



Temporalities Manual for Parishes

Accounting and Budgeting Manual
For Parishes

Updated August 7, 2014

Table of Contents

I.	Introduction.....	1
II.	Chart of Accounts and Definitions.....	2
	A. Account Numbers and Titles.....	2
	1. Income Accounts.....	3
	2. Expense Accounts.....	4
	3. Asset/Liability Accounts.....	6
	B. Account Definitions.....	6
	1. Income Accounts.....	6
	2. Expense Accounts.....	10
	3. Asset/Liability Accounts.....	15
III.	Budgeting.....	16
	A. Purpose and Importance of Budgeting.....	16
	B. Principles of Budgeting.....	17
	C. Financial Planning Calendar.....	18
	D. Steps in Budget Analysis and Development.....	18
	Exhibit I – Sample Parish Budget Form.....	21-25
IV.	Accounting Procedures.....	26
	A. Parish Finance Councils.....	26
	B. Accounting Guidelines, Systems and Records.....	26
	C. Internal Accounting Controls.....	28
	D. Parish Organizations.....	31
	Exhibit II – Sample Parish Organization Report.....	33
V.	Financial Statements and Reports.....	34
	A. Parish Financial Statements.....	34
	Exhibit III – Sample Monthly Financial Report to Parishioners.....	35
	B. Archdiocesan Reports.....	36
VI.	Payroll Procedures.....	36
	A. Labor Relations and Tax Regulations.....	36
	B. Personnel Records.....	38
	C. Payroll Records.....	38
	D. Tax Deposits and Records.....	39
	E. Priest Compensation and Expense Allowance.....	40
	F. Employee Benefits.....	41
	G. Independent Contractors.....	41

I. Introduction

Good fiscal management should be an important objective of every parish. Fiscal responsibility is more than a series of statements which speak of high management principles. It is a planned and systematic way of doing business which results in accurate and understandable data and reports. It further implies that this data is available to decision makers who must know what is happening in the parish.

Unfortunate situations can easily result when parishes exercise poor accounting methods and the lack of proper fiscal control. Some traits of a good accounting system are:

- The accounting system should be consistent and should not change with the appointment of each new pastor. Changes in the system result in a lack of consistency through the years and may add to misunderstandings.
- Financial reports should be clear and accurate so that even bookkeepers and secretaries who are not accountants can prepare reports which help the pastor and Finance Council make sound financial decisions.
- Monthly financial reports should be timely.
- Audit trails should exist, making it easy to trace financial activities.
- Bills should be paid and withholding taxes remitted in a timely manner. Failure to do so results in a poor reputation for the parish and leaves the parish open to scrutiny by federal, state and local officials.
- The integrity of the parish secretary or bookkeeper is important, but may be suspect when he or she is unable to account for parish funds due to poor bookkeeping.

Parishes need an accounting manual to provide the "how to" for each new pastor, secretary, bookkeeper or other personnel. It is hoped that this manual will go a long way toward meeting the parish's need for establishing continuity and comparability in its accounting system.

To have a consistent accounting system throughout the Archdiocese, each parish must adopt the chart of accounts and report forms as outlined in this manual. Standard accounting makes it possible to compile meaningful comparative data which will be beneficial to all parishes. Standard accounting also makes it possible for pastors who transfer from one parish to another to be assured that they will understand their new location's accounting system. Furthermore, this accounting manual should aid in the training of new secretaries, bookkeepers and/or Finance Council members.

Parishes need to use sound business and financial management practices so that they can realize maximum efficiency. Effective business techniques help achieve accountability and credibility for the parish. Furthermore, a good financial and accounting system provides the opportunity to establish priorities, plan and maintain fiscal control of the parish's assets.

Fiscal Year

All parishes in the Archdiocese will use a fiscal year beginning July 1 and ending on June 30.

Cash Accounting System

The system of budgeting and bookkeeping outlined in this manual is a “cash basis” of accounting rather than the accrual method. Cash basis accounting is relatively easy and meets the immediate needs for parish financial management.

The following pages present the components of the financial planning and accounting system for parishes. The chart of accounts is the foundation for the accounting system. Financial reports are based on the chart of accounts as their source of information. Budgets, procedures and timelines are built around the financial reports and are presented as part of an integrated accounting system.

Effective Date

This manual should be implemented for the fiscal year beginning July 1, 2014 and overrides any parish practices and procedures which may be in conflict with the contents of this manual.

This manual has been updated effective August 7, 2014.

II. Chart of Accounts and Definitions

A. Account Numbers and Titles

The Chart of Accounts is an organized listing of categories in which transactions relating to income, expense, assets and liabilities are recorded. To ensure consistency and thoroughness in the financial record-keeping system, the accounts have been carefully structured and defined. The Chart of Accounts is the foundation on which the accounting system is built. It has been developed in sufficient detail to provide for adequate budgeting, reporting and control.

The Chart of Accounts in this manual was designed specifically for the Archdiocese of New Orleans. Account numbers, titles and descriptions are provided on the following pages.

“Subaccounts” can be added when the definitions on pages 6 to 16 indicate that subaccounts are permissible. A subaccount is a further breakdown of an existing account. The numbering system allows for the creation of subaccounts whenever the Chart of Accounts does not allow for sufficient detail. Although subaccounts are permitted, no further addition of account numbers or titles is permitted. The system is to be rigidly followed, as presented.

Instructions for Use

1. Use the definitions in this manual as the official guide for all financial entries. Each account has its own identity, and its use should be limited to that purpose. Use each account as defined in the following pages.
2. Maintain consistent use during the accounting year.
3. All parish financial transactions and entries should be handled within the Chart of Accounts.
4. Develop simple ways to allocate costs to various accounts.
5. Write notes on your Chart of Accounts indicating where you charge particular items. This will help you know where to charge it in the future so that consistency can be maintained.
6. Avoid overuse of the account "Miscellaneous". If substantial amounts are assigned to Miscellaneous, costs are being inappropriately charged to this account.

Chart of Accounts

Acct No. Account Description

1. Income Accounts

Ordinary Church Income

001-0	Weekly Envelopes
002-0	Loose Collection
003-0	Collections at Special Devotions
004-0	Special Collections for Interest, utilities, etc.

Extraordinary Church Income

020-0	Votive Shrines, Sales of Mission Goods, etc.
021-0	Parish Societies or Organizations
022-0	Rentals, Leases, Royalties
023-0	Special Building Campaigns
024-0	Entertainment, Fairs and Fundraisers, etc.
025-0	Interest Earned on Funds on Deposit
026-0	Interest Earned on Bank Accounts
027-0	Donations, Legacies, Gifts
028-0	Clarion Herald Subscriptions
029-0	Religious Education Income
030-0	Miscellaneous Income
031-0	Mass Stipends
032-0	Baptisms, Weddings, Funerals & Certificates
033-0	Archdiocesan Subsidy
034-0	Archdiocesan Development Program
035-0	Parish Twinning
036-0	Special Archdiocesan Campaigns

Non-Income Receipts

- 040-0 Losses paid by Insurance
- 041-0 Money Borrowed from Archdiocese
- 042-0 Money on Deposit Withdrawn During the Year
- 043-0 Sale of Parish Property

Diocesan Collections

- 050-0 Christmas Collection
- 051-0 Easter Collection

Extra-Diocesan Collections

- 060-0 Propagation of the Faith
- 061-0 Catholic Bishops Fund
- 062-0 Peter's Pence
- 063-0 Catholic Charities
- 064-0 Holy Land Collection
- 065-0 Black and Indian Home Mission
- 066-0 Catholic Communications
- 067-0 Campaign for Human Development
- 068-0 Retirement Fund for Religious
- 069-0 Other Extra-Diocesan Collections

2. Expense Accounts**Church & Rectory Expenses****Personnel Costs**

- 100-0 Salary – Pastor and Associates
- 101-0 Salary – Extra Priests
- 102-0 Salary – Clerical Staff
- 103-0 Salary – Housekeepers
- 104-0 Salary – Physical Plant Personnel
- 105-0 Salary – Organist, Choir & Other Musicians
- 106-0 Salary – Others
- 107-0 Salary – Religious Education Instructor(s)
- 108-0 Social Security & Medicare
- 109-0 Health Insurance Costs
- 110-0 Pension Plan Costs

Other Parish Expenses

- 120-0 Sanctuary Expenses
- 121-0 Costs of Votives, Religious Goods, Etc.
- 122-0 Church Office Costs
- 123-0 Household Expenses
- 124-0 Utilities
- 125-0 Janitorial Supplies & Services
- 126-0 Automobile and Business Expense
- 127-0 Ordinary Repairs
- 128-0 Miscellaneous Expense
- 129-0 Parish Twinning

- 130-0 Social Program Expense
- 131-0 Religious Education Expense (Other than Salaries)
- 132-0 School Financial Support
- 133-0 Insurance Expense
- 134-0 Interest Paid on Debt
- 135-0 Replacement of Furniture & Equipment

Diocesan Assessments

- 140-0 Weekly Assessments
- 141-0 Clarion Herald Subscriptions
- 142-0 Archdiocesan Development Program
- 143-0 Special Archdiocesan Campaigns

Diocesan Collection Payments

- 150-0 Christmas Collection
- 151-0 Easter Collection

Extra Diocesan Collection Payments

- 160-0 Propagation of the Faith
- 161-0 Catholic Bishops Fund
- 162-0 Peter's Pence
- 163-0 Catholic Charities
- 164-0 Holy Land Collection
- 165-0 Black and Indian Home Mission
- 166-0 Catholic Communications
- 167-0 Campaign for Human Development
- 168-0 Retirement Fund for Religious
- 169-0 Other Extra-Diocesan Collections

Capital Expenditures

- 170-0 Purchases of Real Property
- 171-0 New Construction Costs
- 172-0 Furniture, Fixtures & Equipment – Church
- 173-0 Furniture, Fixtures & Equipment – Rectory
- 174-0 Repairs and Replacement Covered by Insurance

Principal Payments and Deposits to Savings

- 180-0 Principal Payments on Parish Debt
- 181-0 Deposited with Archdiocese for Investment
- 182-0 Deposited with Archdiocese for School Endowment Fund

Other Accounts

- 190-0 to Clearing Accounts
- 199-0

3. Asset and Liability Accounts

Assets

Current Assets

- 200-0 Cash – Checking Account
- 201-0 Cash – Payroll Checking Account
- 202-0 Cash – Charitable Gaming Account
- 203-0 Petty Cash

Designated Fund Accounts

- 210-0 Archdiocesan Savings Account

Liabilities

Current Liabilities

- 300-0 Accounts Payable
- 301-0 Unpaid Payroll Taxes & Other Withholdings

Long-Term Liabilities

- 310-0 Loans – Archdiocesan

B. Account Definitions

The following includes account definitions for every line item in the Chart of Accounts. Accounts are to be used exactly as specified in this manual. When it is not obvious which account is to be used, carefully read the descriptions to determine which account would be most appropriate. Account definitions are not to be changed or added, except by permission of the Office of Financial Services.

1. Income Accounts

Ordinary Church Income

001-0 Weekly Envelopes

Include monies received from envelopes on Saturdays and Sundays, Holy Days, etc. for general operating purposes.

002-0 Loose Envelopes

Include monies received from the collection basket or plate, not included in offertory envelopes.

003-0 Collections at Special Devotions

Include monies received from special devotions, masses, etc. such as Marian devotions.

004-0 Special Collections

Include monies received for special purposes such as fuel collection, interest

expense on parish debt, assessments, etc. which occur on a regular or occasional basis and are used for the operating budget. Parishes may establish subaccounts for each special purpose envelope.

Extraordinary Church Income

020-0 Votive Shrines, Sales of Mission Goods, etc.

Include gross receipts for items such as votive shrines, novenas, flowers, candles, and related miscellaneous receipts which would not fit in any of the above income accounts.

021-0 Parish Societies or Organizations

Include cash gifts from various parish organizations or societies such as Ladies' Altar Society, Ushers, Christian Women, Men's Clubs, etc.

022-0 Rentals, Leases, Royalties

Include rental or lease income for parish facilities, gymnasiums, halls, convents and other properties owned by the parish. Include rental income only if expenses for this facility are paid by the parish.

023-0 Special Building Campaigns

Include monies received for special building campaigns such as roof repairs, building improvements, paving parking lot, etc.

024-0 Entertainment, Fairs & Fundraisers, etc.

Include **net** proceeds from activities conducted by the parish to raise funds such as fairs, festivals, picnics, raffles, bingo, etc. when this income will be used for general operating purposes.

025-0 Interest Earned on Funds on Deposit

Include interest earned by the parish from its funds on deposit with the Archdiocese. Interest income is reported to the parishes on a quarterly basis.

026-0 Interest Earned on Bank Accounts

Include interest earned on parish checking accounts, savings accounts, trust funds and other investment earnings which will be used for general operating purposes.

027-0 Donations, Legacies

Include all cash gifts, donations, bequests and memorials received by the church which will be used for general operating purposes.

028-0 Clarion Herald Subscriptions

Include collections from parishioners for their subscription to the Clarion Herald newspaper.

029-0 Religious Education Income

Include gross receipts from fees charged for Religious Education and instruction provided by the parish to children in the parish.

- 030-0 Miscellaneous Income
Include any receipts which do not fit in any other categories. These amounts must be detailed in the parish's annual financial reports if they are significant (over \$2,000).
- 031-0 Mass Stipends
Include monies received for mass stipends or dedications.
- 032-0 Baptisms, Weddings, Funerals & Certificates
Include donations received for baptisms, weddings, funerals and baptismal certificates.
- 033-0 Archdiocesan Subsidy
Include receipts from the Archdiocese as subsidy. Do not include loans from the Archdiocese which must be repaid.
- 034-0 Archdiocesan Development Program
Include collections from the parishioners for the Archdiocesan Development Program.
- 035-0 Parish Twinning
Include donations received from your twinning parish. This amount must equal the related parish's twinning expense. This will be verified when the annual financial report is submitted to the Office of Financial Services.
- 036-0 Special Archdiocesan Campaigns
Include receipts from parishioners for any special diocesan appeals, e.g., the Archdiocesan Capital Campaign.
- Non-Income Receipts**
- 040-0 Losses Paid by Insurance
Include receipts as a result of insurance claims and refunds.
- 041-0 Money Borrowed
Include proceeds of loans received from the Archdiocese which must be repaid.
- 042-0 Money on Deposit Withdrawn During the Year
Include amounts withdrawn from the parish's Archdiocesan savings account which were deposited during an earlier year and are required for use by the parish in the current operating budget.
- 043-0 Sale of Parish Property
Include receipts from the sale of parish assets. Include the sale of parish equipment, furnishings, buildings, etc.

Diocesan Collections050-0 Christmas Collection

Include the actual amount collected from parishioners for the Archdiocesan Christmas appeal during the holiday masses.

051-0 Easter Collection

Include the actual amount collected from parishioners for the Archdiocesan Easter appeal during the holiday masses.

Extra-Diocesan Collections060-0 Propagation of the Faith

Include amounts collected from parishioners for the annual Propagation of the Faith appeal.

061-0 Catholic Bishops Fund

Include amounts collected from parishioners for the annual Catholic Bishops Fund appeal.

062-0 Peter's Pence

Include amounts collected from parishioners for the annual Holy Father (Peter's Pence) appeal.

063-0 Catholic Charities

Include amounts collected from parishioners for the annual Catholic Charities appeal.

064-0 Holy Land Collection

Include amounts collected from parishioners for the annual Holy Land appeal.

065-0 Black and Indian Home Mission

Include amounts collected from parishioners for the annual Black and Indian Home Mission appeal.

066-0 Catholic Communications

Include amounts collected from parishioners for the annual Catholic Communications appeal.

067-0 Campaign for Human Development

Include amounts collected from parishioners for the annual Campaign for Human Development appeal.

068-0 Retirement Fund for Religious

Include amounts collected from parishioners for the annual Retirement Fund for Religious appeal.

069-0 Other Extra-Diocesan Collections

Include monies received by the parish on behalf of the Archdiocese and for

various programs it endorses such as WLAE TV, etc. These funds are also shown as a non-operating expense and must agree with the related remittance to the Archdiocese.

2. Expense Accounts

Church & Rectory Expenses

PERSONNEL COSTS

100-0 Salary – Pastor and Assistant

Include salaries paid to full-time and part-time priests assigned to the parish. Do not include amounts paid as stipends for auto or other allowances. Include these amounts in account #126-0 “Automobile and Business Expense”.

101-0 Salary – Extra Priests

Include compensation paid to out-of parish priests who render weekend help for confessions, celebration of masses, etc. A Form 1099 must be issued to all priests who receive \$600 or more in compensation in a given calendar year.

102-0 Salary – Clerical Staff

Include **gross** salaries or wages paid to full-time and part-time religious and lay personnel serving as bookkeepers, secretaries and other clerical assistants.

103-0 Salary– Housekeepers

Include **gross** salaries or wages paid to full-time and part-time rectory housekeepers, cooks, etc.

104-0 Salary – Physical Plant Personnel

Include **gross** salaries or wages paid to full-time and part-time personnel involved in plant operation and maintenance such as physical plant personnel, custodians, maintenance workers, grounds keepers, etc.

105-0 Salary – Organists, Choir & Other Musicians

Include **gross** salaries or wages paid to full-time and part-time organists, guitarists, music directors, guest musicians, etc.

106-0 Salary – Others

Include **gross** salaries or wages paid to any other persons employed by the parish who are not included in the above accounts.

107-0 Salary – Religious Education

Include **gross** salaries or wages paid to full-time and part-time religious and lay personnel serving as Religious Education instructors, directors of religious education, youth ministers, etc.

108-0 Social Security Taxes & Medicare Insurance

Include only the employer’s share of Social Security taxes and Medicare insurance

for all personnel employed by the church. These amounts must be reported separately on payroll tax forms.

109-0 Health Insurance

Include the costs for group medical, dental, life and other insurance paid by the parish for priests, religious and lay personnel. Any amount deducted from employee pay should not be included.

110-0 Pension Plan Costs

Include the parish's share of contributions to retirement and pension plans for priests, religious and lay personnel. All lay employees who work more than 20 hours per week **must** be offered the opportunity to participate in the Archdiocesan pension plan.

OTHER PARISH EXPENSES

120-0 Sanctuary Expenses

Include expenses for altar bread, wine, candles, vestments, chalices, patens, altar cloths, flowers, etc.

121-0 Costs of Votives & Religious Goods, etc.

Include expenses for votive shrines, novenas, candles, and related miscellaneous expenses.

122-0 Church Office Costs

Include expenses for printing, postage, duplicating, stationary and other office supplies. Also include purchase of calculators, computers, printers, etc.

123-0 Household Expenses

Include expenses incurred by priests residing in the rectory for food and household consumables such as toiletries, paper products and other grocery items normally used by a household, but excluding items which are for personal use.

124-0 Utilities

Include expenses for telephone, electricity, gas, water and sewerage disposal, etc.

125-0 Janitorial Supplies & Services

Include expenses for brooms, mops, cleaners, paper supplies, light bulbs and other such custodial supplies and contracted janitorial services.

126-0 Automobile and Business Expense

Include expenses incurred for the purchase, maintenance and repair of parish cars, buses, vans and trucks. Also include the monthly stipend given to parish priests for automobile and other documented expenses.

127-0 Ordinary Repairs

Include labor and expenses by outside contractors for day-to-day repairs and maintenance of parish facilities and equipment by plumbers, electricians,

carpenters, etc. Also include the cost of any maintenance contracts and parts and supplies for repairs made by church personnel. Do not include major replacement or additions such as new roof, furnace, renovation, etc. which would be considered capital expenditures.

128-0 Miscellaneous Expense

Include other miscellaneous parish expenses which do not fit in any of the other categories such as dues and subscriptions, conference and travel expenses, hospitality, bank service charges, etc.

129-0 Parish Twinning

Include contributions given by your parish. This amount must equal the related parish's twinning income. This will be verified when the annual financial reports are submitted to the Office of Financial Services.

130-0 Social Program Expense

Include expenses incurred for the parish's social programs such as food for the needy, parish pastorals, peace campaigns, stewardship drives, communications, evangelization, etc.

131-0 Religious Education Expense (Other than Salaries)

Include costs incurred for the parish's Religious Education program such as textbooks and teaching supplies, audio visual supplies and materials, religious education library, student retreats, confirmation expenses, student activities, etc.

132-0 School Financial Support

Include the amount of financial support paid by the parish for parishioners attending Catholic elementary schools, whether in-parish or out of parish. Also include the cost of any unreimbursed parish school bills paid by the church.

133-0 Insurance Expense

Include the cost of maintaining property and casualty, flood, automobile and any other insurance paid by the parish. This amount is included in the parish's weekly assessment balance. The insurance portion of the weekly assessments is to be separately recorded in this account.

134-0 Interest Paid on Debt

Include interest payments on Archdiocesan borrowings made during the current year.

135-0 Replacement of Furniture & Equipment

Include costs incurred for replacing minor furniture and equipment for the church, rectory or office. Do not include major replacements. These would be considered capital expenditures and should be included in those accounts.

Diocesan Assessments

140-0 Weekly Assessments

Include funds assessed by the Archdiocese to the parish as its share of the financial support of the central office (parish share). This amount is determined annually and parishes are notified of the total and weekly amounts due.

141-0 Clarion Herald Subscriptions

Include the costs of providing a subscription to the Clarion Herald to parishioners. The amount due from the parish is provided by the Clarion Herald.

142-0 Archdiocesan Development Program

Include the amount of the assessment to the parish for the Archdiocesan Development Program.

143-0 Special Archdiocesan Campaigns

Include the amount of the assessment to the parish for any special diocesan appeals or campaigns, such as the Archdiocesan Capital Campaign.

Diocesan Collection Payments

160-0 Propagation of the Faith

Include funds collected by the parish on behalf of the annual Propagation of the Faith appeal.

161-0 Catholic Bishops Fund

Include funds collected by the parish on behalf of the annual Catholic Bishops Fund appeal.

162-0 Peter's Pence

Include funds collected by the parish on behalf of the annual collection for the Holy Father (Peter's Pence).

163-0 Catholic Charities

Include funds collected by the parish on behalf of the annual Catholic Charities Fund appeal.

164-0 Holy Land Collection

Include funds collected by the parish on behalf of the annual Holy Land appeal.

165-0 Black and Indian Home Mission

Include funds collected by the parish on behalf of the annual Black and Indian Home Mission appeal.

166-0 Catholic Communications

Include funds collected by the parish on behalf of the annual Catholic Communications appeal.

167-0 Campaign for Human Development

Include funds collected by the parish on behalf of the annual Campaign for Human Development appeal.

168-0 Retirement Fund for Religious

Include funds collected by the parish on behalf of the annual Retirement Fund for Religious appeal.

163-0 Other Extra-Diocesan Collection Payments

Include funds collected by the parish on behalf of the Archdiocese and for the various programs it endorses such as WLAE TV, etc. These funds are also shown as a non-operating income and must agree with this related total.

Capital Expenditures

170-0 Purchase of New Property

Include the purchase of an existing building or purchase of mobile rooms that will be paid for in the current operating year.

171-0 New Construction Costs

Include the cost of construction such as additions to the church, new buildings, or new wings which will be paid for in the current year. Also include substantial alterations or changes to present facilities that will extend the useful life of these facilities or change them to make them more useful or desirable. Includes roof replacement, repaving, remodeling or similar projects.

172-0 Furniture, Fixtures & Equipment - Church

Include the cost of new or replacement furniture and equipment for the church such as pews, carpeting, tables and chairs, etc.

173-0 Furniture, Fixtures & Equipment – Rectory & Office

Include the cost of new or replacement furniture and equipment for the rectory and parish office such as desks, tables and chairs, carpeting, office equipment, computers, printers, kitchen equipment, lawn mowers, etc.

174-0 Repairs Covered by Insurance

Include the cost of repairs due to fire losses, water or storm damages, theft, etc. covered by insurance.

Principal Payments and Deposits to Savings

180-0 Principal Payments on Parish Debt

Include principal payments on Archdiocesan indebtedness made during the current operating year.

181-0 Deposited with Archdiocese for Investment

Include amounts deposited into the parish's Archdiocesan savings account from the current operating budget.

182-0 Deposited with Archdiocese for School Endowment Fund

Include amounts deposited with the Archdiocese for the parish school endowment fund from the current operating budget. Amounts included in this account should remain in this fund until some other fiscal year.

Other Accounts

190-0 Clearing Accounts

- 199-0 Clearing accounts are established to account for areas which generate income and have related expense. These are basically “wash accounts” used to account separately for activities which generate income and have related expenses, such as parish fairs or other money-making projects which are intended to break even or generate a net profit. A separate clearing account may be established for each type of activity.

Clearing accounts may also be established to record the withholding and subsequent payment of federal and state taxes and other benefit amounts withheld from parish employees’ gross pay. All clearing accounts must balance to zero after all related “ins and outs” are tabulated and the net proceeds or deficits should be transferred to one of the above appropriate accounts.

3. Asset and Liability Accounts

Asset Accounts

200-0 Cash – Checking Account

Include the balance of funds in the church’s operating checking account on the last day of the month.

201-0 Cash – Payroll Account

Include the balance of funds in the church’s payroll bank account on the last day of the month.

202-0 Cash – Charitable Gaming Account

Include the balance of funds in the church’s charitable gaming account on the last day of the month. A separate account is required by law for any parish that engages in charitable gaming activities.

203-0 Petty Cash

Include the balance of funds in the church’s petty cash fund on the last day of the month.

210-0 Cash – Archdiocesan Savings Account

Include the balance of funds invested by the parish in its savings account with the Archdiocese on the last day of the month. This balance is communicated to the parishes on a quarterly basis.

Liabilities

300-0 Accounts Payable

Include all unpaid disbursements for utilities, supplies and any other bills on the date of the parish financial report. To calculate the church's accounts payable, run a tape total of all outstanding (unpaid) bills for the current period as of the date of the financial report.

301-0 Unpaid Payroll Taxes & Other Withholdings

Include all unpaid disbursements for the current period for salaries, social security taxes, pension plan, hospitalization and other withholdings on the day of the parish financial report. To calculate the parish's unpaid payroll obligations, run a tape total of all outstanding costs as of the date of the financial report.

310-0 Loans – Archdiocesan

Include the total amount owed to the Archdiocese as of the date of the parish's financial report. This balance is reported to the parishes on a quarterly basis by the Accounting Office.

III. Budgeting

A. Purpose and Importance of Budgeting

Because church resources are usually limited and in most cases represent funds entrusted to the church by its parishioners, church officials have the responsibility of making sure that these funds are spent wisely. The preparation of an annual parish budget can help pastors fulfill this sometimes awesome, but all-important responsibility. There are also several reasons why budgeting is important for churches. Budgeting:

1. Formalizes planning. Budgets force pastors and other concerned parties to study the future so that they can develop a formal plan to achieve both the short term and long term goals of the parish.
2. Reduces emotion-driven decisions. Churches operating without budgets (or with budgets that are very flexible) are prone to spend their money erratically. With a firm one-year operating budget, programs and activities are funded prior to the start of the fiscal year and everyone is forced to live within the budget for this time period.
3. Is a Basis for Performance Evaluation. Budgets provide a foundation for the evaluation of the parish's effectiveness in meeting its anticipated goals. Performance should be measured against the actual results for the same time period.
4. Is a Basis for Control. By using budgets, control over parish expenditures can be exercised. If variances from the budget - either positive or negative - are out of line, inquiries can be made and corrective action can be taken. Corrective action may be in the form of seeking additional contributions, cutting costs, changing personnel, etc.

5. Gets Parishioners Involved. Budgeting should involve as many members of the parish as possible. By getting parishioners to share their ideas, thoughts, opinions, etc., the parish improves its chances of achieving its goals.

6. Increases the Commitment to Giving. When parishioners have participated in the formulation of the budget, they are more apt to make sure that the budgeted results occur. Involved, committed parishioners are much more likely to contribute than are members who are kept distant from the financial affairs of the parish but are then asked to contribute.

7. Generates Confidence in the Church's Leadership. When both long-term and short-term goals and objectives are prepared and sound budgets are established and followed, the parish is more likely to be successful in achieving these goals. Contributions and special requests tend to be taken seriously.

8. Allows for Continued Operation When Cash Receipts and Disbursements are Mismatched. Many parishes have a cash flow situation in which excess funds are available several months of the year but these funds must be maintained and used during the summer months when attendance and giving are traditionally lower. Without proper budgeting, excess funds could be committed before the parish realizes that these funds were needed to cover costs during times of low attendance.

9. Allows Time to Save or Borrow Prudently. Budgets help parishes to pinpoint how much money is needed and when it is needed to realize its short and long-term goals. Budgets also help churches to determine the appropriate amount of any surplus to save and invest without hampering current and future operations.

Based upon the above, it can be seen why it is vitally important that all parishes prepare an annual operating budget and use it to guide operations. Failure to recognize the importance of budgeting has caused many of our parishes to experience severe financial distress. With time and practice, accurate budgeting may help to relive some of this distress.

B. Principles of Budgeting

It is recommended that the following principles be used as a basis for your budget planning. Implementation of these principles will ensure accurate budgets and good results from the process.

1. Base the next year's budget on an accurate estimate of the current year's income and expenses.
2. Budget all figures as accurately as possible. Avoid the tendency to pad figures to provide for numerous contingencies. Conversely, be sure to budget enough for all planned expenses.
3. If the parish has an elementary school, the parish should not subsidize the school indirectly by failing to charge adequate expenses to the school, especially in the areas of staff and utilities. On the other hand, be sure that the school is not assessed unfairly for parish costs. Accurate prorations are important.

4. Try to make your parish budget reflect your operations and objectives. If changes are planned, appropriate additions or reductions in expenses should be made in next year's budget.
5. Involve people in the budget planning process who need to be informed. This includes the pastor, members of the parish's Finance Council and others.
6. Provide parish members with a budget summary and inform them of parish costs.

C. Financial Planning Calendar

The following sample budget calendar based on June 30 fiscal year end will help your parish complete its financial planning activities:

<u>TARGET DATE</u>	<u>ACTIVITIES</u>
March 31	First draft of next year's budget completed.
April 1 – 30	Budget discussed with Parish Finance Council.
May 15	Budget finalized by the Pastor and Parish Finance Council.
July 31	Annual Parish Financial Report for the year just completed submitted to the Office of Financial Services.

D. Steps in Budget Analysis and Development

Listed below are the steps in the budget analysis and development process. Most steps have been listed and should be followed in chronological order.

The pastor, members of the parish Finance Council and other appropriate individuals are to be involved in the process. However, many of the steps can best be performed by a single individual or by several people working together. After reviewing the steps, determine the most appropriate and efficient manner of accomplishing the tasks.

1. Prepare the Budget (see Exhibit I)

- Step 1: Post the previous fiscal year's actual balances. You are being asked to post these figures because experience has shown that budgets are more accurate when historical figures are readily available for your review. When posting financial information, omit cents and always round to the nearest dollar.
- Step 2: Post your budget for the current fiscal year. If your parish does not have a budget for the current year, you are to prepare one at this time following the procedures outlined in Steps 3 through 6.
- Step 3: For each item in the standard Chart of Accounts, develop an income and expense budget figure.

Use the prior year actual and the current year budgeted figures as a basis for next year's budget.

Consider the parish's goals and objectives as the budget is being developed. Will more staff be needed? Must a new computer be purchased?, etc.

Once you have budgeted each line item, calculate total income and expenses for the projected budget.

Subtract expenses from income to determine the potential surplus or deficit for the next year. If income equals or exceeds expenditures, rejoice. If expenditures exceed income, recommendations must be made, such as: locate ways to cut the budget, identify budget items which can be handled by auxiliary groups, identify budget items which can only be undertaken if giving and other income sources exceed projected levels, etc.

Avoid the tendency to force the budget to balance by placing unrealistic figures in income or expense accounts. Reducing expenses or increasing income is realistic only when accompanied by actions which will ensure that these projected changes can actually occur.

Step 4: Document the calculations and assumptions used in preparing the budget.

Document some of your assumptions so that it will be easier to retrace your steps as you find it necessary to review the budget. Things to document include: all percentages, ratios and other factors used to prorate expenses or income between the parish and school, inflationary factors used to increase budget items, lists of equipment and other items which are part of budgeted figures, and other calculations used in arriving at each budgeted line item.

2. Evaluate the Projected Budget

Step 5: Meet with the parish Finance Council to discuss the parish budget. Make any revisions in the budget per the Council's recommendations. If your parish needs assistance in analyzing these figures, request help from the Office of Financial Services.

3. Submit the Budget and Supporting Documentation

Step 6: Submit copies to appropriate parish personnel.

Step 7: Communicate the budget to parishioners. Develop a carefully planned strategy to communicate financial information to parishioners. Accurate and complete information about parish finances can help parishioners understand the financial needs of the parish. Present only a summary to them because most parishioners will not need or want to review the numerous and specific details.

Parish No. _____
Parish Name: _____
Address: _____
City: _____

Parish Budget Form

	Current Yr. <u>Actual</u>	Current Yr. <u>Budget</u>	Next Yr. <u>Budget</u>
<u>1. Income Accounts</u>			
Ordinary Church Income			
001-0 Weekly Envelopes			
002-0 Loose Collection			
003-0 Collections at Special Devotions			
004-0 Special Collections			
TOTAL ORDINARY CHURCH INCOME			

Extraordinary Church Income			
020-0 Votive Shrines, Sales of Mission Goods			
021-0 Parish Societies or Organizations			
022-0 Rentals, Leases, Royalties			
023-0 Special Building Campaigns			
024-0 Entertainment, Fairs and Fundraisers			
025-0 Interest Earned on Funds on Deposit			
026-0 Interest Earned on Bank Accounts			
027-0 Donations, Legacies, Gifts			
028-0 Clarion Herald Subscriptions			
029-0 Religious Education Income			
030-0 Miscellaneous Income			
031-0 Mass Stipends			
032-0 Baptisms, Weddings, Funerals & Certificates			
033-0 Archdiocesan Subsidy			
034-0 Archdiocesan Development Program			
035-0 Parish Twinning			
036-0 Special Archdiocesan Campaigns			
TOTAL EXTRAORDINARY INCOME			

Parish No. _____
Parish Name: _____
Address: _____
City: _____

Parish Budget Form

	Current Yr. <u>Actual</u>	Current Yr. <u>Budget</u>	Next Yr. <u>Budget</u>
Non-Income Receipts			
040-0 Losses Paid by Insurance			
041-0 Money Borrowed from Archdiocese			
042-0 Money on Deposit Withdrawn			
043-0 Sale of Parish Property			
TOTAL NON-INCOME RECEIPTS			
Diocesan Collections			
050-0 Christmas Collection			
051-0 Easter Collection			
TOTAL DIOCESAN COLLECTIONS			
TOTAL REVENUES			

Parish No. _____
Parish Name: _____
Address: _____
City: _____

Parish Budget Form

Current Yr. <u>Actual</u>	Current Yr. <u>Budget</u>	Next Yr. <u>Budget</u>
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2. Expense Accounts

Church & Rectory Expenses

Personnel Costs

- 100-0 Salary - Pastor and Assistants
- 101-0 Salary - Extra Priests
- 102-0 Salary - Clerical Staff
- 103-0 Salary - Housekeepers
- 104-0 Salary – Physical Plant Personnel
- 105-0 Salary - Organist Choir & Others
- 106-0 Salary - Others
- 107-0 Salary – Religious Education Instructor(s)
- 108-0 Social Security & Medicare
- 109-0 Health Insurance Costs
- 110-0 Pension Plan Costs

TOTAL PERSONNEL COSTS

Other Parish Expenses

- 120-0 Sanctuary Expenses
- 121-0 Costs of Votives, Religious Goods
- 122-0 Church Office Costs
- 123-0 Household Expenses
- 124-0 Utilities
- 125-0 Janitorial Supplies
- 126-0 Automobile and Business Expense
- 127-0 Ordinary Repairs
- 128-0 Miscellaneous Expense
- 129-0 Parish Twinning
- 130-0 Social Program Expense

Parish No. _____
Parish Name: _____
Address: _____
City: _____

Parish Budget Form

Current Yr. <u>Actual</u>	Current Yr. <u>Budget</u>	Next Yr. <u>Budget</u>
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Other Parish Expenses continued

- 131-0 Religious Education Expense (Other Than Salaries)
- 132-0 School Financial Support
- 133-0 Insurance Expense
- 134-0 Interest Paid on Debt

TOTAL OTHER PARISH EXPENSES
TOTAL CHURCH AND RECTORY EXPENSE

Diocesan Assessments

- 140-0 Weekly Assessments
- 141-0 Clarion Herald Newspaper Subscriptions
- 142-0 Archdiocesan Development Program
- 143-0 Special Archdiocesan Campaigns

TOTAL DIOCESAN ASSESSMENTS

Diocesan Collection Payments

- 150-0 Christmas Collection
- 151-0 Easter Collection

TOTAL DIOCESAN COLLECTION PAYMENTS

Parish No. _____
Parish Name: _____
Address: _____
City: _____

Parish Budget Form

Current Yr. <u>Actual</u>	Current Yr. <u>Budget</u>	Next Yr. <u>Budget</u>
------------------------------	------------------------------	---------------------------

Capital Expenditures

- 170-0 Purchases of Real Property
- 171-0 New Construction Costs
- 172-0 Furniture, Fixtures & Equipment - Church
- 173-0 Furniture, Fixtures & Equipment - Rectory
- 174-0 Repairs and Replacement Covered by Insurance

TOTAL CAPITAL EXPENDITURES

Principal Payments and Deposits to Savings

- 180-0 Principal Payments on Parish Debt
- 181-0 Deposited with Archdiocese for Investment
- 182-0 Deposited with Archdiocese for School Endowment Fund

TOTAL PRINCIPAL PAYMENTS
AND DEPOSITS TO SAVINGS

TOTAL EXPENDITURES

IV. Accounting Procedures

A. Parish Finance Councils

The Code of Canon Law requires each parish to have a Finance Council. This council, governed by the norms of the Code, allows the Christian faithful to be of assistance to the pastor in the administration of parish goods. The Synod mandates that: “The parish Finance Council include a minimum of three members; members be appointed by the pastor and serve a term of three years; and initial appointments be staggered to provide continuity of membership.”

Members of the parish Finance Council must be Catholics in good standing and, preferably, members of the parish; be skilled in the areas of finance, law or administration; and not be related to employees of the parish nor have extensive business relationships with the parish.

The role of the parish Finance Council should be consultative. While it is expected that the pastor give due consideration to the advice of the Council, the pastor alone, in concert with the relevant regulations of the Archdiocese, has the ultimate responsibility for all decisions affecting the finances of the parish.

The duties of the parish Finance Council are to assist the pastor in (a) the preparation of annual parish budgets, (b) the review of periodic financial reports, (c) consultation on major capital expenditures, (d) advice on fundraising efforts, (e) the review and certification of movable inventories, and (f) providing aid and advice in other areas as requested by the pastor.

B. Accounting Guidelines, Systems and Records

Every parish should have an accounting system to process its transactions and periodically furnish information for the preparation of financial reports. The objectives of a parish's accounting system should be: (1) to measure and control parish financial activities and (2) to provide financial information to parish officials, parishioners and the Archdiocese. To evaluate whether a parish's accounting system is obtaining these stated objectives, several criteria or guidelines should be used to evaluate the current system. They are:

The system should involve reasonable costs.

The system should be easily understood by persons working with it.

The system should be efficient.

The system should permit an audit trail for all transactions.

The system should be able to process the vast majority of transactions in a uniform and consistent manner.

The system should provide reliable data.

The system should be effective, i.e., able to produce reports to assist users in making correct financial decisions about the church.

Pastors are responsible for the adequacy of the parish's bookkeeping and financial management. It doesn't matter whether the parish's books are kept manually or are computerized, whether done in-house by a parish employee or by an outside bookkeeper or bookkeeping service, experience has shown that some rules of bookkeeping are more successful than others. Therefore, the following are minimum standards that must be attained by all parishes within the Archdiocese of New Orleans:

(1) All parishes must use double-entry accounting. For every financial transaction, i.e., every time a check is written or a deposit is made, two accounts are always affected, with one of them being cash the majority of the time. For example, when the weekly mass collection is counted and deposited, both cash and ordinary income are affected, they both increase. Conversely, when a check is written to pay a telephone bill, cash is negatively affected because it is decreased and utility expense is increased by the payment of this expense.

(2) All parishes must use at least three ledgers or journals for recording financial transactions: a cash receipts journal for recording all cash received, a cash disbursement journal for recording all cash spent, and a payroll register for recording all payroll calculations and payments.

(3) All parishes should have only one checking account. The only exception is the need to have a separate checking account for charitable gaming activities (which is required by law). Many separate checking accounts (for fairs, CYO, Religious Education, etc.) are not necessary to maintain financial control and in many instances tend to result in poor financial management.

(4) The Archdiocese operates under a Central Financing System. All parish savings should be deposited with the Archdiocese. Parishes are paid a competitive, fixed interest rate on these funds while the proceeds are used to make low-interest loans to parishes. Separate savings, money market and certificates of deposit are not allowed.

(5) All parish expenses should be paid by check. Cash payments, except for small, miscellaneous purchases made from Petty Cash (see (7) below), should not be made for any expenditure.

(6) An invoice, receipt, statement, bill, etc. must be retained and filed for every check written. These records should be retained for five years. In every case, an audit trail should exist for all income received and expenses incurred within the parish.

(7) A Petty Cash account may be maintained. The Petty Cash account should be reimbursed only when verified receipts are present for each item for which cash was spent. Petty Cash should be used for only very small, infrequent expenses.

C. Internal Accounting Controls

The protection of an entity's assets is a basic management requirement of all organizations. Unfortunately, in most churches the internal control of assets, especially cash, has traditionally been weak. As a consequence many churches have been, are being, or will be cheated by an employee or member. Thousands of dollars of cash and other church assets are involved each year. Because most church assets come from parishioners, pastors have a special obligation to make certain that all funds are received, deposited and spent properly.

Safeguarding the church's assets, particularly cash, is the primary objective of a parish's internal control system. This means that proper controls for the handling of all cash receipts and disbursements should be developed, maintained and periodically reviewed for compliance.

Each parish, regardless of its size, should establish the following system of internal accounting control. Implementation of these practices and procedures should substantially reduce, but not eliminate, the opportunity for misappropriation of assets.

1. General Internal Controls

- A. All parish facilities should be locked when not in use. This includes both exterior and interior doors and windows.
- B. All accounting and financial records should be safeguarded at all times. This means that these records should be kept in a locked, fireproof safe at the rectory or in the parish's office when not in use. Pastors should not allow the church's financial records to be taken out of the parish and kept in someone's house, car, office, etc.

2. Cash Receipts Internal Controls

- A. Parishioners should be encouraged to use offering envelopes and use checks when making offerings and other gifts to the church.
- B. The weekly mass collection should always be controlled by at least two unrelated persons. No one person should be responsible for both counting and depositing the weekly collection.
- C. The weekly mass collection should be counted in a secure area, preferably in a locked room which is not visible to rectory or office visitors.
- D. Counters should verify that the contents of the offering envelopes are identical to the amounts written on the envelopes by parishioners. The parish secretary or bookkeeper should never be responsible for counting the weekly collection or

for depositing the money. He or she should only be responsible for recording the collection in the Cash Receipts Journal.

- E. All checks received should be restrictively endorsed (For Deposit Only) immediately.
- F. All cash should be deposited in the parish's bank account as soon as possible after receipt and counting. This should be no later than the Monday afternoon following the weekend masses.
- G. All undeposited cash should be kept in a safe, lock box or similar protective container when at the parish. Only the pastor (and associate priests) should have access to these funds. Lay employees should not have complete and unrestricted access to the parish safe and its contents.
- H. Deposit slips should be made in duplicate and the bank verification slip should be attached to the duplicate copy of the deposit slip.
- I. A detailed list or report of the collection should be prepared each week detailing the amount collected by denomination and account number. The amount collected per this report should agree with the amount deposited in the parish's bank account.
- J. Individual contribution records should be maintained for all parishioners. Parishioners should receive annual statements or notices of the contributions made during the year. Copies should be retained by the parish.

3. Cash Disbursements Internal Controls

- A. All invoices should be reviewed and approved in writing by the pastor (or his associate) prior to any checks being written or signed. This approval should be evidenced by a signature or initials on the face of the invoices.
- B. All disbursements, except for very minor items, should be made by prenumbered checks.
- C. The pastor or his associate(s) should never pre-sign any checks.
- D. All voided checks should be marked and retained by the church.
- E. Checks payable to Cash should be strictly prohibited.

- F. The parish should instruct its bank in writing to never cash checks payable to the church.
- G. Blank or unused checks should be safeguarded at all times.
- H. The Petty Cash Fund should be set at a stipulated balance and should be used for only minor disbursements. The fund should be the responsibility of a single person and should be reimbursed only by check for the amount needed to balance the fund at its stipulated balance. The fund should never be reimbursed by removing cash from the weekly collection.
- I. Transfers among bank accounts should be properly authorized by the pastor and the purpose should be adequately documented in the parish's financial records.
- J. Parish secretaries, bookkeepers and other lay personnel should never have check-signing authority on any parish bank accounts.

4. Reconciliation Internal Controls

- A. Bank account reconciliations should be prepared monthly by a person who is not involved in writing checks or receiving money.
- B. The Petty Cash Fund should be reconciled by the pastor on a surprise basis at least quarterly.
- C. An updated inventory of securities, valuables, equipment and other major noncash assets should be maintained for accounting and insurance purposes. All parishes should take an annual inventory of these assets. All deeds, titles, invoices and other legal and financial documents related to these assets should be retained by the parish. Each priest residing in the rectory should also maintain a personal inventory.

5. Payroll and Personnel Internal Controls

- A. New or prospective employees should be properly screened. Amazingly enough, most embezzlers are repeat offenders! This screening should include a verbal check of all references, former employers, etc. Any church employees working near school children should be screened in accordance with the Safe Environment training and background screening guidelines established by the Safe Environment Coordinator.
- B. Individual personnel files should be maintained on all parish employees.

- C. Changes in employment (additions and terminations), salaries or wage rates and payroll deductions should be properly authorized and documented in the employee's personnel file.
- D. Policies and procedures should be established for handling vacations, holidays and sick leave.
- E. Time and attendance records should be maintained and approved in writing by the pastor (or his designee) prior to payroll processing.
- F. A separate imprest basis payroll bank account can be maintained by large parishes.
- G. All payroll disbursements should be made by prenumbered checks.
- H. Payroll registers should be reviewed and initialled by the pastor or associate priests.
- I. Taxes (federal, state and FICA) must be withheld from the wages of all employees and must be paid when due.
- J. All employees are to receive W-2 forms at the end of the calendar year. Payments made to individuals or unincorporated companies functioning as independent contractors must be totalled during the year. A Form 1099 must be prepared and given to any person or unincorporated entity receiving \$600 or more from the parish for services rendered during the calendar year.
- K. All diocesan priests assigned to a parish are to receive W-2 forms at the end of the year. Priests who perform weekend, holiday or substitute services must receive a Form 1099 from the parish for payments of \$600 or more in a given calendar year. For a complete discussion of this area, refer to Part VI.E. entitled "Priest Compensation".
- L. Cash payrolls of any kind are not allowed.

D. Parish Organizations

Parish organizations are associated with the church by reason of their involvement in raising funds for specific projects or for the general operations of the church. Some examples are Ladies' Altar Society, Ushers, Men's Clubs, etc. In most instances these groups want to maintain their own checking or savings-account, and they want to influence how the funds which they raise are to be spent.

While the monies may be handled by the parish organizations, the funds have been raised in the name of the church for parish-related activities. The church must therefore have control over the raising, handling and disbursement of these funds. The following rules should apply to all parish auxiliary organizations:

1. Parish organizations are to prepare a budget and annual plan which is to be submitted to the pastor for review and approval. The pastor, in turn, should communicate the church's needs to each organization.
2. Parish organizations are to present an Income and Expense Statement to the pastor on a regular basis. Reports should be submitted monthly, quarterly or annually, based upon the decision of the pastor.
3. The pastor and the parish Finance Council should provide guidelines as to the types of activities in which parish organizations are allowed to engage, and how they can spend the funds which have been raised.
4. At the end of each fiscal year, the funds raised by parish organizations which remain in their checking account are to be turned over to the parish to be used for the operating budget. Parish organizations may retain a small balance with which to start their new year. Financial accountability is to be maintained by the parish over these groups. The following page is a sample Income and Expense Statement which can be used by parish organizations in reporting their activities to pastors.

Exhibit II

Parish Name

_____ Society

Income and Expense Statement

June 30, 20__

Cash Balance at Beginning of the Year \$ _____

INCOME

Dues \$ _____

Raffle _____

Awards Dinner _____

Miscellaneous _____

Total Income \$ _____

EXPENSE

Raffle Expenses \$ _____

Awards Dinner Expense _____

Funds Transferred to the Parish _____

Refreshments _____

Total Expense \$ _____

Cash Balance at End of Year \$ _____

V. Financial Statements and Reports

A. School Financial Statements

Financial statements are important tools which can be used by pastors in planning and controlling all aspects of the school's program. The following principles should govern the preparation and use of financial statements:

- The format should remain simple and easy to read.
- The format should provide information in a form that is useful for pastors, principals and other decision makers.
- The format of financial statements should be the same as the Chart of Accounts and the Budget.
- Financial statements should be prepared at regular intervals (monthly).
- Financial statements should be printed and distributed to all who need the information. A summary format should be given to parents (see example at Exhibit III).

An Income and Expense Report should be prepared by all schools monthly. The Income and Expense Report should conform to the Chart of Accounts and should contain the following headings:

<u>Acct No.</u>	<u>Account Title</u>	<u>Current Month Actual</u>	<u>YTD Actual</u>	<u>Annual Budget</u>
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Sample Monthly Financial Report to Parishioners

Collection for the month of October	\$18,000
Total Church Income in October	20,000
Total Church Expenses in October	23,000
Net deficit for the month	(3,000)
Cash balance, October 31	25,000
Commitments for November	17,000

Note: This format is only an example. Pastors may decide how much detail they wish to communicate to parishioners. The key is to communicate something to them.

B. Archdiocesan Reports

The following report is required from all parishes by the Office of Financial Services:

An annual Revenue and Expense Statement. The Office of Financial Services will provide the form which is to be submitted. The information for these reports can be taken directly from the parish's financial reports which should be in the same format as the Chart of Accounts. The reports are to be submitted to the Office of Financial Services by July 31.

VI. Payroll Procedures

When one considers that payments for salaries and benefits represent a significant portion of total church expenses, the importance of complete and accurate payroll records cannot be over-emphasized. It is essential, therefore, that payroll methods, systems and forms be maintained in accordance with good accounting practices. The following instructions are minimum requirements for all parishes.

A. Labor Relations and Tax Regulations

In general, under both Federal and State labor laws, a regular time work week consists of a maximum of forty hours, after which overtime commences. Overtime pay must be computed at a rate of 1 1/2 times the employee's regular hourly rate of pay for those hours worked in excess of the forty hours. Wages must at a minimum meet the Federal minimum wage rate.

Whether an employee is paid daily, weekly or monthly, all phases of the law are based on a work week. The work week may begin on any day and hour of the week as established by the employer. Pay periods for two or more weeks or for a month may not be averaged out for the sake of overtime or minimum wages. Both Federal and State regulations require posting of a sign "Notice to Employees" where employees can readily see it. These signs may be obtained from the U.S. Labor Department, Wage and Hours Division and the State Department of Labor. Certain other requirements are covered under succeeding sections of this section entitled Personnel Records and Payroll Records.

Both Federal and State laws provide definitions which have an important bearing on payroll treatment of amounts paid to employees; rules for preservation of records; and requirements as to reports. Annually the parish should obtain copies of the Federal Employer's Tax Guide, Circular E and the Louisiana Instructions for Employers and Tax Withholding Tables. The following are definitions which should be understood by all pastors:

1. Employer - An employer is a person or organization for whom a worker performs a service as an employee. The employer usually gives the worker the tools and place to work and has the right to fire the worker.

2. Employer Identification Number (EIN) - The parish has both a Federal and State employer identification number which must be shown on certain tax forms used by the parish.

3. Employee - Anyone who performs services is an employee if you, as an employer, can control what will be done and how it will be done. This is so even when you give the employee freedom of action. What matters is that you control the method and result of the services. If an employer-employee relationship exists, it does not matter what it is called. It also does not matter how payments are measured or paid. See Part VI. G. for a discussion of independent contractors.

4. Wages - Wages include all pay you give an employee for services performed. It includes salaries, vacation allowances, bonuses, etc. It does not matter how you measure or make the payments.

5. Social Security - All employees of the parish are subject to Social Security Tax. The only exceptions are payments made to religious employees.

6. Income Tax - Amounts are, or are not, withheld from earnings of employees based on the number of their withholding allowances or exemptions and the tax tables in the Federal and State Publications mentioned in the first paragraph of this section.

7. Preservation of Records - Time records must be preserved for a period of four years and payroll records for five years.

8. Forms and Reports - The following forms and reports are the general responsibility of the parish:

Tax Deposits and Reports

<u>Federal</u>	<u>State</u>	<u>Form Description</u>
<u>Form#</u>	<u>Form#</u>	
8109	L-1	Tax Deposit
941	L-1	Employer's Withholding Return
W-2	L-2	Wage and Tax Statement
W-3	L-3	Reconciliation of Tax Withheld
W-4	L-4	Withholding Exemption Certificate

B. Personnel Records

The church should have an employment application and authorization form for each employee which should include at least the following information:

- Name, home address and telephone number.
- Date of birth, sex and marital status.
- Schooling and previous employment.
- Appropriate contact, in case of illness or accident.
- Date hired and job title.
- Number of assigned hours and salary or rate of pay.

Some parishes may also wish to have a performance record on each employee. The larger office supply stores carry standard forms of employment applications, authorizations and performance records.

Both Federal and State laws require that a record be kept of hours worked in each workday and each workweek. Any method of keeping time is satisfactory, as long as it is accurate and shows all hours worked each day. Some of the more usual types of time records are time sheets, time slips or a time clock.

C. Payroll Records

Payroll records consist of completed time records, payroll register or other individual earnings records, the paycheck stub and the disbursements journal. The payroll register or other individual earnings should contain each employee's name, address, social security number, marital status, job title, assigned hours, rate of pay, gross earnings and deductions per pay period. Columns shall provide for pay period date, gross earnings, deductions for social security, federal and state income tax withholdings, benefits and net pay. There should be sufficient lines on which to record amounts for each pay period and total for each month, quarter and year.

When preparing employees' pay, the parish should enter on each check stub the employee's name, gross earnings, social security, federal and state withholdings, other deductions and net pay. The employee's direct deposit should reflect the amount of the net pay. The church should post to the Cash Disbursement Journal from the check stubs. Payments to employees for bonuses, gifts, appreciation, etc. should be made by direct deposit and included in the employee's total earnings for the year whether or not taxes were withheld from these payments. Churches using computerized payroll systems should ensure that their system complies with all payroll procedures discussed in this section.

D. Tax Deposits and Reports

The parish is financially responsible for amounts withheld for social security and income taxes withheld from its employees' pay. It is also responsible for its share of employer social security taxes equal to the amount of social security withheld from its employees' pay. The timing of payments for the amounts withheld for both the federal and state governments vary depending upon the amount owed. Check with your respective federal and state employer's tax guides to ensure that you are remitting these payments at the appropriate time.

At the end of each calendar quarter, the parish must prepare and submit federal and state reports listing applicable amounts for all employees paid during the quarter. The federal report which is to be submitted is Form 941 "Employer's Quarterly Federal Tax Return," and the state report which is to be submitted is Form L-1 "Employer's State Withholding Return." These reports are both due to the respective agencies by the last day of the month following the quarter's end.

At the end of the calendar year, the parish must also prepare and submit an annual report covering each employee paid during the year. For each employee, determine the gross earnings, taxes and benefits withheld and net pay for the entire year. Complete a Form W-2 (four parts) for each employee. One copy is to be provided to the federal and state governments, the employee and the remaining copy should be maintained by the employer.

Please Note

Even though the parish's payroll may be processed by an outside bookkeeper or bookkeeping firm, the parish is still responsible for ensuring that all of the prescribed payroll procedures are performed. Also, the parish must have copies of all applicable forms and reports for its records. Pastors, bookkeepers, secretaries, etc. can individually and collectively be held liable for the failure to withhold and remit the appropriate amount of employment-related taxes to the federal and state governments.

E. Priest Compensation and Expense Allowances

1. Priest Compensation

As in the past, all priests are paid according to a salary scale which is tied to the priest's year of ordination. This salary scale is updated annually and is supplied to the parishes by the Executive Director of the Office of Financial Services. Currently, all priests assigned to and working in a parish must receive a Form W-2 at the end of the calendar year.

The gross salary for the priests should be included with total wages on line 2 of the Form 941 "Employer's Quarterly Federal Tax Return but must not be included in Social Security or Medicare wages in lines 6 and 7 of Form 941.

All priests who perform weekend or substitute services must receive a Form 1099-Misc. from any parish that he received \$600 or more in compensation for these services. Priests who receive payments under \$600 during a calendar year should not be given a Form 1099-Misc. however, these priests should report the amounts received on their personal income tax returns.

2. Business Expense Allotments

Priests receive a monthly expense allowance which is specifically designed to cover the costs of routine expenses incurred by a priest in the performance of his assigned duties. This expense allotment should be paid to the priests by a separate check (i.e., not included with his regular monthly salary) and is to be recorded as auto or other expense in the parish's financial records and reports. Expense advances such as this are either accountable or unaccountable plans. An advance paid under an accountable plan is tax-free. Therefore, priests would not have to report these payments as income on their individual income tax reports nor would they have to pay self-employment or other income taxes on these advances. But an advance paid under a nonaccountable plan is considered taxable wages and priests would therefore have to report these payments as income on their individual income tax returns and pay all applicable taxes. To qualify as an accountable plan under IRS regulations, the following rules must be followed by all priests in the Archdiocese:

A. The monthly expense advance must be limited to job-related expenses that the priest could deduct from his personal income if he had paid them out of his own pocket.

B. The priest must provide the parish with a written record or report of the funds used with his business allotment. This record may be submitted monthly, quarterly or annually, however, the expenses incurred must be substantiated by all appropriate receipts and details.

C. Finally, the priest must return any amount of the expense allotment which is not substantiated as discussed in B. above. If the priest does not return the excess funds and elects to keep them, the parish must add this excess to his annual Form W-2. Parishes cannot get

around the return requirement by having a priest return the excess funds and then giving it back to him as a bonus.

F. Employee Benefits

All eligible church employees must be offered full and complete participation in all available Archdiocesan fringe benefits. The following rules apply with regard to these benefit programs:

1. Retirement Plan. All employees who work twenty hours or more must be given the opportunity to participate in the Archdiocesan Pension Plan. The employee may choose to have withheld from current earnings his/her contribution (3%-16% of gross salary or wages). The parish, as the employer, must match at 3.5% and must contribute an additional 2% for the cost of administering the benefit plan. Therefore, the total contribution to be made by the church on behalf of all employees enrolled in the Archdiocesan Pension Plan is 5.5%. All employees who are offered participation in the plan but decline must have signed a form stating this refusal. This form must be retained by the church in the employee's personnel/payroll file.

2. Hospital and Medical Insurance. Health coverage is to be made available to all benefit eligible employees. The church must pay a fixed amount toward the cost of the health coverage. The fixed amount is communicated to the parish annually at the appropriate time. Health care costs in excess of this amount, including dependent coverage, are paid by the employee. All employees who were offered participation in the health coverage benefits but declined must have signed a form stating this refusal. This form must be retained by the parish in the employee's personnel/payroll file. Part-time employees who work twenty hours or more a week may participate in the parish's health plan, but the church should participate in the cost of this benefit on a prorated basis.

G. Independent Contractors

As stated earlier, all employees must have the appropriate amount of FICA, federal and state taxes withheld from their gross salary or wages, depending on their allowances or exemptions. However, there may be instances where a parish may have a person or persons who are self-employed performing various duties for the parish such as maintenance, landscaping, lawn work, bookkeeping, etc. Payments to these self-employed persons or independent contractors are made without any tax withholdings. Special care should be taken in this area, as the Internal Revenue Service often views this area as one which employers tend to (intentionally or unintentionally) abuse. Therefore, the following is a list of several factors or criteria used by the Internal Revenue Service to determine whether or not a worker is an independent contractor:

1. The hours worked by the independent contractor are not regulated. He/she sets his/hers own hours.

2. The independent contractor hires his/her own employees.
3. The independent contractor supplies his/her own tools, materials and instruments.
4. The independent contractor's services are available to the public.
5. The independent contractor is paid by the job, not by the hour.
6. The independent contractor is responsible for his/her own liability, health, workmen's compensation and other insurance.
7. The independent contractor pays for his/her own expenses.
8. The independent contractor has his/her own place of business.
9. The independent contractor's work requires specialized training and experience.
10. The independent contractor cannot be terminated at will (this is an employee). His/her contract must be terminated in accordance with the requirements as mandated in the contract.
11. Independent contractors do not receive bonuses.
12. The independent contractor should have any and all licenses that are needed to perform his/her work.
13. Most importantly, the parish can control the ends (results) of the work, but not the means (the way the work is to be performed).

The above are only some of the factors used by the Internal Revenue Service to evaluate whether or not a worker is an employee or an independent contractor. All of the factors are equally important, therefore having only two or three does not eliminate the need to have them all. Pastors must ensure that many (if not all) of these factors are present in its dealings with self-employed persons. Any payments of \$600 or more to any self-employed individual or unincorporated business must be reported annually on a Form 1099-Misc. in the box labeled "Non-Employee Compensation." You must also obtain a Form W-9 "Request for Taxpayer's Identification Number" from any nonincorporated business so that you can prepare the Form 1099-Misc. at the end of the calendar year.

Examples:

1. A self-employed person cuts the grass and performs other landscaping duties for a church. He is paid \$300 per week. This person has and uses his own equipment, hires and pays two student assistants, has an office out of his own home and markets his services to the public. This person could rightfully be treated as an independent contractor by the parish since he meets the majority of the criteria previously discussed. In this instance, the parish would supply this individual with a Form 1099-Misc. for the total payments made to him during the calendar year.

2. A brother-in-law of the parish's secretary regularly cuts the grass for the church and performs other miscellaneous duties as directed. He works three days a week at \$10.00 an hour. He must sign in and out on the days he works. He works exclusively for the church and is paid on the same days as the parish's regular staff. A review of the above criteria would indicate that this person is an employee of the parish and should be treated as one. Specifically, taxes should be calculated and withheld from his earnings and he should receive a Form W-2 at the end of the calendar year.

While the above examples may make this issue seem "cut and dry", it is the numerous situations that fall somewhere in between these two extremes that present challenges to pastors and parish administrators. Therefore, a word to the wise is sufficient, be sure your self-employed workers are truly independent contractors! If a pastor is unsure of the appropriate classification of any of his current workers, he should consult with the Office of Financial Services.