carter, Chairman of the Diocesan Building & Renovation Commission, and Mr. Dennis Atwood, Chief Financial Officer of the Diocese, in which the petitioner requests permission to initiate a capital campaign and/or initiate building project.

### **Step 2.**

#### **Complete a Diocesan Financial Packet and Submit to the Finance Office for Financial Sanction**

*Step 2 should take place simultaneously with Steps 3, 4 and 5*

Contact should be made with Mr. Dennis Atwood in the Diocesan Finance Office at 402-9115 ext. 12. Mr. Atwood will provide a Financial Packet to be completed by the parish and will notify both the Project Representative and the Chairman when financial sanction has been granted.

### **Step 3.**

#### **A Parish Plan**

The Parish Plan should demonstrate in detail the need for the project at the parish level. A sample financial package is available. Once completed, a copy of the plan should be forwarded to both the Project Representative and the chairman. The Plan, which will serve as an important tool in the presentation of this project to both the parish and the Diocese, should include the following elements:

- A. Parish Mission Statement
- B. Parish History
- C. Parish and community demographics with an emphasis on growth history and growth projections.
- D. Project Verbal Concept - An architect or draftsman may be engaged for an amount not to exceed \$7,000 to develop a conceptual sketch.

### **Step 4.**

#### **Meet with Cluster Partners to Develop a Cluster Growth & Development Plan**

The cluster Growth & Development Plan should confirm the impact of the project at the Cluster level. Minutes of the cluster meeting when project was discussed should be included along with the consensus of the meeting.



## **Step 5.**

### **Make contact with the Office of Stewardship & Development**

The Office of Stewardship and Development is available to assist with fund raising endeavors. It is important to make this contact as early as possible in the planning stage to optimize the fund raising potential and insure that the success of the project. The Office of Stewardship and Development can be reached at (843) 853-2130, ext. 213.

## **Step 6.**

### **Appearances Before the Building Commission Scheduled by the Project Representative**

After the first five steps have been completed and all related correspondence submitted to the Project Representative and The Chairman, the Project Representative will arrange the initial appearance before the full Commission. If the Commission's recommendation at the first appearance is for full architectural drawings, the second appearance before the Commission is eliminated; however, it may be necessary for a project to make up to three appearances as follows:

#### *First Appearance:*

Request permission to engage an architect or design-build team to execute schematics (preliminary drawings) or full architectural drawings (scope to be determined by Commission).

#### *Second Appearance:*

Seek approval of schematics (preliminary drawings).

#### *Third Appearance:*

Present the final architectural renderings and request permission to complete the contraction documents.

1. The project is put out for bids; the contractor/construction company is selected.
2. Final review with Diocesan Finance Office to clarify affordability.

## **Step 7.**

### **Submission of Monthly Progress Reports Through the Completion of the Project**

The commission meets on the second Thursday of each month, with the exception of the month of July, for the purpose of reviewing the status of each project. If the architect and/or builder prepares a monthly project update, a copy of that report should be prepared by the parish and submitted to the Project Representative one week prior to each meeting. A sample of a status report is available.

## **XII. SPECIAL FUND RAISING EVENTS**

Special fund raising events will be defined as parish sponsored annual festivals or feasts, and/or major dinner/dances. Many parishes rely on special fund raising events to supplement the weekly offertory as a source of revenue. These events can generate a significant amount of additional funds needed by the parish to meet their financial needs. As such, it is important that each parish take special care to ensure the adequate safeguarding and monitoring of these funds. This section provides specific guidelines to assist in accounting for the financial activity of these events.

Certain fund raising events may require prior approval or licensing with a state or local agency. In addition, certain events may require the submission of activity reports with state and/or local agencies. The parish should consult with state and local licensing agencies before holding such events.

The financial activity for “special events” should be monitored separately. Receipt and disbursement activity should have its own designated account codes when recorded in the cash receipt and disbursement journal.

Each event should be coordinated by an appointed committee of reputable and practicing members of the parish. The pastor/parish life facilitator may or may not be a member of the committee, but should monitor its activities.

If at any time during the event, more than \$25,000 is expected to be on hand, you may wish to contact Catholic Mutual to extend the limits of theft coverage for the event.

All monies collected from the event should be deposited to the parish bank accounts. Under no circumstances should monies be taken before deposited to pay event-related obligations.

Deposits should be documented via the use of the parish deposit form. Refer to cash receipts section of this manual.

All disbursements relating to the event should be made through the parish checking account; cash disbursements should be prohibited.

Control over cash disbursements relating to the event should conform to those identified in the cash disbursements section of this manual.

A report of the financial results of the special event (i.e. revenues less expenditures equals net proceeds) should be prepared in a timely manner after the event and its financial activity has been completed. This report should be reviewed and approved at the next meeting of the finance council.

Anytime parish or school facilities are rented for a function not sponsored by the parish or school, the parish or school needs to make sure that the sponsoring person/organization has insurance obtained from Catholic Mutual via the form in Exhibit 22 or provide a certificate of insurance naming The Bishop of Charleston, A Corporation Sole and the parish as additional insureds.

### XIII. GENERAL PRACTICES

Listed below are miscellaneous accepted business practices and sound management controls not listed elsewhere in this manual that should be employed in conducting the financial affairs of the parish.

#### PARISHIONER INVOLVEMENT

Parishioners selected to participate in the financial affairs and financial reporting of the parish should possess the personal attributes needed to effectively and competently perform their responsibilities in a trustworthy manner for the full benefit of the parish.

#### CONTRIBUTIONS/DONATIONS

Individual contribution over \$2,000 should be supported by a form identifying the donor, amount donated, and, if available, some background information relating to the donation (see Exhibit 19). The form will be maintained confidentially by the pastor/pastoral administrator.

Individual contributions over \$10,000 must be reported to the chief financial officer.

#### INDEBTEDNESS

**Under no circumstances should a parish obtain a loan (including lease financing) from an outside party (i.e. banking institution, private loans). Borrowing is permitted from the diocesan loan fund subject to the prior approval from the Bishop. Under no circumstances should a parish enter into any lease agreement. The Bishop of Charleston or his designee is the only person authorized to sign or execute any loan or lease arrangement for the parish.**

#### RECORD RETENTION

Financial records should be maintained in accordance with the guidelines set forth in Exhibit 20.

Financial records should be physically protected against risk of destruction (i.e. fire and/or water damage) by utilizing fireproof cabinets, strong boxes, safes, etc.

#### PARISH ENDOWMENTS

Each parish is strongly encouraged to establish and contribute to an endowment fund. An endowment fund should never be confused with short-term savings. The purpose of an endowment fund is to put current dollars to work for the distant needs/growth of the parish. Withdrawals may be made from the an endowment fund only with written permission from The Bishop. Endowment funds may be established in one of two ways.

- 1). **BSA Endowment** - When a parish exceeds their DDF goal, one half (1/2) of the amount raised above their goal will be returned to the parish in the form of a DDF endowment. This is contingent upon the BSA campaign reaching its allocated goal.

A parish may contribute additional monies to their BSA endowment according to the guidelines outlined in the BSA Endowment document.

- 2). **Parish Established Endowment** - A parish may establish an endowment in addition to the BSA endowment by contacting the Chief Financial Officer of the Diocese. He will work with you on establishing your endowment documents which must be approved by the Bishop.

## SALE OF STOCK

The sale of stock should occur in one of the three following ways:

<p>If the parishioner holds the securities</p>	<p>Have the parishioner sign the certificate exactly as it appears on the front of the certificate.</p> <p>Send the certificate(s) to Salomon Smith Barney, 200 Meeting Street, Suite 402, Charleston, SC 29401, Attn.: Sandy Drolshagen with a letter stating that the securities are a gift to the parish and/or diocese. Please send a copy of the letter and a copy of the certificate to the Finance Office, Diocese of Charleston, 1662 Ingram Road, Charleston, SC 29407.</p>
<p>If the parishioner's securities are held by a bank or brokerage</p>	<p>His/Her broker should transfer the security according to the following instructions:</p> <p>DTC #0418</p> <p>For further credit to: 435-18433-15-035 Bishop of Charleston FBO (Name of Parish)</p> <p>Also, please have either the parishioner send or the parish mail the Finance Office, Diocese of Charleston, 1662 Ingram Road, Charleston, SC 29407, a letter notifying the diocese of the gift.</p>
<p>If the securities are issued in name of the parish or diocese</p> <p><b>(We strongly encourage that securities not be issued in the name of the parish or diocese</b></p>	<p>Please send the securities by certified mail to the Finance Office so that we can attach a signed corporate resolution and stock power.</p> <p>We will forward the securities to Salomon Smith Barney for processing.</p>

**but that the above options be followed.)**

Also, please enclose a letter giving the diocese instructions to sell the securities and any other pertinent information concerning the transactions.

**(Note: Please do not endorse or sign the back of the securities.)**

## TRANSACTIONS REQUIRING BISHOP'S APPROVAL

To comply with civil and ecclesiastical law and diocesan statutes, the parish is required to obtain written permission from the Bishop prior to entering into certain activities. Refer to Exhibit 21 for a listing of these activities.

## TRAVEL AND ENTERTAINMENT

Documentation supporting all expenditures is extremely important, particularly for travel and entertainment expenses. Proper explanation and retention of detailed records are necessary to support expenses reported. The following information should be retained to substantiate travel and entertainment expenses:

- Travel expenses - Date (s), nature, destination, amount and purpose. Receipts should be available for lodging and transportation.
- Entertainment expenses - Date (s), nature or type of entertainment, amount, person(s) entertained, relationship, and purpose. Receipts should be available for every expenditure.

Refer to Exhibit 23 and 24 for travel and expense reimbursement forms.

## **XIV. SALES AND USE TAX**

### **SALES TAX**

According to the South Carolina Department of Revenue, Article 5, Chapter 35, of Title 12 of the 1976 Code - "Section 12-35-519. The maximum tax levied under this chapter, with respect to the sale of each musical instrument or each piece of office equipment purchased by a religious organization exempt from income taxes under Internal Revenue Code Section 501 (c) (3) is three hundred dollars, if the musical instrument or office equipment is located on church property and used exclusively for the organization's exempt purpose.

The religious organization shall furnish an affidavit to the seller who shall retain the affidavit for inspection by officials or agents of the Commission. The affidavit required by this section must be on forms prescribed by the Tax Commission. Persons who falsify or conspire to falsify the affidavit prescribed in this section are subject to the penalties prescribed by item (24) of section 12-35-550 in addition to all other penalties provided in this chapter."

According to the current South Carolina Tax Code, religious organizations are not exempt from sales tax. The code merely provides a limit of \$300.00 of sales tax due on the purchase of office equipment and musical instruments. Computer hardware would be considered office equipment but not computer software. See exhibit 25 for a copy of the affidavit required for the \$300.00 limit to apply.